

PUBLIC UTILITIES COMMISSION505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298**FILED**10-18-16
02:15 PM

October 18, 2016

Agenda ID #15257
Ratesetting

TO PARTIES OF RECORD IN APPLICATION 15-07-019:

This is the proposed decision of Administrative Law Judge Gary Weatherford. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's December 1, 2016 Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

The Commission may hold a Ratesetting Deliberative Meeting to consider this item in closed session in advance of the Business Meeting at which the item will be heard. In such event, notice of the Ratesetting Deliberative Meeting will appear in the Daily Calendar, which is posted on the Commission's website. If a Ratesetting Deliberative Meeting is scheduled, ex parte communications are prohibited pursuant to Rule 8.3(c)(4)(B).

/s/ RICHARD SMITH for
Karen V. Clopton, Chief
Administrative Law Judge

KVC:jt2

Attachment

Decision **PROPOSED DECISION OF ALJ WEATHERFORD**
(Mailed 10/18/2016)

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 Filed July 14, 2015)

**DECISION ADDRESSING WRAM BALANCES, RATE DESIGN,
CONSERVATION AND RATIONING RULES, AND
OTHER ISSUES FOR THE MONTEREY DISTRICT**

Table of Contents

<u>Title</u>	<u>Page</u>
DECISION ADDRESSING WRAM BALANCES, RATE DESIGN, CONSERVATION AND RATIONING RULES, AND OTHER ISSUES FOR THE MONTEREY DISTRICT	1
Summary	2
1. Background and Procedural History	4
1.1. State Water Resources Control Board Cease and Desist Order and This Application.....	4
1.2. Procedural History.....	7
2. Public Comments	9
2.1. Public Participation Hearings	9
2.2. Telephone, Email and Letter Contact.....	10
3. WRAM/MCBA.....	10
3.1. Application and Audit	10
3.2. Positions of Parties.....	12
4. Authorized Amount of WRAM Recovery	14
4.1. WRAM Balances in 2015 and 2016	14
4.2. ORA Adjustments	15
4.2.1. Inadequate Management	15
4.2.1.1. Allotment System	15
4.2.1.2. Vulnerable to Abuse.....	17
4.2.1.3. Allotment Not Cause WRAM Under-Collection	18
4.2.2. UAW Penalty/Reward	19
4.2.3. PwC Audit	21
4.3. PWN/RL Adjustments.....	21
4.4. Amortization.....	24
4.5. Interest Rate	25
4.5.1. ORA.....	26
4.5.2. Cal-Am	27
4.5.3. Adopted Interest	28
4.6. Single Meter Surcharge for Historic WRAM Balance.....	29
4.6.1. Meter Charge	29
4.6.2. ORA: Meter Ratios	30
4.6.3. PWN/RL: Customers During 2010 through 2014.....	31
4.7. Volumetric Rates for Future WRAM Balances	33
4.8. Application or Advice Letter for Prospective WRAM Balances.....	34

Table of Contents (cont.)

<u>Title</u>	<u>Page</u>
5. Rate Design.....	38
5.1. Residential Allotments and Surveys.....	38
5.2. Fixed Cost Recovery in Service Charge for Residential Customers.....	42
5.3. Meter Charge Ratios.....	43
5.4. Tier Break Points and Modified Block Widths.....	45
5.5. Reduce Ratio of Rate Tiers.....	47
5.6. Use 2014 or 2015 Consumption Data.....	49
5.7. Low Income Ratepayer Assistance Program.....	51
5.8. Realign Cost Recovery.....	53
5.9. Other.....	56
6. Annual Consumption True-Up Pilot Program.....	57
6.1. Summaries of ACPP and CAM.....	58
6.1.1. Initial Proposal and Support.....	58
6.1.2. ORA and CPB Opposition.....	59
6.1.3. Settlement.....	59
6.1.4. Comments in Qualified Support or Opposition.....	61
6.1.5. Reply by Applicant and District.....	61
6.2. Discussion.....	62
6.2.1. Reject Settlement Agreement With Respect to CAM.....	62
6.2.2. Reject ACPP.....	65
6.2.3. Consider ACPP/CAM.....	65
6.2.3.1. Reject Arguments That Oppose ACPP and CAM.....	66
6.2.3.2. Must Address Data.....	69
6.2.3.3. Must Address Equity Between Rate Classes.....	71
6.3. Conclusion.....	71
7. Rule/Schedule 14.1.1.....	72
7.1. Current Rule/Schedule 14.1.1.....	73
7.2. Proposed Rule/Schedule 14.1.1.....	73
7.2.1. Reasons to Modify Rule/Schedule 14.1.1.....	73
7.2.2. Proposals and Comments.....	75
7.3. Settlement Agreement Regarding Rule/Schedule 14.1.1.....	76
7.4. Reject Settlement Agreement but Adopt Modified Rule/ Schedule 14.1.1.....	76
8. Safety.....	78
9. Penalty Phase.....	80

Table of Contents (cont.)

<u>Title</u>	<u>Page</u>
9.1. Excess Allotments	81
9.2. Reasonable Administration of its Tariffs.....	82
9.3. Further Process.....	85
10. Comments on the Proposed Decision	87
11. Assignment of Proceeding.....	87
Findings of Fact.....	87
Conclusions of Law	93
ORDER.....	97

Attachment A: Bill Analysis

**DECISION ADDRESSING WRAM BALANCES, RATE DESIGN,
CONSERVATION AND RATIONING RULES, AND
OTHER ISSUES FOR THE MONTEREY DISTRICT**

Summary

This decision amortizes balancing accounts, modifies rate design, adopts revised conservation and rationing rules, and addresses other items for the Monterey District. In particular it adopts the following:

- **Water Revenue Adjustment Mechanism (WRAM)/Modified Cost Balancing Account (MCBA):** We authorize recovery of \$39.8 million for 2013 and 2014. We amortize this balance over five years with interest at the 90-day commercial paper rate recovered by a fixed monthly surcharge assessed based on meter size using standard meter ratios. Future WRAM/MCBA balances will be recovered by a uniform rate applied to all water sales, including Tier 1, and will continue to be processed by advice letter. California-American Water Company shall provide specific notice to each of its customers of each of the next three advice letters requesting WRAM/MCBA recovery, and the notice shall first be approved by the Commission's Public Advisor.
- **Rate design:** For residential customers we eliminate the current allotment system, increase fixed cost recovery within the monthly service charge from 15 percent to 30 percent (with equivalent reductions in quantity rates), apply a temporary deviation in our standard meter ratios for implementation of the 30 percent fixed cost recovery, adopt a standardized rate design with the same quantity of water in each tier, modify tier break points, modify block widths, reduce the ratio between rate tiers, use 2015 water sales to set rates, and modify the low income ratepayer assistance program. We realign cost recovery between residential and non-residential customers by moving 8.4 percent (about three million dollars) of revenue collection from residential to non-residential customers. We direct California-American Water Company to study the issue of automatic enrollment for eligible customers in the low income ratepayer assistance program, plus the use of improved conservation information and tools, and

report its findings and recommendations in Application 16-07-002.

- **True-up pilot program plus conservation and rationing rules:** We deny the motion to adopt a Settlement Agreement with respect to an annual consumption true-up pilot program and a modified Rule 14.1.1 and Tariff Schedule MO-14.1.1 (conservation and rationing rules). We encourage parties to file a proposal for an improved annual consumption true-up pilot program. We adopt a modified Rule 14.1.1 and Schedule MO-14.1.1.

The adopted changes substantially improve equity within the residential class, and enhance equitable revenue recovery between residential and non-residential customers. The adopted changes also place water conservation at the top of the loading order as the best and lowest-cost supply (by our continued use of tiered rates), realign residential fixed and quantity rates to improve rate stability, enhance equity and standardization by setting rates so that each residential customer pays the same quantity rate for the same quantity of water consumed, maintain existing benefits within the low income ratepayer assistance program, minimize rate shock compared to alternative proposals, and substantially improve revenue stability.

The company's revenues increase only as a result of amortizing the large WRAM/MCBA balance of \$39.8 million, with the largest part of the balance due to an undercollection from residential customers. The company's remaining revenue requirement does not change, but rates increase due to our use of the most recent actual residential sales (2015) to reset quantity rates, recognizing reduced sales now to help avoid future large WRAM balances. Residential rates also change by our moving some cost recovery from variable to fixed charges,

and replacing the residential allotment system with a standardized rate design in which each residential customer receives the same amount of water in each tier.

The resulting average monthly increases for the majority of customers are:

RATEPAYER GROUP	WRAM SURCHARGE INCREASE		METER CHARGE INCREASE		QUANTITY CHARGE INCREASE		TOTAL INCREASE	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Single Family	\$13.11	130%	\$7.03	70%	\$5.62	13%	\$25.75	48%
Multi-Family	\$13.11	130%	\$7.03	70%	\$25.22 [1]	10%	\$45.36	18%
Low Income	\$13.11	163%	\$3.91	49%	-\$3.07 [2]	-8%	\$13.96	31%
Non-Residential	\$5.69	28%	\$0.00	0%	\$33.10	17%	\$38.78	18%

[1] Includes master meter customers with multiple tenants.

[2] Includes 30 percent discount on Tiers 3, 4, and 5.

See Attachment A for a more detailed bill analysis.

The decision takes effect immediately. The proceeding remains open to consider (a) an improved annual consumption true-up pilot program, if one is proposed, and (b) a penalty phase to examine whether applicant should be penalized for failure to reasonably administer its tariffs.

1. Background and Procedural History

1.1. State Water Resources Control Board Cease and Desist Order and This Application

California-American Water Company (Cal-Am or applicant) is subject to a cease and desist order (CDO) from the State Water Resources Control Board (SWRCB). The CDO requires applicant to stop unlawful diversions of Carmel River water, reducing applicant's draw from the Carmel River by about 66 percent.¹ Cal-Am seeks authorization in another proceeding (Application

¹ See SWRCB Orders WR 95-10 (July 6, 1995), WR 2009-0060 (October 20, 2009), and WR 2016-0016 (July 19, 2016).

(A.) 12-04-019) to provide the necessary replacement water via the Monterey Peninsula Water Supply Project (MPWSP), with new water from three sources: desalination plant, Pure Water Monterey Groundwater Replenishment Project (GWR), and aquifer storage and recovery project.

In this application, Cal-Am seeks authorization to modify its conservation plan, rationing plan, rate design, and other program elements for the Monterey District.² Its proposals here, according to Cal-Am, present a set of solutions that create a comprehensive approach to meeting the SWRCB CDO while simultaneously ensuring the company's ability to finance the MPWSP in a timely and economical fashion. Cal-Am says its proposed solutions address problems with rate design, along with concerns regarding the Water Revenue Adjustment Mechanism (WRAM) and the Modified Cost Balancing Account (MCBA), while achieving greater financial stability, enhancing equity, and avoiding customer rate shock. To accomplish this, applicant makes several requests and proposals:

- Eliminate all outdoor watering allotments by summer 2016;³
- Modify Monterey District Rule 14.1.1 to adjust conservation and rationing rules to, among other things: have fewer stages, allow easier and more timely implementation, eliminate water banking, and provide only one stage of physical water rationing;
- Modify Monterey Main System residential rates to, among other things: eliminate individual allotment-based rate design, increase recovery of fixed costs in the service charge, reduce the

² Applicant says all proposed changes will be applicable to what is known as its Monterey Main system, including those systems that can produce or receive water from the Seaside Basin and/or Carmel River (including Ryan Ranch, Bishop, and Hidden Hills). The proposals are not applicable to the sub-systems of Toro, Ambler, Chualar, Ralph Lane, or Garrapata.

³ This was accomplished in Decision (D.) 16-03-014.

ratio of rate difference between the first and upper tiers, and use 2014 usage by tier for rate realignment;

- Revise the Low Income Credit Program to mitigate rate impacts due to elimination of allotments;
- Establish a single 20-year, fixed surcharge on customer bills for recovery of remaining WRAM/MCBA balances as of the date of the final decision;
- Apply all future WRAM surcharges on a uniform basis to all units of water sold, including residential Tier 1; and
- Initiate an annual consumption true-up pilot program.

The notice sent to customers by Cal-Am regarding this application identified the rate impacts on the average customer if the application is approved as requested. The notice showed a substantial increase for all residential customers (single family, multi-family, low income), and a large decrease for non-residential customers.

Applicant says this application is needed now and the requested relief could not have been reasonably made in another proceeding. For example, lack of adequate data prevented applicant from seeking the necessary changes in its last general rate case (A.13-07-002). Nor can the relief wait for another proceeding, according to applicant. Applicant says its next general rate case will not be filed until nearly one year after the filing of this application, and applicant asserts that the requested changes are needed urgently.⁴ (Exhibit 2 (Chew) at 5-8.)

⁴ That general rate case was filed on July 1, 2016 and is A.16-07-002.

1.2. Procedural History

On September 8, 2015, a prehearing conference (PHC) was held. On November 4, 2015, the assigned Commissioner's Scoping Memo and Ruling was filed. The scope was determined to be whether or not applicant's proposals, and any alternatives proposed by parties, are just and reasonable regarding:

(a) WRAM/MCBA, (b) rate design, (c) modification of Rule 14.1.1, and (d) other relevant considerations (e.g., rate designs, bill impacts, drought rules and policies, additional analysis). The scope also included whether any safety considerations pursuant to Public Utilities Code Section 451 are raised and, if so, what remedies, if any, must be adopted.

Four advice letters seeking recovery of WRAM/MCBA balances for 2013 and 2014 were undergoing review by the Commission's Water Division (WD) at the time the application was filed. (Advice Letters (ALs) 1057 and 1076 for the Monterey Main System, and ALs 1068 and 1075 for the Ambler Park System.) The four advice letters were consolidated with this proceeding given the central role that amortization of WRAM/MCBA balances has in this application.

The proceeding was conducted in two phases. Phase 1 addressed a limited element of the allotment system. The issue was whether or not to grant applicant's request for an expedited rate design change to eliminate summer outdoor watering allotments in the upper rate tiers. Evidentiary hearing was held on January 13, 2016. By Commission decision adopted in March 2016, the summer outdoor watering allotments were eliminated effective May 1, 2016. (*See* D.16-03-014.)

Phase 2 addresses all remaining issues, and is the subject of this decision. Eight parties participated: (1) applicant, (2) Monterey Peninsula Water Management District (MPWMD or District), (3) California Water Association

(CWA), (4) Office of Ratepayer Advocates (ORA), (5) Public Trust Alliance (PTA), (6) Public Water Now (PWN), (7) Regulatory Liaisons (RL), and (8) the Coalition of Peninsula Businesses (CPB).

Two public participation hearings were held in Seaside, California on January 27, 2016. Applicant's proposed testimony was served with the application. Proposed Phase 2 testimony and rebuttal testimony was served by parties in February and March 2016. Four days of evidentiary hearings were held from May 11 to May 16, 2016. Opening briefs were filed on May 27, and reply briefs were filed on June 2, 2016. The record was closed and the proceeding was submitted for Commission decision on June 2, 2016.

On June 17, 2016, applicant and District filed a joint motion for Commission adoption of a Settlement Agreement on two Phase 2 issues. By ruling dated June 22, 2016, submission was set aside and the record was reopened to consider the motion and relevant pleadings. On June 29, 2016, ORA filed a response in opposition to the motion. On July 5, 2016 joint comments in opposition to the motion were filed by PWN/RL. On July 6, 2016, comments in qualified support of the motion were filed by PTA, and in opposition to the motion were filed by ORA. On July 13, 2016, joint reply comments were filed by applicant and District.

By Ruling dated September 2, 2016, applicant was directed, within seven days of the date of the ruling, to provide additional information in three areas. Replies from parties were permitted within seven days of the date of applicant's response. On September 9, 2016, applicant filed its response. On September 16, 2016, a reply was filed by CWA. The record was again closed and the matter was submitted for Commission decision on September 19, 2016.

We first summarize public comments. We then address each of the scoped issues, beginning with WRAM/MCBA.

2. Public Comments

2.1. Public Participation Hearings

Two public participation hearings were held in Seaside on January 25, 2016, with one hearing at 2:00 p.m. and the other at 7:00 p.m. Both hearings were well attended, with 29 speakers at the afternoon hearing and 24 at the evening hearing. Representatives of Cal-Am, ORA and the assigned Commissioner's office offered brief comments. Each session included robust public witness testimony on a range of issues. The general consensus among speakers was that rate levels are too high, with repeated identification of the \$40 million WRAM under-collection and rate inequality between customer classes and meter sizes.

Speakers were concerned that they have exceeded conservation mandates but are still facing increasing rates due to revenue under-collections. Many felt that the under-collections were based on Cal-Am's miscalculation of water sales and should not be corrected on the backs of ratepayers. Numerous speakers presented their calculations of an \$80 million to \$100 million recovery if Cal-Am's request is granted (i.e., \$40 million collected over 20 years at 8.41 percent interest).

The presiding Administrative Law Judge (ALJ or Judge) asked Cal-Am representatives to be prepared at the 7:00 p.m. hearing to provide clarification of several issues that came up at the 2:00 p.m. hearing. The issues involved the financing of the current under-collection. Cal-Am clarified that it has borrowed \$35 million of the current under-collection at 5.25 percent from American Water Capital Corporation, a subsidiary of Cal-Am's parent company American Water Works Company, Inc.

Speakers also explained that they are charged a higher rate for a 1 ½ inch meter because it is necessary for the fire suppression system in their house, even though it is only used in the case of an actual fire. Speakers testified that it is not as if they need or use that capacity on a day-to-day basis, but they are billed as if that were the case.

Speakers also asked how non-residential customers are getting a rate decrease while residential customers are facing an increase. Several speakers expressed the feeling that the local government and Cal-Am favor businesses over residents.

One speaker described how between 2008 and 2015, he used 2000 gallons less water during the summer peak months, but has still seen his bills rise from \$184 a month to \$784 month for 17,500 gallons. The speaker said that a commercial customer using the same amount would only pay \$346. Many speakers felt that commercial customers who use the water to make money should not get a lower rate than residential users. Overall, speakers stated that a gallon of water should cost the same for all customers.

2.2. Telephone, Email and Letter Contact

The Commission's Public Advisor's office received 18 letters, 37 emails and six phone calls regarding A.15-04-019. All but one of the contacts opposed the application, with the majority expressing opposition to a rate increase of any kind. The other comments were evenly split between dissatisfaction with the WRAM under-collection issue and dissatisfaction with the tiered rate structure. Fire protection rates were also brought up by those contacting the Commission.

3. WRAM/MCBA

3.1. Application and Audit

Applicant says the current rate design has made it impossible to recover

the revenue requirement in a timely manner. According to applicant, this has led to a situation where the WRAM/MCBA balance cannot be fully recovered and continues to grow. Applicant reports that the cumulative net WRAM/MCBA under-collection for the Monterey District as of December 31, 2014, is \$40.6 million. (Exhibit 9 at 9.)

Applicant seeks recovery of the under-collected WRAM/MCBA balance as of the date of the decision. Applicant reports that the actual WRAM/MCBA balance through December 31, 2015, is \$50,626,735. (Opening Brief at 5.) Applicant seeks to recover the balance by use of a single fixed monthly surcharge assessed over 20 years on all customer bills based on meter size. Applicant points out that this would be in contrast to current practice (wherein the WRAM surcharge is assessed by a volumetric charge excluding residential Tier 1 usage (about 60 percent of all residential usage), with the surcharge rate based on the rate design tier differentials for Tiers 2-5). Applicant asks that an interest rate of 8.41 percent (applicant's authorized cost of capital) be used for amortization of the WRAM/MCBA balance over the 20-year period, rather than the currently authorized 90-day commercial paper rate normally used for WRAM/MCBA balances.

