



**FILED**  
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# ATTACHMENT A

**CALIFORNIA AMERICAN WATER**  
**MONTEREY RATE DESIGN APPLICATION**  
**A.15-07-019**

**Major Points**

- There is no Commission authority, policy or practice to allow a reduction in appropriately calculated accumulated amounts in a balancing account.
- California American Water did not mismanage the allotment process.
- Even if allotments were incorrect – there is no effect on the WRAM balance.
- All balancing accounts are allowed to accrue an appropriate interest rate.

**WRAM Authorizations and Determinations**

- WRAM's are authorized as balancing accounts.
- The Monterey WRAM was calculated in accordance with decision authorized methods as attested by Independent External Auditors.
- All accumulated balances are reviewed for compliance with calculations methodologies.
- Allotments are not a defined parameter in any WRAM or balancing account. Allotments are only a rate design determinate.
- DWA has reviewed and approved all of California American Water's final WRAM filings to date.
- To our knowledge the Commission has NEVER reduced a properly calculated accumulated amount in a balancing account.

**Monterey WRAM and Allotment Facts**

- The Allotments used to create customer bills are the same as those used to develop the Monterey Rate Design – therefore allotments have no bearing on the WRAM balance.
- As noted in ORA's Report there were only about 115,000 full time people allotments – not 178,103.
- Census Data is known to be under reported especially in farm worker communities such as in Monterey County.
- Allotments for billing purposes are not based point in time census data but real time data and actual household reported residents.
- ORA did not understand that over 2,300 allotments had no impact on bills due to the 7 person per household billing cap.
- ORA did not account for the fact that even if an allotment is incorrect, the bills don't change when a customer is billed entirely in Tier 1.

**Customer Allotment Verification Process**

- Surveys are mailed out to all customers annually to report any changes. Customers are responsible to provide accurate data.
- ORA was a party to the Settlements and Decisions and has known and acknowledged that the allotment process is determined based on customer self-reporting.
- ORA never questioned or requested any other verification process for residential allotments. ONLY non-residential had a verification process to ensure customers had proper allotment determinates and no miscategorizations. California American Water complied.
- Only MPWMD has authority to penalize customers for over reporting allotments.

- MPWMD and California American Water requested a limitation on customer allotment importance in billing in the 2005 GRC - ORA fought against the allotment use reduction and the process was not changed.

### **The WRAM Balance and Allotments**

- The Commission required audit of the WRAM balance by independent auditors proved the balance was accurately calculated.
- There is no proven issue with the allotment data and in fact there are only two proven instances where customer reported data was inaccurate.
- California American Water has proven that the WRAM balance would not change if allotments were required to be verified.
- It is probable that customer water use would change if they had changes in their allotments so they could remain in lower block rates.
- ORA's \$17.3 million proposed WRAM balance reduction is completely inaccurate as it does not take into account:
  - Allotments per household over 7
  - Allotment changes that result in no change in usage per tier
  - Customer use changes that would occur with changes in allotments
  - Census data is known to be under-recorded

### **Balancing Account and WRAM Interest**

- Commission decisions authorize ALL balancing accounts to earn interest.
- Balancing accounts are authorized an interest rate commensurate with perceived recovery period of one-year.
- The Commission has historically authorized higher rates for "recovery" accounts that take longer periods to recover.
- All recovery accounts should be allowed a carry cost (interest) commensurate with the term of recovery.
- Low interest rate in comparison to recovery period may harm California American Water and its customers.

### **Other Points**

- ORA's recommendations to reduce the WRAM balance for perceived issues with allotment verification is retro-active ratemaking.
- The WRAM balance in Monterey is the result of a highly inverted rate design that was necessary at the time to ensure compliance with SWRCB Order 95-10 and its companion CDO, and the Seaside Basin Adjudication.
- Because of the timing of rate decisions and issuance of the CDO, it was extremely difficult to estimate future consumption and customer reactions to higher rates and reduced production requirements.
- The drought in California has exasperated the WRAM undercollections.
- The WRAM is a balancing account and no balancing account ever represents additional profit or double recovers the rate of return.
- Balancing accounts are not debt and recover previously authorized revenue requirements that are delayed in recovery from customers and SHOULD be allowed working cash carry cost interest since they are a receivable from customers.

