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

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.

Rulemaking 11-11-008
(Filed November 10, 2011)

**COMMENTS OF CALIFORNIA-AMERICAN WATER COMPANY
ON THE PROPOSED DECISION OF COMMISSIONER SANDOVAL**

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October 27, 2016

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I. INTRODUCTION

Pursuant to Rule 14.3 of the Rules of Practice and Procedure of the California Public Utilities Commission ("Commission"), California-American Water Company ("Cal-Am") hereby provides its comments on the *Proposed Decision of Commissioner Sandoval*, issued October 7, 2016 ("Proposed Decision"). Cal-Am generally supports the Proposed Decision, which incorporates "bold, creative ideas" and includes innovative programs to promote water conservation and accurate and transparent rates. Cal-Am also supports and joins in the comments filed by California Water Association ("CWA") on the Proposed Decision. In these comments, however, Cal-Am provides additional justification for certain suggested modifications to the Proposed Decision. Appendix A to these Comments contains Cal-Am's suggested edits to Proposed Decision.

II. TEN PERCENT CAP ON ANNUAL WRAM/MCBA AMORTIZATION

One of the issues in this proceeding is whether to maintain the ten percent cap on amortization of Water Revenue Adjustment Mechanism/Modified Cost Balancing Account ("WRAM/MCBA") balances. The cap serves to limit total annual WRAM/MCBA surcharges to ten percent of the last authorized revenue requirement. The Proposed Decision declined to adjust the ten percent cap, stating, "Maintaining the 10 percent cap at this time is prudent to

smooth rate increases while other rate design elements are changing.”¹ Maintaining the cap, however, fails to take into account certain situations where more expeditious amortization of WRAM/MCBA balances may be the truly prudent course of action.

For example, in 2015, the first year the ten percent cap was imposed, the one-year accumulated WRAM/MCBA balance for Monterey residential customers was greater than thirty percent. Maintaining the 10 per cent cap in these circumstances means that Cal-Am’s Monterey District WRAM/MCBA surcharge cannot change in the next three years, even as undercollections continue and the WRAM/MCBA balances continue to grow. This delayed recovery of current under collections results in a greater degree of inter-generational inequity and pancaking of rates to recover past undercollections. Other Cal-Am districts could face similar challenges stemming from drought and conservation-related actions by the State Water Resources Control Board (“SWRCB”). Additionally, the cap imposition hinders Cal-Am’s ability to prudently include in bills a proper surcharge that signals the continuing need to conserve.

Instead of the blanket statement that the ten percent cap is prudent, the Commission should modify the Proposed Decision to state that it will examine whether a cap is prudent based on the unique characteristics of a water utility or district. Such a modification would recognize the Commission’s discretion to approve amortization of a WRAM/MCBA balance that exceeds ten percent of a utility’s last authorized revenue requirement, if it is shown to be reasonable.

III. AMI IMPLEMENTATION

Cal-Am applauds the Proposed Decision’s strong support for AMI. The Proposed Decision correctly recognizes that “AMI data can save water that benefits customers, water system operators, communities, and our state.”² A pioneer in AMI deployment, Cal-Am has

¹ Proposed Decision, p. 42.

² Proposed Decision, p. 64.

implemented AMI pilot programs in its Ventura County and Monterey Districts.³ Cal-Am is concerned, however, that if the Proposed Decision is not modified, it could stall the progress that has been achieved to date.

The Proposed Decision's language ordering all of the Class A water companies to include AMI proposals in their **next** general rate case ("GRC") application is unnecessarily limited. Cal-Am will not file its next GRC until 2019, meaning that any AMI program proposed in that proceeding would likely not be rolled out until 2021 or later. Instead of building upon the success of its pilot programs, Cal-Am could be forced into a holding pattern. Cal-Am therefore recommends that the Commission modify the Proposed Decision to clarify that it does not preclude considering AMI proposals in pending GRCs and to give the water utilities the option to submit their AMI proposals either in their next GRC or in an earlier proceeding.

IV. CONCLUSION

Cal-Am urges the Commission to make the changes discussed above, as well as those set forth in more detail in the comments of CWA, so that the bold and innovative proposals in the Proposed Decision are not needlessly curtailed.

³ The Proposed Decision acknowledges that the need for the "prompt identification and communication of high water use and leaks that AMI offers" is particularly acute in the Monterey District, where the steep rate tiers mean that a leak can result in a water bill in the thousands of dollars. Proposed Decision, p. 63. AMI, which significantly improves Cal-Am's ability to identify and address leaks, is one of the many tools and programs that Cal-Am has employed in the Monterey District to comply with the SWRCB's requirement to drastically reduce the use of water from the Carmel River. See SWRCB Order 2016-0016, p. 2.

Respectfully submitted,

October 27, 2016

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