



**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)

JOINT MOTION TO REDUCE THE SPECIAL REQUEST 1 SURCHARGE

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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.

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JOINT MOTION TO REDUCE THE SPECIAL REQUEST 1 SURCHARGE

I. INTRODUCTION

Pursuant to Rule 11.1 of the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission”), California-American Water Company (“California American Water”), Citizens for Public Water, City of Pacific Grove, Coalition of Peninsula Businesses, County of Monterey, Monterey County Water Resources Agency, Monterey Peninsula Regional Water Authority, Monterey Peninsula Water Management District, the Office of Ratepayer Advocates, and Planning and Conservation League Foundation (collectively, the “Settling Parties”) file this joint motion to reduce the Special Request 1 Surcharge (“Surcharge 1”).¹ Specifically, the Settling Parties seek authority for California American Water to reduce the amount of Surcharge 1 from 15% to 4.5% of customer bills. This reduction is reasonable in light of the new Commission schedule for the proposed Monterey Peninsula Water Supply Project (“MPWSP”). The reduction will also benefit ratepayers by avoiding an

¹ On July 31, 2013, the following was executed: *Settlement Agreement of California-American Water Company, Citizens for Public Water, City of Pacific Grove, Coalition of Peninsula Businesses, County of Monterey, Division of Ratepayer Advocates, LandWatch Monterey County, Monterey County Farm Bureau, Monterey County Water Resources Agency, Monterey Peninsula Regional Water Authority, Monterey Peninsula Water Management District, Monterey Regional Water Pollution Control Agency, Planning and Conservation League Foundation, Salinas Valley Water Coalition, Sierra Club, and Surfrider Foundation* (“Settlement Agreement”). It is “Attachment A” to the *Settling Parties’ Motion to Approve Settlement Agreement*, filed in A.12-04-019 on July 31, 2013. All parties to the Settlement Agreement have signed onto in this Joint Motion except LandWatch Monterey County, Monterey County Farm Bureau, Monterey Regional Water Pollution Control Agency, Salinas Valley Water Coalition, Sierra Club, and Surfrider Foundation, who stated they are not joining in this motion because it goes beyond the scope of their involvement in the proceeding.

unnecessary fluctuation in rates and by reducing current bills. Additionally, parties have agreed that California American Water will not seek recovery of any additional costs through Surcharge 1 beyond those requests currently pending before the Commission in A.12-10-003 and A.13-05-017. The Settling Parties request that the Commission act as soon as possible to authorize this agreement and the corresponding reduction in Surcharge 1 in order to maximize the benefit to customers.

II. LEGAL AND FACTUAL BACKGROUND

In D.03-09-022, the Commission authorized California American Water to track preconstruction costs related to a long-term water supply project in a memorandum account.² In D.06-12-040, the Commission authorized California American Water to recover via Surcharge 1 the long-term water supply project costs that it was tracking in that memorandum account.³ The Commission also approved the Special Request 2 Surcharge (“Surcharge 2”), which would fund the construction of a water supply solution on a pay-as-you-go basis, but delayed implementation of Surcharge 2 until the issuance of a Certificate of Public Convenience and Necessity (“CPCN”) for a long-term water supply project.⁴

In D.11-09-039, the Commission authorized California American Water to increase Surcharge 1 to 15%.⁵ The increase was approved based on a schedule that provided for

² D.03-09-022, *Application of California-American Water Company (U210W) for a Certificate that the Present and Future Public Convenience and Necessity Requires Applicant to Construct and Operate the 24,000 acre-foot Carmel River Dam and Reservoir in its Monterey Division and to Recover All Present and Future Costs in Connection Therewith in Rates*, p. 30.

³ D.06-12-040, *Application of California-American Water Company for a Certificate of Public Convenience and Necessity 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*, p. 38.

⁴ *Id.* Subsequently, the Commission found that Surcharge 2 was not applicable to the Regional Desalination Project, due to that project’s public entity partners. D.10-12-016, *Application of California-American Water Company (U210W) for a Certificate of Public Convenience and Necessity 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*, p. 205.

