

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA



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Application of California-American Water Company (U210W) for Authorization to Increase its Revenues for Water Service by \$18,473,900 or 9.55% in the year 2015, by \$8,264,700 or 3.90% in the year 2016, and by \$6,654,700 or 3.02% in the year 2017.

A.13-07-002  
(Filed July 1, 2013)

**PROTEST OF THE DIVISION OF RATEPAYER ADVOCATES TO THE  
APPLICATION OF CALIFORNIA-AMERICAN WATER TO INCREASE  
REVENUES IN EACH OF ITS DISTRICTS STATEWIDE**

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## **I. INTRODUCTION**

Pursuant to Rule 2.6 of the California Public Utilities Commission's ("Commission") Rules of Practice and Procedure ("Rules"), the Division of Ratepayer Advocates ("DRA") files this protest to Application ("A.") 13-07-002 of California-American Water Company ("Cal-Am"). A.13-07-002 seeks authorization to increase Cal-Am's revenues for 2015 through 2017 across its districts. In addition, the Application incorporates 33 special requests, and includes a request that the Commission approve various customer fees and surcharges. The Commission should review Cal-Am's requests in this Application with a skeptical eye to ensure that they are just, reasonable, and prudent.

This protest is timely because A.13-07-002 first appeared on the Commission's daily calendar on July 5, 2013. Therefore, the deadline for response under Rule 2.6(a) and Rule 1.15 is August 5, 2013.

## **II. APPLICATION**

In its Application, Cal-Am requests the following:

1. Commission approval of a general increase in rates for water and/or wastewater service in each of its districts throughout the state.
2. Approval of 33 special requests, including various fees, surcharges, new tariffs, the authorization to recover balances in various memorandum accounts, the right to establish other memorandum accounts, and various other requests.

## **III. ISSUES**

DRA is conducting the necessary discovery, investigation, and review to address issues raised in the Application to determine whether Cal-Am's estimated levels of revenues, expenses, and rate base are just and reasonable. DRA will also be reviewing Cal-Am's General Office expenses, ratebase, and Special Requests to ensure that they are appropriate and in the public interest.

This Protest provides a non-exhaustive identification of issues DRA will examine. As discovery proceeds, other issues will likely arise.

**A. General Issues**

DRA takes issue with how Cal-Am has portrayed its current revenues. Cal-Am’s revenue calculations are inconsistent with its current tariffed rates charged to customers. For example, the Application’s revenue workpapers show the following rates for residential service charges in the Larkfield District using the Commission’s Standard Rate Design as authorized in D.86-05-064<sup>1</sup>:

<b>Customer Class</b>	<b>Meter Size (inches)</b>	<b>Service</b>
		<b>Charge</b>
Residential	5/8	<b>\$35.13</b>
	3/4	<b>\$52.69</b>
	1	<b>\$87.81</b>
	1 1/2	<b>\$175.63</b>
	2	<b>\$281.00</b>
	3	<b>\$526.88</b>
	4	<b>\$878.13</b>

These rates differ markedly from Cal-Am’s actual current, tariffed rates approved in Advice Letter 978 that approved the following charges:

<b>Customer Class</b>	<b>Mtr Size (inches)</b>	<b>Service</b>
		<b>Charge</b>
Residential	5/8	<b>\$17.56</b>
	3/4	<b>\$26.34</b>
	1	<b>\$43.91</b>
	1 1/2	<b>\$87.81</b>
	2	<b>\$140.50</b>
	3	<b>\$263.44</b>
	4	<b>\$439.06</b>

Cal-Am has provided corrected revenue workpapers in response to DRA’s Deficiency Review and in response to a DRA Data Request. Its revised workpapers accurately portray the true rates that the utility is charging its customers rather than the

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<sup>1</sup> D.86-05-064 authorized utilities to recover 50% of their fixed costs through service charges, which is in contrast to Cal-Am’s current, tariffed rates in Larkfield that recover 25% of its fixed cost through service charges.

Commission's Standard rates that it incorporated in its filed Application. Cal-Am's revenue workpapers should correctly link the current, tariffed rates to the revenue calculations throughout Cal-Am's workpapers rather than having separate worksheets showing the correct rates that do not link back to the rest of Cal-Am's workpapers. Thus, in order to make the rate impacts of Cal-Am's Application clear to ratepayers, Cal-Am should file an additional notice upon filing its rate design.

Another concern about Cal-Am's Application is that its revenue projections do not incorporate all of the earnings it may realize from its various "special request" proposals. For example, Cal-Am's Application does not forecast how much it is likely to earn from returned-check charges.

DRA will also review the following to determine whether they are reasonable, accurate, and justified:

1. Cal-Am's proposed revenue rate increases for its Test and Escalation Years, including sales, revenue, consumption, and number of customers;
2. Cal-Am's estimate of its operation & maintenance ("O & M"), and administrative & general ("A & G") expenses, including payroll, and conservation expenses;
3. Cal-Am's proposed additions to plant, including construction work in progress, security, and water quality;
4. Cal-Am's estimate of its General Office expenses and capital additions, including cost allocations, insurance, pension and benefits, and overhead rates; and
5. Cal-Am's Special Requests.