Treatment of the WRAM/MCBA balance is the most controversial and complex portion of this proceeding. The size of the under-collection was a surprise to most customers and parties. Given these factors, parties agreed that there should be a "vigorous review"⁵ of the calculations and assumptions that

⁵ The requirement for a "vigorous review of the WRAM/MCBA" was included in a Settlement Agreement adopted by the Commission. (D.13-07-041, Attachment I, Section XIII.F.3.) While initially intended for applicant's test year 2015 general rate case, this proceeding provided the first opportunity for that vigorous review. (Exhibit 9 (Linam) at 15.)

produced the large WRAM/MCBA balance to ensure they are consistent with Commission decisions. The Scoping Memo included this as an issue; directed applicant to immediately retain an independent auditor (at shareholder expense) to verify actual customer water usage and billed revenues for the applicable service areas in 2013 and 2014; and submit a report within 75 days. Applicant retained PricewaterhouseCoopers (PwC) to conduct the audit, and served a timely report on January 19, 2016. The PwC report recommended some adjustments, discussed more below.

3.2. Positions of Parties

The recommendations of parties on this issue varied widely. CWA supports full cost recovery with interest. The District has no position on the amount of the outstanding WRAM/MCBA balance that should be recovered, but recommends the shortest recovery period (which it says is preferably three to four years), and recommends interest at no more than the 90-day commercial paper rate.

ORA proposes a disallowance of \$18.5 million of the \$40.6 million balance through 2014, with the remaining balance of \$22.1 million amortized over five years with no interest. ORA's proposed disallowance of \$18.5 million includes three parts: (a) \$17.4 million for under-collections resulting from what ORA believes was inadequate management oversight by applicant of the residential allotment system, (b) \$0.3 million for a disputed calculation of applicant's unaccounted for water reward in 2014, and (c) \$0.8 million identified in the PwC audit. ORA also recommends a disallowance of \$3.6 million given that applicant, according to ORA, bases its proposed surcharge on a WRAM balance of \$44.2 million (which includes an estimated additional 2015 WRAM under-collection of \$3.6 million). (Exhibit 104 at 2-2, footnote 113, and at 2-6.)

Finally, ORA says the Commission should require applicant to request recovery of future Monterey WRAM balances by formal application, not advice letter as currently authorized for WRAM. CPB agrees with ORA's recommendations, including recovery of \$22.1 million over five years with no interest.

PTA supports an ongoing high level of scrutiny by the Commission of future WRAM balances. PTA also recommends applicant not be permitted to recover estimated (but not yet incurred) WRAM costs, and supports interest at a short-term commercial paper rate consistent with the Commission-implemented WRAM methodology used for other water companies.

In joint pleadings, PWN/RL recommend WRAM/MCBA recovery of between five million dollars (PWN/RL's calculation based on its own study) and \$18 million (ORA's calculation). PWN/RL propose that the recovery only be from persons who were customers during 2010 to 2014, at an interest rate of between zero and the lowest commercial paper rate of the financing arm (American Water Capital Corp) of applicant's parent (American Water Works Company, Inc.). Finally, PWN/RL proposes these customers be given the choice to pay the balance as a lump sum or over 3, 10, or 20 years.

For the reasons stated below, we authorize recovery of \$39.8 million of WRAM/MCBA balances through 2014, amortized over five years at the 90-day commercial paper rate. The balance will be collected by a single, fixed monthly surcharge assessed on the basis of meter size using standard meter ratios. Prospective WRAM/MCBA balances will be recovered by applying a uniform rate to each unit of water sales, including Tier 1, and not by a per meter charge. Future WRAM/MCBA requests will continue to be by advice letter (not application), and applicant must give specific notice to customers of each of the next three advice letters for WRAM/MCBA.

4. Authorized Amount of WRAM Recovery

We authorize \$39.8 million in WRAM/MCBA recovery for balances through December 31, 2014. This is based on the \$40.6 million balance at the end of 2014 and is reduced by \$0.8 million pursuant to the PwC audit.

4.1. WRAM Balances in 2015 and 2016

We determine the amount of \$39.8 million by first rejecting applicant's proposal to include the WRAM/MCBA balance through the date of this decision. The record does not contain that number, and we decline to authorize recovery absent knowledge of the amount, the amount being reasonably vetted, and consideration of relevant issues.

We also decline to include the \$50.6 million balance through December 31, 2015 (as reported by applicant in its Opening Brief). WRAM/MCBA recovery requests are properly made through our adopted process. That process is the filing of an advice letter, which provides ratepayers and the public with important procedural protections.⁶ The full 2015 balance was not adequately vetted in this proceeding. We will treat via the advice letter process the \$10.0 million for 2015 (\$50.6 million less the \$40.6 million addressed here).⁷

⁶ These protections include: the filing of protests; suspension of the advice letter, if necessary; resolution of disputed issues by Commission resolution (Tier 3), as necessary; dismissal of the advice letter without prejudice so the utility may file the matter as a formal application when there are disputed issues of material fact or law. (*See* General Order (GO) 96-B; in particular, *see* General Rules 5 and 7; and Water Industry Rule 7.)

⁷ If necessary, this will be by formal application: "Whenever the reviewing Industry Division determines that the relief requested or the issues raised by an advice letter require an evidentiary hearing, or otherwise require review in a formal proceeding, the Industry Division will reject the advice letter without prejudice." (GO 96-B, General Rule 5.3.) The amount of a requested increase, if large, may be enough by itself to justify review in a formal proceeding.

For similar reasons we also adopt ORA's recommendation to reject \$3.6 million of estimated 2015 WRAM/MCBA balances that were included by applicant in its calculation of the surcharge. That is, we will address amounts for 2015 when included via advice letter or in A.16-07-002, not in this proceeding. Thus, the balance at issue is \$40.6 million.

4.2. ORA Adjustments

4.2.1. Inadequate Management

ORA recommends three adjustments. The first is an adjustment of \$17.4 million. This adjustment accounts for an under-collection of revenues caused by what ORA determines to be applicant's inadequate managerial oversight of the allotment system.

Allotments are an element of applicant's Monterey service area residential rate design. We must first briefly explain residential bills and the allotment system so we can assess whether or not allotments might have been abused by customers, unreasonably managed by applicant, and led to substantial under-collection of revenues.

4.2.1.1. Allotment System

The bills of applicant's residential customers are composed of three types of charges: meter charges, surcharges, and volumetric (quantity) charges. Residential customers pay a flat, monthly meter charge (also called a service charge) based on the size of their meter. Surcharges are special charges approved by the Commission for various purposes, such as conservation program expenses.

Residential volumetric (quantity) charges are assessed per unit of consumption. The quantity charge per unit of consumption is based on an inclining-block (or "tiered") rate design. Cal-Am's quantity rates are assessed in

five blocks. That is, there are five blocks at which water is priced, each block has its own rate, and the rate in each block is higher than the one in the previous block. Each unit of water consumed in a block is priced at the same rate, but the amount of water allowed in each block can vary. Once the amount of water allowed for a block is consumed, the customer moves to the next block, at a higher rate. Cal-Am's current five tiers are steeply inclined, with the Tier 5 rate 10 times the Tier 1 rate.⁸

Each customer is allotted a certain amount of water in each block. The allotments are based on customer characteristics:

- the number of people residing in the household (full-time and part-time),⁹
- the number of large animals present on the lot, and
- special medical needs or other special circumstances.¹⁰

Block allotments for each customer are determined by adding the applicable allotments. The greater the number of persons or large animals, for example, the more allotment there is in each block. More allotment in each block

⁸ Stated in units of tens of cubic feet (74.8 gallons), for a single family residential customer the Tier 5 rate is \$4.5286 and the Tier 1 rate is \$0.4528. When stated in units of 100 gallons, this is the same as saying the Tier 5 rate is \$6.0543 and the Tier 1 rate is \$0.6054. (Exhibit 2 at 21.)

⁹ The allotment system converts the number of full-time and part-time residents to a full-time equivalent. "A full-time person equivalent is considered as one allotment for each person living permanently and continuously in the dwelling and a full time equivalent for accumulations of part time people that live at a residence, including part time help, people living at the dwelling on a part time basis and repetitive visitors at the dwelling unit." (Exhibit 2 (Chew) at 17, footnote 10.)

¹⁰ See Exhibit 2 (Chew) at 11 and 17. Prior to May 1, 2016, a fourth customer characteristic was also used to determine the amount of the allotment: the size of the customer's lot. That is, the outdoor watering allotment was based on lot size, providing more water in the summer for this use. The outdoor watering allotment was eliminated effective May 1, 2016. (See D.16-03-014.)

means the customer can consume a greater quantity of water before moving to a higher priced block. Customers initially provide to applicant the number of residents per household, large animals per lot, and special medical or other special needs. The customer is responsible for providing updates when circumstances change, but no less often than by an annual survey conducted by applicant.

4.2.1.2. Vulnerable to Abuse

It is clear that the allotment system is vulnerable to abuse. For example, applicant says "...it appears that the allotment process has encouraged an over-reporting of the number of individuals residing in Monterey." (Exhibit 1 at 11.) Applicant also says:

Furthermore, in regards to survey-reported residents per household, if a customer chooses to misrepresent the number of residents in a household, that property will receive more water allocated at the lower tiers, improperly lowering the bill for that household. Families that honestly report survey data would pay a much higher rate for the same amount of water than those who choose to misreport. (Exhibit 1 at 19.)

Applicant admits it does not validate the number of allotments, but takes customers at their word. (Exhibit 12 (Sabolsice) at 7.)¹¹ ORA asserts that this lack of adequate management oversight allows abuse of the allotment system. ORA says:

Inflation of allotments decreases bills for some customer at the expense of others. The decrease in customer bills results in lower reported revenues...and inappropriately increases WRAM balances. (Exhibit 104 at 1-14.)

¹¹ Applicant "has utilized the honor system when customers provide survey data or update survey information." (Exhibit 12 (Sabolsice) at 7.)

ORA calculates the under-collection to be at least \$17.4 million out of the requested \$40.6 million.

4.2.1.3. Allotment Not Cause WRAM Under-Collection

We are not persuaded by ORA to adjust the requested WRAM recovery by \$17.4 million. The purpose of WRAM is to sever the relationship between sales and revenues in order to remove any disincentives for the water utility to implement aggressive conservation rates and conservation programs.

(D.09-07-021 at 56; also D.09-07-021, Appendix A at 16.)¹² To accomplish this goal, WRAM tracks the difference between authorized revenues and revenues actually received. (D.09-07-021, Appendix A at 17-18.)

The difference between authorized and actual revenues is the result of sales, not allotments, as long as the allotments used for determining authorized revenues match the allotments included with revenues actually received. This is the case whether or not allotments are perfectly managed and 100 percent accurate. Even if allotments are grossly overstated, the WRAM balance is unaffected by the overstatement as long as allotments in authorized revenues match allotments in actual revenues. We agree with applicant that:

The only way the inaccurate residential household allotments could possibly materially affect the WRAM is if the allotments used for billing were significantly different from the allotments used to develop the authorized revenue requirement. (Cal-Am Opening Brief at 13-14.)

ORA does not present data on the difference between allotments used for

¹² To the extent sales decline with aggressive conservation, a utility's variable costs may also decline. The MCBA is paired with WRAM to ensure that cost savings resulting from conservation flow back to customers. (*Id.*)

billing and allotments used to develop the authorized revenue requirement. Even if there is a difference, it is unlikely to be significant. For example, applicant shows that the majority of residential household allotments used to develop rates and authorized revenue requirements have not substantially changed over time. (Exhibit 7 (Chew), Attachment 2.)

Nonetheless, it is clear that applicant failed to audit customer surveys or take reasonable actions to ensure that allotments were accurate. We address that further below.

4.2.2. UAW Penalty/Reward

ORA's second recommendation is a downward adjustment in the WRAM balance of \$258,932. This removes what ORA asserts is an unearned reward derived from the Unaccounted for Water (UAW) reward/penalty mechanism.

The UAW reward or penalty is calculated on the basis of adopted and actual unaccounted for water (also known as non-revenue water) in the Monterey District. The UAW is the difference between water supplied to the system and water billed to customers of that system. The UAW mechanism was first introduced into the Monterey District in D.09-07-021 (modified by D.12-06-016) with the goal of reducing total UAW. In summary, Cal-Am is rewarded if it has less UAW than the target level. Cal-Am is penalized if it has more UAW than the target level. Any rewards or penalties are added or subtracted, respectively, from the WRAM balance.

Under this mechanism, Cal-Am was penalized in 2011 and 2013, and rewarded 2012 and 2014.¹³ ORA recommends an adjustment to the 2014 reward

¹³ Exhibit 104 (Dawadi) at 2-5.

since the data for the Monterey Main system in 2014 shows that Cal-Am sold 10,040 acre-feet of water but produced only 9,898 acre-feet (i.e., a difference of 142 acre-feet (1.4 percent) more water sold than produced).¹⁴ ORA says this is not possible. We conclude otherwise.

Cal-Am points out that billing often lags production. Water production is recorded monthly at the end of the month. Water sales are recorded on the day the metered consumption is read or billed to the customer. Customer meters are read almost every work day, and therefore consumption is recorded over the month almost every work day. As a result, recorded water use lags recorded water production by, at a minimum, an average of 15 days.¹⁵ In addition, applicant installed a new billing system in late 2013. Applicant reports that many Monterey District customer bills were held for as long as three months as part of its quality control and review process, resulting in reduced recorded consumption in 2013 and higher recorded consumption in 2014. This led to a UAW penalty in 2013 and a reward in 2014.¹⁶

We are persuaded that the lag in recorded consumption compared to recorded production produced the anomalous result found by ORA in the 2014. In addition, penalties were applied in 2011 and 2013, and rewards were earned in 2012 and 2014. There is no apparent pattern of data manipulation by Cal-Am.

Further, the difference between recorded consumption and recorded production was minimal in 2014 (only 1.4 percent), and this was exacerbated by a change in applicant's billing system in late 2013. The evidence here does not

¹⁴ Exhibit 104 (Dawadi) at 2-8, lines 4 to 14.

¹⁵ Exhibit 7 (Chew) at 14.

¹⁶ *Id.*

convince us that this difference in the anomalous year of 2014 is sufficiently material (given both the known lag between recorded consumption and recorded production, and the 2013 change in billing system) to require us to initiate an inquiry into modifying the UAW reward/penalty system, nor order applicant to do a study and report further in a future proceeding.

4.2.3. PwC Audit

Finally, ORA recommends a reduction of \$0.8 million based on the PwC audit.¹⁷ Applicant does not take issue with this adjustment.¹⁸ The \$0.8 million reduction is the net effect of reclassifying some WRAM revenues to the Leak Adjustment Memorandum Account, excluding some WRAM surcharge revenues that had inadvertently been booked to billed revenues, and a small adjustment to MCBA.¹⁹ The PwC audit is reasonable, and we adopt this adjustment.

4.3. PWN/RL Adjustments

PWN/RL conducted its own study and finds only five million dollars of the \$40.6 million is reasonably recoverable.²⁰ PNW/RL calls its study an audit,

¹⁷ ORA Opening Brief at 10. Also *see* Exhibit 10 at 10, and the attached audit report cover letter and audit (served January 19, 2016 by applicant on the service list).

¹⁸ *See* Cal-Am Reply Brief, where no mention is made of this adjustment.

¹⁹ The audit also shows Cal-Am's 2013 MCBA request was too low by \$49,574. Applicant says it is not seeking recovery of this amount as long as the Commission reinstates the surcharge. (Exhibit 10 at 9, footnote 4.) The surcharge was reinstated. (*See* Ruling dated March 2, 2016.)

²⁰ *See* recommended allowance of \$5 million in PWN/RL Opening Brief at 3. It is both confusing and remarkable that in their Reply Brief they say: "PWN/RL are in agreement with ORAs [sic] position that Cal-Am should hold the Ratepayers [sic] harmless for its' [sic] unilateral mismanagement by failure to Verify Residential Allotments [sic] by being disallowed up to ORA's full amount in addition to the disallowance we found in the WRAM/MCBA Audit and also recommend. With the provision that if the sum of the Disallowances [sic] exceeds \$40.6M plus the up to \$14.4M in WRAM/MCBA Surcharges collected thus far, that Cal-AM [sic] not forfeit anything above the up to \$55M." (Reply Brief at 8.)

and says it is based on the use of three methods:

- Method 1: Cross-check data in 2010-2014 Cal-Am reports submitted to the Commission against recorded results provided by Cal-Am in data responses to PNW/RL.
- Method 2: Use of Cal-Am's cost of service and rate base reports to calculate the extra money needed (or the excess money collected) to reach applicant's authorized 8.41 percent rate of return over 2010 to 2014.
- Method 3: Compare Cal-Am's authorized revenues to its annual reports for 2010-2014 adjusting for already collected surcharges.

We are not persuaded. Key PNW/RL exhibits included incomplete data, used results that were not attributed to the right year, and applied revenues unrelated to WRAM. (RT Vol. 5 (May 13, 2016) at 771-773.) We are neither convinced that the "audit" conducted by PWN/RL was accurately and properly performed, nor that it was conducted with proper due diligence.

PNW/RL assert that the WRAM/MCBA calculation itself:

...is flawed via items that are left out, such as fixed cost reductions, accounting methodology for cost recognition, post-tax vs. the pre-tax value of costs, the value of transactions between the Monterey District and Cal-Am corporate or the value of transactions between Cal-Am and American Water Works or American Water Capital Corp. (PWN/RL Opening Brief at 7.)

We are not re-examining our adopted methodology for WRAM/MCBA here. To the extent PWN/RL challenges the WRAM/MCBA methodology itself, that challenge is outside the scope of this proceeding.²¹

To the extent PWN/RL is asserting that these items (e.g., fixed cost reductions, accounting methodology for cost recognition, post-tax versus pre-tax,

²¹ See the November 4, 2015 Scoping Memo and Ruling for the scoped issues.

affiliate transactions) are relevant to the WRAM/MCBA balance at issue here, PWN/RL fail to explain the relevance of these items in any reasonable way. We are not convinced that the “audit” conducted by PWN/RL was conducted with a proper understanding of accounting and ratemaking.

In contrast, applicant complied with an order from the assigned Commissioner to retain an independent auditor to verify usage and billed amounts included in the \$40.6 million at issue here. The review was conducted by PwC. With small adjustments, PwC determined that the accounts accurately present, in all material respects, the activity of WRAM, MCBA, and the UAW penalty/reward adjustment for the periods of 2013 and 2014 in accordance with all applicable Commission decisions. We find the PwC audit credible, and have adopted the adjustments recommended by PwC above.

Finally, PWN/RL assert that population growth in Monterey from 1966 to today was fueled by applicant’s production of water to which applicant had no legal right, and applicant – not its ratepayers – should “pay the entire water cost increases that are caused by its production of water.” (PWN/RL Opening Brief at 6.) The issue of applicant’s culpability for population growth and the resulting increase in water cost is beyond the scope of the proceeding.²²

Even if relevant (which it is not), a utility under Commission jurisdiction has a duty to provide reasonable service to its customers. (Public Utilities Code Section 451.) PWN/RL fail to show that applicant’s provision of water service was anything other than in compliance with its statutorily required public utility

²² The issues scoped in the Scoping Memo do not include population growth after 1966 and resulting water cost increases, nor can any scoped issue be reasonably read to include that subject. PWN/RL did not move for amendment to the Scoping Memo to include that issue.

obligation.

Finally, there are many factors that can result in population growth in a particular area, all of which are beyond the control of applicant (e.g., demographic trends, economic cycles, zoning decisions, government policies). PWN/RL separately call for a formal Commission investigation into applicant's responsibility for the water demand that was fed by its production of water. We see no need. Moreover, PNW/RL fail to realistically explain what it would recommend be done with the results even if the investigation found applicant contributed in some way to the growth in water demand.

In short, we are not convinced by the showing and arguments of PWN/RL. Moreover, PWN/RL's hyperbolic claims diverted the limited time and resources of parties and the Commission from important work, as explained more below.

4.4. Amortization

We agree with applicant, District, and ORA that the recovery should be over the shortest time reasonably feasible. We also agree with applicant that we must mitigate rate shock to the degree possible. We find that amortization over five years is the best balance.

Applicant's authorized 2015 annual revenue requirement is about \$53.2 million. (See Application, Appendix A, citing D.15-04-007; D.15-04-007 at 11.) Recovery of \$39.8 million over one year would require a rate increase of about 75 percent.²³ We mitigate this effect by spreading the recovery over five years, resulting in an average rate increase (without considering the time value of

²³ 39.8 over 53.2 equals 75%.

money) of about 15.0 percent.