# ATTACHMENT 1

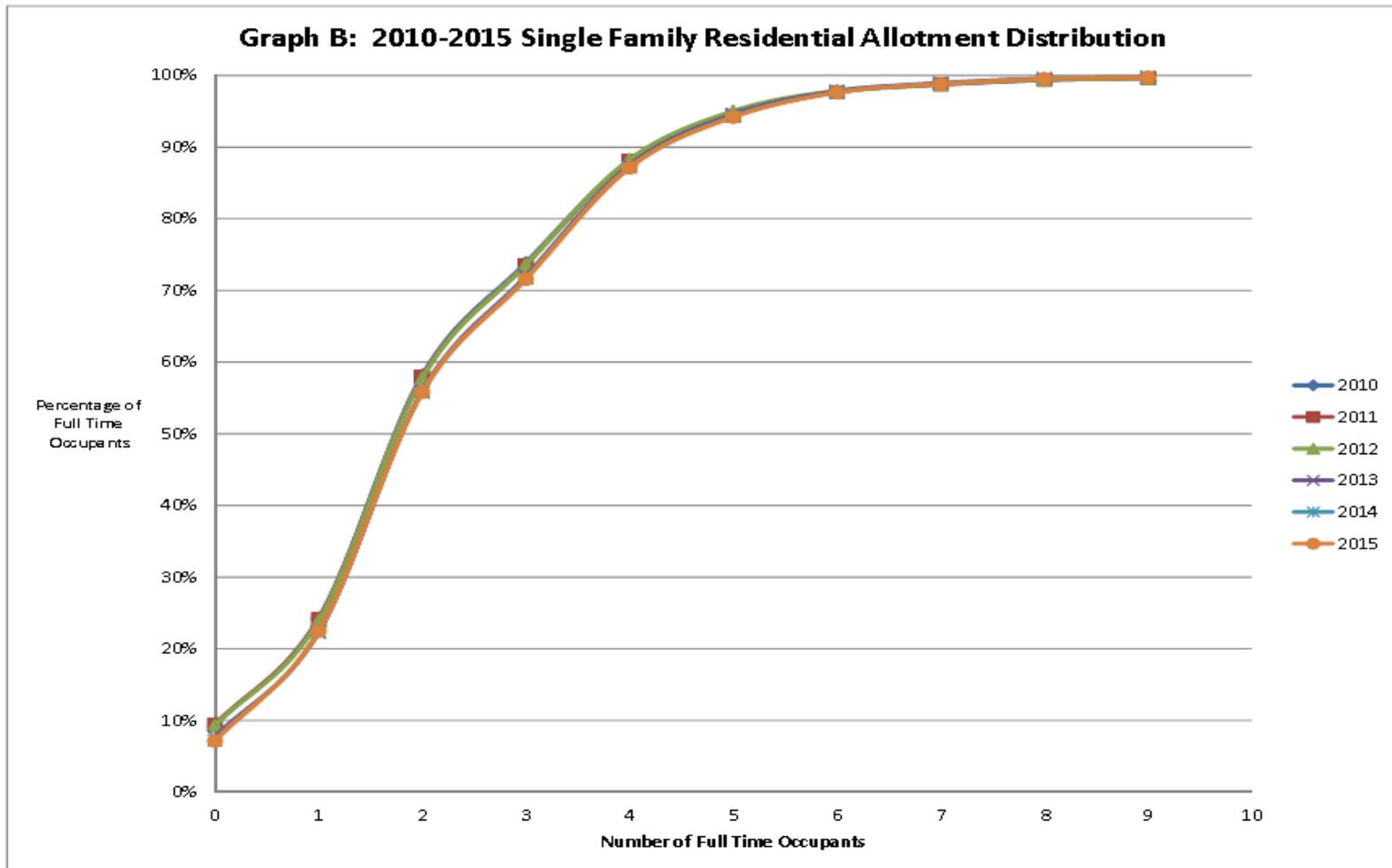
Further discussion can be found in Exh 13, Stephenson Rebuttal, pp. 30-38

Establishing the Allotments					
For simplicity, assume;					
1. 2 units of water per person					
2. No allowance for outdoor use					
	Allowance of Water per Tier				
Household/Size	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5
A: 3 people	6	6	6	6	> 24
B: 2 people	4	4	4	4	> 16
C: 4 people	8	8	8	8	> 32