**B. Reasonableness of Selected Plant Additions in the General Office & Districts**

DRA will also review the reasonableness of selected plant additions, including:

1. Capital expenditures associated with the Business Transformation Project related to the General Office that Cal-Am estimated will cost \$11 million;

2. Main Improvement Program in the Sacramento District estimated to cost \$4.5 million;
3. Well Rehabilitation Program in the Sacramento District estimated to cost \$2.8 million;
4. Main Improvement Program in the Monterey District estimated to cost \$5.4 million;
5. Well Rehabilitation Program in the Monterey District estimated to cost \$2.4 million;
6. Satellite System Interconnections in the Monterey District estimated to cost \$3.7 million;
7. Well Rehabilitation Program of the Longden Well in the Los Angeles District estimated to cost \$4 million;
8. Main Replacement Programs in the Los Angeles District estimated to cost \$2.3 million;
9. The combination of the domestic/irrigation system in Duarte estimated to cost \$3.9 million; and
10. Main Replacement Programs in the San Diego District estimated to cost \$2.2 million.

**C. Cal-Am's Numerous Special Requests Will Result in Customer Confusion, Require Additional Customer Notice, and Fail to Comply with Rule 2.1.**

Cal-Am's Application includes 33 special requests. Many of these special requests are for additional fees, surcharges, or memorandum accounts, which, if approved, will lead to additional increases in customer bills. At this time however, actual bill impacts of these requests is unknown because Cal-Am has not yet filed its rate design. Customers should be given an additional notice when Cal-Am files its rate design so that customers have a genuine opportunity to adequately assess all of the potential rate impacts that could result from Cal-Am's Application. In addition, the

Commission should require Cal-Am to file a post-rate-case notice pursuant to Cal. Pub. Util. Code § 454.<sup>2</sup> These notices should provide customers with examples of bill impacts that demonstrate rate impacts from Cal-Am’s general request for a rate increase, as well as bill impacts from the various fees, surcharges, and tariffs included in this Application as special requests.

Further, approval of Cal-Am’s special requests will cause customer confusion. One of the goals of Commission regulation of water utilities should be to make utility rates comprehensible to the average customer. Customer billing should be straightforward so that a customer can see the correlation between their water use and the amount of their bill. When the customer’s bill includes multiple fees and surcharges – in addition to the general charge for water usage – billing becomes too complex for a customer to recognize benefits from water conservation. Special requests--with their associated surcharges, sur-credits, balancing and memorandum accounts--confuse, rather than clarify water rates and muddle the economic message that the Commission is seeking to convey when it issues its general rate case decision on Cal-Am’s application. This is inconsistent with the Commission’s Water Action Plan, which requires a 20% reduction in consumption by 2020.<sup>3</sup> In order to meet this goal, customers need rate structures that clearly reward their usage behavior.<sup>4</sup> The Commission needs to weigh its approval of Cal-Am’s rate increase, including its rate increases embodied in various special requests, against the guidance provided by the Water Action Plan and it should evaluate whether Cal-Am’s proposed rates achieve the goal of reducing water consumption by increasing the clarity of rates. Mitigating customer confusion is another

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<sup>2</sup>See Cal. Pub. Util. Code § 454(b) (“For a water corporation with more than 2,000 service connections, the notice required in subdivision (a) shall include estimated rate impacts on the various customer classes of the corporation. The commission may require the corporation to inform customers in a separate letter or through a bill insert, at the corporation’s discretion, of the outcome of the general rate case, within 60 days if the corporation operates on a 30-day billing cycle, or within 90 days if the corporation operates on a 60-day billing cycle, of the commission’s final decision, including the approved rates and the approved capital projects that will subsequently be executed by way of an advice letter.”).

<sup>3</sup> See Cal. Water Code § 10608(g).

<sup>4</sup> See Water Action Plan at p. 3.

reason why the Commission should require additional notice for customers in this proceeding when the rate design is filed.

DRA agrees with many of the Mark West Area Community Services Committee's (MWACSC's) concerns regarding the special requests. Because many of Cal-Am's special requests are for fees, surcharges, and tariffs that will raise customers' bills, requests for authorization of these requests should have been incorporated into Cal-Am's general request for an increase in rates. Because Cal-Am failed to include the bill impact of these various fees and surcharges in its general analysis and request for a rate increase, the rate increase figures it presents in its Application are inaccurate. Again, Cal-Am should remedy this by providing customers with additional notice once its rate design is filed in October. Notice should demonstrate the overall rate increase when the general request for a rate increase is combined with the various fees, surcharges, etc., presented as special requests.

Cal-Am also appears to be using special requests as a mechanism for continuing to request authorization for matters that the Commission has already denied. For instance, Special Request Number 14 requests authorization to consolidate its Larkfield and Sacramento Districts.<sup>5</sup> The Commission has now twice considered and denied this request.<sup>6</sup> Further, there is currently a Rulemaking addressing consolidation issues, which may inform the Commission's decision on this particular Special Request.<sup>7</sup> As such, resolution of Special Request Number 14 should only be resolved upon a final decision in that Rulemaking. Cal-Am should not use its Application generally, and its special requests in particular, to request authorization for matters already decided by the Commission unless there is a change in circumstances justifying the renewed request. In such an event, Cal-Am should specifically identify the prior Commission decisions on the issue and the changed circumstances that justify re-examination of the prior Commission decision.

