

**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)

**REPLY 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(d) of the Rules of Practice and Procedure (the "Rules") of the California Public Utilities Commission (the "Commission"), California Water Association ("CWA")<sup>1</sup> hereby submits these reply comments on the Proposed Decision of Assigned Commissioner Catherine J.K. Sandoval (the "PD"), issued on October 7, 2016, in Phase II of the above-captioned proceeding. CWA concurs in and supports the opening comments filed by California-American Water Company and Golden State Water Company. CWA's reply comments respond to the opening comments filed by the Office of Ratepayer Advocates ("ORA") and the Mutual Water Companies (the "Mutuals").

**I. REPLY TO THE OFFICE OF RATEPAYER ADVOCATES**

In opening comments, ORA asserts that its "minor modifications"<sup>2</sup> to the PD will give the water utilities greater flexibility in implementing the PD's orders respecting rate design and AMI. CWA supports this goal. Indeed, ORA cites to CWA for this proposition, and CWA's opening comments urge the Commission to maintain its discretion to address water utility proposals in individual cases, including by separate application.<sup>3</sup> However, in actual fact, ORA's suggested modifications do little to

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<sup>1</sup> CWA's Class A and Class B water company members join with CWA in submitting these reply comments.

<sup>2</sup> ORA Opening Comments, at 2.

<sup>3</sup> CWA Opening Comments, at 5-7.

make the PD more adaptable to district-specific conditions. To the contrary, ORA’s recommendations would restrict and delay the decision’s implementation and should be rejected.

**A. The Commission Should Retain the Proposed Decision’s “Small-Scale” AMI Conversion, Replacement and Installation Program.**

Ordering Paragraph 7 of the PD requires the Class A and B water utilities, within six months of the adoption of the decision, to use AMI meters when converting flat rate customers, replacing damaged meters or installing meters in connection with new construction. ORA argues that the Commission should eliminate this requirement, a suggestion that CWA opposes.

It is by the roll out of AMI meters on this smaller scale, in advance of ordering the broader roll-out of AMI meters to existing customers, that the PD “commence[s] the process of converting to [Advanced] Metering Infrastructure . . . .”<sup>4</sup> Eliminating this preliminary step, as ORA recommends, would delay deployment of AMI’s many capabilities – to “harness and communicate data to manage water production and purchases, identify and stop leaks, protect drinking water quality” and to reduce “surprise high bills.”<sup>5</sup> ORA’s proposed change also would eliminate a “means to explore AMI benefits” for consideration in future, larger-scale AMI proposals, as the PD intends.<sup>6</sup>

Ordering Paragraph 7’s directive to use AMI meters for flat-rate conversions, replacements and installations for new construction is a direct response to Governor Brown’s Executive Order B-37-16 (the “EO”).<sup>7</sup> The EO directed the Commission to “order investor owned water utilities to accelerate work to minimize leaks.”<sup>8</sup> Doing away with this requirement weakens the Commission’s response to the EO and is contrary to state policy. ORA’s recommendation to eliminate it should be rejected. However, in furtherance of flexibility, CWA would support an adjustment to Ordering Paragraph 7 that specifies that the directive applies when feasible from a technical and operational standpoint.

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<sup>4</sup> PD, at 8. The quoted language reads “Automated,” but should be corrected to read “Advanced.” to properly distinguish it from “Automated Meter Reading” technology.

<sup>5</sup> PD, at 63, 52.

<sup>6</sup> PD, at 74, Finding of Fact 13.

<sup>7</sup> PD, at 67. Note that the reference to “B-36-16” should be corrected to read “B-37-16.”

<sup>8</sup> PD, at 67 (citing Executive Order B-37-16).

**B. The Commission Should Evaluate AMI Cost and Feasibility on a Proposal-Specific Basis in a Water Utility’s GRC or Separate Application.**

ORA recommends the PD be revised to limit AMI proposals to circumstances “where cost-effective,” and also to eliminate the roll-out of AMI over one to two rate case cycles for the Class A utilities, and one to three rate case cycles for the Class B utilities.<sup>9</sup> CWA opposes these recommended revisions to Ordering Paragraphs 9 and 10.

First, ORA offers no standard for what is or is not “cost-effective,” and, frankly, it cannot because of the environmental and resource externalities (non-price and non-cost benefits) involved with AMI deployment. As a result, ORA’s test cannot be properly applied or enforced to limit AMI proposals for future Commission consideration. And, though offered as a way of providing “needed flexibility,” ORA’s requested change will, in fact, only produce confusion, thereby delaying AMI implementation in contravention of the Executive Order’s directive to accelerate leak detection.

