

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



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Order Instituting Rulemaking on the Commission's Own Motion into Addressing the Commission's Water Action Plan Objective of Setting Rates that Balance Investment, Conservation, and Affordability for Class A and Class B Water Utilities.

R. 11-11-008
(Filed November 10, 2011)

**OPENING COMMENTS OF
CALIFORNIA WATER ASSOCIATION
ON THE PHASE II PROPOSED DECISION OF
ASSIGNED COMMISSIONER SANDOVAL**

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In accordance with Rule 14.3 of the Rules of Practice and Procedure (the "Rules") of the California Public Utilities Commission (the "Commission"), California Water Association ("CWA")¹ hereby submits these opening comments on the proposed Decision Providing Guidance on Water Rate Structure and Tiered Rates (the "Proposed Decision" or "PD") of Assigned Commissioner Catherine J.K. Sandoval, issued on October 7, 2016, in Phase II of the above-captioned rulemaking proceeding.

I. INTRODUCTION AND SUMMARY OF COMMENTS

CWA is a statewide association representing investor-owned water utilities providing public utility water services in the State of California, including the Class A and Class B water companies that are respondents to the present rulemaking. CWA has actively participated in both phases of this comprehensive proceeding and appreciates the Commission's boldness in considering innovative ideas for improving the regulatory mechanisms that affect the way Commission-regulated water utilities deliver safe, reliable service to their customers at just and reasonable rates. The PD sets a prudent course forward to address water company rate structures in the context of current historic

¹ CWA's Class A and Class B water company members join with CWA in submitting these comments.

drought conditions and the forthcoming proposed permanent conservation regulations from the State Water Resources Control Board (“Water Board”).

CWA generally supports the Proposed Decision, as it clearly has been drafted with a genuine resolve to set aside the conventional ways of doing things, particularly when such conventions lack a sound basis in recent experience or logic. The PD provides opportunities for the water companies to implement innovative proposals for better sales forecasting and rate design changes responsive to district-specific conditions, while maintaining mechanisms that help promote conservation, namely the Water Revenue Adjustment Mechanism and Modified Cost Balancing Account (“WRAM”).² Furthermore, the PD appropriately empowers the water companies to invest in modern metering equipment that will allow water users to harness the power of real-time information for water conservation and leak detection – responding directly to the Governor’s mandate in Executive Order B-37-16. These are all positive advances that reflect the Commission’s commitment to water conservation and accurate and transparent rates.

Respecting the WRAM mechanism, CWA recognizes that early in this proceeding there was great concern about the magnitude of WRAM balances. The PD concludes that the principal driver of the large WRAM balances and surcharges experienced by the water companies and their customers has been “inaccurate forecasts” that “drive differences between authorized and collected rates.”³ From CWA’s point of view, this outcome is illustrative of how this rulemaking proceeding was conducted – as a genuinely investigative undertaking with opportunities for all sides to learn, develop theories and change minds. CWA appreciates having had the opportunity to participate in this proceeding and seeks to further contribute by these comments.

² Five of the nine Class A water companies have WRAMs.

³ PD, at 23. CWA notes that the high WRAM balances were the product of factors in addition to inaccurate forecasts, specifically, the emergency conservation regulations, the associated water-use reduction mandates, plus unrealistic rate designs and local supply constraints.

Notwithstanding CWA's support for the PD, there are certain aspects of it that concern CWA. One is the PD's commitment to the 10 percent cap on the amount of WRAM balance that may be recovered in a year, a cap that was imposed by D.12-04-048 at a time when the future of the WRAM was in flux and when no one could appreciate the magnitude of the WRAM balances that would ultimately occur. CWA is also concerned with the timing for implementing the PD's directives. These concerns, and CWA's recommended refinements to other aspects of the PD, are detailed below.

II. THE 10 PERCENT CAP ON ANNUAL WRAM AMORTIZATION

Consistent with this rulemaking's commitment to "better understand the effects of our current policies regarding tiered rates, conservation rates, forecasting, data and technology, metering and billing, accounting mechanisms and other programs," the Proposed Decision does much to improve future sales forecasting, correct possible errors in future sales forecasts through the use of a Sales Reconciliation Mechanism ("SRM") or an alternative, adjust rate design to provide clear conservation signals to outlier users, and make timely water use information and leak detection available to customers through Advanced Metering Infrastructure ("AMI").