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<sup>5</sup> Application at p. 15.

<sup>6</sup> D.08-05-018 at pp. 3, 40; D.05-09-020 at p. 3.

<sup>7</sup> See R.11-11-008.

Presenting the same requests repeatedly through different applications is particularly onerous given that these special requests require additional resources from DRA, other intervenors to this proceeding, and the Commission in general. DRA staff has to separately analyze each special request, and must conduct additional discovery and present separate testimony to address each of these requests. DRA has even assigned a staff person to work solely on analyzing these requests. DRA staff also has to spend time and resources determining the rate impacts of each special request in addition to analyzing requests for rate increases in the general application.

Further, the Rate Case Plan does not contemplate allowing utilities to submit special requests in addition to their regular general rate case filing. The Rate Case Plan does not allow for additional time to review applications that incorporate special requests despite the additional work these requests represent. In recent years, as here, Cal-Am's special requests have become so numerous that it threatens the ability of DRA staff and the Commission to complete a General Rate Case within the time-frame allotted by statute and envisioned by the Rate Case Plan. This is a trend not only for Cal-Am, but for other water utilities as well. Cal-Am (and other Class A water utilities) should seek to minimize the use of "special requests" in rate case filings instead of using the rate case process as a vehicle to enhance its revenues through less than transparent means via the inclusion of numerous "special requests."

A complete analysis of Cal-Am's Application, including the numerous special requests, is particularly onerous where the rate design is not yet filed. DRA notes that the energy utilities that the Commission regulates via a similar general rate case process typically do not incorporate any "special requests" in their rate case application filings.

Finally, Cal-Am's special requests fail to comply with Rule 2.1 of the Commission's Rule of Practice & Procedure. Rule 2.1 requires an applicant to "cite by appropriate reference the statutory provision or other authority under which Commission authorization or relief is sought." None of Cal-Am's special requests, with one

exception,<sup>8</sup> cite to the applicable statutory or other authority under which the requested authorization would be permitted.

For these reasons, the Commission should take steps to ensure that Cal-Am's presentation of its special requests do not result in customer confusion and an inaccurate analysis of its request to increase rates. The Commission should require Cal-Am to send out a customer notice upon filing its rate design, as well as an additional notice following this proceeding. Without this notice, customers are not being fully informed of the true impact of Cal-Am's requests. Further, in the future, Cal-Am should minimize special requests.

#### **IV. CATEGORIZATION AND PROPOSED SCHEDULE**

DRA agrees with Cal-Am's proposed categorization of this proceeding as a ratesetting. While the prospect exists that this proceeding may be resolved through settlement, evidentiary hearings may be necessary to resolve some issues. Therefore, DRA requests that a prehearing conference be held to establish a schedule for this proceeding. The schedule should also set dates for public participation hearings.

The schedule proposed in Cal-Am's final Application, included below, provides adequate time to analyze the proposed rate increase:

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<sup>8</sup> Special Request No. 13 states that the special request is authorized by D.13-04-015. See A.13-07-002 at p. 15.

<b>EVENT PER RATE CASE PLAN</b>	<b>PROPOSED DATE</b>
1. Application filed (day 0)	7/1/2013
2. Prehearing Conference (day 10 – 75)	TBD
3. Rate Design Proposal (day 92)	10/1/2013
4. Public Participation Hearings (day 10-190)	TBD
5. DRA Testimony (day 242)	2/28/2014
6. Other Parties Serve Testimony (day 288)	4/15/2014
7. Rebuttal Testimony (day 305)	5/1/2014
8. ADR Processes or Settlement Begins (day 309-313)	5/9/2014
9. Evidentiary Hearings (day 319-334)	5/15/2014 – 5/30/2014
10. Opening Briefs Filed and Served (day 355)	6/20/2014
11. Motion for Interim Rates (day 355)	6/20/2014
12. Mandatory Status Conference (day 359)	6/24/2014
13. Reply Briefs Filed and Served (day 372)	7/7/2014
14. ALJ's Proposed Decision Mailed (day 495)	7/14/2014
15. Comments on Proposed Decision (day 515)	12/1/2014
16. Reply Comments (day 522)	12/6/2014
17. Commission Meeting (day 536)	12/18/2014
18. Effective Date of New Rates (day 550)	1/1/2015

## **V. CONCLUSION**

Cal-Am's Application raises several concerns regarding the level of expenses being sought by Cal-Am and the prudence of those expenditures to ensure that the relief requested is just, reasonable, and prudent. DRA will conduct discovery to develop its testimony and recommendations regarding the Application. Hearings may be required and a schedule should be established that allows for diligent review of the requested relief. As DRA has not completed discovery or filed its report, it reserves the right to address any issue discovered after this Protest has been filed.

Respectfully submitted,

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