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ATTACHMENT 1

Contact: Cheryl Cox, ORA Policy Advisor - (415) 703-2495 - cxc@cpuc.ca.gov

PROCEEDING NO: A.15-07-019 June 2016

Cal Am Rate Design and WRAM Recovery Application

The CPUC should reduce Cal Am's $40.6 million WRAM balance by $17.4 million due to the company's mismanagement of the Monterey District's allotment-based rate design. The recoverable WRAM balance should be collected without interest.

Cal Am Permitted Obvious Abuses that Inflated WRAM Balances

- According to Cal Am, it is "obvious that some customers are allocated more water at lower rates than intended under the rate design. [Cal Am Ex. 1, p. 19]
- Cal Am acknowledges "that the allotment process has encouraged an over-reporting of the number of individuals residing in Monterey." [Cal Am Ex. 9, p. 11]
- Cal Am reported survey responses indicating 178,103 full-time residents while separately reporting census data for 102,000 full-time residents. [ORA Ex. 104, p. 1-13]
- Misrepresentation of the number of residents in a household improperly lowered certain customer bills and **inappropriately inflated WRAM balances**. [EH Vol. 6, pp. 950-951]
- Cal Am attained corporate goodwill by providing allotments that lowered customer bills and attempted to recover the cost of this goodwill through WRAM. [ORA Ex. 104, p. 1-11]

Cal Am Provided Inadequate Management of Allotments & Surveys

- Monterey Ordinance 92 requires Cal Am's allotment-based rate design to utilize an **accurate** survey of water users. [Cal Am Exhibit 13, Attachment 1, p. 4]
- Approved settlements require Cal Am to "take reasonable measures to identify miscategorizations" in its documentation of allotments. [D.09-07-021, Appendix A]
- Cal Am's consultant indicated that for allotment rate designs "property and household characteristics must be verified not just once, but indefinitely." [EH Vol. 4, p. 494]
- Cal Am **never** performed nor requested an audit or verification of a residential customer's property or household characteristics. [Cal Am Ex. 1, p.18; EH Vol. 3, p. 356]
- Situations in Monterey would have prompted Cal Am's own consultant to verify property information "as a matter of best practice." [EH Vol. 3, p. 496]

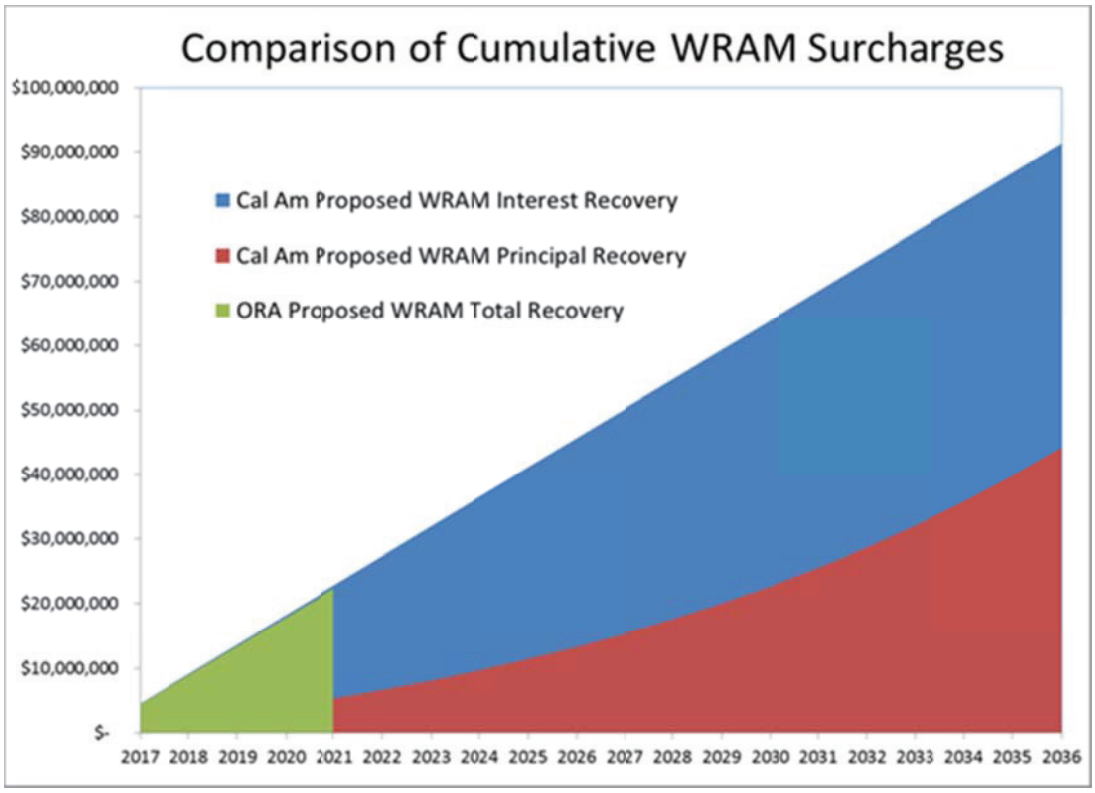
(over)