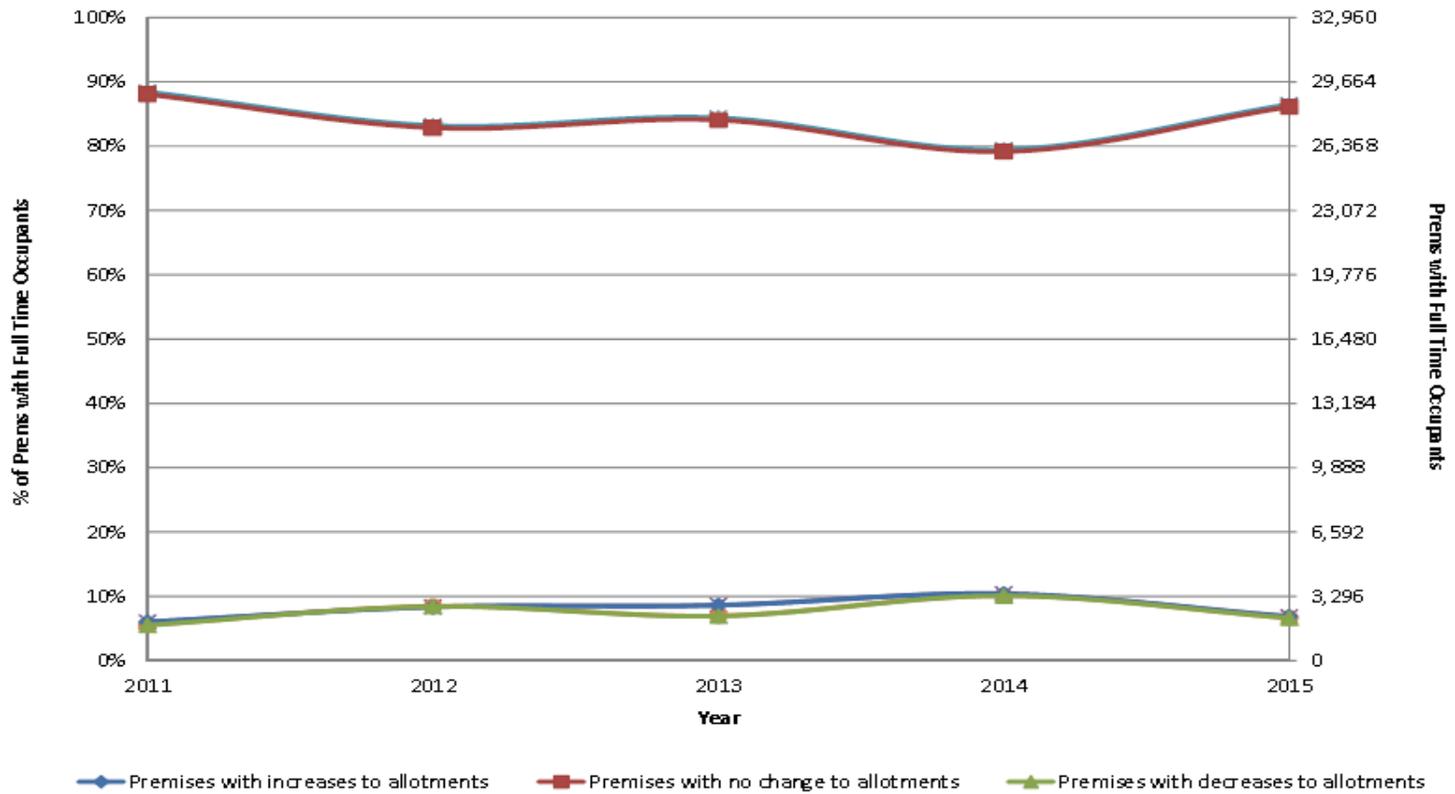
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Have customers changed their self-reported allotments to cause a mismatch between how prices are set and how customers are billed?

No, as shown in Graph B, the distribution of household sizes has been steady since 2010 with only 1-2% of homes reporting 7 occupants or more. Graph C shows that the volume of households reporting a size reduction is nearly equal to the number of households that reported an increase in occupants. (Exh 7, Chew Rebuttal, pp. 2-5)



**Graph C: 2010-2015 Single Family Allotment Changes in Full Time Occupants**



# ATTACHMENT 2

**Establishing the Allotments**

For simplicity, assume;  
 1. 2 units of water per person  
 2. No allowance for outdoor use

Household/Size	Allowance of Water per Tier				
	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5
A: 3 people	6	6	6	6	> 24
B: 2 people	4	4	4	4	> 16
C: 4 people	8	8	8	8	> 32
5 people	10	10	10	10	> 40

