



BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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Application Of CALIFORNIA-AMERICAN WATER COMPANY (U-210-W), CALIFORNIA WATER SERVICE COMPANY (U-60-W), GOLDEN STATE WATER COMPANY (U-133-W), PARK WATER COMPANY (U-314-W) AND APPLE VALLEY RANCHOS WATER COMPANY (U-346-W) to Modify D.08-02-036, D.08-06-002, D.08-08-030, D.08-09-026, D.08-11-023, D.09-05-005, D.09-07-021, and D.10-06-038 regarding the Amortization of WRAM-Related Accounts.

Application 10-09-017
(Filed September 20, 2011)

**APPLICANTS' JOINT COMPLIANCE FILING
FOR THE REQUEST FOR RESPONSE
DURING THE APRIL 25, 2011 PREHEARING CONFERENCE**

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Dated: May 9, 2011

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STATE OF CALIFORNIA**

Application Of CALIFORNIA-AMERICAN WATER COMPANY (U-210-W), CALIFORNIA WATER SERVICE COMPANY (U-60-W), GOLDEN STATE WATER COMPANY (U-133-W), PARK WATER COMPANY (U-314-W) AND APPLE VALLEY RANCHOS WATER COMPANY (U-346-W) to Modify D.08-02-036, D.08-06-002, D.08-08-030, D.08-09-026, D.08-11-023, D.09-05-005, D.09-07-021, and D.10-06-038 regarding the Amortization of WRAM-Related Accounts.

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I. INTRODUCTION

Pursuant to the request of Administrative Law Judge ("ALJ") Walwyn at the April 25, 2011 Prehearing Conference ("4/25/11 PHC"), California Water Service Company (U-60-W) ("Cal Water"), Golden State Water Company (U-133-W) ("Golden State"), Park Water Company (U-314-W) and Apple Valley Ranchos Water Company (U-346-W) (together, "non-Cal Am Applicants") respectfully submit this compliance filing providing a response to California-American's motion as requested during the 4/25/11 PHC.¹

Applicants would like to also comment on the issues proposed in the Division of Ratepayer Advocates compliance filing on April 29, 2011.

¹ Reporter's Transcript from the 4/25/11 PHC, at 134, lines 25 to 27.

In addition, Applicants request an ALJ ruling that would authorize Applicants to file a Tier 2 advice letter to implement an interim surcharge to begin recovering 2008, 2009, and 2010 WRAM/MCBA amounts that, using the “first-in, first-out” (“FIFO”) principle, will not otherwise be recovered consistent with the financial accounting standard generally known as Emerging Issues Task Force (“EITF”) 92-7.²

II. APPLICANTS’ RESPONSES TO CALIFORNIA-AMERICAN’S REQUEST FOR A SCOPING MEMORANDUM

On April 22, 2011, California-American Water Company (“Cal Am”) filed a motion proposing that a scoping memorandum (“scoping memo”) be prepared for Application 10-09-017. Cal Am’s motion for a scoping memo highlights two imperative points, which non-Cal Am Applicants support: (1) maintain the scope of this proceeding specific to the nine original issues raised in the Application and (2) bifurcate Monterey District’s under-collection from this proceeding.

On September 13, 2010, Parties jointly filed an Application requesting modifications to nine issues related to the Water Revenue Adjustment Mechanism (“WRAM”) and Modified Cost Balancing Account (“MCBA”) Decision.³ The nine specific issues are (1) the amortization period, (2) the deadline for submitting the WRAM/MCBA report, (3) the deadline for requesting amortization, (4) the process for requesting amortization, (5) the “trigger” for requesting WRAM amortization, (6) the application of the surcharge or surcredit, (7) accounting for amortized amounts, (8) handling under-amortized or over-amortized amounts, and (9) additional amortization for outstanding WRAM revenues.

² Applicants seek to recover 2008 and 2009 WRAM/MCBA balances by December 31, 2011, and to recover 2010 balances by December 31, 2012. See, e.g., Application at 3-4 for a description of EITF 92-7. This authorization would not apply to WRAM areas in which, using FIFO, an Applicant anticipates recovering net WRAM/MCBA revenues within 24 months of the end of an accounting period.

³ Each Application adopted a separate WRAM decision: D.08-02-036, D.08-06-.002, D.08-08-030, D.08-09-026, D.08.11-023, D.09-05-005, D.09-07-021, and D.10-06-038. Cal Water and Park were the exception as both were subject to Decision 08-02-036.