The CPUC Should Disallow Recovery of $17.4 Million

- Based upon known problems with allotments and surveys, Cal Am should have taken steps to verify data and correct misrepresentations. [ORA Ex. 104, Attachment 1A]
- ORA's recommended disallowance is based upon the difference between reported U.S. Census Data and the per-person allotments provided by Cal Am. [EH Vol. 6, p. 936]
- $17.4 million is a conservative disallowance since it is calculated using average rates and does not correct for inaccurate lot size or animal allotments [ORA Ex. 104, p. 1-12]

Recovery of the WRAM Balance Should be Without Interest

- WRAM is not "debt" that is entitled interest. Instead, based upon Cal Am's financial performance, the WRAM represents additional profit. [ORA Ex. 104, p. 2-15]
- The WRAM calculation already includes Cal Am's authorized rate of return, and allowing interest at the same rate of return would be **double recovery**. [EH Vol. 6, p. 905]
- The difference between ORA's recommended recovery and Cal Am's proposed recovery equates to about **$1,700 in additional charges** per customer.



Source: ORA Exhibit 104, page 2-16

See ORA's Testimony at: http://ora.ca.gov/general.aspx?id=3365

ATTACHMENT 2

CITY OF MONTEREY

Colton Hall, California Constitution Hall 1849

March 3, 2016

Mayor:
CLYDE ROBERSON

Councilmembers:
TIMOTHY BARRETT
LIBBY DOWNEY
ALAN HAFFA
ED SMITH

City Manager:
MICHAEL McCARTHY

California Public Utilities Commission
Public Advisor's Office
505 Van Ness Avenue
San Francisco, CA 94102

RE: California American Water's Application 15-07-019 (Filed July 16, 2015)

Dear President Picker and Commissioners of the California Public Utilities Commission:

By unanimous vote of the City Council of the City of Monterey ("City"), the City hereby opposes Cal Am's application to modify its rate design, to change its water revenue adjustment mechanisms ("WRAM") and modified cost balancing account ("MCBA") surcharge collection, and to implement an annual consumption true-up mechanism ("sales reconciliation mechanism" or "SRM").

On March 1, 2016 the City conducted a public hearing regarding Cal Am's proposed changes. After receiving and considering public input from residents, the hospitality industry, and Cal Am, the Council deliberated and decisively objects to many aspects of Cal Am's proposal because it results in inequities to its ratepayers. The City firmly supports the detailed and comprehensive analysis and recommendation of the Office of Ratepayer Advocates (ORA) expressed in its report to the CPUC dated February 16, 2016.

The City agrees with ORA's recommendation that the CPUC should disallow $17.39 million in WRAM balance, as this portion of the balance is reasonably attributable to Cal Am's lack of management oversight of the allotment system, and not by reduced consumption.

Consistent with ORA's recommendation, the City concurs that Cal-Am should be required to amortize $17.39 million over five years rather than 20, and most importantly disallow charging ratepayers any interest.

The City also supports ORA's recommendation to require Cal-Am to make future WRAM balance recovery requests through the normal application process and not through the informal process of filing advice letters with the Commission. Furthermore, the City is concerned that the method of calculating costs between classes of ratepayers must be fair and transparent.

Thank you for your consideration of this informal comment letter. Should you have any questions, please do not hesitate to contact me at (831) 646-3760.

Sincerely,

Clyde Roberson
Mayor

c: Public.advisor@cpuc.ca.gov
CPUC Legal Division
State Senator Bill Monning
Assemblyman Mike Stone
Monterey Business Associations
Monterey Neighborhood Associations
Mayors of the Cities of Carmel by the Sea, Del Rey Oaks, Marina, Pacific Grove, City of Sand, Seaside
Monterey Peninsula Water Management District
Monterey Peninsula Regional Water Authority
California American Water Company
Public Trust Alliance
Water Plus
Public Water Now
Coalltion of Peninsula Businesses
Regulatory Liaisons, Inc.