How Allotments Factor into Pricing	What if Household C tried to overstate its household size in an effort to "game the system" after rate design is approved?	What happens when rates are reset as part of the next GRC?																																																																																																																																																																																																																																															
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The effect would be a revenue shortfall, all else being equal. But is there evidence of this happening based on available allotment data?</p> <p><b>No.</b> For ORA's claims that mis-reporting drove the WRAM under-collection to be true, the historical allotment data would need to show a significant uptick in the number of homes that increased their allotments. <b>This is not the case.</b></p> <p><b>As stated in rebuttal testimony, the allotment data from 2011-2015 reveals 80-90% of households did not change their allotments. Of the 10-20% that did, the number of households that reported an increase equal the number of households that reported a decrease.</b></p> <table border="1"> <thead> <tr> <th rowspan="2">Household/Size</th> <th colspan="5">Consumption per Tier</th> <th rowspan="2">TOTAL</th> </tr> <tr> <th>Tier 1</th> <th>Tier 2</th> <th>Tier 3</th> <th>Tier 4</th> <th>Tier 5</th> </tr> </thead> <tbody> <tr> <td>A: 3 people</td> <td>6</td> <td>4</td> <td>0</td> <td>0</td> <td></td> <td>10</td> </tr> <tr> <td>B: 2 people</td> <td>4</td> <td>4</td> <td>1</td> <td>0</td> <td></td> <td>9</td> </tr> <tr> <td>C: revised to 5 people</td> <td>10</td> <td>10</td> <td>10</td> <td>1</td> <td></td> <td>31</td> </tr> <tr> <td>Total Units</td> <td>20</td> <td>18</td> <td>11</td> <td>1</td> <td>0</td> <td>50</td> </tr> </tbody> </table> <table border="1"> <thead> <tr> <th></th> <th>Tier 1</th> <th>Tier 2</th> <th>Tier 3</th> <th>Tier 4</th> <th>Tier 5</th> <th></th> </tr> </thead> <tbody> <tr> <td>Rates (unadjusted)</td> <td>\$1.25</td> <td>\$2.00</td> <td>\$2.50</td> <td>\$3.25</td> <td>\$10.00</td> <td></td> </tr> <tr> <td>Rate Design Output</td> <td>\$25</td> <td>\$36</td> <td>\$28</td> <td>\$3</td> <td>\$0</td> <td>\$92</td> </tr> <tr> <td>Revenue Target</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>\$100</td> </tr> <tr> <td>Variance</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>-\$8</td> </tr> <tr> <td>% Variance</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>-8%</td> </tr> </tbody> </table>	Household/Size	Consumption per Tier					TOTAL	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	A: 3 people	6	4	0	0		10	B: 2 people	4	4	1	0		9	C: revised to 5 people	10	10	10	1		31	Total Units	20	18	11	1	0	50		Tier 1	Tier 2	Tier 3	Tier 4	Tier 5		Rates (unadjusted)	\$1.25	\$2.00	\$2.50	\$3.25	\$10.00		Rate Design Output	\$25	\$36	\$28	\$3	\$0	\$92	Revenue Target						\$100	Variance						-\$8	% Variance						-8%	<p>The rate design would be updated to incorporate more recent usage patterns. This would include the re-distribution of usage across the tiers as a result of Household C's reported allotment of 5 people. All else being equal, the resulting drop in usage in Tier 4 (from 7 units down to 1), means prices at the other tiers must go up to compensate.</p> <p>ORA did not express concerns with misreporting when the last two rate designs were developed in 2010 and 2013 and were a party to both settlements.</p> <table border="1"> <thead> <tr> <th rowspan="2">Household/Size</th> <th colspan="5">Consumption per Tier</th> <th rowspan="2">TOTAL</th> </tr> <tr> <th>Tier 1</th> <th>Tier 2</th> <th>Tier 3</th> <th>Tier 4</th> <th>Tier 5</th> </tr> </thead> <tbody> <tr> <td>A: 3 people</td> <td>6</td> <td>4</td> <td>0</td> <td>0</td> <td>0</td> <td>10</td> </tr> <tr> <td>B: 2 people</td> <td>4</td> <td>4</td> <td>1</td> <td>0</td> <td>0</td> <td>9</td> </tr> <tr> <td>C: revised to 5 people</td> <td>10</td> <td>10</td> <td>10</td> <td>1</td> <td>0</td> <td>31</td> </tr> <tr> <td>Total Units</td> <td>20</td> <td>18</td> <td>11</td> <td>1</td> <td>0</td> <td>50</td> </tr> </tbody> </table> <table border="1"> <thead> <tr> <th></th> <th>Tier 1</th> <th>Tier 2</th> <th>Tier 3</th> <th>Tier 4</th> <th>Tier 5</th> <th></th> </tr> </thead> <tbody> <tr> <td>Rates (unadjusted)</td> <td>\$1.36</td> <td>\$2.18</td> <td>\$2.72</td> <td>\$3.54</td> <td>\$10.88</td> <td></td> </tr> <tr> <td>Rate Design Output</td> <td>\$27</td> <td>\$39</td> <td>\$30</td> <td>\$4</td> <td>\$0</td> <td>\$100</td> </tr> <tr> <td>Revenue Target</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>\$100</td> </tr> <tr> <td>Variance</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>\$0</td> </tr> <tr> <td>% Variance</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>0%</td> </tr> </tbody> </table>	Household/Size	Consumption per Tier					TOTAL	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5	A: 3 people	6	4	0	0	0	10	B: 2 people	4	4	1	0	0	9	C: revised to 5 people	10	10	10	1	0	31	Total Units	20	18	11	1	0	50		Tier 1	Tier 2	Tier 3	Tier 4	Tier 5		Rates (unadjusted)	\$1.36	\$2.18	\$2.72	\$3.54	\$10.88		Rate Design Output	\$27	\$39	\$30	\$4	\$0	\$100	Revenue Target						\$100	Variance						\$0	% Variance						0%
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