The one serious omission CWA sees in the PD is that it misses the opportunity to address the ongoing concerns for delays in WRAM recovery that harm both the utility and its ratepayers. The PD finds that a "10 percent cap on the amount of WRAM/MCBA revenue that can be recovered in a year is prudent to protect against rate shock, particularly as other rate design changes are implemented to reduce WRAM/MCBA balances."⁴ The PD further concludes that "[m]aintaining the 10 percent cap at this time is prudent to smooth rate increases while other rate design elements are changing."⁵

CWA is concerned that the above statements prejudge the operation of the 10 percent cap in every future request for WRAM recovery, despite the fact that circumstances may favor a more prompt

⁴ PD, at 73, Finding of Fact 5.

⁵ PD, at 42.

time frame for recovery of a larger percentage undercollection. For example, the concern for inter-cycle and inter-generational inequity – or as the PD describes it, when WRAM recovery policy “passes the buck to future bills”⁶ – may outweigh the potential short-term surcharge impact on ratepayers in a specific case. Also, the above statements appear to contradict the Proposed Decision’s express authorization for water utilities with WRAMs to “propose to change the 10 percent cap on the WRAM or the WRAM amortization period in their GRC as part of a rate design proposal”⁷ The PD should preserve the Commission’s discretion to approve amortization of a WRAM balance that exceeds the annual 10 percent of a utility’s last authorized revenue requirement, if shown to be reasonable in a GRC or other application, rather than rigidly prohibiting more timely cost recovery.

CWA also disagrees that maintaining the 10 percent cap is “prudent”;⁸ the prudent course is to eliminate large WRAM balances as expeditiously as possible. As noted throughout the PD, delayed recovery of WRAM balances has caused numerous problems, including failing to “[p]rovide for equity between present and future users of water” pursuant to Public Utilities Code⁹ Section 701.10.¹⁰ The transfer of cost of service from current ratepayers to a future generation distorts present and future price signals, mutes conservation signals, and raises fundamental questions of fairness and equity.¹¹ The 10 percent cap exacerbates these problems, and therefore, in CWA’s view, a blanket continuation of the cap cannot be considered “prudent.”

CWA recommends that the PD be revised to adopt a neutral position with respect to the 10 percent cap, along with a direction that the cap, consistent with current Commission policy, be evaluated for prudence on a case-by-case basis. Consistent with this policy recommendation, CWA

⁶ PD, at 24.

⁷ PD, at 43.

⁸ PD, at 42 and 73, Finding of Fact 5.

⁹ All section reference shall be to the Public Utilities Code unless otherwise specified.

¹⁰ PD, at 17-18 (quoting Section 701.10).

¹¹ See PD, at 23, 24 and 32.

proposes Findings of Fact in Appendix A, with corresponding changes to the discussion on page 42 as follows:

~~Maintaining t~~The 10 percent cap ~~at this time is~~ will be reviewed in future GRCs and other proceedings to determine if it is needed ~~prudent~~ to smooth rate increases while other rate design elements are changing.

III. TIMING

CWA appreciates the PD’s sense of urgency for making rate design adjustments that better reflect today’s “changed water landscape.”¹² However, CWA recommends the PD be clarified or changed with respect to certain timing-related elements, as follows:

A. The Schedule for Rolling Out AMI Should Be More Flexible.

Many of CWA’s member companies have previously requested (with little success to date) that the Commission approve proposals to implement AMI, so the PD’s endorsement of AMI technology is a welcome development. However, ordering all of the Class A water companies to propose AMI plans in their “next General Rate Case application” is problematic.¹³ AMI proposals made in GRC applications already on file should not have to be deferred and re-filed in a utility’s next GRC application due to this decision. By the same token, utilities with GRC applications scheduled for filing in 2019 should not have to wait more than two years to submit AMI plans. Either result would undermine the intent of the Proposed Decision to accelerate AMI deployment. On the other hand, putting together a full AMI deployment analysis that captures all costs and benefits is a substantial undertaking, which could be difficult for utilities scheduled to file a GRC application in 2017. Deferring these latter proposals for a full rate case cycle would mean these utilities would not be able to present an AMI proposal until their 2020 filings, delaying deployment of AMI until at least 2022. To address these concerns, CWA recommends the PD: (1) make it clear that this decision does

¹² PD, at 2.

¹³ PD, at 78, Ordering Paragraph 9.

not preclude considering AMI proposals in pending GRCs; and (2) be revised to give the water utilities the option to submit their AMI proposals either in their next GRC or in a stand-alone application.

