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11-04-15

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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of California-American Water Company (U210W) for Authorization to Modify Conservation and Rationing Rules, Rate Design, and Other Related Issues for the Monterey District.

Application 15-07-019
(Filed July 14, 2015)

ASSIGNED COMMISSIONER'S SCOPING MEMO AND RULING

Summary

Pursuant to Rule 7.3 of the Commission's Rules of Practice and Procedure (Rules),¹ this Scoping Memo and Ruling identifies the scope and schedule, and addresses other procedural issues, for this proceeding.

1. Background

California-American Water Company (Cal-Am or applicant) is subject to State Water Resources Control Board (SWRCB) Cease and Desist Order (CDO) WR 95-10. CDO WR 95-10 requires the cessation of the utility's diversions of Carmel River water by the end of 2016. Cal-Am seeks authorization in Application (A.) 12-04-019 to provide the necessary replacement water by constructing a desalination plant (the Monterey Peninsula Water Supply Project - MPWSP), with possible water purchases from the Pure Water Monterey Groundwater Replenishment Project.

In this proceeding, Cal-Am seeks authorization for modifications to its conservation and rationing plan (approved by Decision (D.) 09-07-023) with the

¹ All references to rules are to the Commission's Rules of Practice and Procedure, which are available on the Commission's website.

representation that those changes are necessary to comply with any current and future conditions of SWRCB CDOs. Cal-Am contends that the proposed changes are also necessary for the securitization authorized in the Senate Bill 936, and for money from the state revolving fund, for the purposes of financing the MPWSP in an equitable manner and at the lowest cost. Cal-Am also considers the proposed modifications to be necessary to ensure that past and future authorized revenue requirements are recovered in a manner that prevents rate impact “pancaking.” Cal-Am states that the tools authorized in D.09-07-023, involving Commission authorization to alter Monterey District Rule 14.1 .1 (Cal-Am’s water conservation rationing plan) are not sufficient if the Monterey Peninsula Water Management District’s (MPWMD) Regulation XV is not acted upon appropriately.

Cal-Am, at 3 of its application, believes that modifications in the conservation rationing plan would "support the SWRCB decision to modify the CDO as it would ensure the company's ability to comply with existing and future reductions." Cal-Am notes that the current rate design has led to substantial under-collection (\$40 million) and would lead to the imposition of added costs on future customers and further undercut the company's cash flow. Other concerns are presented in the Application at pages 1-4.

Protests were filed by Water Plus, Public Water Now, Office of Ratepayer Advocates, and Stone Creek Village. A Joint PHC Statement was filed by eight parties on September 3, 2015, in which joint parties agree upon issues and

schedule.² A prehearing conference (PHC) was held September 8, 2015 wherein other issues were raised, including bill impacts on customers, the reasonableness of the \$40 million under-collection, and the need for an audit.

2. Categorization and Need for Hearing

On July 23, 2015, Resolution ALJ 176-3360 preliminarily determined that the category of this proceeding is ratesetting, and hearings would be necessary. The initial categorization of this proceeding as ratesetting is confirmed. The complexity of the issues posed by the underlying application requires that hearings be held. The preliminary determination that hearings are necessary is confirmed.

3. Scope

The scope of the proceeding is to determine whether applicant's proposals, and any alternatives proposed by parties, are just and reasonable. The proposals and possible alternatives involve potential modifications to applicant's (a) Water Revenue Adjustment Mechanism (WRAM) and the Modified Cost Balancing Account (MCBA), (b) rate design, and (c) Monterey District Rule 14.1.1. The scope also includes other rate design, bill impact, and additional analysis stated in the following issues.

Proposals and Alternatives

1. WRAM/MCBA: Cal-Am's proposed modifications to its WRAM/MCBA, and possible alternatives proposed by parties, including:

² Parties filing the Joint PHC Statement are: Cal-Am, Monterey Peninsula Water Management District, Coalition of Peninsula Businesses, Office of Ratepayer Advocates, Public Trust Alliance, Stone Creek Village, Public Water Now, and Water Plus.