⁵ D.11-09-039, *Application of California-American Water Company (U210W) for a Certificate of Public Convenience and Necessity 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*, p. 14.

amortization of the approximately \$30 million in preconstruction costs booked in the memorandum account by the end of 2014.⁶

In the current application for the MPWSP, California American Water proposed to continue using Surcharge 1 at the 15% rate to recover preconstruction costs,⁷ and asked the Commission to reinstate Surcharge 2.⁸ As part of the July 31, 2013 Settlement Agreement, the parties agreed that Surcharge 1 will cease before Surcharge 2 collections begin, allowing for a more gradual ramping up of rates that are directly attributed to the MPWSP.⁹ The parties also agreed that the total to be collected under Surcharge 2 will be reduced in order to provide for a smooth transition in rates from the final period under Surcharge 2 to the year 1 revenue requirement of the desalination plant.¹⁰

III. JUSTIFICATION FOR RELIEF

In its application, California American Water proposed a schedule that would provide a Commission decision on the CPCN by February 2013.¹¹ That schedule was rejected, and an extended procedural schedule was adopted.¹² Most recently, on January 27, 2014, assigned Administrative Law Judge Minkin extended the current schedule for the proceeding to accommodate a delay in the environmental review process.¹³ Under the new schedule, a Commission decision on the MPWSP is not expected until the first quarter of 2015.¹⁴ In the

⁶ *Id.*, p. 5.

⁷ *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* (“Application”), p. 15.

⁸ Application, pp. 16-17.

⁹ Settlement Agreement, §12.1(c).

¹⁰ Settlement Agreement, 12.1(a).

¹¹ Application, p. 26.

¹² *See Assigned Commissioner’s Scoping Memo and Ruling*, June 28, 2012; *Administrative Law Judge’s Directives to Applicant and Ruling on Motions Concerning Scope, Schedule and Official Notice*, August 29, 2012; *Administrative Law Judge’s Ruling After Evidentiary Hearings*, May 30, 2013.

¹³ *Ruling Setting Forth Updated Schedule and Addressing Other Matters*, pp. 1-2.

¹⁴ *Id.*, p. 2.

meantime, California American Water will continue to recover preconstruction costs through Surcharge 1.

With the current 15% rate, California American Water expects to have recovered the costs through Surcharge 1 by Fall 2014. The extended procedural schedule, however, allows California American Water to be less aggressive in recovery of preconstruction costs and justifies reducing Surcharge 1 to 4.5%. As shown in the attached schedule (Attachment 1), this will still allow California American Water to recover the preconstruction costs in a timely manner and will also smooth rate reductions during the transition from Surcharge 1 to Surcharge 2. Moreover, this reduction will benefit California American Water's Monterey County District customers by reducing current bills. This relief will be helpful for all California American Water customers, but will particularly assist low-income customers facing a variety of increases.

Furthermore, the parties have agreed that California American Water will not seek recovery of any additional costs through Surcharge 1 beyond those requests currently pending before the Commission in A.12-10-003 and A.13-05-017.¹⁵

IV. REQUEST FOR TIMELY ACTION

The Settling Parties request that the Commission act as soon as possible to authorize the reduction of Surcharge 1. The sooner Surcharge 1 is reduced, the greater the benefit for California American Water's customers. Furthermore, since California American Water is currently on track to recover the existing preconstruction costs by Fall 2014 under the 15% rate, a significant delay would render the issue moot. Timely action on this motion will serve the public interest.

V. CONCLUSION

Given the delay in the proceeding and the extended period for recovery of preconstruction costs, the Settling Parties' request to reduce Surcharge 1 from 15% to 4.5% of customer bills is justified. California American Water will still be able to recover costs in a timely manner, but customers will benefit in the meantime from a reduced surcharge on their

¹⁵ Accrued interest on approved balances can continue to be collected via Surcharge 1.

bills. The Settling Parties urge the Commission to authorize the reduction of Surcharge 1 as soon as possible in order to provide the greatest benefit to its customers.

Electronic signatures are provided in accordance with Rule 1.8 of the Commission's Rules of Practice and Procedure.

March 14, 2014

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