

PROPOSED RESOLUTION

Resolution W-5040
DWA

AGENDA ID #13902 (Rev. 1)
ITEM #8

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Utility Audit, Finance and Compliance Branch

RESOLUTION W-5040
May 21, 2015

RESOLUTION

(RES. W- 5040) CALIFORNIA AMERICAN WATER COMPANY, LOS ANGELES DISTRICT. ORDER COMPLETING THE DISTRIBUTION SYSTEM IMPROVEMENT CHARGE (DSIC) PILOT PROGRAM BY AUTHORIZING CALIFORNIA AMERICAN WATER COMPANY TO RECOVER DSIC RELATED TO CERTAIN 2010 AND 2011 IMPROVEMENTS.

SUMMARY

This Resolution approves, with modifications, California American Water Company's (Cal-Am) Advice Letter (AL) No. 989, filed on January 18, 2013. Pursuant to Decision (D.) 10-06-038 and General Order (GO) 96-B, Cal Am requests authority to:

1. Update its total DSIC to \$1,086,471 for certain infrastructure improvements it made between January 2010 through December 2011 in its Los Angeles County District.
2. Update its DSIC tariffs, effective April 1, 2012.
3. Close out its DSIC balancing account after it recovers or refunds any under or over collection.

This Resolution authorizes a total DSIC of \$769,911 for Cal Am's 2010 and 2011 DSIC improvements. This is \$316,560, or approximately 29%, less than Cal Am requested in AL No. 989. The adjustment is required because Cal Am did not calculate its DSIC and surcharge pursuant to the agreed upon procedures adopted in D.10-06-038. Cal Am incorrectly calculated depreciation on net instead of gross additions, incorrectly added back retirements when calculating the revenue requirement, double-counted an invoice in the first quarter of 2010 and calculated a revenue requirement for nine quarters instead of eight. Instead of updating Cal Am's tariffs for the 2010 and 2011 DSIC only

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to immediately cancel them, this resolution does not authorize the updating of Cal Am's tariffs.

Cal Am asserts that it provided customer notice about surcharge increases in text messages on customer bills during three billing periods: August 23, 2010 through September 23, 2010; October 7, 2010 through November 30, 2010; and January 6, 2012 through February 24, 2012. Cal Am indicated that all affected customers were notified of the rate changes during these time periods.

BACKGROUND

Cal Am is a Class A water company and serves approximately 29,865 customers in its LA District, in three physically separated subsystems: San Marino; Duarte; and Baldwin Hills. The district is served by wells and irrigation water utilizing Cal Am's groundwater rights and purchases from municipal wholesalers.

In D.07-08-030, the Commission authorized Cal Am to institute a pilot DSIC program with effective regulatory oversight, during the remainder of the then general rate case period, 2007 through 2009.¹ The Commission issued six DSIC related resolutions for the 2007 through 2009 rate case period: W-4734, W-4774, W- 4775, W-4776, W-4790 and W-4852.

On June 29, 2010, the Commission issued D.10-06-038 that, among other things, authorized Cal Am to: 1) extend its DSIC program and 2) revise its tariffs to do so. In this decision, the Commission stated the following:²

The parties agree that the Distribution System Infrastructure Surcharge [sic] (DSIC) should be continued in the Los Angeles District, and that the tariff should be changed to allow the extension. The parties also agree to continue the current 7% general rate case cap and 4% quarterly cap. The proposed Distribution System Infrastructure Surcharge Tariff is Attachment 1 to the settlement and incorporates new annual and case [sic] limits and new construction project totals that are also included in the settlement.

¹ See D.07-08-030, Ordering Paragraph (OP) 4.

² See D.10-06-038, page 30, and OP 1.

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Per Attachment 1 to the settlement, discussed above, the maximum quarterly allowance for the DSIC is \$799,089 and the cap for the entire period is \$1,398,405.³ That attachment to the 2009 Partial Settlement Agreement also described all of the terms for the DSIC pilot and the methodology to be used for the DSIC calculation. The terms, among other things, require that the quarterly DSIC surcharge would be effective immediately upon filing the quarterly advice letters, subject to refund. In addition, all refunds to customers are to include interest at the 90-day commercial paper rate. The interest is to be applied to the average monthly balance of the DSIC surcharges to be refunded and compounded monthly.