- a) establishment of a single, 20-year fixed meter charge ratio-based surcharge on all units of water on all customer class water bills, to recover remaining historical WRAM/MCBA balance as of the date of the final decision in this proceeding;
 - b) amortization of remaining WRAM/MCBA historic balances over the 20-year period at the currently authorized cost of capital, 8.41 percent, rather than the currently authorized 90-day, nonfinancial commercial paper rate; and
 - c) a “vigorous review” of the calculations and assumptions totaling approximately \$40 million in the Monterey WRAM/MCBA accounts as presented by Cal-Am and requested by the company to be amortized in customer rates over 20 years, to ensure they are consistent with the Commission’s decisions authorizing the WRAM/MCBA mechanisms.
2. Rate Design: California American Water’s proposed modifications to its rate design, and possible alternatives proposed by parties, including:
- a) the elimination of summer outdoor watering allotments from the rate design, on an expedited basis;
 - b) an overall shift from allocation-based rate design to a standardized inclining block rate design, based on actual 2014 consumption and consumption-by-tier;
 - c) a compression of the tiered rate differentials for residential rates, reducing the spread between rates paid for lower and higher tiered consumption;
 - d) differentiation between multi-unit residential rates and single unit residential rates, with decreased block widths and base rates for multi-unit residential rates;

- e) an increase in the percentage of residential fixed costs recovered in residential service charges, from 15 percent to 30 percent;
 - f) modifications to the meter charge ratios;
 - g) modification to the Low Income Credit Program to reflect other proposed rate design changes and to insure that proposed rate design changes do not disproportionately affect low income customers; and
 - h) the implementation of an annual consumption true-up pilot program for both residential and non-residential customer classes.
3. Rule 14.1.1: California American Water's proposed modifications to its Monterey District Rule 14.1.1, and possible alternatives proposed by parties, including:
- a) a decrease in the number of conservation and rationing stages from seven to four;
 - b) the designation of two levels of conservation rates within Stage 3, which can be progressively implemented with 30 days' notice to customers; and
 - c) certain additional modifications made to reflect the proposed changes in rate design from a customized allocation-based design to a standard inclining block design.

Other Rate Design, Bill Impact and Additional Analysis

- 4. What options exist to recognize consumption differences related to dwelling occupancy, parcel size, vegetation type and extent, and consumption relative to baseline. Which, if any, should be considered and adopted.
- 5. Impact on Customers if Household Size, Parcel Size, Vegetation Type and Extent, or Consumption Relative to Baseline is Taken Into Account.

- a) Household Size
 - b) Parcel Size
 - c) Vegetation Type and Extent
 - d) Consumption Relative to Baseline
6. Should marginal cost rate setting be considered.
 7. Impact of WRAM Balances on Customers
 - a) Daily Portion of Bill by Tier
 - b) Monthly Portion of Bill by Tier
 - c) Annual Portion of Bill by Tier
 - d) Cumulative Cost by Amortization Period (10, 20, 30 years)
 8. Are the Proposed Modifications Consonant and Compliant with Applicable State and CPUC Drought Rules and Policies?
 9. Upon inclusion of these Advice Letters in Application 15-07-019, the determination and amortization of the just and reasonable WRAM/MCBA balances in the Applicant's Advice Letters 1057, 1068, 1075, and 1076 will be made pursuant to the record developed in this proceeding.
 10. Whether any safety considerations pursuant to Public Utilities Code Section 451 are raised by the application. What remedies, if any, must the Commission adopt to address these safety considerations.

4. Advice Letters

The Division of Water and Audits (DWA) is currently reviewing four Cal-Am Tier 1 advice letters requesting WRAM/MCBA amortizations for the Monterey Main and Ambler Park systems for the years 2013 and 2014. The balances are also identified by applicant in the approximately \$40 million in the Monterey WRAM/MCBA accounts mentioned above. (See Section 3, Issue 1.c.)