This is a large average percent rate increase. Amortization over 10 to 20 years would reduce the average increase (without considering the time value of money) to about 7.5 percent or 3.75 percent, respectively. While a lower percentage increase would be desirable, it causes other problems. For example, amortization over 10 to 20 years would contribute to intergenerational inequity by requiring future ratepayers to pay past costs. If amortized over 20 years, ratepayers in 2036 would pay for costs incurred during the period 2010 to 2014 even if they had no part in causing those revenue shortages up to 26 years earlier. Amortization over long periods may be necessary and reasonable in some cases, but in this instance intergenerational inequity can be mitigated by selecting a shorter period.

Further, other rate increases are pending or possible, such as additional WRAM/MCBA under-collections for 2015 and 2016, costs related to water purchases from the GWR, general rate increases, and costs for a desalination plant (if that plant is subsequently authorized and built). Extending the amortization to 10 or 20 years would result in a substantial overlap and “pancaking” with other rate increases. This can be minimized by adopting a shorter amortization period.

On balance, it is best to amortize the balance over the shortest time possible while mitigating rate shock. We decline to amortize the balance over one year (with a 75 percent rate increase), over three years (with a 25 percent rate increase), or even over four years (with an 18.7 percent increase) due to the rate shock that would result. Rather, the optimal balance in this case is five years.

4.5. Interest Rate

We have broad flexibility to review the facts of each particular situation

and exercise our authority accordingly. (D.11-09-039, Conclusion of Law 2 at 14.)

With regard to interest rates, we have said that:

... there are no explicit statutory guidelines for our decisions regarding interest rates, and we have broad flexibility in reviewing the facts of a particular situation and broad discretion to make appropriate finds of fact and conclusions of law... (D.08-10-019, footnote 9 at 4.)

Proposals here for interest on the WRAM balance range from ORA and others recommending zero percent to applicant's requested rate of 8.41 percent (based on applicant's authorized rate of return). For the reasons stated below, the facts of this case make it reasonable to continue our current practice of applying the 90-day commercial paper rate.

4.5.1. ORA

ORA, supported by CPB, recommends zero interest. We are not persuaded. Money has a non-zero time value. There is a cost to carry or finance an under-collection. That is, when authorized revenues are not yet collected, a utility must borrow money to accommodate cash flow, or finance the balance from its own funds. CWA correctly states that the interest rate is the cost to ratepayers of "borrowing" the money from applicant for the period until the authorized revenues are charged and collected. (CWA Opening Brief at 8.) Zero interest is unreasonable.

ORA also appears to propose an earnings test relative to the interest rate. That is, ORA contends a company such as Cal-Am that remains profitable during the time anticipated revenues are not collected is not incurring interest-bearing debt but is guaranteed additional profit upon collection of the WRAM surcharge over time. ORA says allowing interest in this case would be unjust and unreasonable. (ORA Opening Brief at 4.)

It is not unjust and unreasonable to recognize the time value of money and compensate applicant for lending money to ratepayers. We employed an earnings test on balancing accounts at one time, but no longer do. (*See* D.06-04-037.) We will neither use an earnings test here, nor apply that test to determine the cost to ratepayers for borrowing the money from Cal-Am. Furthermore, a company that can remain profitable during a period of substantial under-collection may either be dramatically reducing costs in other areas or managing to operate efficiently, or both. The degree to which Cal-Am reduced other costs (whether reasonably or unreasonably) or managed to increase its operating efficiency is beyond the scope of the issues and record here, and we will not consider Cal-Am's profitability in relationship to the appropriate interest rate to apply to the WRAM balance.

4.5.2. Cal-Am

At the other extreme, applicant proposes an interest rate of 8.41 percent. This is equally unreasonable. Applicant says its "rate design conservation efforts are analogous to capital investments" for new supply or energy efficiency. (Cal-Am Opening Brief at 23.) This is incorrect. Rate design does not involve spending money on plant or equipment similar to new supply or efficiency investments. There is no capitalized rate design "investment" that justifies a rate of return. Costs related to implementing rate design, if any, are expensed and recovered through rates authorized in a general rate case.

Applicant says it is funding the WRAM balance with long-term debt and equity. There are less expensive sources to fund this balance. We will not require ratepayers to fund this balance at an unreasonably high cost even if applicant elects to do so.

We also decline to adopt applicant's 8.41 percent interest rate proposal because it is related to its recommendation to recover the WRAM balance over 20 years. An interest rate applicable to a 20 year obligation is different than one for a shorter amortization. Moreover, ORA shows that Monterey ratepayers would pay about \$91.3 million in total surcharges to recover \$40.6 million at 8.41 percent over 20 years. That would be \$47.2 million in interest alone. (Exhibit 104 at 2-13, lines 4-7.) While we do not adopt a 20-year amortization, this example shows the unreasonableness of such a high interest rate over such a long duration if applied to the WRAM balance.

4.5.3. Adopted Interest

We are persuaded by the District and PTA to use an interest rate "at no more than the 90-day commercial paper rate." (District Opening Brief at 2; also see PTA Opening Brief at 16.) The District's recommendation is made by its General Manager (David Stoldt) who has nearly 30 years of extensive professional experience as an investment banker; financial advisor; and manager of projects that involved, and organizations that undertook, complex capital financing.²⁴ (Exhibit 204 at 1 to 4.) We adopt the 90-day commercial paper rate even though it is at the top end of the District's recommendation. We do so recognizing that this is the interest rate we use for WRAM balances,²⁵ and applies to amortizations beyond 36 months. (D.12-04-048 at 17.)

²⁴ Applicant describes the District's General Manager Stoldt as a person "who has an extensive business and finance background." (Cal-Am Reply Brief at 24.)

²⁵ "In accordance with established Commission practice, the WRAM and MCBA accounts will accrue interest at the 90-day commercial paper rate." (D.09-07-021, Appendix A at 17, Part XIV.B.4.)

CWA does not recommend a specific interest rate, but proposes a rate that is commensurate with the period of recovery and compensates Cal-Am for the costs associated with delayed recovery.²⁶ The 90-day commercial paper rate does that. Moreover, this decision makes recovery of the WRAM balance certain and secure. Particularly in the context of certain and secure recovery, it is reasonable to continue our existing interest rate policy on the WRAM balance.

4.6. Single Meter Surcharge for Historic WRAM Balance

Applicant proposes to collect the under-recovered Monterey District WRAM/MCBA balance via a single fixed monthly surcharge assessed based on meter size, with a limited deviation from standard meter ratios. (Exhibit 9 (Linam), at 17-18, and Table 6 at 20.) This would replace the multiple surcharges currently in place to collect under-collections for 2012, 2013, and 2014 that are assessed based on variable charges (i.e., the quantity rates).

There is broad acceptance of this approach with two exceptions: (a) ORA's recommendation on meter ratios and (b) PWN/RL's recommendation to limit collection to those who took service from 2010 through 2014. We adopt applicant's proposal but with standard meter ratios. We decline to adopt PWN/RL's proposal.

4.6.1. Meter Charge

Our standard approach is to collect WRAM balances through surcharges on quantity rates. Applicant's proposal to collect a fixed amount based on meter size removes the linkage between surcharge collection and water consumption,

²⁶ CWA Opening Brief at 9. Also CWA September 16, 2016 Reply Comments at 3.

thereby stabilizing collection of the authorized historic balance. While we are concerned this deviates from our standard approach, it is reasonable here. The Monterey District is experiencing not only large under-collections relative to authorized revenues but also intense pressure to conserve. Modification of the basis for applying WRAM surcharges will stabilize collections, thereby allowing applicant to better address the significant under-collection despite the continuing potential for fluctuating sales.

4.6.2. ORA: Meter Ratios

Applicant develops its proposed surcharges based on meter sizes by using the Commission's standard meter ratios, with exceptions for ¾-inch and 1-inch meters.²⁷ ORA recommends using standard meter ratios without the two exceptions. We use the standard ratios. Applicant's proposal would unreasonably increase the recovery from customers with two of the three smallest sized meters. The standard meter ratios equitably distribute recovery across meter sizes in proportion to the maximum flow of each meter.

The residential portion of the \$40.6 million under-recovery is \$33.6 million, and the non-residential portion is \$7.0 million.²⁸ (Exhibit 9 (Linam) at 9.) These

²⁷ Applicant increases the ¾ inch meter ratio from the standard of 1.5 to 2.0, and the 1-inch meter ratio from the standard of 2.5 to 3.0, thereby increasing the surcharge to customers with these size meters. (Exhibit 104 (Dawadi) at 2-11; Standard Practice U-7-W.)

²⁸ The non-residential balance is less than the residential balance for two reasons. First, there are less total non-residential than residential customers, and non-residential customers as a group consume less total water than residential customers. Second, non-residential customers have had their own WRAM/MCBA account since September 2013. The highly inverted residential rates have resulted in WRAM/MCBA balance increases with residential sales reductions. Non-residential rate design has not caused an equivalent result in non-residential WRAM/MCBA balances with similar variations in non-residential sales. (Exhibit 9 (Linan) at 11-12; D.13-07-041.)

balances will be recovered over five years, with interest at the 90-day commercial paper rate, and will be collected by a single monthly surcharge based on meter size using our standard meter ratios.²⁹

4.6.3. PWN/RL: Customers During 2010 through 2014

PWN/RL recommend that the under-recovered balance be collected from current customers who were customers any time during 2010 through 2014. For the reasons stated below, we do not adopt this recommendation.

PWN/RL would narrow the recovery to certain customers by exempting residential customers if:

- “They were not customers for any of the 5 years from 2011-2014,”³⁰ or
- “For years they were customers, can support their Allotment Claims for any year from 2010-2014 with records from employment, business...school records...utility bills....³¹ All others must pay the amortized amount...PLUS the amount to be refunded to those customers having verified their allotments, who deserve refunds of surcharges they have paid to date [emphasis in original],” or

²⁹ This is on average about \$16.23 per month for each residential customer, and \$28.60 for each non-residential customer. (The balances of \$33.6 million and \$7.0 million at 0.5% interest for 60 months; 34,508 residential meters (Exhibit 104 (Odell) at 1-32; 4080 non-residential customers.) The actual amounts will be less for smaller meters, and more for larger meters based on meter size.

³⁰ There are four years from 2011-2014. This is only one of many errors that individually make the PWN/RL showing confusing, and collectively make the showing lack credibility.

³¹ PWN/RL propose a long list of records that would be used to verify the customer’s allotment claim but does not explain how these records would verify an allotment. For example, it is unclear how an employment record (e.g., verifying that a person worked for a company) would verify an allotment claim. It is unclear how a utility bill would verify an allotment claim. It is also unclear why the PWN/RL proposal is for “any” year from 2010 to 2014, not all years. Verification for one year, such as 2010, does not mean a dishonest customer did not secure an extra allotment in other years, such as 2011, 2012, 2013, and/or 2014.

- “They are customers whose service started after Dec 31, 2014 from whom Cal-Am would be collecting WRAM/MCBA surcharges they do not owe.”

Further, PWN/RL propose that customers who are not completely exempted be given the choice of repayment as either an:

- Immediate lump sum payment or
- Payment over 3, 10, or 20 years.³²

PWN/RL’s proposal is complex. The process would be time-consuming and costly to administer. The outcomes would be subject to dispute between customers and Cal-Am, particularly given the large amounts of money potentially involved, and the complexity of adding “the amount to be refunded to those customers having verified their allotments, who deserve refunds of surcharges they have paid to date.”³³ PWN/RL offer no estimate of the cost or time required to implement their complex plan, and fail to show the benefits, if any, outweigh the burdens. Moreover, whether or not customers can support their allotment claims for 2010 to 2014, we conclude above that the allotment system is not the cause of the WRAM under-collection (i.e., as long as billing allotments are reasonably the same as authorized revenue allotments).

The PWN/RL recommendation also fails to take into account that there is always a certain level of movement among customers, with some customers leaving and others joining any particular utility system. Even though PWN/RL seek to make the assessment align with specific customers over the 2010 to 2014 period, they make no recommendation regarding collecting the unrecovered

³² PWN/RL Opening Brief at 8-9.

³³ Moreover, PWN/RL fail to explain why customers who verify their allotments deserve refunds of surcharges paid to date.

balance from persons who were customers during some or all of 2010-2014 but by the time of this decision have moved out of the service area. PWN/RL make no recommendation of how to ensure collection from a customer who elects the 20-year payment, but then moves away.

Amortizing a WRAM/MCBA balance via surcharges (or refunds) imposes a burden (or benefit) on newer customers who may not have received service. It also imposes a burden (or benefit) on existing customers based on their current consumption even if that current consumption may not perfectly match their previous consumption. Nonetheless, the Commission has for many years approved amortizing balancing accounts in this way. It provides reasonably simple administration with the assurance that customers will pay a reasonable portion of the cost, or receive a reasonable portion of the benefit. We reject PWN/RL's proposal.

4.7. Volumetric Rates for Future WRAM Balances

Applicant proposes amortizing future WRAM balances for residential customers at a uniform rate on each unit of water for all sales. That is, applicant proposes to continue the current WRAM balance recovery method with regard to future balances as they are amortized for residential customers (i.e., based on sales, not based on a per meter charge). Applicant also proposes to apply the surcharge to all water sales. We agree.

The current amortization protocol excludes usage in the first tier, where about 60 percent of usage occurs. It also applies the surcharge rate based on the adopted rate design tier differentials for Tiers 2 through 5. A substantial part of the dramatic increase in the WRAM/MCBA balance has been due to the absence of any WRAM/MCBA recovery in Tier 1 combined with fewer sales at increasing surcharge levels in the upper tiers (as customers responded to the drought, the

Governor's conservation orders, price signals, and other influences to reduce consumption). Unless changed, this will continue.

The size of the under-collection addressed above (\$40.6 million) justifies a unique meter-based recovery. Going forward, however, a uniform surcharge rate on each unit of water sold returns to our preferred method of giving customers price-based information regarding the need for conservation, eliminating water waste, and restricting discretionary water use. At the same time, as modified, it will promote more consistent and timely recovery of the under-collected WRAM/MCBA balances since it will apply to all sales. It will also align the Monterey WRAM/MCBA recovery process with the authorized amortization process in all other of applicant's districts.

4.8. Application or Advice Letter for Prospective WRAM Balances

ORA recommends that all requests by applicant for future Monterey WRAM/MCBA balances be by formal application, not informal advice letter. In support, ORA says it identified a number of concerns with applicant's data. The time necessary to propound discovery requests, engage in close scrutiny, undertake full examination, and form recommendations exceeds that permitted in informal proceedings, according to ORA. Further, ORA contends that the size of this request and possible future requests, the request for interest based on applicant's full rate-of-return, and lack of customer notice³⁴ justify a requirement going forward for WRAM requests by application, not advice letter. We largely

³⁴ ORA reports that Cal-Am did not send notice to customers of the pending \$40.6 million WRAM/MCBA balance or the request to amortize the balance over 20 years at its currently authorized rate of return. (Exhibit 104 (Dawadi) at 2-17.)

conclude otherwise.

We are not convinced that the unique circumstances presented here justify a deviation for one district of one utility in our standard procedures for processing WRAM/MCBA requests. We think the modifications we make here will help address future balances (e.g., WRAM/MCBA surcharges at a uniform rate on all sales discussed above; increasing fixed cost recovery in service charge and compression of tier differentials, discussed below).

Moreover, the advice letter process provides necessary protections. Parties, customers, and the public may protest.³⁵ With or without protests, WD processes each request, and may reject the advice letter if there are clear problems.³⁶ If there are more substantial concerns, WD can suspend the advice letter. If necessary, WD can convert the advice letter from Tier 1 to either Tier 2 (generally effective in 30 days) or Tier 3 (effective only upon Commission adoption of a resolution). If a formal process is needed for any reason, including that it appears there may be disputed issues of material fact or law, WD can reject the advice letter without prejudice so the utility can file the matter as a formal application. The majority of, if not all, advice letters are able to be processed as ministerial matters.³⁷ If not, existing procedures fully protect ratepayers and the public.

Advice Letter (AL) 1121 addresses applicant's WRAM/MCBA balance

³⁵ Any person may file a protest to an advice letter. (GO 96-B, General Rule 7.4.1.)

³⁶ For example, Commission staff "will reject any advice letter where the advice letter or workpapers are clearly erroneous, including without limitation where there are clear inconsistencies with statute or Commission order..." (GO 96-B, General Rule 7.6.1.)

³⁷ See GO 96-B, General Rules 5.1, 5.2, 7.6.1, and 7.6.2.

through end of year 2015.³⁸ WD has suspended the AL. The motion to consolidate AL 1121 into this proceeding was denied. (*See* RT Vol 6 (May 16, 2016) at 964.) WD can now proceed with processing AL 1121 using guidance from this decision.

Applicant must respond to any and all WD data requests without delay.³⁹ That includes data requests with regard to AL 1121. If applicant fails to do so, WD may issue a citation and/or reject the advice letter.⁴⁰

In particular, WD should issue a citation when necessary to enforce compliance with Commission orders and the Public Utilities Code. (*See* Resolution W-4799.) The integrity of the regulatory process relies on the accurate and prompt reporting of information, including accurate and prompt responses to Commission data requests. We take very seriously each regulated utility's responsibility to maintain the integrity of the regulatory process. (*See* D.15-04-008.)⁴¹ If WD issues a citation to applicant pursuant to the water utility citation program, we expect WD (given our recent experience with applicant) to

³⁸ AL 1121 requests a total 2015 current year balance of \$15.5 million (\$11.9 million residential, and \$3.6 million non-residential). (*See* AL 1121-A at 5-6.)

³⁹ *See* Public Utilities Code Sections 581 through 584. The Commission delegates to its staff the duty to collect "information required by it to carry into effect any of the provisions of this part [the Public Utilities Act, PU Code Sections 201 through 3260]." (Pub. Util. Code § 581.) In particular, the Commission specifically states that when reviewing an advice letter staff may request additional information from a utility, and the utility "shall respond to the request within five days." (GO 96-B, General Rule 7.5.1.)

⁴⁰ The penalty for "not complying with Commission Ordering Paragraphs not otherwise specified herein" is \$10,000 per event for Class A utilities. (Resolution No. W-4799, Appendix A at 2.)

⁴¹ We there applied a penalty of \$15,000 per violation for 58 Cal-Am violations of Rule 1.1 of the Commission's Rules of Practice and Procedure, including failures to maintain the integrity of the regulatory process.

apply the maximum penalty, unless WD can justify a reduced amount.⁴²

WD may also reject AL 1121 (or subsequent advice letters) without prejudice so applicant may file the matter as a formal application if WD is unable for any reason to complete the processing of the matter as Tier 1, Tier 2, or Tier 3. This includes where applicant fails to provide complete data responses timely or WD believes there is sufficient controversy to require a formal hearing, including that there may be disputed issues of material fact or law.

Finally, we are concerned with ORA's evidence that customers may not have received adequate notice of past WRAM/MCBA requests. As a result, we require applicant to give specific notice to customers by bill insert or direct mail of each of the next three advice letters for WRAM/MCBA recovery in the Monterey District. This is already required if the request is 10 percent or more of the last authorized annual revenue requirement. (GO 96-B, Water Industry Rule 3.1.) We extend this requirement to each of the next three advice letters, even if the request is less than 10 percent. We also require that the bill insert or direct mail item must be approved by the Commission's Public Advisor's Office before it may be issued by applicant.

⁴² The maximum penalty for not complying with a Commission order under the water utility citation program is \$10,000 per event. (See Resolution W-4799, Appendix A at 2.) Each day of non-compliance is a separate event. (Public Utilities Code Section 2108.) WD may consider several factors in determining the level of the penalty (e.g., severity of the offense, conduct of the utility, financial resources of the utility, totality of the circumstances in furtherance of the public interest, role of precedent). (D.98-12-075.) WD may also consider the sophistication, experience and size of the utility; the number of victims and economic benefit received from the unlawful acts; and the continuing nature of the offense. (*Id.*) Depending upon the circumstances, WD may assess a reduced penalty at first, and quickly increase the penalty for ongoing failures.