On June 7, 2012, in D. 12-06-016, the Commission, among other things, discontinued the DSIC pilot, effective December 31, 2011. The terms for discontinuing the DSIC were summarized in the partial settlement agreement addressed in D.12-6-016.⁴ Per the 2011 Partial Settlement Agreement, any remaining balance in the DSIC Balancing Account is to be transferred to the expense balancing account for refund or recovery via an advice letter, and the DSIC Balancing Account be closed.

Beginning in August of 2010, Cal Am filed various advice letters to initiate and then update the DSIC for the 2010 through 2011 period: AL 856 (1st and 2nd quarters of 2010 DSIC), 864 (3rd quarter 2010 DSIC), 877 (4th quarter 2010 DSIC), 886 (1st quarter 2011 DSIC), 914 (2nd quarter 2011 DSIC), 920 (3rd quarter 2011 DSIC), and 927 (4th quarter 2011 DSIC). When DWA reviewed these advice filings, DWA found that Cal Am had included expenditures from December 2009 which should not have been included in the 2010/2011 DSIC Pilot Program. Consequently, on September 13, 2012, Cal Am withdrew those advice letters.

In AL No. 989 filed on January 18, 2013, Cal Am requested to update the DSIC and the surcharge rate from January 2010 through December 2011, pursuant to D.10-06-038 and to update the associated tariffs. In AL No. 989, Cal Am requested an overall DSIC of

³ See "Partial Settlement Agreement between the Division of Ratepayer Advocates and California-American Water Company on Issues Presented in the General Rate Case," dated December 18, 2009 (2009 Partial Settlement Agreement), Attachment 1.

⁴ See "Partial Settlement Agreement between the Division of Ratepayer Advocates, the Utility Reform Network and California-American Water Company on Revenue Requirement Issues," dated July 28, 2011 (2011 Partial Settlement Agreement), pages 305-306 and 329-330.

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\$1,086,471 for certain infrastructure improvements from 2010 through 2011, as shown in the following table.

Table 1
Cal Am's Requested Quarterly DSIC

Quarter	Eligible Addition Period	Effective Date	Quarterly DSIC Costs	Percent Surcharge
1 st Quarter 2010	January-February 2010	April 1, 2010	\$ 9,238	0.14%
2 nd Quarter 2010	March-May 2010	July 1, 2010	\$ 22,613	0.35%
3 rd Quarter 2010	June – August 2010	October 1, 2010	\$ 47,609	0.74%
4 th Quarter 2010	September – November 2010	January 1, 2011	\$ 66,954	1.00%
1 st Quarter 2011	December 2010-February 2011	April 1, 2011	\$ 94,042	1.41%
2 nd Quarter 2011	March – May 2011	July 1, 2011	\$126,531	1.90%
3 rd Quarter 2011	June – August 2011	October 1, 2011	\$145,134	2.18%
4 th Quarter 2011	September – November 2011	January 1, 2012	\$282,825	4.24%
	December 2011	April 1, 2012	\$291,525	4.37%
Total DSIC Requested			\$1,086,471 .00	

Cal Am has maintained a DSIC Balancing Account to separately track the DSIC and related surcharges. In AL 989, Cal Am indicated that after the current advice letter is approved, Cal Am intends to true-up the DSIC Balancing Account and recover or refund any under or over collection and then close the DSIC Balancing Account.

The Division of Ratepayer Advocates (DRA) conducted an audit of balances in Cal Am's memorandum and balancing accounts and determined that \$183,979 was in the DSIC balancing account as of May 31, 2010.⁵ Cal Am indicated that it did not stop surcharges from the prior 2008 and 2009 DSIC until after D.10-06-038 issued.

Subsequent to stopping the former DSIC program surcharges, Cal Am represents that it put some of the new surcharges into place associated with its withdrawn advice letters and currently, based on its requested DSIC, there is an over-collection in its DSIC Balancing Account. Cal Am noted that the DSIC surcharges expired or were set to zero, for all bills issued on or after August 17, 2012.