Given the central role that the amortization of WRAM/MCBA balances have in this proceeding and the issues this raises, the 2013 and 2014 WRAM/MCBA balances for the Monterey Main and Ambler Park systems should be reviewed and considered in the context of this proceeding. For administrative efficiency, the four Cal-Am advice letters (Advice Letters 1057 and 1076 for the Monterey Main system and Advice Letters 1068 and 1075 for the Ambler Park system) should be consolidated with A.15-07-019. Cal-Am should stop further amortizations of the 2013 and 2014 balances effective 30 days from today. Recovery of these balances will be resolved as part of this proceeding, consistent with Issue 1.c. Finally, Cal-Am should amend its filing in this proceeding to update current unamortized 2013 and 2014 balances for its Monterey Main and Ambler Park systems as of the date customer surcharges cease.

Joint Parties recommended, and this Scoping Memo adopts (See Section 4, Issue 1.c.):

“a ‘vigorous review’ of the calculations and assumptions totaling approximately \$40 million in the Monterey WRAM/MCBA accounts as presented by Cal Am and requested by the company to be amortized in customer rates over 20 years, to ensure they are consistent with the Commission’s decisions authorizing the WRAM/MCBA mechanisms.”

A vigorous review of the calculations and assumptions is necessary. That vigorous review first requires that the accounts be subject to an audit to provide reasonable confidence in the reported balances. Therefore, applicant should immediately retain an independent auditor, at shareholder expense, to verify actual customer water usage and billed revenues for the Monterey County District, including the Ambler Park subsystem, for 2013 and 2014. Applicant shall report the results of the audit in this proceeding no later than 75 days from the date of this Scoping Memo, with service of the report on the service list for this proceeding. Based on the results of the audit, Cal-Am shall (i) revise as necessary the computation of the billed customer revenues and the resulting WRAM/MCBA balances for 2013 and 2014; and (ii) recalculate penalties or rewards for non-revenue water pursuant to Commission Decisions D.09-07-021 and D.12-06-016.

5. Schedule

Joint Parties recommend, and this Scoping Memo adopts, a schedule that separately but simultaneously treats (a) rate design changes to eliminate summer outdoor watering allotments in the upper rate tiers and (b) remaining issues. The adopted schedules are in Attachment A.

The schedules include dates for Commission-sponsored public workshops, and public participation hearings (PPHs). The dates, times and places will be determined subsequently by staff, and parties will be notified. Staff shall work with applicant to develop an appropriate bill insert to notify customers of the workshops and PPHs. Applicant shall perform notice to its customers by bill insert, and to its customers and the public in general by publication of a notice in local newspaper(s).

6. Becoming a Party; Joining and Using the Service List; Enrolling in Subscription Service

The existing service list can be viewed on the Commission's web page for this proceeding.

6.1 Parties: Persons who are not already on the service list in this category for this proceeding may request party status by filing a written motion or by making an oral motion at a prehearing conference if one is held (*see* Rule 1.4(a)(3) and (4)). Only one representative per party will be listed in the "Parties" category. Additional representatives will be added as "Information Only."

6.2 Information Only: Persons not already on the service list in the "Information Only" category may seek to be included in that category by request to the Process Office. Persons must provide an e-mail address in order to receive service of documents that are not required to be served by hard copy. (*See* Rule 1.10(b).) Persons may request that Administrative Law Judge (ALJ) require additional service as appropriate.

6.3 State Service: A member or employee of the Commission, State Legislature or other State office or agency not already on the existing service list in this category will be added to the "State Service" category of the official service list upon request to the Process Office. Any such person who declines to provide an e-mail address will receive hard-copy service of all documents. (*See* Rule 1.10(b).)