5. Rate Design

Applicant proposes many rate design changes. These range from full and permanent elimination of the residential allotment system (not just summer outdoor watering) to increasing fixed cost recovery in the residential service charge, reducing the rate difference between residential Tier 1 and Tier 5, initiating an annual consumption true-up pilot program, and more. Other parties recommend adjusting multi-family rates, reallocating some costs from residential to non-residential, and modifying non-residential rates. We address each in turn.

5.1. Residential Allotments and Surveys

Applicant proposes full elimination of the current residential allotment system, including annual surveys. All parties but PWN/RL support this proposal. We adopt applicant's recommendation.

The allotment system was designed to comply with the District's Ordinance 92, adopted in 1999. Ordinance 92 required applicant to prepare a per-capita based tariff that would employ a customer survey to determine relevant characteristics (e.g., number of residents, lot size), and submit that tariff to the Commission for consideration. (Exhibit 13 (Stephenson) at 7-8.) The goals included discouraging wasteful use by allocating an efficient per capita allotment. (Exhibit 6 (Bui) at 11.)

While the original goals have merit, the allotment system is complex and difficult to administer. Each Monterey residential customer effectively has their own rate design based on the allocation of water in each tier as determined by the number of full-time residents, number of part-time residents, lot size, number of large animals, medical needs, and other considerations. Bills are difficult to understand, especially when both allotments and rates change simultaneously.

This can lead to significantly more lines on a monthly bill when prorated over the billing cycle due to a rate or allotment change mid-cycle. Not only are customers confused, but applicant says it is also difficult for customer service personnel to understand and explain rates and bills to customers. Applicant reports that there is a significantly higher customer service call volume in the Monterey service area compared to all other of applicant's service areas.

(Exhibit 2 (Chew) at 11.)

Further, it is clear that the allotment system is subject to abuse and has resulted in inequities. As stated above (regarding ORA's allegations of inadequate management of the allotment system), applicant testifies that the allotment system has apparently encouraged an over-reporting of the number of individuals per household. The result is increased allotments in each tier and improper reductions in the water bill for those who over-report. Families that honestly report survey data pay a much higher rate for the same amount of water than those who misreport. (Exhibit 1 (Sabolsice) at 11, 17, and 19.)

Moreover, customers have little to no incentive to report a reduction in the number of persons per household when a resident leaves, since this would reduce their allocation and increase their water bill. (Exhibit 6 (Bui) at 13.)

Applicant acknowledges that self-reporting provides the opportunity for some customers "to 'game' the system." (Exhibit 13 (Stephenson) at 20.) The system has resulted in inequities that must be corrected. In short, we agree with the District that the:

...complexity of allocating water based on an unverified survey containing an alleged number of permanent and part-time residents in a household, the size of their property, and the presence of large animals and other considerations is no longer a workable approach. (Opening Brief at 8.)

PWN/RL recommends preserving per capita, livestock, and outdoor watering allotments to work in combination with its multiple other rate design recommendations. (PWN/RL Opening Brief at 4.) We are not persuaded. Applicant says the population represented through customer surveys is 125,624 while the census data indicates a residential population of 100,000. (Exhibit 1 (Sabolsice) at 17.) This is about 25 percent more population represented through surveys than the census. Applicant attempts to explain away this discrepancy but in doing so further shows the complexity of the allotment system. For example, a report in July 2014 sent by applicant to District included a residential survey count of 178,103 (78 percent more population by survey than the census). Applicant says residential survey data must be refined to exclude inactive premises, closed accounts, and duplicative accounts, with the particularly high report in July 2014 likely to have included duplicative accounts. (Exhibit 12 (Sabolsice) at 6.) Applicant also says data sets used for comparison may produce different results due to different collection methods, purposes, and response biases. (Exhibit 13 (Stephenson) at 27.) Even if true, this affirms the complexity of the allotment system, shows the difficulty in determining proper allotments, does not fully reconcile the differences, does not validate the accuracy of the allotment surveys, and does not increase our confidence in the allotment system.

Despite the urging of PWN/RL we decline to continue a system that is difficult to administer and has produced abuse and inequity. We also decline to adopt measures to correct the survey and allotment system. There would be unknown costs and customer resistance to modifying the allotment system, particularly if the modifications reduced allotments by about 25 percent. We

have no estimate of the cost and time to rehabilitate a flawed system, and no specific proposals of how to do so.⁴³

Further, the rate design recommendations of PNW/RL that would work in combination with and support continuation of the allotment system are extreme and not well explained. For example, PNW/RL argue that all fixed costs should be recovered in fixed rates.⁴⁴ Up to 95 percent of applicant's costs are fixed.⁴⁵ A sudden, drastic change to implement this proposal would be extreme.

PWN/RL recommend that the Commission adopt its specific proposed rate design presented in Exhibit 342 at 67, Illustration 29. (PWN/RL Opening Brief at 4.) That rate design results in a shortage of \$6.5 million (13.2 percent) in necessary revenues without adequate explanation. PWN/RL say their proposed rate design "is intended to be the first year of a 3-4 year Glide Path...to raise Fixed Cost collections from Service Charges..." (Exhibit 342 (Burke) at 67; capitalization in original.) We raise service charges today, but neither prejudice whether we will raise them further nor the manner in which we might do so going forward. We are not inclined to adopt a proposal that results in a revenue

⁴³ Applicant testifies that it has taken one utility more than 20 years to refine its allotment rate structure to achieve its desired results. (Exhibit 6 (Bui) at 10.) Applicant has been using its allotment system here for 15 years. We see no merit in investing more years to refine applicant's system to achieve the desired results.

⁴⁴ PNW/RL say, for example, that rate design inequities are due to "failure to cover fixed costs from service charges and volumetric rates to make up for the fixed charge under collection with unreasonable high multiples of variable price to variable cost..." (PWN/RL Opening Brief at 5.) The cure for these inequities would be to recover all fixed costs via the service charge.

⁴⁵ Applicant estimates 95% of its revenue requirement is fixed costs. (Exhibit 2 (Chew) at 13.) ORA estimates the fixed cost percentage at 89%. (Exhibit 104 (Odell) at 1-17.)

shortage now, and PWN/RL fail to adequately explain the full effects and implications of its proposal.⁴⁶

The better approach is to adopt the range of other proposals made by applicant and parties, including elimination of residential allotments. In combination these proposals create a comprehensive approach to addressing applicant's current financial and other challenges.

Applicant admits it does not validate the number of allotments, but takes customers at their word. We address this issue further below.

5.2. Fixed Cost Recovery in Service Charge for Residential Customers

Applicant proposes increasing from 15 percent to 30 percent the amount of fixed cost recovery in the residential customer service charge. District, ORA, and CPB support applicant's proposal. Other parties are neutral or present no credible evidence or argument against increasing the percentage. We adopt applicant's proposal.

Up to 95 percent of applicant's costs are fixed, but residential rates currently recover only 15 percent from the service charge.⁴⁷ A low percentage of fixed costs in the service charge, with a high percentage in volumetric charges, results in an unreliable collection of fixed costs when quantity sales vary.⁴⁸ Revenue stability is one of many competing rate design goals, and we adopt a

⁴⁶ For example, recovering all fixed costs in service charges will reduce volumetric rates and likely reduce the conservation signal in price-based volumetric rates.

⁴⁷ Exhibit 2 (Chew) at 13. Exhibit 104 (Odell) at 1-17.

⁴⁸ On the other hand, it meets other important rate design goals, such as promoting conservation.

rate design herein that promotes that goal.⁴⁹ We decline, however, to adopt rates that recover 95 percent of applicant's costs via fixed charges.

We adopt applicant's recommendation because moving from 15 percent to 30 percent for residential customers will increase the stability of residential revenue recovery regardless of quantity sales. It will align fixed cost recovery for residential customer with the existing 30 percent fixed cost recovery from non-residential customers. It is also consistent with recommended Best Management Practices.⁵⁰ (Exhibit 2 (Chew) at 13.)

5.3. Meter Charge Ratios

Applicant proposes to implement the 30 percent fixed cost recovery in the service charge but with a non-permanent modification to the standard residential meter charge ratios cited in Commission Standard Practice U-7-W. Applicant says over 85 percent of single family residential customers are on a 5/8-inch meter and generally use less water per meter than customers on larger size meters. (Exhibit 7 (Chew) at 13.) Application of the standard meter ratios, according to applicant, would have a disproportionate rate impact. Applicant proposes a temporary modification so that lower use customers are not disproportionately affected by the overall change in rate design. (Exhibit 2 (Chew) at 19.) ORA recommends using the standard meter ratios. The District agrees with ORA. We adopt applicant's recommendation.

⁴⁹ Rate design goals are both complementary and mutually exclusive. They include such factors as: conservation, efficiency, equity, simplicity, understandability, rates based on cost, rates that implement legislative requirements, and revenue stability.

⁵⁰ California Urban Water Conservation Council Best Management Practice 1.4, Part 1 A, which recommends 70% of revenue recovery should be via quantity rates.

ORA says the standard meter charge ratios were developed based on proportionate maximum flow capacity, and thereby intrinsically allocate cost proportionately based on flow. The ratios, according to ORA, directly tie the meter charge to the cost of establishing and maintaining the system necessary to serve that meter, independent of the income or use of each customer. District supports ORA, adding that it is particularly important to follow Standard Practice U-7-W “where a larger size meter is required ‘because the dwelling has a sprinkler system.’” (District Opening Brief at 10.)

We do not agree. These are important considerations, but we balance this with rate impact considerations. District presents no data on when a residential sprinkler system requires a larger size meter. The majority of homes have small meters.⁵¹ The deviation from the standard practice adopted here is temporary. Rate impact and equity considerations convince us to adopt applicant’s temporary deviation. We encourage parties to provide more data and recommendations in future cases.

ORA says there are other ways to mitigate customer impact, one of which is to maintain the current steeply tiered rates. (ORA Reply Brief at 17.) For the reasons explained in our discussion of tier ratios below, however, we do not mitigate the customer impact of moving to 30 percent fixed cost recovery in the service charge by retaining the steeply tiered rates as recommended by ORA.

We accept applicant’s proposed non-permanent modest deviation in the standard practice because doing so will help mitigate the rate impacts that result

⁵¹ The smallest residential meters (5/8 inch) are 29,269 (85%) out of a total of 34,508 residential customers. Meters that are 1 inch or less are 33,799 (98%) out of the total of 34,508 residential customers. (Exhibit 104 (Odell) at 1-32.)

from the multiple changes we authorize in this decision. This deviation in the meter ratios provides some relief and is temporary. We decline above to adopt applicant's proposed deviation to applying meter charge ratios for WRAM surcharge recovery because that deviation would not moderate rate impacts but would increase rates for the smallest users. We adopt the temporary deviation here to mitigate rate impacts. In future proceedings we expect applicant and parties to propose the use of standard meter ratios as soon as the disproportionate rate impact is moderated.

5.4. Tier Break Points and Modified Block Widths

The current rate design has five rate levels, or tiers, with steeply increasing charges per unit of water as a residential customer's use increases. Under the current allotment system, each residential customer has a specified quantity of water in each rate tier based on the number of persons in the home, number of large animals, lot size,⁵² special medical needs, and other special needs. With elimination of allotments, applicant proposes a more standard rate design in which each customer gets the same amount of water in each tier, or block. There is broad support among parties, including ORA and the District, and we adopt applicant's proposal.

The adopted block widths by tier in the residential rate design are:

TIER	SINGLE FAMILY RESIDENTIAL	MULTI-FAMILY RESIDENTIAL
1	4.0 ccf	2.5 ccf
2	4.0 ccf	2.5 ccf
3	6.0 ccf	1.75 ccf
4	9.0 ccf	2.5 ccf
5	All consumption above 23 ccf	All consumption above 9.25 ccf

Ccf is one hundred cubic feet

⁵² The lot size allotment was eliminated in D.16-03-014.

Under the allotment system, the amount of water per tier can vary widely between customers. Under the adopted system, each customer will get the same amount of water in each block. This standardizes the amount of water each customer gets in each tier along with the amount each customer pays for each unit of water at any tier, and results in residential customers paying the same amount for the same quantity consumed. It eliminates inequities caused by manipulation of the allotment system, and simplifies customer bills.

The standardized system eliminates allotments, including allotments for special medical or other special needs. (Exhibit 2, (Chew) at 17.) The increased block widths by tier, however, take those needs into consideration. Also, customers with special medical or other special health and safety needs can apply to the District for an additional ration. (Exhibit 16, Attachment 4, Rule 14.1.1, Section K.5.e.) No party presents a viable alternative to the standardized system proposed by applicant and we adopt it.

The proposed rate design is based on an average of 2.67 persons per single-family household, and 1.5 persons per multi-family household, using an average of 80 gallons per person per day, with the 80 gallons apportioned between Tiers 1 and 2. (Exhibit 2 (Chew) at 28; also *see* Exhibit 104 (Odell) at 1-15.) It will potentially result in bill decreases for customers who previously had two or fewer residents per household since the comparative block widths for Tiers 1 and 2 will increase under the new rate design. Similarly, it will potentially result in bill increases for customers who previously had more than two people per household since the comparative block widths will decrease in Tiers 1 and 2. These impacts are balanced by the benefits of increased overall equity and simplicity.

5.5. Reduce Ratio of Rate Tiers

The current cost of each unit of water in Tier 5 is ten times the cost of water in Tier 1. Applicant proposes to reduce the multiple from 10 to 8:

TIER	CURRENT RATIO	PROPOSED RATIO
1	1.0	1.0
2	1.5	1.5
3	4.0	3.5
4	8.0	6.5
5	10.0	8.0

(Exhibit 2 (Chew) at 20.)

ORA recommends the ratio stay at 10. We adopt applicant's proposal.

A ratio of 10 is very high. In applicant's other districts, the price of water in the highest tier is 2 to 3 times that in the lowest tier. The statewide drought, along with unique circumstances of the CDO, required extraordinary steps in the Monterey District. As consumption in Monterey has decreased over the years, however, revenue recovery has been particularly volatile given the high rates in the upper tiers.

We balance competing factors in reaching today's decision. It is important, as ORA contends, to maintain a strong conservation signal with the inclining tier structure. It is also important to address revenue stability. A ratio of 8 accomplishes this balance by maintaining a very strong conservation signal while reducing the pressure on revenue recovery.

PTA questions the continued use of tiered rates. In particular, PTA says it would be helpful to have a Commission determination as to whether tiered rates remain a preferred tool to achieve conservation. Also, PTA asks whether Pub. Util. Code § 701.10(e) imposes an obligation to tie rates to cost of service in each

tier in light of a 2015 California Court of Appeals decision.⁵³ (PTA Opening Brief at 24.)

Tiered rates remain a preferred tool to achieve conservation. We said in our 2010 Water Action Plan (WAP) that tiered rates had been applied since 2005 to meet important goals, including that of placing water conservation at the top of the loading order as the best, lowest-cost supply. (2010 WAP at 1.) While virtually non-existent in 2005, we said that tiered rates were by 2010 commonplace for all Class A water utilities, and we stated our goal to establish block rate designs for Class B, C and D water utilities when feasible. (2010 WAP at 18.) Nothing has changed. We continue to use tiered rates to place water conservation at the top of the loading order as the best, lowest-cost supply. Rates in the upper tiers give customers important price signals against which to measure the benefits of their present and future consumption.⁵⁴

We are examining ratemaking tools, including the merits of tiered rates, in our larger investigation of the Commission's Water Action Plan. (*See* Order Instituting Rulemaking (R.) 11-11-008; also *see* April 30, 2015 Assigned Commissioner's Third Amended Scoping Memo and Ruling Establishing Phase II.) This includes an assessment of the objectives of setting rates that balance investment, conservation and affordability. To the extent relevant and applicable to Cal-Am, we will apply the results of R.11-11-008 to Cal-Am in future proceedings. Here, however, we continue our existing important and

⁵³ *Capistrano Taxpayers Association, Inc. v. City of San Juan Capistrano* (2015) 235 Cal. App. 4th 1493.

⁵⁴ For example, customers can measure whether the benefit of consuming the water today is worth today's cost. When making capital investment decisions (e.g., water conservation devices), they can measure whether the benefit (bill savings) is worth the cost of the investment.

vital policy of using tiered rates to place water conservation at the top of the loading order as the best, lowest-cost supply.

PTA also asks whether Pub. Util. Code § 701.10(e) imposes an obligation to tie rates to cost of service in each tier in light of a 2015 California Court of Appeals decision. It does not. Applicant correctly points out that the Court of Appeals determination in San Juan Capistrano is based on the applicability of Proposition 218 to tiered rates. Proposition 218 does not apply to Commission-regulated water utilities.

Moreover, the Public Utilities Code does not impose a similar obligation on either the Commission or Commission-regulated water utilities. For example, Pub. Util. Code § 701.10 says it is California State policy that rates established by the Commission for water service do all of several things, including minimizing the long-term cost of reliable water service, and providing appropriate incentives to water utilities and customers for conservation. (Pub. Util. Code §§ 701.10I(b) and (c).) Tiered rates accomplish these goals.

PTA contends that the failure to impose high enough conservation pricing signals (i.e., high prices) in the lowest two residential rate tiers stimulates increased consumption. (PTA Opening Brief at 10.) We reject PTA's assertion. We must balance affordability for minimum use (i.e., in the first two tiers) with our conservation goals. We conclude that the increasing tier structure proposed by applicant does this best.

5.6. Use 2014 or 2015 Consumption Data

Applicant proposes using actual 2014 annual residential consumption and usage by tier as the base for designing rates here. In support, applicant says there have been continual declines in usage and usage per customer in the Monterey District over the last several years in reaction to rate design and

continued publication of the need to meet the production limitations of the CDO. Applicant proposes using the latest numbers in order to best reflect unpredictable usage declines, set rates that more closely reflect actual cost and consumption, and to better estimate and recover the annual revenue requirement. (Exhibit 2 (Chew) at 15 and 20; also Exhibit 9 (Linam) at 6 and 10.)

ORA says that using actual 2014 data increases the residential volumetric base rates (to recover the authorized revenue requirement based on decreased consumption) and, in isolation, is the largest factor in resulting bill increases for most of applicant's residential customers. The increase in volumetric rates by using 2014 data more than offsets the decrease in those volumetric rates due to shifting more fixed costs to the service charge, according to ORA. Nonetheless, ORA does not oppose use of 2014 data saying the decreased "consumption estimate aligns price with cost in a timely manner and potentially forestalls future large under-collections." (Exhibit 104 (Odell) at 1-21.)

In contrast, District says 2015 data – the most recent data available – should be used as the base year for rate design.⁵⁵ We agree with District.

Applicant and ORA are correct that usage data for rate design in this proceeding should be based on updated numbers that reflect the continuing reduction in sales. We take the extra step advocated by District and use 2015. Sales have continued to decline into 2015, and are five percent less than in 2014.⁵⁶ Using 2015 data employs the most current consumption data, and includes mandatory conservation in 2015 that was not required in 2014. (District Opening

⁵⁵ Neither applicant nor ORA challenge this recommendation in their reply briefs.

⁵⁶ Exhibit 16 (Linam/Sabolsice) Attachment 1, comparing total of Monterey Main annual consumption (10 cf) for single family, multi-family and non-residential in 2015 against 2014.

Brief at 11-12.) It will also promote improved recovery of the annual revenue requirement.

Applicant initially argued for the use of 2014 data on the basis that adoption of its proposed annual consumption true-up pilot program will incorporate 2015 data, making it unnecessary for the initial rate design adopted here. For the reasons explained below, we decline to adopt applicant's proposed annual consumption true-up pilot program (at least in time for use in the fall of 2016). Therefore, it is appropriate to use the most updated numbers now. We require the advice letter using 2015 data to be Tier 2, so that it does not go into effect automatically, and thereby giving time for parties and staff to assess the data.⁵⁷

5.7. Low Income Ratepayer Assistance Program

The current low income ratepayer assistance program (LIRA) provides a 20 percent discount off of the monthly service charge, the Tier 1 rate, and the Tier 2 rate. Applicant proposes applying a 30 percent discount off of the service charge, along with the rates in Tiers 1 through 4. The elimination of allotments and the increase in the monthly service charge negatively impact low income ratepayers, according to applicant. Applicant's LIRA proposal seeks to mitigate the negative impacts by applying approximately the same level of benefits to low-income ratepayers. (Exhibit 2 (Chew) at 29.) ORA does not oppose applicant's request.