In addition, CWA recommends revising the PD to give the Class A water utilities the same flexibility as it does the Class B companies to roll out AMI over up to three GRC cycles, rather than one to two.¹⁴ This longer roll-out period might reduce the potential for “lumpy” investment to impact customers. The recommended flexibility also would enable water utilities to limit inefficient one-by-one conversion of existing meters as ordered by the PD’s Ordering Paragraph 7.

CWA’s recommended revised language is provided in the attached Appendix A.

B. The Deadlines to Comply with Each of the Proposed Decision’s Orders Should Be Adjusted to Reflect the Rate Case Plan’s GRC Schedule.

1. General Rate Case Applications

The Proposed Decision directs the Class A and B water utilities to make various proposals in their respective GRC filings made after the effective date of the decision. For example, Ordering Paragraph 2 orders the Class A and B water utilities to “propose forecast methodologies in the General Rate Case application following the effective date of this decision”¹⁵ For some water companies, drafting these many plans and proposals on the schedule contemplated by the PD will be a manageable task. For example, per the Rate Case Plan for Class A Water Utilities (the “Rate Case Plan”),¹⁶ a water company required to file its GRC application on July 2, 2018 will have some 18 months to consider, plan for and incorporate the decision’s directives. By contrast, a utility that is required by the Rate Case Plan to file its next GRC in January of 2017 – mere weeks after the Proposed Decision may be adopted – simply does not have adequate time to study the decision and implement its directives

¹⁴ PD, at 78-79, Ordering Paragraphs 9 and 10.

¹⁵ PD, at 77, Ordering Paragraph 2.

¹⁶ D.07-05-062, 2007 Cal PUC LEXIS 226.

appropriately. The timing element presents an even greater challenge, considering the companies are required to submit their proposed applications 60 days prior to filing their formal applications.¹⁷

Accordingly, CWA recommends that the PD be revised to apply to GRC applications filed on or after January 1, 2018, while allowing companies to make such proposals in earlier applications if they so choose.¹⁸ Recommended revised orders are provided in Appendix A.

2. General Rate Case Settlements

In addition to affecting GRC applications, the timing for the PD's orders to become effective is problematic for GRC settlements, as well. Ordering Paragraph 15 specifies that:

Class A and Class B water utility General Rate Case settlements shall be consistent with this Decision and the Goals and Objectives of Attachment A to meet the public interest test for evaluation of settlement proposals.

CWA is aware of two Class A companies that, at the time of these comments, have completed the negotiation of settlement terms with other parties to their current GRCs and either have filed a GRC settlement agreement for Commission approval or will soon do so. CWA is concerned that, if the PD is adopted while those settlement agreements are pending before the Commission, this Ordering Paragraph 15 could be interpreted as preventing the Commission from approving such proposed settlements absent a showing from the settling parties that this decision and its Goals and Objectives were explicitly considered. Delaying or thwarting these settlements, negotiated in good faith and representing the compromise position of the parties involved, cannot be the Commission's intent. Therefore, CWA recommends that Ordering Paragraph 15 be revised to clarify that it applies to

¹⁷ For example, a water company with a July 1, 2017 filing deadline must submit its proposed GRC application on May 1, 2017 – less than six months after the Commission's adoption of its decision in this rulemaking. Modifying the proposed application to comply with mandates presented by the PD could complicate processing of the company's final application in January. Per the Rate Case Plan, a proposed application is required to be complete and the expectation is that the final application will not change greatly from the proposed application. D.07-05-062, 2007 Cal PUC LEXIS 226, *62 (“The application shall conform to the content of the proposed application and supporting testimony . . .”).

¹⁸ This additional application optionality will assist the Commission in processing the GRC applications in a timely manner.

settlements of GRC applications filed on or after January 1, 2018, while encouraging parties settling earlier applications to address such principles if they so choose.

CWA also observes that Ordering Paragraph 15's condition that settlements be consistent with "this Decision" is overly broad and suggests it be deleted. Ensuring that settlements are consistent with the enumerated Goals and Objectives will accomplish the Commission's intent to clarify "touchstones to meet the public interest standard," consistent with Section 701.10.¹⁹

Revisions consistent with the above recommendations are provided in Appendix A.

C. The Proposed Decision Should Be Revised to Eliminate Any Ambiguity Related to the Advice Letter Process for Implementing an SRM Between GRCs.