⁵ See Audit Report of DRA Audit of Balances in Memorandum Accounts of California American Water Company, date January 21, 2011, DRA Exhibit 14, in Application (A.) 10-07-007.

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NOTICE AND PROTESTS

Cal Am served its AL No. 989 on its service list. Cal Am indicates that it also posted a copy of the current advice letter, AL No. 989, on its website. Notice of AL No. 989 was made by publication in the Commission's Daily Calendar of January 23, 2013. No protests have been received.

Cal Am asserts that it provided customer notice about surcharge increases in text messages on customer bills. Cal Am points out that the text messages ran between one and two months, as shown in the following table. Cal Am indicated that all affected customers were notified of the rate changes during these time periods.

Table 3
Customer Bill Notices

Notification Period
August 23, 2010 thru September 23, 2010
October 7, 2010 through November 30, 2010
January 6, 2012 through February 24, 2012

In the Los Angeles Times, Cal Am asserts that it published a public notice on August 20, 2008, describing the DSIC and its surcharge, with the estimated rate change expressed in both dollar and percentage terms. The Los Angeles Times is a newspaper widely distributed, including in Cal Am's service area. This notice was for Cal Am's previous DSIC pilot for the 2008 and 2009 rate cycle. Cal Am indicated that it did not publish a newspaper notice for the continuation of the DSIC for the 2010 and 2011 DSIC period.

DISCUSSION

In order to ensure that Cal Am complied with all terms and conditions of the DSIC program, as specified in D.10-06-038, the Division of Water and Audits (DWA) examined the following areas:

1. Cal Am's DSIC methodology and inputs, including:
 - a. Additions and retirements,
 - b. Depreciation,
 - c. Surcharge calculations and percentages,
 - d. Whether infrastructure projects were preapproved, and

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- e. Whether invoices that Cal Am used for the DSIC pilot were pursuant to those preapproved projects; and
- 2. Cal Am’s proposed tariffs.

DWA found that Cal Am incorrectly calculated depreciation on net instead of gross additions and incorrectly added retirements back to net plant before calculating the DSIC revenue requirement and surcharge rates. In addition, DWA found an invoice of \$16,859 that Cal Am entered twice in the first quarter of 2010. Lastly, Cal Am did not add its December 2011 additions to its last quarter’s DSIC calculation and instead calculated a ninth quarter of DSIC. These errors resulted in Cal Am overstating its DSIC and DSIC surcharge.

DWA recalculated Cal Am’s DSIC by quarter per the requirements adopted in D.10-06-038, eliminating Cal Am’s errors discussed above. Based on DWA’s revisions to Cal Am’s calculations, the DSIC and resulting surcharge rates, as shown in the following table, comply and align with the DSIC methodology and requirements authorized in D.10-06-038.

Table 2
Quarterly DSIC Amounts Authorized

Quarter	Eligible Addition Period	Effective Date	Quarterly DSIC Costs	Percent Surcharge
1 st Quarter 2010	January-February 2010	April 1, 2013	\$ 7,976	0.12%
2 nd Quarter 2010	March-May 2010	July 1, 2010	\$ 21,083	0.33%
3 rd Quarter 2010	June – August 2010	October 1, 2010	\$ 44,114	0.68%
4 th Quarter 2010	September – November 2010	January 1, 2011	\$ 62,969	0.94%
1 st Quarter 2011	December 2010-February 2011	April 1, 2011	\$ 89,335	1.33%
2 nd Quarter 2011	March – May 2011	July 1, 2011	\$121,432	1.82%
3 rd Quarter 2011	June – August 2011	October 1, 2011	\$138,700	2.08%
4 th Quarter 2011	September – December 2011	January 1, 2012	\$284,302	4.26%
Total DSIC Authorized			\$769,911.0	
			0	

Each quarterly DSIC, as revised, is less than the 4% quarterly cap of \$799,089 and its total DSIC, as amended, is less than the 7% cap of \$1,398,405.