Applicants requested expedited consideration because this proceeding will have a significant impact on the financial health of Applicants. Applicants originally requested that a decision be rendered before December 16, 2010.⁴ Notably, the Application addresses a financial accounting standard that only allows a regulated utility to recognize revenues in the “books” in a calendar year if the regulatory process allows the Utility to actually recover those revenues within 24 months of the calendar year. For example, an under-collection for revenue in 2009 would have to actually be recovered by December 31, 2011. While Applicants acknowledge that continuing large under-collected balances in 2010 allow the use of a “first-in first-out” (“FIFO”) approach to meet accounting standards for many districts, the Commission’s expectation is that some of the balances may not be as large in 2011.⁵ This expectation holds true for those Companies with a recent GRC where an updated sales forecast was adopted reflecting a reduced consumption pattern. Perversely, this potential reduction in 2011 WRAM/MCBA balances may cause the FIFO method to fail when applied to 2010 balance recovery. Thus in order to preserve the Commission’s clear intent to decouple sales from fixed cost recovery as part of the conservation trial programs, it must act on this application as soon as possible. This will ensure that “catch-up” surcharges to allow compliance with EITF 92-7 are spread over as long a period as possible. For instance, if the Commission approves the Application in October 2011, Companies would have 14 months in which to collect 2010 balances that would otherwise fall outside the 24-month period.

It was the Commission’s intention to decouple sales from fixed cost recovery and it is in the public interest both to 1) ensure that intertemporal equity is maintained, and 2) financially decouple sales from fixed cost recovery. The Commission should have an interest that customers fund the revenue requirement contemporaneous to when it occurs. Due to

⁴ Application 10-09-017, at 5.

⁵ Reporter’s transcript from the 4/25/11 PHC, at 131, lines 17 to 22.

conservation rate designs that accentuate fixed cost recovery in variable quantity charges, this one-to-one timing of fixed cost recovery is impossible. Nevertheless, the Commission should endeavor to make those customers pay as soon as possible. Payment by future customers, especially if surcharges are extended as ALJ Walywn believes the Commission should consider,⁶ keeps present rates artificially low and generates intertemporal inequity. Customers who saved 5 to 10% or more on their water bills would not be asked to fund fixed costs from that year; future customers who may be different people will fund that cost recovery.

Decoupling sales without financial decoupling will have a chilling effect on conservation programs. A utility will have the clear incentive to reduce conservation efforts – as reductions in sales will impact the bottom line. This is exactly the opposite of what the Commission intended with respect to conservation trial programs.

On April 29, 2011, the Division of Ratepayer Advocates (“DRA”) filed a compliance response addressing the scope of this proceeding. In this filing, DRA noted that it requires 90 days⁷ to complete its testimony based on its narrowest contemplated scope. This scope would not include the Monterey District’s under-collection and comprehensive analysis of the WRAM and MCBA. DRA further noted that it will require additional time and resources to address a broader scope if the proceeding is extended to include the Monterey District’s under-collection and comprehensive review of the WRAM and MCBA. DRA asserted that it will take 120 days and 45 additional days if a consultant is required.⁸

At the earliest, DRA’s testimony would be completed in 90 days. Ninety days from DRA’s compliance filing is August 15, 2011. Based on this timeline, a decision can potentially be issued by end of October. Broadening the scope would carry the proceeding into 2012,

⁶ Reporter’s Transcript from the 4/25/11 PHC, at 128, lines 25 to 28.

⁷ Compliance Filing of the Division of Ratepayer Advocates submitted on April 29, 2011, at 3.

⁸ Compliance Filing of the Division of Ratepayer Advocates submitted on April 29, 2011, at 4.

leaving the clear risk that either 1) applicants' requests are granted and large surcharges through the end of 2012 give the perception of impacting customers because the under-collection is amortized over a shorter duration, or 2) applicants' requests are not granted leaving them no avenue to book current period revenues and eviscerating the decoupling paradigm. Neither option is palatable. For this reason, the scope should be limited to the minimum issues necessary to evaluate and dispose of the application.

DRA also requested that consultant fees be reimbursable by Applicants if there are not sufficient funds available due to the State's budget crisis. Applicants point out that the Commission's surcharge fund has been and continues in surplus, so DRA's request adds more burden to customers who are already subsidizing the state's general fund. Broadening the scope not only delays the proceeding, it can potentially add another surcharge for ratepayers to recover costs associated with consultants who DRA claims could be needed to address the broader issues.

