

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



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Application of California-American Water Company (U210W) for Approval of the Monterey Peninsula Water Supply Project and Authorization to Recover All Present and Future Costs in Rates.

A.12-04-019
(Filed April 23, 2012)

**RESPONSE OF CALIFORNIA-AMERICAN WATER COMPANY TO THE PLANNING
AND CONSERVATION LEAGUE FOUNDATION'S MOTION TO ESTABLISH
CRITERIA FOR DECISION ON DESALINATION PLANT SIZING**

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Dated: December 27, 2012

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I. INTRODUCTION

Pursuant to Rule 11.1 (e) of the California Public Utilities Commission’s (“Commission”) Rules of Practice and Procedure, California-American Water Company (“California American Water”) responds to the Planning and Conservation League Foundation’s (“PCLF”) *Motion to Establish Criteria for Decision on Desalination Plant Sizing* (“Motion”).¹ PCLF raises important issues regarding the criteria that will need to be established to guide the decision on whether the joint project between the Monterey Regional Water Pollution Control Agency (“MRWPCA”) and the Monterey Peninsula Water Management District (“MPWMD”) known as the Groundwater Replenishment Project (“GWR Project”) will be part of the solution for the required water supply for the Monterey Peninsula. While California American Water agrees that cost-effectiveness is a critical component of that determination, for the reasons

¹ *Motion to Establish Criteria for Decision on Desalination Plant Sizing*, dated Dec. 12, 2012 (“Motion”), p. 1 (footnotes omitted). PCLF asks the Commission to “establish criteria to guide the decision on whether to downsize the desalination plant based on progress toward implementation of the Groundwater Replenishment Project [“GWR Project”]. See also Motion, pp. 3-4. Specifically, PCLF asks that California American Water establish a final moment “when it will retain the ability to change the plant’s size, and the Commission should establish this moment as the proper time for conclusive analysis of the [GWR Project’s] status.” Additionally, PCLF requests that the Commission establish objective criteria to guide California American Water’s decision on whether the GWR Project is sufficiently advanced to down size the desalination portion of the project.

described below it is premature at this time to adopt PCLF's criteria for evaluating the GWR Project's status.² California American Water believes that the criteria used to determine whether it is appropriate to rely upon the GWR Project should be carefully considered after more information is available. As described below, testimony and a half-day workshop focused solely on these criteria will provide parties the opportunity to further explore the issues.

II. DISCUSSION

California American Water is currently participating in talks with the Monterey Peninsula Regional Water Authority, County of Monterey, and MPWMD (collectively referred to hereafter as the "Public Agencies") in order to address the GWR Project criteria, as well as other governance issues related to the Monterey Peninsula Water Supply Project. While the discussions have been constructive and the parties continue to make progress, it would be premature to speculate on the outcome of the issues being discussed. As discussions continue, California American Water intends to provide testimony addressing several GWR Project-related issues (e.g. public ownership or participation, "milestones," timeline, etc.). California American Water also proposes a half-day workshop for the spring of 2013 focused solely on the criteria that will be used to determine if the GWR Project is available in time to comply with the SWRCB requirements at a reasonable price and for the benefit of the Monterey County District customers and the community. California American Water believes that this forum could help resolve the issues raised by PCLF plus other GWR Project-related issues and further shed light on the appropriate outcome.

As stated in its application, California American Water believes that the Commission could utilize a Tier 2 advice letter as the procedural mechanism to determine if the GWR Project

² See Application ("A.") 12-04-019, *Application of California American Water for Approval of the Monterey Peninsula Water Supply Project and Authorization to Recover all Present and Future Costs in Rates*, filed April 23, 2012, p. 1.

“reaches certain milestones by the time California American Water is ready to construct the desalination plant . . . and the cost of [GWR] Project water is reasonable” then California American Water will reduce the size of the desalination plant.³ California American Water agrees with PCLF, section 451 of the Public Utilities Code should be used as guidance for the cost determination standard.⁴ However, the Commission must consider and balance a project’s viability, the interests of all ratepayers, and also the interests of the utility.⁵ “The Commission’s broader mission means that we must look beyond a single rate cycle.”⁶ Having the cost determination simply be a “long-term cost per acre-foot” comparison will hamper the Commission’s ability to account for factors other than cost.

III. CONCLUSION

PCLF raises important issues with regards to the criteria that should be used to determine whether a GWR Project is feasible and for California American Water to proceed with a smaller desalination plant. However, California American Water is currently in discussions with the Public Agencies in order to determine if these and other issues can be resolved through a settlement. While it does not want to speculate on the outcome of the discussion taking place with the Public Agencies, California American Water believes that the criteria issues should be addressed after more information becomes available.

³ A.12-04-019, p. 1.

⁴ According to Pub. Util. Code § 1002 (a), as a basis for granting or denying a certificate for public convenience and necessity, the Commission shall give consideration to several factors including community values.

⁵ See D.10-12-016, *In Matter of the Application of California American Water for a CPCN to Construct and Operate its Coastal Water Project to Resolve the Long-Term Water Supply Deficit in its Monterey District and to Recover All Present and Future Costs in Connection Therewith in Rates*, dated Dec. 2, 2012, p. 11.

⁶ D.10-12-016, p. 11.

Dated: December 27, 2012

Respectfully submitted,

By: /s/ Sarah E. Leeper

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