Recognizing that it would not be prudent to wait two or three years to consider the authorization of mechanisms to improve sales forecasts in a GRC, the PD orders Class A and B Water companies to consider filing a Tier 2 advice letter requesting an SRM to conform adopted sales forecasts to recorded consumption under certain circumstances. Specifically, Ordering Paragraph 3 orders water companies "that have a five percent or greater divergence (higher or lower) between authorized and actual revenue during a drought period in their current General Rate Case cycle"²⁰ to consider making such filings.

CWA is concerned that this reference to the "current General Rate Case cycle" creates ambiguity as to whether a water utility that is currently in a GRC proceeding can avail itself of this advice letter process after a final decision is issued. Consistent with the PD's statement that it would not be prudent to wait up to three years to consider the authorization of mechanisms to improve sales forecasts, the advice letter process for implementing an SRM should be available to Class A and B investor-owned water utilities for the period until the Commission issues a final decision in the water utility's first GRC filed after January 1, 2018.

¹⁹ PD, at 72.

²⁰ PD, at 77, Ordering Paragraph 3. Note that this reference to "revenue" should be corrected to read "sales," as explained in Section V.A of these comments below.

IV. WRAM BALANCE INTEREST RATE

The PD acknowledges CWA’s concern that the current WRAM interest rate does not adequately compensate the water utilities for the delay associated with the receipt of authorized revenues by later-authorized surcharges. The PD also expressly notes “the need to maintain financial integrity and the opportunity to earn a reasonable return on used and useful investment.”²¹

Notwithstanding these considerations, the PD declines to change the Commission’s current policy with respect to the authorized rate of interest for WRAM balancing accounts. Instead, the PD concludes that the Commission “will continue to apply the 90-day Commercial Paper Rate” to such accounts.²²

The PD does not provide a reasoned basis for this conclusion. CWA has argued in this proceeding that it is inappropriate to impose a short-term 90-day interest rate on approved revenues that may not be fully recovered for years after the Commission authorized collection. The only way to recognize the time value of money – the financial principle that money available at the present time is worth more than the same amount in the future due to its potential earning capacity during the interim period – is to apply an interest rate better aligned with the recovery period. Accruing only the 90-day Commercial Paper Rate (currently 0.72%) on a portion of uncollected but authorized revenues over more than a short-term time frame means the utilities are unduly penalized for effectively “lending” money to ratepayers.

The PD offers no sound rationale for continuing the Commission’s existing policy with respect to interest rates on WRAM accounts. Therefore, CWA suggests the PD be revised to affirmatively adopt a policy for applying an appropriate longer-term rate of interest, reflective of the utility’s cost of capital or at least its cost of debt, where circumstances result in a lengthy amortization period – namely, any period over 12 months.

²¹ PD, at 43.

²² *Id.*

V. SALES RECONCILIATION MECHANISM

A. Sales, Not Revenue

The Proposed Decision orders Class A and B water utilities that have “a five percent or greater divergence (higher or lower) between authorized and actual revenue” in their current GRC cycle to consider filing a Tier 2 advice letter requesting an SRM.²³ The PD observes that the SRM will recalculate rates for the remaining GRC period so that “50 percent of the divergence between authorized and actual revenues will be recovered in rates through the remainder of the GRC cycle” with the balance to be recovered through a WRAM or surcharges (for those companies without WRAMs).²⁴ The PD further directs the Commission’s Water Division to approve an advice letter requesting an SRM if a “five percent or greater divergence between authorized and actual revenue . . . is confirmed”²⁵ CWA highlights these provisions because they erroneously describe the trigger for an SRM as a divergence in actual revenues from those authorized.

It is critical to clarify that an SRM functions to adjust the adopted sales forecast for a future period if recorded sales volumes differ from the adopted sales forecast by at least the specified percentage margin. Sales and revenue are not synonymous, and the PD should be corrected to avoid any future confusion or delay in implementing Commission-approved SRMs. The PD’s Findings of Fact 9 and 10 correctly make this distinction between sales and revenue, but Ordering Paragraphs 3 and 4 should be revised as set forth in Appendix A, with pages 6 and 7 of the text revised accordingly.

B. The SRM Method

The PD correctly observes that current forecasting methods have produced sales forecasts that have been “wildly off,” providing the “air that balloons the WRAM and surcharges.”²⁶ An

²³ PD, at 77, Ordering Paragraph 3 (emphasis added).