In each of its withdrawn advice letters, Cal Am requested approval of the tariffs included in Attachment 1 of the 2009 Partial Settlement Agreement, updated to reflect,

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among other things, the quarterly total DSIC and surcharge rate. When Cal Am withdrew its AL 856, 864, 877, 886, 914, 920, and 927, its tariffs were not updated to reflect the continuation of the DSIC authorized by D.10-06-038. Consequently, Cal Am's tariffs currently reflect the DSIC tariffs authorized for the previous 2008 through 2009 DSIC program authorized in D.07-08-03.

In AL 989, Cal Am submitted proposed tariffs, to be effective April 1, 2012, that would reflect those adopted in D.10-06-038, and its proposed updated DSIC and surcharges, by quarter. The proposed tariffs that Cal Am submitted with AL 989 would first need to be updated by the revisions to its total DSIC and surcharges, as noted herein, and then cancelled soon thereafter. Since the terms of the DSIC are clearly defined and explained in Attachment 1 to the 2009 Partial Settlement Agreement and this resolution provides the authorized total DSIC and surcharges by quarter, updating its tariffs only to cancel them soon thereafter is not operationally expedient and we will not require it.

By approving Cal Am's 2010 and 2011 DSIC, with modifications, we are not making a determination as to the reasonableness of the 2010 and 2011 infrastructure projects used for the DSIC or their costs. As required by D.10-06-038, prior to inclusion in rate base, these infrastructure projects need to be reviewed in Cal Am's General Rate Case (GRC).

The DSIC surcharge collected in the DSIC Balancing Account should be compared to authorized amounts to determine the total amount to be refunded. The total over-collection, including interest at the 90-day commercial paper rate, should be transferred to Cal Am's expense balancing account for refund via a Tier 2 Advice Letter, and the DSIC Balancing Account be closed. Pursuant to D.10-06-038, interest is to be applied to the average monthly balance of the DSIC surcharges to be refunded and compounded monthly.

When Cal Am files its Tier 2 advice letter, to transfer any remaining balance in the DSIC Balancing Account to its expense balancing account for refund or recovery and close the DSIC Balancing Account, it should also submit revisions to its tariffs to remove the DSIC program and the DSIC Balancing Account.

SAFETY

DWA thoroughly reviewed Cal Am's request to update its DSIC and tariffs. There are no safety implications associated with AL No. 989.

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COMMENTS

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission.

A draft of this Resolution was served on all parties, and posted on the CPUC website, for public review and comment. No comments were received.

FINDINGS

1. Cal Am's LA Division serves approximately 29,865 customers in three separate subsystems.
2. In Decision 10-06-038, the Commission extended Cal Am's DSIC program by adopting the 2009 Partial Settlement Agreement.
3. Attachment 1 to the 2009 Partial Settlement Agreement included agreed upon tariffs for the continuation of the DSIC, including, among other things, the definitions of DSIC terms, new construction project totals, quarterly and overall caps, and the DSIC and surcharge calculation methodology.
4. The quarterly DSIC surcharges were to be effective immediately upon filing the quarterly advice letters, subject to refund.
5. All refunds to customers are to include interest at the 90-day commercial paper rate, with the interest applied to the average monthly balance of the DSIC surcharges to be refunded and compounded monthly.
6. Cal Am previously filed AL 856, 864, 877, 886, 914, 920, and 927 to implement its 2010 and 2011 DSIC.
7. In AL 856, 864, 877, 886, 914, 920, and 927, Cal Am, among other things, requested to update its tariffs with the tariffs included in Attachment 1 to the 2009 Partial Settlement Agreement, adopted by the Commission in D.10-06-038.