Second, CWA has serious concerns about ORA’s proposal to eliminate any specific time frame for deploying AMI. In opening comments, CWA suggested that the PD could better balance the timely roll-out of AMI technology with the possibility that some utilities might need more time by allowing the Class A utilities to deploy AMI over one to three rate case cycles, rather than two. ORA’s suggestion, on the other hand, seems meant only to delay deployment – indefinitely – and should be rejected. Let the professional water managers manage their businesses to the benefit of their customers. Micro-management is not necessary.

**C. Water Utilities Should Be Authorized to Request a Sales Reconciliation Mechanism by Tier 2 Advice Letter.**

ORA urges the Commission to eliminate the PD’s Tier 2 advice letter process for requesting a Sales Reconciliation Mechanism (“SRM”) before a water utility’s next GRC. ORA claims that the SRM “can produce unintended price signals that are counterproductive during drought” out of the

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<sup>9</sup> ORA Opening Comments, at 2-5 and Attachment A, at 3.

apparent concern that implementing an SRM might cause water rates to go down in some water utility districts, thereby undermining conservation signals.<sup>10</sup>

As the PD points out, an SRM will “conform water forecasts authorized in the GRC to actual consumption in light of the circumstances faced in [water utility] districts.”<sup>11</sup> In a perfect world, sales forecasts established in a water utility’s GRC would accurately anticipate drought, recession and other sales-depressing (or boosting) conditions, so as to make an SRM unnecessary. But until we get closer to that point, an SRM’s more frequent updates to forecasts is an important tool to help reduce WRAM balances. In light of the well-documented and deleterious effects that erroneously high sales forecasts have had on timely revenue collection and customer bills, the chance that upward SRM adjustments would be made to address inaccurately low forecasts is slight. Without the PD’s proposed Tier 2 advice letter process, the water utilities lack sufficient tools to promptly remedy inaccurate forecasts. ORA’s recommendation to eliminate the SRM by Tier 2 advice letter should be rejected.

**D. The Commission Should Reject ORA’s Recommendation to Follow the CUWCC BMP for Collecting Revenues from Fixed Charges.**

ORA wants the Commission to adhere to the California Urban Water Conservation Council’s (“CUWCC”) Best Management Practice (“BMP”) for revenue recovery collected from fixed charges. ORA claims that moving away from the 30:70 revenue collection ratio would “disrupt conservation price signals” and “works against the goal of affordability for low-usage and low-income customers.”<sup>12</sup> ORA notes that the BMP was revised in 2015 to reflect a “matrix approach,” rather than a strict 30:70 ratio and recommends Ordering Paragraph 13 be modified to strike the 40% floor and the direction to the water utilities to propose new adjustments to current revenue collection ratios. CWA opposes these changes to the PD.

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<sup>10</sup> ORA Opening Comments, at 12.

<sup>11</sup> PD, at 6, 35, 77, Ordering Paragraph 3.

<sup>12</sup> ORA Opening Comments, at 11.

Creation of the matrix approach was by far the most contentious issue CUWCC addressed in its 25-year history. ORA's opening comments fail to properly acknowledge this context. Implementing this unpopular and controversial approach would present a challenge to all parties concerned.

Furthermore, the argument that reducing the authorized revenues recovered from the quantity charge will detract from conservation is not valid in today's conservation climate. Between the drought's impact on water-use behavior, the institutionalization of the conservation ethic and the forthcoming permanent conservation regulations from the Department of Water Resources and the State Water Resources Control Board, a modest increase in fixed cost recovery from the service charge is unlikely to affect conservation. ORA's proposed Ordering Paragraph 13 should be rejected.

## **II. REPLY TO THE MUTUAL WATER COMPANIES**

The Mutuals assert that "Rate Base, Revenues and Profits are ripe for decoupling in the same manner that Quantity Sales and Revenue are decoupled to remove the incentive to IOUs to grow their Rate Bases ad infinitum."<sup>13</sup> CWA could not disagree more with this statement.

CWA urges the Commission to decline to consider or to adopt a blanket policy on "decoupling" rate base, revenues and earnings. Balancing investment, rate base growth, earnings, and rate impact is at the heart of the GRC process and, in fact, at the heart of standard utility ratemaking practices in general, and is best done on a utility-specific case in each GRC. This rulemaking or another is no place for a decision on this balance, which necessarily must weigh an evidentiary record encompassing a multitude of utility-specific facts.<sup>14</sup>

## **III. CONCLUSION**

CWA urges the Commission to move towards better balance and rationality in ratemaking and revenue collection, and toward more effective leak detection and water conservation by adopting the PD as modified by CWA's opening and reply comments.

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<sup>13</sup> Opening Comments of the Mutuals, at 3-5.

<sup>14</sup> CWA also observes that "Rate Base Reform" is beyond this proceeding's defined scope. *See*, Assigned Commissioner's Third Amended Scoping Memo and Ruling Establishing Phase II, at 1 and 2.

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