²⁴ PD, at 6 (emphasis added).

²⁵ PD, at 6-7 (emphasis added).

²⁶ PD, at 6.

element of the PD’s plan to correct this situation is to order the water utilities to consider instituting an SRM by Tier 2 Advice Letter in between GRCs. Per the PD, the approved SRM “method” would “recalculate rates for the remainder of the GRC so that 50 percent of the divergence between authorized and actual [sales]²⁷ will be recovered in rates through the remainder of the GRC cycle, with the balanced recovered through a WRAM if authorized for that IOU or surcharges.”²⁸ CWA agrees with this direction, except that water utilities should have flexibility to propose an SRM that would recalculate up to 100 percent of a documented divergence in sales. The 50 percent fraction prescribed by the PD is unduly rigid, and SRM proposals that can better reduce WRAM balances on a going-forward basis should be considered through the proposed advice letter process.

C. Drought Conditions

The PD appears to limit the availability of the SRM proposed by a Tier 2 Advice Letter to periods of drought, but discrepancies between authorized and actual sales occur for many reasons, including, as the PD observes, unforeseen economic recession.²⁹ Because an SRM can mitigate the consequences of inaccurate forecasts – high WRAM balances³⁰ – no matter the cause, CWA recommends that the drought-related constraint be eliminated from the PD, as set forth in Appendix A.

VI. COMPANY-SPECIFIC ISSUES

CWA seeks to clarify certain member-company-specific issues arising from the PD, as follows.

A. Del Oro Water Company and the Class B Water Utilities

The PD orders the Class A and B water utilities to make various proposals in their next GRC filings, including changes in tiered rate structures, an SRM, and other rate design-related

²⁷ The quoted material references “revenues,” but as is corrected here consistent with Section V.A above.

²⁸ PD, at 6.

²⁹ *Id.*

³⁰ CWA notes that the high WRAM balances were the product of factors in addition to inaccurate forecasts, specifically, the emergency conservation regulations and the associated water-use reduction mandates, plus unrealistic rate designs and local supply constraints.

changes. Requiring Class A companies to make these proposals is reasonable, but it will be burdensome to require the Class B water utilities to devote their limited managerial resources to propose, for example, a plan to transition to AMI. In addition, while Del Oro Water Company is treated as a Class B company, all but one of its districts serves fewer than 2,000 connections. The PD's directives should apply only to Del Oro's single Class B-sized district – Paradise Pines.

Because the Class B companies have much more flexibility with respect to GRC timing than the Class A companies, CWA respectfully asks that the PD be revised to make implementation of the PD's ordering paragraphs optional for Class B water companies and to clarify that its provisions do not apply to districts serving fewer than 2,000 connections, by revising the relevant Findings and Ordering Paragraphs accordingly. Recommended revisions are provided in Appendix A.

B. California Water Service (CWS) Company

On page 46, the PD states that “CWS explains that currently it collects 70 percent of revenue requirement from quantity rates, and 30 percent from the service charge as a result of the 30 percent/70 percent rule of revenue recovery from fixed costs or monthly water rates adopted in 2010.” To clarify, California Water Service's comments in this proceeding stated that its 2012 GRC settlement included a “goal” of collecting 70 percent of revenues from commodity rates as a guide in designing residential rates.³¹ Moreover, the 2010 decision referenced on page 46, footnote 49 did not “adopt” the 30 percent/70 percent revenue recovery ratio as a “rule,” but called it an “objective” best achieved, in that particular case, through a gradual approach.³²

In order to ensure that the PD accurately reflects the record in this proceeding, as well as the text of D.10-04-031, CWA respectfully requests page 46 be revised to correct the misstatement made above, as follows:

³¹ Cal Water Comments Pursuant to April 30, 2015 Scoping Memo, at 3.

³² D.10-04-031, at 53, Finding of Fact 5.

CWS explains that for its rates effective in 2014, pursuant to a negotiated settlement from its 2012 general rate case, CWS used the goal of ~~currently it collects~~collecting 70 percent of revenue requirement from quantity rates, and 30 percent from the service charge as a guide in designing residential rates. as a result of ~~the 30 percent/70 percent rule of revenue recovery from fixed costs or monthly water rates~~ratio was the subject of a San Gabriel Valley Water Company pilot conservation rate design decision adopted in 2010.

VII. TECHNICAL CORRECTIONS

CWA recommends the following corrections or additions be made to the Proposed Decision for accuracy, or where the discussion would benefit from further development, as noted below.

