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02-28-11  
02:54 PM

CMW/oma 2/28/2011

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Application of California-American Water Company (U210W), California Water Service Company (U60W), Golden State Water Company (U133W), Park Water Company (U314W) and Apple Valley Ranchos Water Company (U346W) 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, 2010)

**ADMINISTRATIVE LAW JUDGE'S RULING GRANTING A 30 DAY  
EXTENSION OF TIME FOR PROPOSAL(S) TO ADDRESS THE CONTINUING  
LARGE WATER REVENUE ADJUSTMENT MECHANISM/MODIFIED COST  
BALANCING ACCOUNT UNDERCOLLECTIONS IN CALIFORNIA-AMERICAN  
WATER COMPANY'S MONTEREY DISTRICT AND REQUIRING  
CALIFORNIA-AMERICAN WATER COMPANY TO PROVIDE SPECIAL  
CUSTOMER NOTICE OF THIS APPLICATION**

At the February 17, 2011 prehearing conference (PHC), the undersigned Administrative Law Judge asked California-American Water Company (Cal-Am) and the Commission's Division of Ratepayer Advocates (DRA) to meet and discuss immediate means for addressing the continuing large Water Revenue Adjustment Mechanism/Modified Cost Balancing Account (WRAM/MCBA) undercollections in Cal-Am's Monterey District and to file their proposal(s) by

February 22, 2011.<sup>1</sup> This ruling addresses Cal-Am's and DRA's proposals and also addresses Cal-Am's failure to comply with the December 20, 2010 ruling requiring customer notice of this application.

In its February 22 compliance filing, DRA reports that it met with Cal-Am to discuss the Monterey District WRAM/MCBA but did not reach a consensus. DRA requests a 30 day extension of time, until March 22, 2011, to develop a proposal. DRA states that the undercollection in the WRAM/MCBA mechanism could be caused by a number of factors, as the undercollections are coincident with the implementation of a more steep increasing block rate, implementation of the WRAM/MCBA instead of the Monterey-style WRAM, steep rate increases authorized by Cal-Am's last GRC decision, Decision (D.) 09-07-021, the economic downturn, state-wide drought, extensive media coverage of Cal-Am's proposed desalination plant, and other factors that could influence consumption in the Monterey District. Among the options DRA proposes to study are:

- A surcharge to reduce the under-recovery going forward
  - i. On the bill;
  - ii. On the quantity rate; and
  - iii. On the service charge.
- Discontinue or pause the WRAM/MCBA and rate design Pilot Program for the Monterey District to prevent further undercollections in the

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<sup>1</sup> At the PHC, Cal-Am stated that the continuing WRAM/MCBA undercollection for the Monterey District in 2011 is approximately 30 percent per month. This is in addition to Cal-Am's estimated 27.6% underrecovery for 2010. In reviewing Cal-Am's and DRA's testimony in Cal-Am's pending 2012 general rate case (GRC), Application 10-07-007, there are no proposals in that proceeding to address the large WRAM/MCBA underrecoveries projected for 2011.

WRAM/MCBA and revert the WRAM/MCBA and/or rate design to the previously adopted Monterey-style WRAM and rate design;

- Modify the sales forecast for 2011 (this would raise rates and DRA recommends against this option);

- Develop a mechanism to share the undercollection in the WRAM/MCBA between ratepayers and shareholders so there is no disproportionate impact on either; or

- Other modifications to the WRAM/MCBA mechanism.<sup>2</sup>

In its February 22, 2011 compliance filing, Cal-Am states that while it may be able to develop a joint proposal within 30 days with DRA, it recommends immediate action to implement an interim 2011 surcharge of 35 percent on the quantity rates for its customers who are covered by the Monterey WRAM/MCBA. Cal-Am asserts that this immediate surcharge is necessary in order to address the growing balance of the WRAM/MCBA due to the under-collection of revenue in the Monterey District projected to continue in 2011 and beyond due to lower consumption than forecasted in D.09-07-021, a situation it asserts is driven by the highly inverted conservation rate design adopted in D.09-07-021. Cal-Am does not provide any assessment of other considerations that may be causing the large WRAM/MCBA balances or other options for addressing the issue.

Based on the above filings, DRA's request for a 30 day extension to fully review all options and develop a recommended proposal for the Monterey District is reasonable and should be granted. Cal-Am's request for an immediate 35% interim surcharge should not be considered until the required customer notice has been provided and other possible options have been reviewed.

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<sup>2</sup> February 22, 2011 filing at 3.

Regarding customer notice, Cal-Am was directed in a December 20, 2010 ruling to provide, as soon as possible, customer notice of this application pursuant to Rule 3.2(d) of the Commission's *Rules of Practice and Procedure*. At the February 17, 2011 PHC, Cal-Am stated that it had not begun to mail customer notice because it was still waiting for final approval from the Commission's Public Advisor. (Transcript at 89.) However, it was only after the Public Advisor contacted Cal-Am on February 22 that draft notices for Monterey and all districts other than Larkfield were later submitted.<sup>3</sup> In addition, the initial draft notice Cal-Am submitted on February 23 for Monterey only informs customers of a 3.19% rate increase in 2011 for average residential usage. Since Cal-Am proposes a steeply tiered residential surcharge, as well as surcharges for all other customer classes, this notice does not adequately inform all customers.

Therefore, for all districts except Ventura Cal-Am should be required to (1) mail within 15 days of this ruling customer notices approved by the Commission's Public Advisor in a separate mailer, tri-folded with the noted statement next to the addressee: **IMPORTANT: INFORMATION REGARDING REQUESTED RATE INCREASE** and (2) post the notice in local newspapers. For the Ventura District, which does not have an estimated WRAM/MCBA balance with an immediate rate impact under this application, regular billing notice may be provided. Since Cal-Am did not comply with the December 20 ruling, no costs related to this mailing should be recorded in utility expense accounts.

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<sup>3</sup> An initial draft for the Larkfield district was submitted earlier but a corrected draft was never resubmitted.

Therefore, **IT IS RULED** that:

1. California-American Water Company (Cal-Am) and the Division of Ratepayer Advocates (DRA) are given an extension of time until March 22, 2011 to file, separately or jointly, a recommendation or recommendations to address the continuing large undercollected Water Revenue Adjustment Mechanism/Modified Cost Balancing Account balances in the Monterey District. The recommendation(s) shall include an assessment of all options cited by DRA in its February 22, 2011 filing.

2. Within 15 days of this ruling, Cal-Am shall send to its customers in all districts except Ventura a separate notice of this application in a tri-folded mailer with the noted statement next to the addressee: **IMPORTANT: INFORMATION REGARDING REQUESTED RATE INCREASE**. Notice to customers in the Ventura District is required, but should be provided in the next scheduled customer bills.

3. Due to Cal-Am's failure to comply with the December 20, 2010 ruling on customer notice, no costs related to the customer notices shall be recorded in utility expense accounts.

Dated February 28, 2011, at San Francisco, California.

/s/ CHRISTINE M. WALWYN  
Christine M. Walwyn  
Administrative Law Judge