III. COMMENTS TO DRA'S 4/29/11 COMPLIANCE FILING REGARDING THE COMPREHENSIVE SCOPE

In DRA's compliance filing on April 29, 2011, DRA introduced an "Option 2"⁹, a comprehensive scope beyond those issues covered in the original Application. This comprehensive scope would include extensive analysis of the past and current WRAM and MCBA trends, interim treatment, and impact of the WRAM and MCBA mechanism on future years. Applicants recommend that if the Commission chooses to examine the scope of issues DRA has suggested this be considered in an industry-wide proceeding, independent of this proceeding. The reason for this is that the additional matters raised by DRA are applicable to all

⁹ Compliance Filing of the Division of Ratepayer Advocates submitted on April 29, 2011, at 3.

those interested in the water industry, not only parties to the instant proceeding. I.07-01-022 was an industry-wide proceeding attracting the participation of all water utilities, TURN, and other consumer groups.

IV. COMMENTS TO DRA'S 4/29/11 COMPLIANCE FILING REGARDING MONTEREY DISTRICT'S UNDER-COLLECTION

The Monterey District's under-collection is a matter specific to Cal Am. Non-Cal Am Applicants do not have the context to be involved. Involving non-Cal Am Applicants in a Cal Am specific matter unfairly allows Applicants to impinge on Cal Am's processes.

V. ADDITIONAL RESPONSE TO THE 4/25/11 PHC

At the 4/25/11 PHC¹⁰, ALJ Walwyn requested information on customer comments and when the notices will be completed for Golden State Water Service Company ("Golden State"). Golden State has 17,200 customers who receive their bill electronically. Approximately 184,500 customers are on bi-monthly billing cycle, and 54,000 customers are on monthly a billing cycle. Golden State started noticing its customers on February 24, 2011, including special mailing notices to all electronic bill presentation customers. Golden State sends out water bills with notices daily. As of March 31, approximately more than 64% of Golden State's customers had been noticed and have had 30 days to provide comments¹¹. Notices for all, except 21 customers, were sent as of April 29, 2011 and these customers will have had 30 days to comment as of May 29, 2011. The notices to the remaining 21 customers were mailed on May 2, 2011. To date GSWC has not received any comments in response to its notice.

¹⁰ Reporter's Transcript from the 4/25/11 PHC, at 136, lines 10 to 13.

¹¹ Likewise because GSWC mails water bills daily 75% of GSWC customers would have been sent notices as of April 15, 2011

VI. PROPOSAL FOR FIRST-IN, FIRST-OUT SURCHARGE

At the 2/17/11 PHC, ALJ Walwyn invited parties to address customer impact and rate shock issues, including support for or modification of a Joint Applicant's original proposal.¹² Applicants respectfully reiterate their request for a ruling authorizing Applicants to file a Tier 2 advice letter for interim surcharges to recover those projected 2008, 2009, and 2010 residual shortfalls that, using "first in, first out" ("FIFO") calculations, will not be recovered consistent with the accounting guidance contained in EITF 92-7.¹³ The Commission could later affirm such a ruling in a final decision.

The requested interim surcharges, which would likely be less than those proposed in the Application due to the use of "first-in, first-out" accounting, would help to mitigate the rate shock that will otherwise occur in those WRAM areas with high balances. This authorization would not apply to WRAM areas in which, using FIFO, an Applicant anticipates recovering net WRAM/MCBA revenues within 24 months of the end of an accounting period. In Applicants' view, an ALJ ruling would be the preferred approach for accomplishing this, as compared to an interim Commission decision that would likely require several months for preparation, review, and adoption.

VII. CONCLUSION

Non-Cal Am Applicants submit the responses herein in compliance with ALJ Walwyn's request during the April 25, 2011 Prehearing Conference. In addition, for the reasons described above, Applicants request issuance of an ALJ ruling allowing them to immediately implement an

¹² Reporter's Transcript from the 2/17/11 PHC, at 120 (lines 1-10).

¹³ Cal Water also requested this interim surcharge for 2008 and 2009 balances on January 12, 2011. Prehearing Conference Statement of California Water Service Company (U-60-W) (January 12, 2011) at 3-4. Applicants seek to recover 2008 and 2009 WRAM/MCBA balances by December 31, 2011, and to recover 2010 balances by December 31, 2012.

additional surcharge to recover those 2008, 2009, and 2010 WRAM/MCBA amounts that will not otherwise be recovered, using “first-in, first-out” accounting, consistent with EITF 92-7.

Respectfully Submitted,

/s/ THOMAS F. SMEGAL

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**Director of Revenue Requirements
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Dated: May 9, 2011

CERTIFICATE OF SERVICE

I hereby certify that on this date I served the foregoing "APPLICANTS' JOINT COMPLIANCE FILING FOR THE REQUEST FOR RESPONSE DURING THE APRIL 25, 2011 PREHEARING CONFERENCE" by electronic mail or U.S. Mail delivery on the **Service List for A.10-09-017** below:

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Executed this 9th day of May 2011, at San Jose, California.

/s/ THOMAS F. SMEGAL

Thomas F. Smegal