A. On page 4, the second sentence of the first full paragraph: The PD indicates that the water companies “then returned to voluntary conservation.” This statement does not accurately describe the Commission’s action in Resolution W-5103 (Option A) in June of 2016, which directed the water companies either to implement a conservation standard calculated through a supply-based self-certification process prescribed by the State Water Board’s emergency drought regulation, or to continue to use the demand-based percentage conservation standard tiers assigned by the state. The conservation standard generated through self-certification is, in fact, mandatory, as are the water use prohibitions that remain in effect. CWA urges the Commission to clarify this point because the distinction between voluntary and mandatory conservation has significant implications for a water company’s application of Tariff Rule and Schedule 14.1. CWA suggests replacing the above quoted phrase with the following:

. . . conservation. The Commission subsequently authorized the regulated water utilities to implement conservation measures required by local water supply conditions.

B. On page 4, first sentence of the second full paragraph: The PD indicates that “mandatory conservation restrictions were removed” in June 2016. As noted in Subsection VII.B immediately above, mandatory conservation restrictions were not “removed” – the self-certified

conservation standards are mandatory, as are the water use prohibitions. CWA recommends replacing the above quoted phrase with the following:

. . . the water utilities were authorized to adopt [temporary](#) supply-based self-certified conservation standards . . .

C. On page 9, first sentence of the first full paragraph: The PD indicates that the current practice of billing for water consumption is based on “monthly averages.” In point of fact, customers are billed for water consumption based on monthly or bi-monthly metered usage. CWA suggests that this sentence be clarified by replacing the phrase “monthly averages” with “metered usage.”

D. On page 10, third full paragraph: The PD observes that district-specific factors in water utility districts “render a single, uniform rate design unreasonable.” CWA agrees with this statement to the extent that it applies to residential customers, but not commercial or other non-residential customer classes. CWA suggests that this sentence be revised as follows:

These factors render a single, uniform rate design [for residential customers](#) unreasonable.

E. The last sentence on page 16: This sentence ends with the phrase “and the MCBA accounted cost effects.” It is unclear to CWA what is intended by this phrase, and we suggest the last sentence on page 16 be revised to clarify the function of the MCBA as follows:

Reductions in water consumption did not always result in commensurate cost reductions for the water IOU, ~~and the MCBA accounted cost effects~~ [as tracked in the MCBA](#).

F. On page 19: The first full sentence on page 19 is incomplete. CWA recommends the sentence be completed to read:

Parties discussed how accessing data would enable ratepayers to understand usage and promote conservation and everyone expressed a desire for an unequivocal policy directive toward [that end](#).

G. On page 22, last sentence of the second full paragraph: The PD again references the “removal of mandatory water conservation” in 2016. For the reasons stated in Subsection VII.A and B, CWA recommends the sentence be revised to read:

Even after the [Commission authorized the regulated water utilities to adopt temporary self-certified conservation standards](#)~~removal of mandatory water conservation~~ in mid-2016, water demand has remained 20 percent lower than 2013 levels.

H. On page 30, last sentence of the first full paragraph: The PD again references the removal of “mandatory restrictions” in 2016. For the reasons stated in Subsection VII.A and B, CWA recommends the end of the sentence be revised to read:

. . . even after ~~mandatory restrictions were removed~~[self-certified conservation standards were authorized](#).

I. On page 37, third sentence of the first full paragraph: The PD references the end of “mandatory consumption.” We believe the intended reference was to “mandatory conservation” but, for the reasons stated in Subsection VII.A and B, CWA recommends the sentence be revised to read:

. . . when ~~mandatory consumption ended~~[temporary self-certified conservation standards were authorized](#).

J. On page 44: The PD authorizes the Class A and B water utilities to propose “an appropriate mix of fixed to variable rate charges,” with a floor of a certain percentage of revenue to be collected through fixed charges. The discussion on page 44 references both “a floor of 60 percent” and a “40 percent floor” for revenues from fixed charges. These references should be made consistent with Ordering Paragraph 13’s direction that proposals include a “floor of at least 40 percent of revenues collected from fixed charges and up to 50 percent fixed charges” or an alternative.

VIII. CONCLUSION

For the reasons discussed above, CWA respectfully requests that the Commission adopt the Proposed Decision as recommended to be modified by these comments.

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APPENDIX A

Proposed Revised Findings of Fact

...