We adopt the proposed 30 percent discount applied to the service charge and rates in Tiers 1 through 4. This will mitigate the negative impacts by

⁵⁷ Tier 2 is consistent with the proposal applicant makes for the advice letter to implement the annual consumption true-up mechanism.

applying approximately the same level of benefits to low-income ratepayers. We extend the application of the discount to the rates in Tiers 3 and 4 because the elimination of allotments means many low income customers with larger families will use, and be billed for, water in Tiers 3 and 4.⁵⁸ (See Exhibit 2 (Chew) at 29; Exhibit 104 (Odell) at 1-23.) The extension of the credit to Tiers 3 and 4 will provide needed assistance to these customers.

ORA says non-LIRA customers will see a total annual increase in LIRA surcharges of about \$219,000, but that applicant does not request an increase in the LIRA surcharge. (Exhibit 104 (Odell) at 1-23.) We do not increase the LIRA surcharge here. This issue may be addressed in applicant's next general rate case.

PTA makes two suggestions regarding the LIRA program. First, PTA recommends that applicant minimize administrative costs by eliminating duplicative audits that conflict with the District's more stringent efforts. (PTA Opening Brief at 31.) We have no evidence that applicant and District audits are duplicative, nor the degree of duplication (if any).⁵⁹ Even if there is some duplication (of which we have no evidence) the duplication might be minor and the cost saving similarly insignificant. PTA provides no data on the amount of

⁵⁸ A customer with a large family and many allotments was receiving a large allocation of water in each Tier. This customer might have been able to avoid Tiers 3 and 4. Elimination of the allotments in this decision is paired with an increased amount of water in Tiers 1 and 2, but the increased amount may be less than a large family previously received.

⁵⁹ If anything, the evidence shows applicant and District avoid duplicative audits. For example, in 2015 and 2016 applicant and District performed sample audits of commercial customers. Applicant audited outdoor usage and District audited indoor fixtures. (Exhibit 12 (Sabolsice) at 3.)

duplication or the cost. Moreover, treatment of administrative costs is outside the scope of this proceeding, and is more appropriate for a general rate case.

Second, PTA recommends automatic enrollment in LIRA to save costs. (PTA Opening Brief at 31.) PTA also recommends coordination with energy utilities, municipalities and community based organizations to provide conservation information and tools. (PTA Reply Brief at 12.)⁶⁰ The issue is outside the scope of this proceeding, and we do not order such coordination here. Moreover, water utilities are already required to share data with energy companies and include energy low income customers in a water utility's low income program as long as the name and bill addresses are the same. (Exhibit 13 (Stephenson) at 21.) Nonetheless, even if it is unlikely, there may be other opportunities that are being missed. We direct applicant to study the issue and report its findings along with its recommendations in its next general rate proceeding (A.16-07-002).

5.8. Realign Cost Recovery

ORA recommends moving 8.4 percent, or approximately three million dollars, of forecast revenue collection from residential to non-residential ratepayers. Applicant and CPB oppose the recommendation. We adopt ORA's proposal.

ORA states that updating the consumption data (e.g., using 2014 sales) to develop rates in this proceeding for residential but not for non-residential customers exacerbates the disparity in cost recovery between those customer

⁶⁰ This recommendation is in the section of the PTA reply brief dealing with ratepayers in multi-family complexes. But it is also related the section of the PTA brief dealing with low-income ratepayers (where PTA discusses related programs for energy utilities) and we address the PTA recommendation here.

classes. (Exhibit 104 (Odell) at 1-8.) While ORA does not oppose this approach in general, ORA says this approach uses a decrease in residential consumption in 2014 of nearly 13 percent, necessitating an increase in the volumetric rate. (*Id.*) The resulting total bill for the median residential customer increases about 30 percent. (Exhibit 2 (Chew) at 32 and 37.) Applicant proposes about a 1percent increase in non-residential rates based on its understanding of the generic rate design adopted in D.86-05-064. ORA asserts this results in disproportionate revenue recovery from residential customers in relationship to consumption. (Exhibit 104 (Odell) at 1-8; also *see* Exhibit 2 (Chew) at 43.) We agree with ORA that an unreasonable inequity results.

Nearly 30 years ago, D.86-05-064 adopted a generic standard rate design for water utilities. Applicant argues that its proposal increases non-residential rates by about 1percent to “maintain revenue neutrality principles based on the CPUC’s prescribed standard rate design [D.86-05-064].” The use of the standard rate design, however, is not absolute. For example, applicant deviates by having more than the standard three commodity blocks. Applicant proposes to deviate from the standard rate design for the residential meter charge to ensure lower use customers are not disproportionately affected. (Exhibit 2 (Chew) at 19.) Applicant also proposes a sales reconciliation mechanism, which is expressly not adopted in D.86-05-064. (Exhibit 104 (Odell) at 1-10.)

We do not require a strict application of a cost of service model when allocating revenue responsibilities and designing rates. (Cal-Am Opening Brief at 27-28.) Nonetheless, it is appropriate to consider many factors, including but not limited to consumption, numbers of customers, and the proportion of fixed to variable costs. We also consider equity, and what is ultimately just and reasonable.

Applicant does not recommend using actual 2014 consumption for non-residential customers as it does for residential customers,⁶¹ thereby introducing a divergence in the basis upon which rates are made for these two classes. ORA proposes a reconciliation that relies on consumption. The result promotes equity by maintaining proportionality between consumption and cost recovery.

Applicant asserts that “ORA’s proposed allocation also appears to result in non-residential customers subsidizing residential customers...” (Cal-Am Opening Brief at 39.) Applicant is concerned that this three million dollar shift reverses an adjustment adopted in 2013 that moved three million dollars in revenue recovery from non-residential to residential. Applicant asserts that the 2013 adjustment rectified a three million dollar subsidization of residential customers by non-residential customers. (*Id.*, referring to a settlement adopted in D.13-07-041.)

To the contrary, our decision here is neither based on alleged subsidies, nor does it reverse our decision in 2013. Today’s decision aligns revenue recovery to promote equity based on the evidence in this proceeding and the multitude of changes we adopt here (e.g., collecting WRAM/MCBA balances, ending allotments, increasing fixed cost recovery in the service charge, addressing use of meter ratios, changing block widths, reducing ratio between tiers).

Applicant proposes about a one percent increase in non-residential revenues, but at the same time applicant’s projected bill impacts from the

⁶¹ See (Exhibit 2 (Chew) at 47.)

proposed changes show a bill decrease for nearly all non-residential customers. (Exhibit 2 (Chew) at 45.) The decrease is largely caused by the expiration of the Coastal Water Project (CWP) 15 percent surcharge (Surcharge #1) in about July 2015. (*Id.*, at 46.) In contrast, applicant's proposed changes would result in an increase of 31.7 percent in the total bill of the median single family residential customer, and an increase of 29.8 percent in the total bill of the median multi-family residential customer.

The adopted shift of about three million dollars increases the revenue recovery from non-residential customers by about 16.4 percent.⁶² This increase must be considered relative to the much larger increase for residential customers, and the overall effect of other changes (e.g., the reduction due to the elimination of Surcharge #1). On balance, the adjustment of three million dollars here promotes equity between all customers, and we adopt it.

5.9. Other

PWN/RL make several rate design suggestions. The suggestions are neither sufficiently clear nor supported by credible evidence and convincing argument to merit adoption.

For example, PWN/RL suggests that the Commission adopt a rate design that “does not move MF [multi-family] Residential Customers served by Master Meters to a Multi-Family Residential Tariff...” (PWN/RL Opening Brief at 4; capitalization in original.) No credible record evidence supports this unclear suggestion. PWN/RL alleges there is “[i]nequity caused by proposed rates to

⁶² Monterey County non-residential revenues in the 2015 Settlement are about \$18,276,000. (D.15-04-007.) The \$3 million adjustment is about 16.4% of the \$18.3 million non-residential revenues.

Multi Family Customers via the proposed reduced threshold of rate tiers starting points and elevated meter ratios that are higher than all other Customer Classes...” (*Id.*, at 5; capitalization in original.) The inequity is not clear, and PWN/RL’s suggested resolution is equally unclear and not compelling. PWN/RL complains of Cal-Am’s “failure to propose Conservation Volume Pricing Tiers for its four Non-Residential Division pricing.” (*Id.*, at 10; capitalization in original.) The record evidence does not support increasingly priced multi-tiered rates (inclining block rate design) for non-residential customers.

We agree with applicant when it says:

PWN/RL does not appear to appreciate the fact that California American Water must improve revenue stability while continuing to promote conservation. PWN/RL’s criticisms of the proposed rate design are unsupported and based on excluded and misinterpreted data. [Footnote excluded.] Given the significant shortcomings in the PWN/RL analysis and the failure of PWN/RL to appreciate the magnitude of the challenges facing California American Water and its Monterey District customers, the Commission should give PWN/RL’s rate design testimony no weight. (Cal-Am Opening Brief at 34-35.)

6. Annual Consumption True-Up Pilot Program

Cal-Am’s application includes a proposed annual consumption true-up pilot program, which we will reference here as “ACPP.” District, PTA and PWN/RL supported ACPP. ORA and CPB opposed.

After the filing of reply briefs, applicant and District moved for adoption of a Settlement Agreement. The Settlement Agreement included refinements to ACPP, now called “CAM.” Comments in qualified support were filed by PTA, and comments in opposition were filed by PWN/RL and ORA. Joint reply comments were filed by applicant and District.

In this section we first summarize the initial ACPD proposal, along with the positions in support and opposition. We then briefly discuss the portions of the Settlement Agreement dealing with the CAM, the qualified support, the oppositions, and joint response of applicant and District. These summaries are necessary for an understanding of our discussion and decision.

For the reasons stated below, we deny the motion to adopt a Settlement Agreement with respect to CAM. We decline to adopt ACPD as proposed. We encourage parties to propose an improved annual consumption true-up pilot program, which for purposes of this decision we call ACPD/CAM.

6.1. Summaries of ACPD and CAM

6.1.1. Initial Proposal and Support

The application includes Cal-Am's proposed ACPD. ACPD would adjust rates annually using recent actual sales, is proposed solely for the Monterey District, and would be a pilot program subject to review in future general rate cases. (Exhibit 9 (Linam) at 24.)

The proposed ACPD would adjust rates prospectively through the following process. Applicant would file a Tier 2 advice letter annually on or before November 15. The advice letter would provide the actual recorded consumption for the Monterey District by customer class from October 1 of the prior year through September 30 of the current year. This actual consumption would then replace the adopted quantities beginning January 1 of the subsequent year. That consumption would also be used for all future rate adjustments, including all annual step and offset filings, in that calendar year until the adopted quantities are updated the following year. (Exhibit 9 (Linam) at 24.)

In support, applicant says ACPD is the linchpin in Cal-Am's overall set of proposals to stabilize revenues and prevent future large WRAM

under-collections. Applicant believes sales (consumption) are likely to continue to decline given requirements of the CDO and existing water production limitations. Without ACPD applicant says its customers will likely soon face ballooning WRAM balances. Similar adjustments have been used for over 20 years in the energy sector, according to applicant. Among other benefits, applicant says the stabilization of revenues produced by ACPD will facilitate reductions in the financing costs for the MPWSP. The benefits of ACPD, according to applicant, justify its adoption even if ACPD will neither prevent all under-collections nor allow elimination of WRAM.

District, PTA, and PWN/RL support ACPD. PTA says “a timely mechanism to correct erroneous demand forecasts is in the best interest of ratepayers...” (PTA Opening Brief at 17.) PWN/RL is so supportive of an ACPD that it recommends the adjustment “at least once annually or up to four per annum.” (PWN/RL Opening Brief at 4.)

6.1.2. ORA and CPB Opposition

ORA opposes CAM for four reasons. First, ORA says CAM does not benefit ratepayers. Second, ORA contends that consumption value adjustments require scrutiny beyond that which can be provided by advice letter. Third, ORA asserts that the Commission denied Cal-Am’s similar previous request in D.15-04-007, and the reasons for denial still exist. Fourth, the Commission is currently examining this issue in an industry-wide investigation (R.11-11-008). CPB joins ORA in opposition, citing ORA’s first three reasons.

6.1.3. Settlement

The Settlement Agreement modifies ACPD in few but important ways. The modifications include the following.

The filing of the CAM Tier 2 advice letter on or before November 15 is clarified to be in conjunction with step increases, if applicable. The advice letter includes not only recorded consumption ending September 30, but also the subsequent year regulatory production limits,⁶³ and establishes that the lower of the two would be used to set authorized consumption in the subsequent year. After approval of the Tier 2 advice letter by the Commission's Division of Water and Audits, CAM adds a provision that a Tier 1 advice letter would be filed to implement the new rates on January 1 of the subsequent year. Similar to ACP, the updated data would be used over the course of the subsequent year beginning January 1, but that data would be the lower of the actual twelve month recorded consumption ending September 30 or the regulatory production limits.

The Settlement Agreement includes illustrative examples of CAM, production limitations, and adjustments to other surcharges. It clarifies that other consumption based surcharges (e.g., San Clemente Dam Surcharge) will be recalculated to take into account the new annual consumption forecast resulting through the CAM. Settling parties agree that Cal-Am will provide notifications and conduct community outreach to all affected customers to describe CAM and explain how CAM results may affect customers. Settling parties also agree that Cal-Am will provide an annual notice to affected customers of rate changes made effective due to CAM.

⁶³ Failure to meet a milestone in the CDO, for example, may result in restricted production.

6.1.4. Comments in Qualified Support or Opposition

PTA says that assurances of adequate oversight and increased precision in Settlement Agreement language are needed to assure that the Agreement is in the public interest. PTA, however, does not oppose a sales adjustment mechanism and, in fact, asks the Commission to consider using a pilot Sales Reconciliation Mechanism (SRM) for Cal-Am similar to the one in place for California Water Service Company (Cal Water).

PWN/RL recommend rejection of CAM saying, among other things, CAM would continue Cal-Am's inaccurate forecasting, and is based on data that is subject to inaccuracies and conflicts.⁶⁴ ORA says CAM should be rejected because ORA's ratemaking proposals will satisfactorily address large WRAM balances. Also, ORA contends that CAM duplicates the purpose of WRAM, results in single issue ratemaking, creates disparate effects across customer classes, and encourages customers to increase consumption at a time when conservation is imperative. ORA says adoption of CAM is premature pending review of Cal Water's SRM, and pending a decision in R.11-11-008. Finally, ORA argues that Cal-Am's consumption data must be scrutinized for accuracy prior to adjusting rates.

6.1.5. Reply by Applicant and District

In their reply comments, applicant and District state that ORA's rate design proposals will not fix Cal-Am's problems; the CAM does not result in single issue ratemaking, create inequities across customer classes, or encourage

⁶⁴ The forecasting method and consumption data in CAM are the same as in ACPP. PWN/RL strongly supported the ACPP. In citing its reasons (i.e., inaccuracies and conflicts), PWN/RL fail to make a clear case for its going from strong support for ACPP to strong opposition for CAM.

consumption; and Commission review of Cal Water's SRM is not required before approving CAM. Cal-Am and District also contend CAM is urgently needed, it is narrowly tailored to Monterey, and there is no valid claim with respect to conflicting consumption data that would justify greater scrutiny of actual sales before they are adopted for each CAM adjustment.

6.2. Discussion

We first consider and reject CAM. We then consider but reject ACP. We encourage parties to bring us an improved annual consumption true-up pilot program, ACP/CAM.

6.2.1. Reject Settlement Agreement With Respect to CAM

We do not approve a settlement, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with law, and in the public interest. (Rule 12.1(d) of the Commission's Rules of Practice and Procedure.) The Settlement Agreement fails these tests.

We first note that the Settlement Agreement improves upon ACP. We are pleased, for example, that the settling parties took upon themselves the task of making the proposed ACP more concrete and specific, and that it includes notifications and community outreach to affected customers. We encourage parties below to include these improvements in a revised proposal for an annual consumption true-up pilot program. Even with the improvements to ACP included in CAM, however, the Settlement Agreement as presented at this time is neither reasonable in light of the whole record nor in the public interest and cannot be adopted here.

We cannot adopt CAM, for example, because it is in conflict with the record. The record is based upon increasing the amount of fixed costs in the residential service charge, and the fundamental recommendation is to go from

15 percent to 30 percent. There is no recommendation to increase the current 30 percent of fixed costs in the non-residential service charge. No party recommends 50 percent for either residential or non-residential. Nonetheless, settling parties include 50 percent in their illustrative “Abbreviated Calculation of Cost of Service” in support of the Settlement. (Settlement Agreement, Appendix B at 2, line 14.) The 50 percent factor is applied to the total revenue requirement, including both residential and non-residential. Even if the use of 50 percent and the inclusion of non-residential are inadvertent, this work product conflicts with the record, is confusing, and cannot be adopted as submitted.

Further, CAM is offered on the basis that it produces the same revenue but with adjusted sales. The illustrative “Adjustments to Rate Design to Reflect the CAM” appended by settling parties in support of the Settlement, however, does not produce the same revenues between “previously adopted consumption” and “under consumption adjustment mechanism.” (Settlement Agreement, Appendix B at 3 and 4.)⁶⁵ This is in sharp contrast to the perfectly matched result in “Adjustments to Surcharges Embedded in the Base Rates to Reflect the CAM,” where joint parties use the “goal seek” function in Excel. (Settlement Agreement, Appendix D.) Again, even if inadvertent, this work product conflicts with the goal of CAM as stated in the record, is confusing, and cannot be adopted as submitted.

⁶⁵ For example, single family is \$30,174,511 before and \$30,069,272 after. Multi-family is \$5,582,089 before and \$5,648,502 after. Non-residential is \$15,647,453 before and \$15,713,278 after.

The Settlement Agreement states the implementation terms of the annual rate calculation. (Settlement Agreement at 5, Section IV.B.) It says applicant agrees to follow the methodology set forth in Appendices B, C, and D of the Settlement Agreement. The appendices present limited illustrative examples but do not state a methodology.⁶⁶ The lack of precision and specificity makes the implementation terms unacceptably vulnerable to later dispute. It is not in the public interest to adopt a Settlement Agreement with terms that are insufficiently specific.

Finally, the Settlement Agreement includes inaccurate or imprecise items. First, the standard base quantity rate has a reference to show how it is derived (i.e., Row 17 divided by Row 16). (Appendix B at 2, line 18.) The correct reference is the inverse (i.e., Row 16 divided by Row 17). Second, the revised single family consumption level in the illustrative “Production Limitations” is based on the following: “assume single family consumption is 50 percent of the consumption above.” (Appendix C at 1.) The actual calculation, however, will not be based on an assumption. The actual input (rather than an assumption) is unclear and the “methodology” set forth in Appendix C is not helpful. These two examples in themselves may be simple errors or inadvertent, but they show a level of imprecision in the work product, and they invite questions of whether there are other errors or imprecisions not yet discovered elsewhere in the document. It is not in the public interest to adopt a Settlement Agreement that lacks a precisely stated methodology and includes inaccurate or imprecise terms that may invite later disputes.

⁶⁶ A methodology is a set of rules or steps to instruct a person employing the methodology on the technique to go from A to B in all applicable cases. It is more than a limited example.

As a result, the motion to adopt the Settlement Agreement is denied with respect to CAM.

6.2.2. Reject ACPP

We also reject ACPP. ACPP is stated in general terms. This makes its annual implementation unacceptably vulnerable to dispute. The urgency for its adoption is somewhat mitigated by our adoption above of the actual 2015 sales data to establish rates here. We will consider adopting an ACPP/CAM, if proposed by parties, but it must state a methodology in reasonably precise terms that is consistent with both the record and this decision, and is not particularly vulnerable to dispute.