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8. The draft tariffs included in AL 856, 864, 877, 886, 914, 920, and 927 contained the quarterly updates for Cal Am's 2010 and 2011 total DSIC and DSIC surcharge rates.
9. On September 13, 2012, due to an error in its DSIC calculations, Cal Am withdrew AL 856, 864, 877, 886, 914, 920, and 927.
10. Since Cal Am withdrew its AL 856, 864, 877, 886, 914, 920, and 927, its tariffs were not updated for its 2010 and 2011 DSIC program.
11. On January 18, 2013, Cal Am filed AL No. 989, requesting a total DSIC of \$1,086,471 for certain infrastructure projects it completed in 2010 and 2011 and to update its tariffs.
12. Cal Am requested that its proposed DSIC tariffs be made effective April 1, 2012.
13. Cal Am properly noticed AL 989.
14. When calculating its DSIC surcharges, Cal Am incorrectly calculated depreciation expense on net instead of gross additions, incorrectly added back retirements to calculate the revenue requirement, and double counted one invoice in the first quarter of 2010, resulting in an overstatement of its quarterly DSIC and DSIC surcharges.
15. Correctly calculating the DSIC results in a total DSIC for the 2010 through 2011 period of \$769,911.
16. Since the terms of the DSIC are clearly defined and explained in the draft tariffs in the 2009 Partial Settlement Agreement and this resolution provides the total authorized DSIC and DSIC surcharges by quarter, it is unnecessary and inefficient to adopt tariffs in this resolution and then require that they be immediately canceled.
17. By approving Cal Am's 2010 and 2011 DSIC, with modifications, we are not making a determination as to the reasonableness of the 2010 and 2011 infrastructure projects used for the DSIC or their costs. As required by D.10-06-038, prior to inclusion in rate base, these infrastructure projects need to be reviewed in Cal Am's General Rate Case (GRC).

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CONCLUSIONS OF LAW

1. Cal Am should be allowed a total DSIC of \$769,911 for certain infrastructure improvements it made in 2010 and 2011.
2. Cal Am should not be required to submit new updated tariffs only to have to cancel them right after.
3. All refunds to customers should include interest at the 90-day commercial paper rate. The interest is to be applied to the average monthly balance of the DSIC surcharges to be refunded and compounded monthly.
4. Within 30 days of the effective date of this resolution, Cal Am should submit a Tier 2 advice letter to :
 - a. True up the surcharges it collected with the DSIC amounts approved today;
 - b. Transfer any remaining balance in its DSIC balancing Account to its expense balancing account for refund;
 - c. Close out its DSIC balancing account; and
 - d. Cancel its DSIC tariffs.

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THEREFORE, IT IS ORDERED THAT:

1. California American Water Company is authorized to recover a total Distribution System Infrastructure Charge of \$769,911, per the following table, from customers in its Los Angeles Division, for Distribution System Infrastructure Charge projects completed during the period January 1, 2010 through December 31, 2011.

Quarter	Eligible Addition Period	Effective Date	Quarterly DSIC Costs	Percent Surcharge
1 st Quarter 2010	January-February 2010	April 1, 2013	\$ 7,976	0.12%
2 nd Quarter 2010	March-May 2010	July 1, 2010	\$ 21,083	0.33%
3 rd Quarter 2010	June – August 2010	October 1, 2010	\$ 44,114	0.68%
4 th Quarter 2010	September – November 2010	January 1, 2011	\$ 62,969	0.94%
1 st Quarter 2011	December 2010-February 2011	April 1, 2011	\$ 89,335	1.33%
2 nd Quarter 2011	March – May 2011	July 1, 2011	\$121,432	1.82%
3 rd Quarter 2011	June – August 2011	October 1, 2011	\$138,700	2.08%
4 th Quarter 2011	September – December 2011	January 1, 2012	\$284,302	4.26%
Total Distribution System Infrastructure Charge Authorized			\$769,911.00	

2. Within 30 days of the effective date of this resolution, California American Water Company shall file a Tier 2 Advice Letter to:
 - a. Demonstrate the total amount of Distribution System Infrastructure Charge surcharge to be refunded to its customers in its Los Angeles Division by comparing the amounts collected versus the amounts authorized in Ordering Paragraph #1 above, including interest at the 90-day commercial paper rate, with the interest applied to the average monthly balance of the Distribution System Infrastructure Charge surcharges to be refunded and compounded monthly.
 - b. Transfer the balance in (a) above to its expense balancing account to be refunded as soon as reasonably possible.
 - c. Close the Distribution System Infrastructure Charge Balancing Account.
 - d. Update its tariffs to remove the Distribution System Infrastructure Charge program.
3. Upon approval, this resolution concludes the Distribution System Infrastructure Charge Pilot Program.

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This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on May 21, 2015; the following Commissioners voting favorably thereon:

TIMOTHY J. SULLIVAN
Executive Director

**CAL-AM ADVICE LETTER NO. 989
SERVICE LIST**

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