6.4. Subscription Service: You can monitor the proceeding by subscribing to receive electronic copies of documents in this proceeding that are published on the Commission's website. There is no need to be on the service list in order to use the subscription service. Instructions for enrolling in the subscription service are available on the Commission's website at: <http://subscribecpuc.cpuc.ca.gov>.

7. Serving and Filing Documents

Filing and service of documents are governed by Article 1 of the Rules of Practice and Procedure. The Commission encourages electronic filing and e-mail service. You may find information about electronic filing at <http://www.cpuc.ca.gov/PUC/efiling>. E-mail service is governed by Rule 1.10. If you have questions about the Commission's filing and service procedures, contact the Docket Office (docket_office@cpuc.ca.gov).

8. Intervenor Compensation

A Notice of Intent to Claim Intervenor Compensation (NOI) must be filed within 30 days of the date of the prehearing conference (PHC). (Public Utilities Code Section 1804(a)(1).) The PHC was held on September 8, 2015. NOIs were required to have been filed by October 8, 2015. An amended NOI may be filed within 15 days after the issuance of this Scoping Memo. (Rule 17.1(b).)

9. Public Advisor

Anyone interested in participating in this proceeding who is unfamiliar with the Commission's procedures should contact the Commission's Public Advisor in San Francisco at (415) 703-2074 or (866) 849-8390 or e-mail public.advisor@cpuc.ca.gov or in Los Angeles at (213) 576-7055 or (866) 849-8391, or e-mail public.advisor.la@cpuc.ca.gov. The TTY number is (866) 836-7825.

10. Ex Parte Communications

Pursuant to Article 8 of the Rules of Practice and Procedure, *ex parte* communications in this ratesetting are restricted and governed by Rule 8.3(c).

11. Notice of Workshops

One or more workshops and/or public participation hearings may be held in this proceeding. If there are any workshops and/or public participation hearings, notices of such events will be posted on the Commission's Daily

Calendar to inform the public that a decision-maker or an advisor may be present at those meetings or workshops. Parties shall check the Daily Calendar regularly for such notices. Notices having been duly noticed in the Daily Calendar and along with the requisite ruling, scoping memo or other order issued in the specific proceedings satisfy the requirements of the Commission's Rules of Practice and Procedure Rule 8.1(c) such that no *ex parte* communication shall be considered to occur should a decision-maker or an advisor be present at the meeting or workshop.

12. Presiding Officer

Pursuant to Rule 13.2, I designate ALJ Gary Weatherford as the Presiding Officer.

13. Discovery/Law Motion Matters

Discovery will be conducted pursuant to the provisions in Article 10 of the Rules (Rules 10.1 through 10.4) and Rule 11.3. Rule 11.3 requires parties to meet and confer before bringing a formal motion. Parties are expected to engage in timely discovery well before deadlines and are expected to raise discovery issues in a timely fashion to avoid adverse impacts on the schedule.

14. Final Oral Argument

Pursuant to Rule 13.13, any requests for a final oral argument (FOA) before the Commission must be filed and served at the same time as reply briefs. The request shall be by motion. The motion shall state the issues and the amount of time the moving party believes is necessary. The motion shall also state any and all other facts and information the moving party believes necessary for the Commission to make an informed decision on the motion. If any party intends to file a motion for FOA, that party shall make a reasonable attempt to contact and coordinate with other parties such that a joint motion may be made.

IT IS RULED that:

1. The initial categorization of this proceeding as ratesetting affirmed. The initial determination that hearing is necessary is affirmed. An appeal, only as to categorization, may be filed, with the filing made within 10 days of the date of this Scoping Memo. (Rule 7.6.)

2. The issues, scope, and schedule stated in this Scoping Memo and Ruling are adopted.

3. This Scoping Memo will be served on the service lists for (a) this proceeding, (b) A.12-04-019 (Monterey Peninsula Water Supply Project) and (c) R.11-11-008 (balanced rates).

4. The assigned Commissioner and/or Administrative Law Judge (ALJ) may by ruling make additions or adjustments to the issues, schedule, and official service list for this proceeding, as appropriate.