4. Increases in service charges to recover more ~~rates-revenue~~ through fixed costs should not diminish the conservation incentive provided through increasing rate tiers for quantity usage.

5. A 10 percent cap on the amount of WRAM/MCBA revenue that can be recovered in a year ~~is prudent to protect against rate shock,~~ will be reviewed in future GRCs and other proceedings to determine if it is needed, particularly as other rate design changes are implemented to reduce WRAM/MCBA balances. Greater amounts are recovered over longer periods.

...

9. Authorizing Class A and B water IOUs to file an advice letter to request an SRM ~~during drought periods~~ is a prudent step to mitigate the impact of inaccurate sales forecasts drought conditions on water usage, availability, and cost by calculating the recorded sales for the period of the previous October through September for each district, and comparing the amounts to the sales adopted in that IOU's GRC, as applied district by district.

10. Through an SRM, if recorded sales differ by more than five percent from adopted sales, an IOU is authorized to (1) adjust its overall sales forecast by at least 50 percent and up to 100 percent of the recorded sales variation; (2) flow that change through the revenue requirement; ~~and (3) calculate rates based on the adjusted sales for the remainder of the GRC rate case cycle years;~~ and (4) provide notice to customers that the rate change is due to the SRM; and (5) collect the 50% balance of that difference as an undercollection, if any, through a WRAM or surcharge.

...

14. It is reasonable to require Class A and B water utilities to propose, in their General Rate Case Application filed on or after January 1, 2018, or by earlier General Rate Case application at the option of the utility, or by separate, stand-alone application in their GRC, AMI meters for existing customers, and a schedule to transition existing customers to AMI.

...

16. The application of SRM to modify forecasts in escalation years may be reasonable for some utilities, and Class A and B water utilities may propose an an

SRM ~~in the GRC~~ by Tier 2 Advice Letter for the period until the Commission issues a final decision in the water utility's first GRC filed on or after January 1, 2018, if necessary to achieve conservation, sustainability, and equity incentives in light of other rate design proposals.

17. To send accurate conservation signals to customers, it is reasonable to authorize Class A and B Water IOUs to propose rate design changes such as billing water at daily usage, consistent with AMI readings, as opposed to the current practice of billing for water consumption based on monthly ~~averages~~ usage.

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21. Proposed settlements are often used to resolve GRCs. Requiring proposed settlements filed for Commission approval in connection with GRC applications filed on or after January 1, 2018, to respect this Decision's Orders, ~~the principles adopted herein,~~ and the Goals and Objectives ~~of~~ contained in Attachment A is necessary to finding that any proposed settlement is in the public interest.

Proposed Revised Conclusions of Law

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3. Ordering Class A and B utilities to consider filing a Tier 2 Advice letter to implement a ~~drought~~ Sales Reconciliation Mechanism is consistent with this Commission's resolutions to promote conservation, our policies to communicate transparent cost-signals to ratepayers, and Pub. Util. Code § 701.10.

...

Proposed Revised Ordering Paragraphs

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2. Class A and B water Investor-Owned Utilities shall, in their General Rate Case Application filed on or after January 1, 2018, or by earlier General Rate Case application at the option of the utility, or by separate, stand-alone application, propose forecast methodologies ~~in their General Rate Case application following the effective date of this decision~~ to more accurately determine how authorized revenue determined in a General Rate Case will be collected through water rates, and shall consider consumption trends during and following the drought that began in 2013, and factors that may affect consumption in the next-relevant General Rate Case cycle, such as drought, flood, climate change, water supply, any proposals to shift the collection of rates to fixed as opposed to variable charges, and the transition to Advanced Metering Infrastructure.

3. Class A and B Water Investor-Owned Utilities that have a five percent or greater divergence (higher or lower) between authorized and actual revenuesales ~~during a drought period~~ in their current General Rate Case cycle, shall consider filing for an individual district or several districts a Tier 2 Advice Letter requesting a Sales Reconciliation Method-Mechanism to conform water forecasts authorized in the ~~current~~ General Rate Case that set currently effective rates to actual consumption, ~~in light of the drought and circumstances faced in their district(s).~~ This advice letter process will be available to Class A and B Water Investor-Owned Utilities until the Commission issues a final decision in the water utility's first GRC filed on or after January 1, 2018.

