



May 20, 2016

Proposed Resolution W-5099

Agenda ID: 14909

To: All Interested Persons

Enclosed is Proposed Resolution W-5099 of the Division of Water and Audits, which authorizes California-American Water Company to recover \$2,524,003 in surcharges or an increase of 4.76% in General Metered Service, for Lost Revenues due to Mandatory Conservation. Proposed Resolution W-5099 is scheduled to appear on the June 23, 2016 Commission Meeting Agenda (ID#14909).

The Commission may act on this resolution or it may postpone action until later. When the Commission acts on a proposed resolution, the Commission may adopt all or part of the proposed resolution, as written, or amend or modify the proposed resolution; or the Commission may set the proposed resolution aside and prepare a different resolution. Only when the Commission acts does the resolution become binding.

Interested persons may submit comments on Proposed Resolution W-5099 via email to [Water.Division@cpuc.ca.gov](mailto:Water.Division@cpuc.ca.gov) on or before **June 13, 2016**. Please reference **"Proposed Resolution W-5099"** in the subject line.

Interested persons must also serve a copy of their comments on the utility on the same date that the comments are submitted to the Division of Water and Audits. If email is unavailable, please submit comments to:

California Public Utilities Commission  
Division of Water and Audits  
505 Van Ness Avenue  
San Francisco, CA 94102

Comments should focus on factual, legal, technical errors, or policy issues in the proposed resolution.

Persons interested in receiving comments submitted may contact the Division of Water and Audits at [Water.Division@cpuc.ca.gov](mailto:Water.Division@cpuc.ca.gov) or (415) 703-1133. Please reference "Proposed Resolution W-5099."

/s/ RAMI S. KAHLON

Rami S. Kahlon, Director  
Division of Water and Audits

Enclosures: Proposed Resolution W-5099  
Certificate of Service  
Service List

# PROPOSED RESOLUTION

Resolution W-5099  
DWA

AGENDA ID#14909

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS  
Water and Sewer Advisory Branch

RESOLUTION W-5099  
June 23, 2016

### RESOLUTION

(RES. W-5099), CALIFORNIA-AMERICAN WATER COMPANY (Cal-Am). ORDER AUTHORIZING SURCHARGES TO RECOVER \$2,524,003 OR, AN INCREASE OF 4.76% IN GENERAL METERED SERVICE, FOR LOST REVENUES DUE TO MANDATORY CONSERVATION.

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By Advice Letter 1102-A, filed April 12, 2016.

### SUMMARY

This Resolution grants California-American Water Company's (Cal-Am) recovery in rates of \$2,524,003 by adding a surcharge of \$0.0244 per 100 gallons (CGL) to the Quantity Rates in each customer's bill to be recovered over twelve months. As a result, the bill for the average customer using 14 CCF per month will increase by \$2.55 per month, or approximately 3.28%. The increases requested are to recover the 1) lost revenues tracked in Cal-Am's Sacramento District's Voluntary Conservation or Mandatory Rationing Revenue Adjustment Mechanism Memorandum Account (VCMRRAMA), using Commission approved Water Conservation Memorandum Account (WCMA) methodology, resulting from reduced water consumption by customers during the period of March 17, 2014 through December 31, 2014, and 2) the net under-collection in Cal-Am's Consolidated Expense Balancing Account (CEBA) as authorized in D. 15-04-007.

### BACKGROUND

On January 17, 2014, Governor Edmund G. Brown Jr., proclaimed a Drought State of Emergency and directed state officials to take all necessary actions to prepare for these drought conditions. In accordance with the Governor's directives, the Commission issued Resolution W-4976 adopting drought procedures for water conservation, rationing and service connection moratoria ("Drought Procedures") on February 27th,

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2014 and required that all Class A and B water utilities that had an existing Tariff Rule 14.1 to activate the Rule within 30 days of the Resolution's effective date. The Drought Procedures, in addition to providing steps to be taken when a utility suffers from a water shortage, provided that a utility without a full revenue decoupling Water Revenue Adjustment Mechanism (WRAM) may request to add a Water Conservation Memorandum Account (WCMA) to track lost revenue associated with reduced sales as a result of activating Rule 14.1.

By AL 1038-A, effective March 17, 2014, the Commission authorized Cal-Am to establish a Voluntary Conservation or Mandatory Rationing Revenue Adjustment Mechanism Memorandum Account (VCMRRAMA) to track the revenue impact of voluntary conservation or mandatory rationing in the Sacramento District.

