

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



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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)

**REPLY COMMENTS OF CALIFORNIA WATER ASSOCIATION  
TO ADMINISTRATIVE LAW JUDGE'S RULING FOR  
ADDITIONAL INFORMATION**

John K. Hawks  
Executive Director  
CALIFORNIA WATER ASSOCIATION  
601 Van Ness Avenue, Suite 2047  
Mail Code #E3-608  
San Francisco, CA 94102-3200  
Tel.: (415) 561-9650  
Fax: (415) 561-9652  
E-mail: [jhawks@calwaterassn.com](mailto:jhawks@calwaterassn.com)

NOSSAMAN LLP  
Martin A. Mattes  
Mari Davidson  
50 California Street, 34th Floor  
San Francisco, CA 94111  
Tel.: (415) 398-3600  
Fax: (415) 398-2438  
E-mail: [mdavidson@nossaman.com](mailto:mdavidson@nossaman.com)

Attorneys for CALIFORNIA WATER  
ASSOCIATION

September 16, 2016

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In accordance with the instructions contained in the September 2, 2016 Administrative Law Judge (“ALJ”) Ruling for Additional Information (the “Ruling”) in the above-captioned Application of California-American Water Company (“California American Water”), California Water Association (“CWA”) hereby submits these reply comments. Because CWA sought party status in this proceeding to address a limited set of concerns to CWA’s members, this reply focuses on a single issue of interest to the ALJ: the interest rates the Commission may consider in connection with the amortization of the balance accounted for in California American Water Company’s (“California American Water”) Water Revenue Adjustment Mechanism and Modified Cost Balancing Account (“WRAM”).

CWA has not taken a position on a specific interest rate that the Commission should adopt in this proceeding. However, as indicated in CWA’s opening and reply briefs,<sup>1</sup> CWA opposes the zero-interest rate proposed by the Office of Ratepayer Advocates (“ORA”). CWA considers the 90-day commercial paper rate (of 1%)<sup>2</sup> similarly inadequate to compensate California American Water for the potentially lengthy recovery period of 3, 5, 10 or 20 years that

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<sup>1</sup> CWA Opening Brief, at 6-8; CWA Reply Brief, at 4-6.

<sup>2</sup> California American Water Response to Administrative Law Judge’s Ruling for Additional Information (“Response”), at 6.

the Commission may adopt in this proceeding. Simply put, the 90-day commercial paper rate is intended to compensate for a **short-term** debt. To avoid customer rate shock, recovery of California American Water's historical WRAM balance promises to be a long-term undertaking.

The Ruling also requests information regarding rates associated with certain other categories of debt, including those applicable to treasury notes and investment-grade corporate debt. CWA is glad to see that the Commission may consider a rate **other than** the 90-day commercial paper rate typically applied to balancing accounts<sup>3</sup> for adoption in this proceeding. However, CWA observes that using an interest rate that correlates to any of these other categories of debt suggests that California American Water could and should solicit a private placement to separately finance its WRAM balance over the Commission-approved recovery period. This direction is contrary to how the Commission's regulated water utilities seek and employ financing in general, and fails to accurately reflect the practical, operational reality of carrying a long-term regulatory asset like a WRAM balance. For example, the water utilities do not go to the financial markets to secure financing separately for each and every capital project. Rather, the water utilities employ the AFUDC (Allowance for Funds Used During Construction) accounting practice, whereby the cost of funds used to finance utility plant construction is capitalized as part of the overall cost of plant. When the newly constructed plant goes into service, those capitalized finance charges are included in rate base along with the capital costs, to earn at the company's Commission-approved rate of return. Financing a 3, 5, 10 or 20-year WRAM balance is much like a financing a capital project in this way, and CWA submits that none of the categories of interest rates, except perhaps the **actual** rate at which California

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<sup>3</sup> D.94-06-033, 1994 Cal. PUC LEXIS 428, at \*106-107 (Ordering Paragraph 1).

American Water is currently funding its undercollections,<sup>4</sup> provides an appropriate proxy or benchmark to adopt in this proceeding.

Finally, CWA takes this opportunity to echo the cautionary observation made on pages 5 and 6 of California American Water's Response to the Ruling, which is that **actual** financing costs have the potential to fluctuate (sometimes dramatically) with market conditions and other factors. In the event that the Commission adopts a specific, numerical interest rate in connection with recovery of California American Water's WRAM balance, any difference between the authorized rate and the actual rate the company is able to secure should be tracked in a two-way balancing account for future reconciliation.

CWA appreciates the opportunity to provide this reply in response to the Ruling and respectfully requests that the Commission allow California American Water's WRAM/MCBA balance to accrue interest during the recovery period at a rate commensurate with the period of recovery in order to compensate for the delay associated with recovery of its previously authorized revenue requirement.

Respectfully submitted,

NOSSAMAN LLP

Martin A. Mattes  
Mari L. Davidson

By: /s/ MARI DAVIDSON  
Mari Davidson

50 California Street, 34th Floor  
San Francisco, CA 94111  
Tel.: (415) 398-3600  
Fax: (415) 398-2438  
E-mail: [mdavidson@nossaman.com](mailto:mdavidson@nossaman.com)

Attorneys for CALIFORNIA WATER ASSOCIATION

John K. Hawks  
Executive Director  
CALIFORNIA WATER ASSOCIATION  
601 Van Ness Avenue, Suite 2047  
Mail Code #E3-608  
San Francisco, CA 94102-3200  
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Fax: (415) 561-9652  
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<sup>4</sup> California American Water Response, at 7.