4. Except where a Sales Reconciliation Mechanism has already been authorized, Class A and B Water Investor-Owned Utilities shall file in their next General Rate Case application following the effective date of this Decision a proposal to institute a Sales Reconciliation Mechanism that puts at least 50 percent, and up to 100 percent, of the divergence between authorized and actual revenuesales in rates to be recovered through the remainder of the General Rate Case cycle, or alternative mechanisms to reduce WRAM balances and surcharges, and provide timely cost information to customers.

...

6. Class A and B water utilities shall, in their General Rate Case Application filed on or after January 1, 2018, or by earlier General Rate Case application at the option of the utility, or by separate, stand-alone application, propose pilot programs ~~in their next GRC application~~ to adjust tiers, impose a superuser charge, or deploy other mechanisms taking into account other rate design changes and deployment of Advanced Metering Infrastructure to promote conservation, rate recovery, cost-based rates, and equity, providing analysis and a showing to allow the Commission to evaluate the likely

effectiveness of those proposals. [Consideration of Advanced Metering Infrastructure proposals that are currently pending before the Commission shall not be deferred due to this Decision.](#)

7. Class A and Class B water utilities shall, within six months of the adoption of this Decision, deploy Advanced Metering Infrastructure (AMI) when converting flat rate customers to metered customers, for replacement of obsolete or damaged meters, and for meters in new construction. In districts or areas where the existing or anticipated communications infrastructure and other factors indicate that ~~Advanced Automated~~ Meter Reading (AMR) would be substantially more cost-effective than AMI, Class A and B water utilities may deploy AMR to such customers if comparable leak detection and data communication benefits can be achieved.

8. Class A and Class B water utilities shall report to the Commission's Water Division within 18 months [after the effective date of this Decision](#) about the successes, challenges, and lessons learned from Advanced Metering Infrastructure installation, and apply that analysis to their General Rate Cases proposals to expand Advanced Metering Infrastructure installations and use.

9. Class A water utilities shall, [in their General Rate Case Application filed on or after January 1, 2018, or by earlier General Rate Case application at the option of the utility, or by separate, stand-alone application](#), propose ~~in their next General Rate Case Application~~ Advanced Metering Infrastructure (AMI) meters for existing customers, and a schedule to transition existing customers to such meters over the next one or ~~two-three~~ rate case cycles. Those proposals may identify districts or areas where the existing or anticipated communications infrastructure and other factors indicate that ~~Advanced Automated~~ Meter Reading (AMR) would be substantially more cost-effective than AMI, and deploy AMR if comparable leak detection and data communication benefits can be achieved. [Consideration of Advanced Metering Infrastructure proposals that are currently pending before the Commission shall not be deferred due to this Decision.](#)

10. Class B water utilities shall propose within their next two General Rate Cases cycles, [by General Rate Case Application or by separate, stand-alone application](#), to transition existing customers to Advanced Metering Infrastructure (AMI) meters over the course of one to three rate case cycles. Those AMI proposals may identify districts or areas where the existing or anticipated communications infrastructure and other factors indicate that ~~Advanced Automated~~ Meter Reading (AMR) would be substantially more cost-effective than AMI, and deploy AMR if comparable leak detection and data communication benefits can be achieved.

...

13. Class A and Class B water utilities shall, in their General Rate Case Application filed on or after January 1, 2018, or by earlier General Rate Case application at the option of the utility, or by separate, stand-alone application, propose ~~in their General Rate Case application~~ adjustments to the percentage of revenue recovery collected from fixed charges with a floor of at least 40 percent of revenues collected from fixed charges and up to 50 percent of revenues from fixed charges, or submit alternative proposals to reduce reliance on Water Revenue Adjustment Mechanism (WRAM)/ Modified Cost Balancing Account (MCBA) balances, maintain an incentive for conservation of water, and address utility circumstances. Such proposals shall consider the impact of shifting revenue recovery to fixed costs on low-income customers and propose appropriate adjustments to low-income programs to maintain affordability and equity, while signaling conservation and reducing reliance on WRAM balances and surcharges.

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15. Proposed Class A and Class B water utility General Rate Case settlements submitted for Commission approval in connection with General Rate Case applications filed on or after January 1, 2018, shall be consistent with ~~this Decision and~~ the Goals and Objectives ~~of contained in~~ Attachment A of this Decision to meet the public interest test for evaluation of settlement proposals. Class A and Class B water utilities submitting General Rate Case settlements in connection with General Rate Case applications filed before January 1, 2018 are encouraged to address the Goals and Objectives contained in Attachment A of this Decision.

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