6.2.3. Consider ACPP/CAM

We will consider adopting an ACPP/CAM because we see merit in a pilot program that adjusts rates in the Monterey District to reflect more current sales data. We agree with applicant that sales in the Monterey District will probably continue to decline and, without an ACPP/CAM, applicant will likely continue to experience unstable revenues and applicant's customers are almost certain to face large future WRAM balances.⁶⁷

⁶⁷ Applicant and District say ACPP or CAM will stabilize revenues and thereby help reduce the financing costs of the MPWSP. Applicant's request for a certificate of public convenience and necessary (CPCN) to build the desalination plant portion of the MPWSP may or may not ultimately be approved and, even if granted, the project may or may not ultimately be built. (A.12-04-019.) An ACPP/CAM will likely improve revenue stability, which we believe has merit on its own. The degree to which stabilized revenues may or may not reduce financing costs is a consideration in our decision to encourage parties to propose an ACPP/CAM, but has less relevance given the pendency of our approval for the desalination plant, and the uncertainty about its future. Our consideration of this factor does not prejudice whether we will or will not later grant the requested CPCN. The more relevant and important considerations in today's decision are revenue stability and moderation in future WRAM balances.

We are not persuaded by ORA and others against further consideration of an ACP/CAM, and we address those arguments below. We expect a future proposal, however, to address particular infirmities we discuss here.

6.2.1.1. Reject Arguments That Oppose ACP/CAM

We disagree with ORA that a reasonable version of ACP/CAM will not benefit ratepayers. Applicant shows that ACP would have reduced the \$40.6 million WRAM balance by \$10.3 million (20 percent) over the period of 2010 to 2015. (Exhibit 11 (Linam) at 18.) This does not eliminate WRAM, but reduces the burden and minimizes interest costs on the balance until paid by ratepayers. We look forward to a future proposal that will improve the ability of ACP/CAM to reduce WRAM balances by even more than the 20% shown by applicant for ACP. Even if the proposal does no more than reduce the burden by about 20%, however, a 20% reduction is an improvement.

We are not persuaded by ORA that its rate design proposals will satisfactorily address the potential for large WRAM balances. They will assist (e.g., by increasing the monthly service charge and reducing fixed cost recovery in the volumetric rate) but not eliminate the potential. This is because ORA's tier ratio proposal⁶⁸ includes substantial revenue collection in the top tiers. Authorized revenue will remain vulnerable to under-recovery if actual sales are less than authorized sales, and the WRAM balance will remain large. This is also true for applicant's proposal, and our adopted ratio.

⁶⁸ ORA proposes the ratio of rates between the top and first tier remain at its current relationship of 10 to 1.

We are not persuaded that we must first wait to assess the SRM of Cal Water, nor that we must wait for the conclusion of R.11-11-008. We will learn from our later assessment of Cal Water's SRM, and may use that information to subsequently adjust whatever we might adopt for Cal-Am, but the urgency of the situation in the Monterey District requires further consideration of an improved ACPP/CAM now. Similarly with R.11-11-008, we encourage parties to apply the guidance from our decision in R.11-11-008, and we will learn and may apply adjustments based on experience there, but further consideration of an ACPP/CAM is required in the Monterey District now.

ORA says an annual consumption adjustment mechanism (either ACPP or CAM) is unnecessary because its purposes are the same as those of WRAM.⁶⁹ We are not persuaded. WRAM works reasonably well in some cases, but has not fully succeeded in reaching all of its goals in the Monterey District. A well designed ACPP/CAM can greatly assist in reaching those goals.

We are also not persuaded when ORA asserts that ACPP and CAM will encourage customers to increase consumption at a time when conservation is imperative. ORA correctly claims, for example, that rates will rise under ACPP or CAM when consumption declines, and rates will decrease when consumption increases. ORA asserts this will negate any incentive to conserve since increased

⁶⁹ We agree with ORA that the purposes are similar. For example, settling parties support the proposed CAM by saying it will be a "reliable and timely process for adjusting rates annually that will increase the likelihood that conservation rates will collect the annual authorized revenue requirement." (Motion for Adoption of Settlement Agreement, Exhibit 1 at 4, III.C.) In adopting the WRAM for Cal-Am we said it would ensure that "...Cal-Am will recover all its fixed and variable costs regardless of the amount of water billed. The purpose of this mechanism is to decouple Cal-Am's revenue from water sales and to thereby remove any financial disincentives created by aggressive water conservation programs." (D.09-07-021 at 56.)

consumption will reduce rates. We are not convinced. The same relationship is true for WRAM. Nonetheless, we see no evidence that customers make sufficient connection between increasing use and decreasing rates to result in encouraging customers to increase use. Even if customers understand that connection (of which we have no evidence), increasing use results in larger bills. Larger bills provide an incentive to conserve. This is true under WRAM, and would be true under a consumption true-up mechanism.

ORA raises an important caution, saying that the Commission should avoid single issue ratemaking. ORA argues that both ACPP and CAM adjust rates based on consumption without taking into account applicant's fixed costs, variable costs, and other sources of revenue. ORA contends we must comprehensively examine all relevant information when establishing just and reasonable rates.

To the contrary, in establishing just and reasonable rates we have adopted special mechanisms to handle particularly volatile revenues and expenses since at least the 1970s.⁷⁰ WRAM is one of those mechanisms. Changes in the most important variable costs are captured by the MCBA as a companion tool to WRAM. On the other hand, fixed costs and other revenue sources are more stable, and are reasonably assessed every three years in a general rate case. While ORA is right that we must generally avoid single-issue ratemaking, a well designed and implemented ACPP/CAM will not unreasonably be based on a single issue, nor produce rates that are unjust and unreasonable.

⁷⁰ We adopted energy cost adjustment clauses (ECACs) for electric utilities in the 1970s when variations between wet and dry years caused changes in hydroelectric output and fuel expenses.

ORA raises two important potential problems with ACPP and CAM that must be addressed in any future proposal for an ACPP/CAM. First is data, and second is equity between rate classes. We discuss those below.

6.2.1.2. Must Address Data

ORA argues against allowing ACPP and/or and CAM adjustments by advice letter. In support, ORA contends that applicant provided conflicting data on several occasions during this proceeding, thereby raising a concern with the accuracy and reliability of applicant's showings and data responses. We do not adopt ACPP or CAM, and the issue is moot relative to those proposals. The issue is relevant, however, with respect to our encouraging parties to propose an improved annual consumption true-up pilot program, or ACPP/CAM.

ORA correctly shows that applicant provided a range of different responses for actual 2014 consumption data. (Exhibit 104 (Rose) at 3-9.) We are not persuaded by applicant's alleged reconciliation of the data. (Exhibit 11 (Linam) at 22-23 and Attachment 4.)

For example, applicant explains one case as an input error by Cal-Am in its response to an ORA data request. Staff, the Commission, and the public rely on each utility providing complete and accurate information, and being diligent in doing so. We expect applicant to implement a quality control system if necessary to ensure the veracity of all data submitted to the Commission.

In another case, applicant reconciles 2014 actual total consumption (residential and multi-family residential) in one column of 2,929,572 ccf with that in another column of 2,725,933 ccf by saying there are "some timing differences." (Id., Attachment 4, footnote 3.) The difference in these two statements of actual 2014 consumption is 203,639 ccf (7.5%). This is not insignificant and an explanation of "timing differences" is inadequate.

Applicant reconciles other differences by noting that some include and others do not include Bishop, Hidden Hills, and Ryan Ranch. Applicant explains other problems by confusion caused with data submitted in thousands of gallons (tgals) but incorrectly presented in hundreds of cubic feet (ccfs).

These examples point to the importance within any proposed ACP/CAM of including a clear and transparent process for applicant to provide reliable data on actual sales, and a sufficient amount of time for staff and others to verify the data. Applicant must ensure that all data is reported correctly, timing differences do not produce data conflicts, all data is clearly identified as to what is included and excluded (e.g., Bishop, Hidden Hills, Ryan Ranch), and the reporting unit of all data is clear (e.g., tgals, ccfs). We encourage applicant to commit to submitting all data for purposes of the ACP/CAM using only one appropriate, applicable standard (e.g., all data either includes or excludes Bishop, Hidden Hills, Ryan Ranch). Similarly, it should use only one appropriate, applicable unit (all data uses either tgals or ccfs).⁷¹ We encourage parties to propose an ACP/CAM, but that proposal must ensure that we can rely on the accuracy of actual sales data.

⁷¹ If data must be presented using more than one standard or unit, we suggest applicant consider color-coding or somehow otherwise clearly separating the data that is based on a different standard or unit. For example, the standard might be that all data excludes Bishop, Hidden Hills, Ryan Ranch, but data that includes Bishop, Hidden Hills, Ryan Ranch is color-coded blue, or presented in an entirely separate report. Similarly, the standard might be that all data is in ccfs, but data reported in tgals is color-coded blue, or presented in an entirely separate report.

6.2.1.3. Must Address Equity Between Rate Classes

ORA asserts that CAM creates disparities across customer classes. In support, ORA shows that for identical CAM adjustment scenarios, the rates change as follows:

ITEM	RESIDENTIAL	NON-RESIDENTIAL (DIV. 1)
Initial Tier 1 Rate	\$0.5128	\$0.6813
CAM-Adjusted Tier 1 Rate	\$0.5656	\$0.7271
Difference	\$0.0528	\$0.0458
Percent Increase	10.3%	6.7%

Rates are in 10 cfs.

Source: ORA Comments on Settlement Adjustment, July 7, 2016 at 5-6.

While we encourage parties to propose an ACPP/CAM, that proposal must ensure that there are no disparities in the equitable treatment of each class. Alternatively all disparities must be fully explained, and shown to be just and reasonable.

6.3. Conclusion

We encourage parties to propose an improved annual consumption true-up pilot program, or ACPP/CAM. We suggest that parties include in ACPP/CAM the improvements to the ACPP that were included in the CAM. For example, the filing of the CAM Tier 2 advice letter on or before November 15 should be in conjunction with step increases, if applicable. The advice letter should include not only recorded consumption ending September 30, but also the subsequent year regulatory production limits, and establish that the lower of the two is used to set authorized consumption in the subsequent year. After approval of the Tier 2 advice letter, a Tier 1 advice letter should be used to implement the new rates effective January 1 of the subsequent year. The updated data should be used over the course of the subsequent year beginning

January 1, but that data is to be the lower of the actual twelve month recorded consumption ending September 30, or the regulatory production limits.

Illustrative examples are welcome, but are not to be used to replace a well-stated methodology. Notifications, community outreach, and an annual notice to affected customers of rate changes made effective due to CAM should be included.

A proposed ACPP/CAM, however, must be based on the record and consistent with decisions made herein. It must state a methodology in clear and specific terms, and the elements must be accurate and precise. It must explicitly address the infirmities identified in this decision, and include all other elements parties believe will strengthen the mechanism while reducing the vulnerability to dispute. As many parties as may agree are encouraged to make a joint filing, but applicant may make its own filing if necessary. The proposal must be filed and served within 60 days of the date of this decision so, if not filed, we may close this part of this proceeding. The Judge can extend the 60 days for good cause without coming back to the full Commission. Alternatively, it may be addressed using directions in a forthcoming final Commission decision in R.11-11-008.

7. Rule/Schedule 14.1.1.

Applicant's Monterey District Rule 14.1.1 (Rule 14.1.1) and Tariff Schedule MO-14.1.1 (Schedule 14.1.1) address conservation and rationing. They are designed to be consistent with the District's conservation and rationing rules contained in District Regulation XV.⁷²

⁷² See District Regulation XV – Expanded Water Conservation and Stand-by Rationing Plan.

The application includes proposed updates to Rule/Schedule 14.1.1. (Exhibit 2 (Sabolsice).) Applicant and District later moved for adoption of a Settlement Agreement that included further modifications to Rule/Schedule 14.1.1.

We deny the motion to adopt the Settlement Agreement. We adopt revised Rule/Schedule 14.1.1, as provided below. We first summarize the current Rule/Schedule 14.1.1 and proposed changes.

7.1. Current Rule/Schedule 14.1.1.

Current Rule/Schedule 14.1.1 has seven stages of conservation and rationing that are triggered by actual water production compared to a monthly water budget. Stage 1 is the first stage of water conservation measures. It limits water waste and restricts landscape irrigation to two days per week at night.⁷³ Stage 2 requires landscape irrigation within defined water budgets. Stage 3 involves implementation of one level of emergency conservation rates. Stage 4 is a transition from conservation to rationing. Stages 5 through 7 apply increasingly strict actual water rations for all customers. (Exhibit 1 (Sabolsice) at 20.)

7.2. Proposed Rule/Schedule 14.1.1.

7.2.1. Reasons to Modify Rule/Schedule 14.1.1.

Applicant identifies several reasons to modify Rule/Schedule 14.1.1. For example, applicant says Rule 14.1.1 is long (approximately 50 pages), is not easily understood, and contains issues that could be problematic during

⁷³ Stage 1 has been in effect since 1995, when the SWRCB found applicant was drawing water from the Carmel River unlawfully, and ordered curtailments. (SWRCB Order 95-10.) (See Exhibit 1 (Sabolsice) at 20.)

implementation. Applicant also says the current rule does not require coordination between multiple entities, which can slow reactions to the CDO.

Another problem area is banking, allotments, and variances. Under current Rule/Schedule 14.1.1 a customer may accrue the unused portion of a monthly water allotment during a ration under Stages 5 through 7.⁷⁴ This water is available for use any month later in the same water year. As a result, customers may later in a water year draw on water banked earlier the year, even in times of continuing rationing and drought. Applicant says this may require significant over-pumping of resources and potentially cause harm to the Carmel River ecosystem. (*Id.*, at 23.) Water banks are reset to zero on the first day of each new water year, with the ability to carry forward 10 percent of any remaining banked water to the subsequent water year for the first three months of that next water year. Applicant describes the banking program as very complex and a logistical problem to manage during a water crisis. (Exhibit 1 (Sabolsice) at 23.)

Applicant says that current trigger mechanisms (for moving between stages) make it difficult to address problems quickly since they are reactionary (when limits have been exceeded), and do not allow prudent enactment of a stage when trends show a limit is about to be reached. Applicant also asserts Monterey Rule/Schedule 14.1.1 are not consistent with similar plans in other Cal-Am districts, with the other plans doing a better job of defining what is expected from customers and the related enforcement provisions. (Exhibit 1 (Sabolsice) at 21.)

⁷⁴ Stages 5 through 7 have actual water rations per month based on need to reduce production by 16% to 50% of pre-1995 production levels. (Exhibit 1 (Sabolsice) at 20.)

7.2.2. Proposals and Comments

Applicant proposes many changes to simplify and improve Rule/Schedule 14.1.1. These include reducing the stages from 7 to 4 (for easier implementation and customer understanding); improving the definitions of what is expected from customers and the related enforcement provisions; removing banking, allotments, and related variances; replacing allotments with water allocations based on average use per household; and changing emergency conservation rates from only one level to two levels (with a two-step approach allowing customers time to adjust usage and avoid excessively high water bills immediately after implementation of emergency conservation rates).

District largely agrees with applicant's proposals including making Rule/Schedule 14.1.1 simpler; reducing the plan stages from 7 to 4; eliminating residential allotments, landscape budgets and water banking; and replacing allotment-based rationing with average usage per household. District, however, is concerned that the proposed revisions are not consistent with the District's 2016 Monterey Peninsula Water Conservation and Rationing Plan. District is also concerned that applicant's rate-related Best Management Practices (BMPs) are not current with indoor efficiency requirements mandated by the State and the District. District also asserts that the BMPs are not in compliance with District Rule 143. (District Opening Brief at 13.)

ORA and CPB largely support proposed Rule/Schedule 14.1.1 but recommend one modification. The modification is to require a Tier 2 advice letter not only when applicant moves up the Stages, but when activating Level 2 emergency conservation rates in Stage 3.

PTA suggests that water waste should be permanently prohibited rather than as an emergency matter. PWN/RL oppose any changes to Rule/Schedule 14.1.1 that eliminate residential allotments.

7.3. Settlement Agreement Regarding Rule/Schedule 14.1.1.

Applicant and District filed a Settlement Agreement with further updates to Rule/Schedule 14.1.1. In particular, applicant and District settle on modifications that are consistent with the District's Regulation XV, as amended on February 17, 2016 pursuant to Ordinance 169.

In their comments PWN/RL, PTA, and ORA all state that the Settlement Agreement is not in the public interest and should be rejected. Specifically, each state that further modification is needed to require applicant to file a Tier 2 AL to move from Level 1 to Level 2 emergency conservation rates within Stage 3. In reply comments, applicant and District agree with that specific modification.

7.4. Reject Settlement Agreement but Adopt Modified Rule/Schedule 14.1.1.

PWN/RL and PTA raise objections to the Settlement Agreement which we do not find persuasive. Nonetheless, we reject the Settlement Agreement and adopt a revised Rule/Schedule 14.1.1, as explained below. We first discuss the objections raised by PNW/RL.

PNW/RL assert that the Settlement Agreement rations too much water to small (1 to 2 person) households and too little water to large (4 or more person) households by basing the rations on 3 person households. To the contrary, the rations are based on the District's rationing program. That rationing program has had an established minimum ration of 35 gallons per person per day since

2008 based on California Department of Water Resources guidelines,⁷⁵ with certain water efficiencies assumed with regard to larger households (e.g., food preparation, dishwashing, laundry).⁷⁶ The numbers and their derivation were vetted through a public process that included workshops and public hearings. It is reasonable for Rule/Schedule 14.1.1 to incorporate the District's rationing program.

PTA alleges that the surcharges are a way to increase revenues and finance unnecessarily costly water supply infrastructure. (July 6, 2016 Reply Comments at 3.) To the contrary, all money collected through emergency conservation rate surcharges is booked to WRAM. (Exhibit 1, Attachment 4, Proposed Schedule 14.1.1, Part G.7.) Excess revenues are returned to ratepayers.

We nonetheless reject the Settlement Agreement. We do this because the Settlement Agreement provides:

The Parties [applicant and District] agree that the Settlement Agreement is an integrated agreement. If the Commission rejects or modifies any portion of this Settlement Agreement, each Party may decide whether to assent to the Settlement Agreement as modified, or to withdraw from the Settlement Agreement." (June 17, 2016 Motion for Adoption of Settlement Agreement, Exhibit 1, Part I.C.)

We reject the Settlement Agreement with respect to the CAM. As a result, each party to the Settlement Agreement may decide whether to accept the Settlement Agreement as modified, or to withdraw from the Settlement

⁷⁵ 2008 Drought Urban Guidebook published by the State of California, Department of Water Resources, Office of Water Use Efficiency and Transfers. (See July 13, 2016 Reply Comments of applicant and District at 5.)

⁷⁶ The current residential rate design assigns 1,122 gallons per month (36.9 gallons per day) per person per tier. (Exhibit 1 (Sabolsice) at 16.)

Agreement. This would take time and create uncertainty. It would require further process (e.g., a pleading filed by applicant and District with their individual or joint position, perhaps a round of comment and reply comment, further Commission action).

In this case it is simply more efficient to reject the entirety of the Settlement Agreement, but adopt the parts of the proposed Rule/Schedule 14.1.1 that are reasonable, with one modification. In particular, we adopt the proposed Rule/Schedule 14.1.1 attached to the July 13, 2016 Reply Comments of applicant and District. (Reply Comments, Exhibit A.) This includes both: (a) the elements that are now consistent with the District's Regulation XV (as amended February 17, 2016, by Ordinance 169), and (b) the requirement for a Tier 2 advice letter to not only implement Stage 3 but to move from Level 1 to Level 2 emergency conservation rates within Stage 3.

We require one modification. It is not clear that a Tier 2 advice letter is required to be filed by applicant to move from Stage 1 to Stage 2. To address this, we require that Schedule 14.1.1, part B.4 be modified to read: "Once the Schedule is activated, utility can implement Stages 2, 3, and 4 or change levels of the Emergency Conservation Rates, of the Schedule by filing a Tier 2 advice letter."