5. California-American Water Company's (Cal-Am) Advice Letters 1057, 1068, 1075, and 1076 (requesting amortization of the 2013 and 2014 Water Revenue Adjustment Mechanism/Modified Cost Balancing Account (WRAM/MCBA) balances for the Monterey Main and Ambler Park water systems) are consolidated with Application (A.) 15-07-019. Cal-Am shall cease further amortization of the requested balances within 30 days of the date of this Scoping Memo, pending a resolution of these matters in A.15-07-019. Cal-Am shall update its filing in this proceeding to indicate the unamortized WRAM/MCBA balances as of the date surcharges for recovery of the 2013 and 2014 balances cease. Cal-Am shall immediately retain an independent auditor, at shareholder expense, to verify actual customer water usage and billed revenues for the Monterey County District, including the Ambler Park subsystem, for 2013 and 2014, and other related items as may be directed by Division of Water and

Audits Staff. Applicant shall report the results of the audit in this proceeding no later than 75 days from the date of this Scoping Memo, with service of the report on the service list for this proceeding. Based on the results of the audit, Cal-Am shall (i) revise as necessary the computation of the billed customer revenues and the resulting WRAM/MCBA balances for 2013 and 2014; and (ii) recalculate penalties or rewards for non-revenue water pursuant to Commission Decisions (D.) 09-07-021 and D.12-06-016.

6. The assigned Presiding Officer is Administrative Law Judge is Gary Weatherford.

7. Any party requesting final oral argument shall do so by motion no later than the date reply briefs are due, with the motion including the information stated in this Scoping Memo.

8. *Ex parte* communications are subject to Article 8 of the Commission's Rules of Practice and Procedure, and Public Utilities Code Section 1701.3(c).

Dated November 4, 2015, at San Francisco, California.

/s/ MICHEL PETER FLORIO

Michel Peter Florio
Assigned Commissioner

ATTACHMENT A
ADOPTED SCHEDULES

TABLE 1

A.15-07-019

Adopted schedule for consideration of an expedited rate design change to eliminate summer outdoor watering allotments in the upper rate tiers

EVENT	DATE
ORA/Intervenor Testimony Served	11/13/15
Rebuttal Testimony Served	11/25/15
Settlement Talks	11/25/15 – 12/8/15 [a]
Evidentiary Hearing	12/8/15 - 12/11/15
Opening Briefs	TBD
Reply Briefs	TBD
Submission	Upon receipt of reply briefs
Proposed Decision (PD)	Within 90 days of submission
Comments on PD	20 days after PD
Reply Comments on PD	5 days after comments
Commission Decision	Approximately April 2016

[a] Parties may engage in settlement talks throughout the proceeding and may file a motion to propose a settlement up to 30 days after the last day of hearing. (Rule 12.1.)

“TBD” is to be determined.

TABLE 2

A.15-07-019

Adopted schedule for consideration of
remaining issues

EVENT	DATE
Commission-Sponsored Public Workshops	January 2016 [b]
Public Participation Hearings	February 2016[b]
ORA/Intervenor Testimony Served	2/16/16
Rebuttal Testimony Served	3/4/16
ADR Process or Settlement Talks	3/4/16 – 4/11/16 [c]
Evidentiary Hearing	4/11/16 – 4/15/16
Opening Briefs	TBD
Reply Briefs	TBD
Submission	Upon receipt of reply briefs
Proposed Decision (PD)	Within 90 days of submission
Comments on PD	20 days after PD
Reply Comments on PD	5 days after comments
Commission Decision	Approximately October 2016

[b] Dates, times, and places will be determined later, with customer notice by bill insert.

[c] Parties may engage in settlement talks throughout the proceeding and may file a motion to propose a settlement up to 30 days after the last day of hearing. (Rule 12.1.)

“TBD” is to be determined.

(END OF ATTACHMENT A.)