8. Safety

The District, ORA, and PWN/RL do not identify any safety concerns. We generally agree. The law requires utilities to provide safe and reliable service. (Public Utilities Code Section 451.) This legal requirement is neither vacated nor altered when overall costs are determined, costs are allocated to various customer groups, or rates are set for the recovery of those costs. (D.13-07-041 at 2 and 6.) The decisions made in this proceeding (e.g., WRAM, elimination of

residential allotments, specific rate design elements, revisions to Rule/Schedule 14.1.1) neither vacate nor alter applicant's legal duty to provide safe and reliable water service.

Applicant correctly points out, however, that there are indirect safety implications related to the issues addressed herein. For example, we address revenue stability and the impact on applicant's financial health which could, in turn, affect applicant's ability to finance safety-related projects. We address modifications to Rule/Schedule 14.1.1 that may affect applicant's ability to comply with provisions of the SWRCB CDO, and safely implement rationing, if necessary. The decisions made herein, however, do not directly implicate safety.

PTA raises three safety concerns. First, PTA says this proceeding establishes rates that will support the Monterey Pipeline. (PTA Reply Brief at 14.) That pipeline will transport what PTA asserts is chemically rich agricultural water that may be unsafe. We address that issue in A.12-04-019, not here.⁷⁷

Second, PTA says low-income customers are likely to have less flexibility to incorporate higher water rates in their budgets and may be forced to reduce water use to a level that compromises their health or safety. PTA recommends that applicant be required to identify relevant low-income persons and provide appropriate rate relief. We decline to adopt this recommendation. The LIRA program provides relevant and appropriate rate relief. Moreover, we adopt a PTA proposal above wherein we direct applicant to study and report in its next general rate proceeding on automatic enrollment in LIRA, along with

⁷⁷ See D.16-09-021.

coordinating with energy utilities, municipalities and community based organizations to provide conservation information and tools. We see no merit in PTA's further recommendation here.

Lastly, PTA points out that the District provides an additional water ration as necessary for health or safety needs. (PTA Reply Brief at 16.)⁷⁸ PTA is concerned that these persons are pushed more quickly into higher rate tiers by their medical use of water and are likely to suffer disproportionate economic harm. Even worse, PTA says they may be forced to forego necessary water use, damaging their health. PTA recommends that applicant be required to provide appropriate rate relief for ratepayers who can demonstrate medical need for higher rates of water use. We decline to adopt this recommendation. The modified block widths adopted above already take this into account. Moreover, if PTA believed the modified block widths would be inadequate, PTA could have provided necessary evidence during the proceeding of the need, proposed rate design, and shifting of the resulting revenue shortage to others. PTA failed to do so.

9. Penalty Phase

Applicant describes the residential allotment system in the last 15 years as having four defining features: (1) reliance on self-reported information, (2) no independent verification by Cal-Am, (3) no authority for Cal-Am to compel information from its customers, and (4) authority for enforcement of penalties with respect to misreporting being solely with the District. (Exhibit 13

⁷⁸ See June 17, 2016 Motion for Adoption of Settlement Agreement, Exhibit 1, Appendix E, Attachment 1 (2016 Monterey Peninsula Water Conservation and Rationing Plan at Rule 165.E.5).

(Stephenson) at 18-19; also July 13, 2016 Reply Comments at 7.) We briefly examine these features and applicant's responsibilities. We conclude that the allotment system is clearly vulnerable to abuse. It is also clear that applicant failed to audit customer surveys or take appropriate actions to ensure that allotments are accurate.

Applicant must at all times reasonably administer its tariffs. It is probable that applicant failed to do so by failing to audit customer allotments or take other appropriate actions to ensure the accuracy of allotments. We keep this proceeding open for the assigned Commissioner and Judge to examine whether or not applicant should be penalized for failure to reasonably administer its tariffs and, if so, to recommend a penalty.

9.1. Excess Allotments

Applicant states that with the current rate design (including self-reporting) "it becomes obvious that some customers are allocated more water at lower rates than intended under the rate design." (Exhibit 1 (Sabolsice) at 19.) In support of its changes to Rule/Schedule 14.1.1, applicant says water rations "are currently based on customer survey data that is not accurate." (Exhibit 1 (Sabolsice) at 22.)

Applicant reports that:

Data shows that the number of residents per household has likely been significantly over-reported, thus increasing the allotment at each tier and improperly reducing the water bill for those over-reported households. Assigning allotments using the survey data has therefore unfairly assigned too much water to some residential properties and reduced the amount of water available to others in the community. (Exhibit 1 (Sabolsice) at 23.)

Applicant knew there were problems.

9.2. Reasonable Administration of its Tariffs

Applicant says it “has no means to investigate the reporting of allotment data.” (Exhibit 12 (Sabolsice) at 8.) Applicant is incorrect. Applicant has a duty to:

... take responsible efforts to identify mischaracterizations in its documentation for number of people, lot size and large animals. In part, this will be accomplished through an annual survey... (D.09-07-021, Appendix A, Section IV.F.)

That is, applicant must take responsible efforts to ensure the accurate administration of its allotment system, and those efforts are not limited to an annual survey. We are simply not persuaded when applicant disavows any responsibility to verify allotments.

Applicant tries to shift the responsibility to ORA, claiming that ORA repeatedly supported the allotment system, failed to suggest changes (if ORA had any concerns), and ORA’s current concern in combination with a recommended \$17.4 million disallowance is opportunistic. (Exhibit 13 (Stephenson) at 18-19.) We disagree. Applicant has the affirmative duty at all times to reasonably and responsibly administer its tariffs no matter what ORA or others may think or do. If ORA believed applicant was reasonably and responsibly administering its tariffs, there would be no reason for ORA to withdraw its support of the system or suggest changes. Applicant has the primary duty to administer its tariffs and, when a change is needed, to present compelling evidence in support of that change.⁷⁹

⁷⁹ In 2005, applicant proposed eliminating the residential per capita allotment after the first block but failed to carry its burden of proof in support of its proposal. (D.06-11-050.) This shows applicant knew at least as far back as 2005 of problems with the allotment system.

Applicant tries to shift the responsibility to the District. Applicant says the District “has retained the sole authority to require verification...” (Exhibit 13 (Stephenson) at 1.) This is not correct. The District has no rule or ordinance that prohibits applicant from verifying allotment claims from its residential customers. (RT Vol 4 at 561.)

Applicant says it has no enforcement authority, and the District is “the local ‘water cop’ with the authority to cite and fine violators.” (Exhibit 13 (Stephenson) at 25.) Applicant understates its responsibility and overstates the District’s role. There is no prohibition against applicant partnering with District to cite and enforce. Applicant cannot disavow any responsibility by seeking to place the duty solely on the District.

Applicant says it does not and cannot verify the number of residents per household because its tariff (Schedule MO-1) does not include any provision allowing Cal-Am to seek verification. (Exhibit 13 (Stephenson) at 21-22.) Applicant has it backwards. The tariff does not prohibit verification, and applicant has an affirmative duty at all times to reasonably administer its tariffs.

Applicant claims it “has no means to investigate the reporting of allotment data.” (Exhibit 12 (Sabolsice) at 8.) We are not convinced. Applicant testifies that it provided summaries of allotment information to the District and specifically identified customers reporting more than eight residents so that the District could research the reported number. (Exhibit 12 (Sabolsice) at 8.) Applicant presents no evidence that it followed-up with the District. Applicant presents no evidence that it asked District to verify customers reporting less than eight residents per household. Applicant could partner with the District to pursue verification for residential customers, but presents no evidence it reasonably did so.

In fact, applicant could itself audit residential customers, but failed to do so. Applicant says it does not have access to the number of dependents reported to the federal Internal Revenue Service, or tax forms in general. It says it cannot obtain school records to determine the number of children living in a home. It does not review local newspaper death notices to reduce allotments. It cannot obtain hospital birth records or adoption paperwork. It does not ask for social security numbers. Applicant says it would be difficult to challenge a customer's reported survey information without surveillance, and surveillance by a regulated utility would be improper. (Exhibit 12 (Sabolsice) at 7-9.)

We agree that applicant's ability to obtain corroborating information may be limited, but applicant could at least select a random sample of residential customers to verify the annual survey information, or select a sample of those customers with potentially questionable allotments. Applicant could ask the customer to verify the information with whatever documentation the customer wishes to use (e.g., tax forms, school records, Department of Motor Vehicle information), but not require any specific type of document. Failure to provide adequate information in the judgement of applicant could result in the customer getting the minimal allotment (e.g., one person, no large animals, no outdoor landscaping).⁸⁰ Whether or not all contacted customers are cooperative,

⁸⁰ There is adequate due process with this approach. For example, applicant would have its own internal review and appeal process for customers who feel the minimal allotment was incorrect. After using the applicant's appeal process, a dissatisfied customer could contact the Commission's Consumer Affairs Branch (CAB) for assistance, if needed. Most inquiries to CAB are resolved by telephone. If necessary, the customer could also file an expedited or regular formal complaint. (See Rules 4.1 to 4.5 of the Commission's Rules of Practice and Procedure.)

applicant could make the initial inquiry, and refer those customers with questionable responses to District for further examination and enforcement.⁸¹

Applicant partnered with District to audit a sample of non-residential customers. District audited indoor fixtures, and applicant audited outdoor usage. The audit identified 139 non-residential customers to be noncompliant with their assigned rate category and the customers were given 30 days to correct deficiencies or be moved to a different rate division. (Exhibit 12 (Sabolsice) at 3-4.) There is no compelling evidence that applicant could not do this in partnership with District for its residential customers, or do so on its own.

Rather, applicant “has utilized the honor system when customers provide survey data or update survey data.” (Exhibit 12 (Sabolsice) at 7.) Applicant says it has been its “policy to trust its customers and use the honor system when recording survey data.” (*Id.*, at 9.) We agree that applicant should use the honor system and trust its customers. We also think a responsible utility trusts but verifies.

9.3. Further Process

Commission approval of a utility’s tariffs includes the obligation that the utility reasonably administer those tariffs. Failure to comply with any part or provision of any Commission order, decision, decree, rule, direction, demand, or requirement for which a penalty has not otherwise been provided subjects the utility to a penalty of not less than \$500 nor more than \$50,000 for each offense.

⁸¹ Misreporting survey information, for example, is a misdemeanor punishable as an infraction pursuant to Section 256 of the Monterey Peninsula Water Management District Law, Statutes 1981, Chapter 986. (Exhibit 13 (Stephenson) at 24.)

In the case of a continuing violation, each day's continuance is a separate and distinct offense. (Public Utilities Code Sections 2107 and 2108.)

We keep this proceeding open for the assigned Commissioner and Judge to explore whether or not applicant should be penalized for failure to reasonably administer its tariffs and, if so, to recommend a penalty. The allotment system has been in place for 15 years. The examination must consider the duration of the offense, if any, and the appropriate fine.

We take very seriously the integrity of the regulatory process, including applicant accurately and reasonably administering and enforcing its tariffs. We are very concerned with inequities between customers that resulted from applicant failing to reasonably administer and enforce its residential allotment system and permitting invalid allotments. Customers who experienced the inequity would not only blame applicant but also the Commission, thereby challenging not only the trustworthiness of the regulatory process but government itself.

We recently found applicant in violation of our rules and applied a fine of \$15,000 per violation for 58 violations. (D.15-04-008 and D.16-01-025.) We took many factors into account including: the severity of the offense, the conduct of the utility, the financial resources of the utility, the totality of the circumstances, and the role of precedent. We also considered the sophistication, experience and size of the utility; the number of victims and economic benefit received from the unlawful acts; and the continuing nature of the offense. If, in the further proceeding, applicant is found in violation of our requirements, we will take these, along with any other reasonable, factors into account.

10. Comments on the Proposed Decision

The proposed decision of Judge Weatherford in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on _____, and reply comments were filed on _____ by _____.

11. Assignment of Proceeding

Michel Peter Florio is the assigned Commissioner and Gary Weatherford is the assigned Judge in this proceeding.

Findings of Fact

1. The record does not include the amount of the WRAM/MCBA balance through the date of this decision, the WRAM/MCBA balance for 2015 was not adequately vetted in this proceeding, and applicant included \$3.6 million of estimated 2015 WRAM/MCBA balances in its calculation of its proposed surcharge.

2. The WRAM/MCBA balance for 2013 and 2014, before adjustments, is \$40.6 million.

3. WRAM tracks the difference between authorize revenues and revenues actually received.

4. The difference between authorized and actual revenues is due to differences in sales, not allotments, as long as the allotments used for determining authorized revenues match the allotments in actual revenues.

5. The difference, if any, between allotments used for billing and the authorized revenue requirement is not significant given that the majority of residential household allotments have not substantially changed over time.

6. That water sales in 2014 exceeded water produced in 2014 is explained by

the fact that recorded water sales lags recorded water production by at least 15 days, and applicant installed a new billing system in 2013 (with some 2013 bills held in late 2013 until early 2014 as part of a quality control and review process).

7. The PwC audit is credible, its results are reasonable, and it shows that the WRAM balance should be reduced by \$0.8 million.

8. The PNW/RL study and exhibits included incomplete data, used results that were not attributed to the right year, and applied revenues unrelated to WRAM.

9. It is best to amortize the WRAM/MCBA balance over the shortest time possible while mitigating rate shock.

10. Amortizing the WRAM/MCBA balance over 5 years results in an average rate increase (without considering interest) of about 15 percent.

11. Money has a non-zero time value, and there is a cost to carry or finance an under-collection.

12. Designing rates does not involve spending money on plant and capital equipment in a way that is similar to spending money on capital investments for new supply or efficiency improvements.

13. There are less expensive ways to finance the WRAM/MCBA balance than by applicant's cost of capital.

14. The District's General Manager has over 30 years of professional financial experience, and he recommends the WRAM/MCBA balance should earn an interest rate at no more than the 90-day commercial paper rate.

15. The Commission applies the 90-day commercial paper rate to WRAM/MCBA balances, and uses this rate to amortize balances over 36 months.

16. This decision makes recovery of the 2013 and 2014 WRAM/MCBA balance

certain and secure.

17. Collecting the 2013 and 2014 WRAM/MCBA balance by a fixed amount based on meter size stabilizes collection of the authorized balance, and the size of the under-collection justifies a unique meter-based recovery.

18. Standard meter ratios for purposes of the WRAM/MCBA meter surcharge equitably distribute cost recovery in proportion to maximum flow, while applicant's proposed deviation would increase the recovery from customers with two of the three smallest sized meters.

19. The Commission typically amortizes WRAM/MCBA balances by applying a surcharge or surcredit to the volumetric charge portion of customer bills over the duration of the amortization, and this is the Commission's preferred approach.

20. A substantial part of the current WRAM/MCBA under-collection has been due to the absence of any WRAM/MCBA recovery in Tier 1, combined with fewer sales in the upper tiers, and this problem will continue unless changed.

21. Future WRAM/MCBA recovery via a uniform surcharge on each unit of water sold, including water sold in Tier 1, will return to the Commission's preferred method of giving customers price-based information regarding their consumption while promoting a more consistent and timely recovery of WRAM/MCBA balances, and it will be align treatment in the Monterey district with the process used in all other of applicant's districts.

22. The advice letter process is the Commission's standard procedure for processing WRAM/MCBA requests, and it provides necessary due process protections.

23. Applicant did not notify customers of the pending \$40.6 million WRAM/MCBA balance, nor of applicant's request to amortize that balance over

20 years at applicant's authorized rate of return.

24. The residential allotment system is vulnerable to abuse and has resulted in inequities.

25. The complexity of allocating water based on an unverified survey that reports an alleged number of permanent residents, part-time residents, property size, and presence of large animals and other considerations is no longer a workable approach for residential rate design.

26. Increasing the amount of fixed cost recovery in the residential customer service charge from 15 percent to 30 percent will increase the stability of residential revenue recovered by applicant despite variations in quantity sales, will align fixed cost recovery from residential customers with the existing 30 percent fixed cost recovery for non-residential customers, and is consistent with recommended Best Management Practices by the California Urban Water Conservation Council.

27. The temporary modification proposed by applicant to standard residential meter charge ratios when implementing the 30 percent fixed cost recovery in the residential service charge will help mitigate rate impacts for the majority of customers.

28. The amount of water received by a customer per tier can vary widely under the allotment system but the amount of water received by a customer per tier is the same under the standard rate design proposed by applicant.

29. The standard rate design proposed by applicant and adopted herein results in residential customers paying the same amount for the same quantity consumed, thereby simplifying customer bills and eliminating inequities caused by manipulation of the allotment system.

30. Reducing the current ratio of the top tier to the lowest tier for the

residential quantity rate from 10 to 1 to 8 to 1 maintains a strong conservation signal while also addressing revenue stability.

31. Tiered rates are a preferred tool to achieve water conservation, and the use of tiered rates places water conservation at the top of the loading order as the best, lowest-cost supply.

32. Tiered rates are a useful tool to minimize the long-term cost of safe and reliable water service, and to provide both water utilities and customers with the appropriate incentives to conserve.

33. Applicant's water sales declined from 2014 to 2015.

34. Using 2015 sales data for rate realignment in this proceeding employs the most current consumption data and includes mandatory conservation in 2015 that was not required in 2014.

35. The negative effects of the rate design changes adopted herein can be mitigated for LIRA customers by increasing the current 20 percent discount on the monthly service charge, Tier 1 and Tier 2 rates to a 30 percent discount on the monthly service charge along with the rates in Tiers 1 through 4.

36. Even if unlikely, there may be some opportunities that are being missed with regard to enrolling eligible customers in LIRA.

37. Moving 8.4 percent (approximately three million dollars) of forecast revenue collection from residential to non-residential ratepayers results in a rate increase for non-residential customers that is closer to the rate increase for residential customers compared to the rate increases if the 8.4 percent is not moved.

38. The CAM is not consistent with the record, lacks a precisely stated methodology, and includes inaccurate or imprecise terms.

39. ACPP is stated in general terms and does not include improvements

proposed in CAM.

40. A well-designed pilot program that adjusts rates in the Monterey District to reflect more current sales data will help stabilize revenue collections and reduce WRAM under-collections.

41. Applicant and District agree upon a revised proposed Rule/Schedule 14.1.1 that reduces the stages from 7 to 4, improves definitions and enforcement provisions, removes banking, replaces allotments with allocations based on average use per household, changes emergency conservation rates from only one level to two levels, achieves alignment with District Regulation XV; the agreed upon revisions also require a Tier 2 advice letter to move from level 1 to level 2 emergency conservation rates within Stage 3 (thereby satisfying parties' concerns) but are not clear that a Tier 2 advice letter is required before applicant can move from Stage 1 to Stage 2.

42. The rate design and other changes adopted herein do not directly implicate safety.

43. The residential allotment system is vulnerable to abuse, applicant did not audit customer surveys, applicant did not take actions to ensure allotments were accurate, and applicant knew there were problems.

44. Applicant at all times has the affirmative duty to reasonably and responsibly administer its tariffs, and applicant's tariffs do not prohibit allotment verification by applicant.

45. Applicant's duty to take responsible efforts to ensure the accurate administration of its allotment system is not limited to an unaudited annual surveys.

46. The District has no rule or ordinance that prohibits applicant from verifying allotment claims from its residential customers.

47. There is no prohibition against applicant partnering with District to verify the accuracy of allotments, cite customers for infractions, and enforce penalties.

48. Applicant can audit residential customer allotments itself (or partner with District to do so), apply the minimum allotment for customers who are unable to substantiate their claimed allotments (subject to appeal within the utility and to the Commission), and refer customers with questionable responses to District for enforcement.

49. The integrity of the regulatory process, including applicant accurately and reasonably administering and enforcing its tariffs, is a very serious issue.

Conclusions of Law

1. The WRAM/MCBA amount addressed in this proceeding should be the balance for 2013 and 2014 of \$40.6 million, reduced by \$0.8 million pursuant to the PwC audit.

2. The residential allotment system is vulnerable to abuse and it produces inequities between customers when some customers misrepresent data upon which allotments are based and receive more water at lower rates than a similarly situated customer who honestly reports its data and pays a higher rate for the same amount of water.

3. The Commission has broad flexibility to review the facts of each particular situation and exercise its authority accordingly, including in its determination of a just and reasonable interest rate for recovery of a balancing account that is certain and secure.

4. It is not unjust and unreasonable to recognize the time value of money, and an interest rate of zero percent for amortizing the 2013 and 2014 WRAM/MCBA balance over several years would be unreasonable.

5. Rate design conservation efforts are not the same as capital investments, and it would be unjust and unreasonable to apply an interest rate of 8.41 percent (applicant's cost of capital) for amortizing the 2013 and 2014 WRAM/MCBA balance.

6. The 2013 and 2014 WRAM/MCBA balance should be amortized over five years at the 90-day commercial paper rate.

7. Applicant's proposal to deviate from standard meter ratios for collection of the 2013 and 2014 WRAM/MCBA balance would unreasonably increase the recovery from two of the three smallest size meters.

8. The 2013 and 2014 WRAM/MCBA balance should be collected via a single fixed monthly surcharge assessed based on meter size using standard meter ratios.

9. Future WRAM/MCBA balances should be recovered from residential customers at a uniform rate on each unit of water for all sales, including Tier 1.

10. Consistent with existing practice, future WRAM/MCBA recovery requests should be made by advice letter not application.

11. Applicant should respond to any and all staff data requests without delay, including those related to Advice Letter 1121, and staff should issue a citation pursuant to Resolution W-4799 when necessary to enforce compliance with Commission orders and the Public Utilities Code, with the citation being assessed at the maximum penalty level unless staff can justify a reduced amount.

12. Applicant should give notice to customers by bill insert or direct mail for each of the next three WRAM/MCBA advice letters even if the request is less than 10 percent of the last authorized revenue requirement, with the notice approved by the Commission's Public Advisor before it is issued by applicant.

13. The residential allotment system, including annual surveys, should be eliminated and replaced with a standard uniform system where each customer gets the same amount of water in each tier.

14. Fixed cost recovery in the monthly residential service charge should be increased from 15 percent to 30 percent, but with a temporary modification to standard meter ratios so that lower use customers are not disproportionately affected.

15. Tier break points and block widths should be modified to promote equity and simplicity.

16. The multiple of the top tier to the bottom tier should be reduced from 10 to 8 to maintain a strong conservation signal while also addressing revenue stability.

17. Tiered rates should remain a preferred tool to achieve water conservation and to place conservation at the top of the loading order as the best, lowest cost supply.

18. Proposition 218 does not apply to Commission-regulated water utilities.

19. Tiered rates are one tool to achieve some goals stated in Public Utilities Code Section 701.10, such as minimizing the long-term cost of reliable water supply and providing appropriate incentives to water utilities and customers to conserve.

20. Actual 2015 residential consumption and usage by tier should be used for designing rates here.

21. The discount for customers participating in LIRA should be 30 percent off of the service charge and 30 percent off the rates in Tiers 1 through 4.

22. Regarding the issue of automatic enrollment in LIRA and coordination with other utilities to provide conservation information and tools, applicant

should study the issue and report its findings and recommendations in its next general rate case (A.16-07-002).

23. Cost recovery should be realigned by moving 8.4 percent (about three million dollars) from residential to non-residential customers in order to promote equity as one factor among several in considering cost recovery, revenue responsibilities, and rate design.

24. CAM is not reasonable in light of the whole record and is not in the public interest, and the motion to adopt a Settlement Agreement with respect to CAM should be denied.

25. Neither CAM nor ACPP should be adopted here, but parties should be encouraged to propose an improved annual consumption true-up pilot program for the Monterey District within 60 days of the date of this decision, wherein that proposal is based on the record, states a methodology in clear and specific terms, includes elements that are accurate and precise, explicitly addresses concerns relative to data and equity between rate classes, and includes all other elements parties believe necessary to strengthen the mechanism while reducing the vulnerability to dispute.

26. The motion to adopt a Settlement Agreement with respect to Monterey District Rule/Schedule 14.1.1 should be denied.

27. The Rate/Schedule 14.1.1 proposed by applicant and District in their July 13, 2016 reply comments should be adopted with the required modification that applicant can implement not only Stages 3 and 4 but also Stage 2 by filing a Tier 2 AL.

28. Utilities are legally required to provide safe and reliable service, and that legal requirement is neither vacated nor altered when overall costs (revenue

requirements) are determined, costs are allocated to various customer groups, or rates are set to recover those costs.

29. Decisions adopted herein do not directly implicate safety nor do they change applicant's legal duty to provide safe and reliable service.

30. This proceeding should remain open to examine whether or not applicant should be penalized for failure to reasonably administer its tariffs, including the residential allotment system.

31. This decision should be effective today so that the recovery of WRAM/MCBA balance, along with rate changes designed to improve revenue stability and promote equity, may be implemented as soon as possible to the benefit of applicant and its customers.

ORDER

IT IS ORDERED that:

1. California-American Water Company shall, within 30 days of the date of this decision, file a Tier 2 advice letter in conformance with General Order 96-B. The advice letter shall request recovery of the 2013 and 2014 Water Revenue Adjustment Mechanism/Modified Cost Balancing Account balance for the Monterey District of \$39.8 million authorized in this decision, to be recovered over five years with interest at the 90-day commercial paper rate. The recovery shall be by a fixed monthly surcharge assessed on the basis of meter size using standard meter ratios. The multiple volumetric surcharges now in place for this recovery shall be terminated concurrent with the advice letter becoming effective.

2. Future Water Revenue Adjustment Mechanism/Modified Cost Balancing Account advice letters filed and served by California-American Water Company (Cal-Am) for the Monterey District shall request recovery of under-collections (or refunds of over-collections) by a uniform surcharge (or surcredit) on each unit of water sold (volumetric rate) including Tier 1. Cal-Am shall provide customer notice of each such advice letter consistent with General Order (GO) 96-B. In addition, for each of the next three advice letter requests, Cal-Am shall notify all customers in the Monterey District by bill insert or direct mail of the request even if that notice is not otherwise required by GO 96-B. The Notice shall be approved by the Commission's Public Advisor before it is issued by Cal-Am.

3. California-American Water Company (Cal-Am) shall, within 30 days of the date of this decision, file a Tier 2 advice letter in conformance with General Order 96-B. The advice letter shall include tariffs for the Monterey District that: (a) eliminate the residential allotment system, (b) recover 30 percent of residential customer fixed costs in the residential monthly service charge, (c) use the temporary modification to standard residential meter ratios recommended by Cal-Am for recovery of the increased percentage of fixed costs in the residential monthly service charge, (d) use the standardized residential rate design recommended by Cal-Am in which each customer gets the same amount of water in each tier at the tier break points and modified block widths, (e) reduce the multiple of Tier 5 to Tier 1 residential rates to 8 as proposed by Cal-Am, (f) use 2015 residential consumption data for rate development, (g) apply a 30 percent discount from the monthly service charge and the rates in Tier 1 through 4 for customers in the low income ratepayer assistance program, and (h) move 8.4 percent of forecast revenue collection from residential to non-residential customers. Cal-Am shall, and parties may, as soon as feasible,

recommend elimination of the temporary modification to the standard residential meter ratios for recovery of the increased percentage of fixed costs in the residential monthly service charge.

4. California-American Water Company shall study the following issue and report its findings along with its recommendations in Application 16-07-002. The issue is the potential for automatic enrollment in the low income ratepayer assistance program, along with coordination with energy utilities, municipalities, and community based organizations to provide conservation information and tools to its customers.

5. The June 17, 2016 Motion for Adoption of Settlement Agreement Between California-American Water Company and Monterey Peninsula Water Management District on the Annual Consumption True-Up Pilot Program and on the Modifications to Monterey District Rule 14.1.1 and Tariff Schedule MO-14.1.1 is denied. California-American Water Company and parties are encouraged to file and serve a motion for Commission adoption of an improved annual consumption true-up pilot program, with the improvements incorporating those stated in the body of this decision as well as addressing the issues also stated in the body of the decision. That motion, if any, shall be filed and served within 60 days of the date of this decision. The Administrative Law Judge may extend the 60 day deadline for good cause.

6. California-American Water Company (Cal-Am) shall, within 30 days of the date of this decision, file a Tier 2 advice letter in conformance with General Order 96-B. The advice letter shall include a modified Monterey District Rule 14.1.1 and Tariff Schedule MO-14.1.1 that is consistent with the proposal attached to July 13, 2016 Reply Comments filed by Cal-Am and Monterey Peninsula Water Management District with one modification: Schedule 14.1.1

part B.4 (and related part(s) in Rule 14.1.1 if any) shall be modified to read:

“Once the Schedule is activated, utility can implement Stages 2, 3, and 4 or change levels of the Emergency Conservation Rates, of the Schedule by filing a Tier 2 advice letter.”

7. Application 15-07-019 remains open to address (a) a motion, if filed, for Commission adoption of an improved annual consumption true-up pilot program, and (b) a penalty phase.

This decision is effective today.

Dated _____, at San Francisco, California.

**ATTACHMENT A
BILL ANALYSIS**

The bill analysis presented here addresses the impacts of the decisions made in the attached order. These impacts include:

- amortizing the Water Revenue Adjustment Mechanism/Modified Cost Balancing Account (WRAM/MCBA) balances over five years,
- increasing residential fixed cost recovery in the monthly service charge from 15% to 30% (with equivalent reductions in quantity rates),
- applying a temporary deviation in the standard meter ratios to implement the 30%,
- adopting a standardized rate design with modified tier break points and block widths,
- reducing the ratio between tiers,
- using 2015 sales to set rates,
- retaining the same proportional net benefits for customers in the low income ratepayer assistance program, and
- realigning cost recovery between residential and non-residential ratepayers.

The bill analysis does not include bill elements that do not change as a result of the decisions made in the attached order. That is, the rates and total bills stated below do not include the following surcharges and estimated fees:

- California American Water Conservation
- Consolidated Expense Balancing Account
- Monterey Peninsula Water Management District Conservation
- Seaside Basin Adjudication
- Low Income Ratepayer Assistance
- Carmel River Mitigation
- Coastal Water Project

- California Public Utilities Commission Fees
- Estimated franchise fees and business license fees

These results are presented in Tables 1 – 8. The methodology used for Tables 5 – 8 differs from that used for the Summary Table (in the text at the beginning of the decision) so the results are not directly comparable (i.e., the Summary Table is based on averages over the group; Tables 5 – 8 are based on individual customer usage).

Table 9 compares applicant’s proposed average monthly increases to the results from the decisions made in the attached order. Similar to the other tables, the comparisons in Table 9 are limited to bill components affected by the attached order without elements that do not change as a result of the attached order (i.e., identified in the bullet points above).

TABLE 1: ADOPTED MONTHLY WRAM SURCHARGES

Five-year amortization, 90 day commercial paper rate,
standard meter ratios

Meter Size	WRAM Surcharges	
	Residential (Dollars per month)	Non-Residential (Dollars per month)
5/8" [1]	\$13.11	\$5.69
3/4"	\$19.66	\$8.53
1"	\$32.77	\$14.22
1 1/2"	\$65.54	\$28.44
2"	\$104.87	\$45.50
3"	\$196.62	\$85.32
4"	\$327.71	\$142.20
6"	\$655.41	\$284.39
8"	\$1,048.66	\$455.03

[1] The majority of customers have a 5/8" meter

**TABLE 2: ADOPTED MONTHLY SERVICE CHARGES
AND PERCENT INCREASES**

Note: Based on increasing the recovery of fixed costs in service charges from 15% to 30%; there are equivalent reductions in quantity rates

Meter-Size	Residential		Non-Residential	
	Dollars per month	Percent increase	Dollars per month	Percent increase
5/8" [1]	\$17.09	70%	\$20.10	0%
3/4"	\$29.90	98%	\$30.15	0%
1"	\$59.80	138%	\$50.26	0%
1 1/2"	\$187.44	273%	\$100.51	0%
2"	\$319.86	298%	\$160.82	0%
3"	\$599.74	298%	\$301.53	0%
4"	\$1,049.64	317%	\$502.55	0%
6"	\$2,249.30	347%	\$1,005.10	0%
8"	\$3,598.81	347%	\$1,608.16	0%

[1] The majority of customers have a 5/8" meter

TABLE 3: RESIDENTIAL CUSTOMERS**Adopted Quantity Rates and Percent Increases**

Note: The use of 2015 sales largely offsets the reductions from shifting revenue recovery to fixed costs, except in higher tiers

Tier	Residential Quantity Rates			
	Single Family		Multifamily	
	Dollars per CGL	Percent increase	Dollars per CGL	Percent increase
Tier 1	\$0.7926	23%	\$0.7339	13%
Tier 2	\$1.1889	23%	\$1.1008	13%
Tier 3	\$2.7741	7%	\$2.5685	-1%
Tier 4	\$5.1518	0%	\$4.7701	-8%
Tier 5	\$6.3407	-2%	\$5.8709	-9%

CGL is hundreds of gallons

TABLE 4: NON-RESIDENTIAL CUSTOMERS**Adopted Quantity Rates and Percent Increases**

Division	Non-Residential Quantity Rates	
	Dollars per CGL	Percent Increase
Division 1	\$1.0283	17%
Division 2	\$1.1568	17%
Division 3	\$1.2853	17%
Division 4	\$2.5707	17%

CGL is hundreds of gallons

TABLE 5
SINGLE FAMILY RESIDENTIAL
BILL IMPACTS (5/8" Meter)

Usage Per Month (CGL)	Single Family Residential Total Monthly Bills			
	Current Rates	Adopted Rates	Increase	
0	\$10.06	\$30.20	\$20.14	200%
10	\$16.53	\$38.13	\$21.60	131%
20	\$23.00	\$46.05	\$23.05	100%
30 [1]	\$29.47	\$54.01	\$24.54	83%
37	\$35.44	\$62.33	\$26.89	76%
40	\$38.72	\$65.90	\$27.18	70%
50	\$49.64	\$77.79	\$28.15	57%
60	\$60.56	\$89.93	\$29.37	48%
70	\$75.83	\$117.68	\$41.85	55%
80	\$104.14	\$145.42	\$41.28	40%
90	\$132.45	\$173.16	\$40.71	31%
100	\$160.76	\$200.90	\$40.14	25%
110	\$189.07	\$241.20	\$52.13	28%
120	\$227.99	\$292.72	\$64.73	28%
130	\$284.61	\$344.24	\$59.63	21%
140	\$341.23	\$395.76	\$54.53	16%

[1] Median 2014 consumption (i.e., 50% consumed less than 30 CGLs and 50% consumed 30 CGLs or more)

CGL is hundreds of gallons

TABLE 6
MULTI-FAMILY RESIDENTIAL
BILL IMPACTS (5/8" Meter)

Usage (CGL)	Multi-Family Residential Total Monthly Bills			
	Current Rates	Adopted Rates	Increase	
0	\$10.06	\$30.20	\$20.14	200%
10	\$16.53	\$37.54	\$21.01	127%
20	\$23.00	\$45.36	\$22.36	97%
21 [1]	\$23.64	\$46.46	\$22.82	97%
25	\$26.23	\$50.86	\$24.63	94%
30	\$29.47	\$56.36	\$26.89	91%
40	\$38.72	\$71.19	\$32.47	84%
50	\$49.64	\$96.88	\$47.24	95%
60	\$60.56	\$143.50	\$82.94	137%
70	\$75.83	\$192.10	\$116.27	153%
80	\$104.14	\$250.81	\$146.67	141%
90	\$132.45	\$309.52	\$177.07	134%
100	\$160.76	\$368.24	\$207.48	129%
150	\$465.20	\$661.80	\$196.60	42%
200	\$831.23	\$955.36	\$124.13	15%
300	\$1,563.30	\$1,542.49	-\$20.81	-1%

[1] Median 2014 consumption

CGL is hundreds of gallons

**TABLE 7
LOW INCOME CUSTOMER
BILL IMPACTS (5/8" Meter)**

Usage (CGL)	Low Income Customer Total Monthly Bills			
	Current Rates	Adopted Rates	Increase	
0	\$8.05	\$25.07	\$17.02	211%
10	\$13.22	\$30.62	\$17.40	132%
20	\$18.40	\$36.17	\$17.77	97%
30	\$23.57	\$41.74	\$18.17	77%
32 [1]	\$24.61	\$43.41	\$18.80	76%
38	\$29.33	\$48.40	\$19.07	65%
40	\$31.13	\$50.06	\$18.93	61%
50	\$40.11	\$58.39	\$18.28	46%
60	\$49.09	\$66.89	\$17.80	36%
70	\$62.90	\$86.31	\$23.41	37%
80	\$91.21	\$105.73	\$14.52	16%
90	\$119.52	\$125.15	\$5.63	5%
100	\$147.83	\$144.56	-\$3.27	-2%
120	\$215.07	\$208.84	-\$6.23	-3%
150	\$384.92	\$317.03	-\$67.89	-18%
200	\$726.08	\$573.82	-\$152.26	-21%

[1] Median 2014 consumption

CGL is hundreds of gallons

TABLE 8
NON-RESIDENTIAL CUSTOMER
BILL IMPACTS (5/8" Meter)

Usage (CGL)	Division 1 Non-Residential Total Monthly Bill			
	Current Rates	Adopted Rates	Increase	
0	\$20.10	\$25.79	\$5.69	28%
10	\$28.87	\$36.07	\$7.20	25%
20	\$37.64	\$46.35	\$8.71	23%
30	\$46.41	\$56.64	\$10.23	22%
36	\$51.67	\$62.81	\$11.14	22%
40	\$55.18	\$66.92	\$11.74	21%
50 [1]	\$63.95	\$77.20	\$13.25	21%
75	\$85.87	\$102.91	\$17.04	20%
100	\$107.79	\$128.62	\$20.83	19%
125	\$129.71	\$154.32	\$24.61	19%
150	\$151.64	\$180.03	\$28.39	19%
175	\$173.56	\$205.74	\$32.18	19%
200	\$195.48	\$231.44	\$35.96	18%
250	\$239.33	\$282.86	\$43.53	18%
300	\$283.17	\$334.27	\$51.10	18%
400	\$370.86	\$437.10	\$66.24	18%
500	\$458.55	\$539.92	\$81.37	18%

[1] Average 2014 consumption

CGL is hundreds of gallons

TABLE 9
APPLICANT'S PROPOSED INCREASES COMPARED
TO ADOPTED RESULTS (5/8" Meter)

Note: This table shows applicant's proposed average monthly dollar and percent increases for the majority of customers compared to the adopted results. The comparison is limited to the bill components affected by the attached order identified at the beginning of this attachment. The comparison does not include surcharges and estimated fees also identified above.

APPLICANT'S PROPOSAL

Note: The WRAM balance is amortized by applicant over 20 years. If amortized over 5 years, applicant's proposed total increases (dollars and percent) are higher for all groups than those shown below for adopted results.

RATEPAYER GROUP [1]	WRAM SURCHARGE INCREASE		METER CHARGE INCREASE		QUANTITY CHARGE INCREASE		TOTAL INCREASE	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Single Family	\$7.16	71%	\$7.03	70%	\$8.72	20%	\$22.91	43%
Multi-Family	\$7.16	71%	\$7.03	70%	\$42.02	17%	\$56.21	22%
Low Income	\$7.16	89%	\$3.92	49%	-\$0.89	-2%	\$10.18	22%
Non-Residential	\$2.86	14%	\$0.00	0%	\$18.82	10%	\$21.68	9%

[1] Based on 5/8 inch meter

ADOPTED RESULTS

RATEPAYER GROUP [1]	WRAM SURCHARGE INCREASE		METER CHARGE INCREASE		QUANTITY CHARGE INCREASE		TOTAL INCREASE	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Single Family	\$13.11	130%	\$7.03	70%	\$5.62	13%	\$25.75	48%
Multi-Family	\$13.11	130%	\$7.03	70%	\$25.22	10%	\$45.36	18%
Low Income	\$13.11	163%	\$3.91	49%	-\$3.07	-8%	\$13.96	31%
Non-Residential	\$5.69	28%	\$0.00	0%	\$33.10	17%	\$38.78	18%

[1] Based on 5/8 inch meter

(END OF ATTACHMENT A.)