By AL 1102-A filed on April 12, 2016, Cal-Am requests Commission authorization to transfer the accumulated balance in the VCMRRAMA from March 17 through December 31, 2014 of \$3,290,832 into the Consolidated Expense Balancing Account (CEBA). This balance is further adjusted by an over-collection from recently approved AL 1110-A, for a total balance of \$1,717,220.<sup>1</sup>

## **NOTICE AND PROTESTS**

In accordance with General Rules 4.3 and 7.2, and Water Industry Rule 4.1, of General Order 96-B, Cal-Am served copies of AL 1102 to adjacent utilities and other parties requesting such notification, on December 7, 2015. In accordance with Water Industry Rule 3.3, Cal-Am also posted the advice letter on its website.

No protests were received.

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<sup>1</sup> AL 1110-A authorized water and fire service surcredits for Cal-Am's Sacramento District, due to over-collections from Sacramento District's 2015 interim rates. Since \$945,435 was authorized for distribution to metered water service customers in AL 1110-A, \$945,435 has been subtracted from the VCMRRAMA and CEBA balance, resulting in a net balance of \$1,717,220.

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## DISCUSSION

Cal-Am seeks to 1) recover the balances in the VCMRRAMA for reduced water consumption by customers that resulted from Cal-Am's implementation of mandatory water measures during the period of March 17, 2014 through December 31, 2014, and 2) recover the under-collection in the CEBA. To determine the surcharge, Cal-Am added the shortfall from the VCMRRAMA to Cal-Am's Sacramento District Consolidated Expense Balancing Account (CEBA), as authorized in D. 15-04-007.<sup>2</sup> By AL 1102, filed on December 7, 2015, Cal-Am estimated that the accumulated balance in the VCMRRAMA from March 17 through December 31, 2014 which is proposed to be added into the Consolidated Expense Balancing Account (CEBA).

DWA reviewed Cal-Am's calculations in AL 1102 and the consolidated surcharge requirements given in D. 15-04-007. DWA found several errors in Cal-Am's spreadsheets: (1) the number of prorated days to determine the VCMRRAMA undercollection in March was incorrect, (2) several 90-day commercial paper rates used to calculate interest were incorrect, (3) Cal-Am's Sacramento District's CEBA balance is not up to date and does not reflect the most recent CEBA balance as authorized in AL 1110-A, which became effective February 1, 2016, and (4) the estimated metered usage in Cal-Am's Sacramento District for 2016 was incorrect. DWA notified Cal-Am of the above errors on January 6, 2016 and March 21, 2016.

Cal-Am submitted AL 1102-A on April 12, 2016, correcting workpapers as per DWA's recommendations, and reduced the balance by the authorized increase in AL 1110-A. By AL 1102-A, Cal-Am estimates that the accumulated balance in the VCMRRAMA from March 17 through December 31, 2014 added into the Consolidated Expense Balancing Account (CEBA), and reduced by revenues authorized in AL 1110-A, results in a total balance of \$1,717,220.

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<sup>2</sup> Page 155 of Attachment A to D. 15-04-007 states that unless otherwise noted, recovery of memorandum and balancing accounts shall be recovered through the Consolidated Expense Balancing Account (CEBA). If the net CEBA balance after the transfers is under collected, the account will be amortized by applying a uniform volumetric surcharge. If the net CEBA balance after the transfers is over collected, the net over collection shall be amortized and credited to the service charge of all customers, based upon the meter equivalent size of the service connection.

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ORA found that Cal-Am's proposed recovery of the VCMRRAMA in AL 1102-A was not in accordance with the methodology adopted by the Commission in D. 90-08-055 and D. 91-10-042, and notified DWA.

The Commission in D. 90-08-055 and D. 91-10-042 established the methodology for computing revenue losses resulting from mandatory and voluntary conservation programs. D. 90-08-055 states that the difference between actual and normalized consumption is required to assess the change in revenues and variable expenses during the conservation period. Furthermore, Ordering Paragraph 3 of D. 91-10-042 states that memorandum account balances tracking revenue losses from mandatory and voluntary conservation programs must be reduced, pursuant to the risk reduction adjustment set forth in D. 91-10-042. Specifically, the risk reduction adjustment in D. 91-10-042 requires water utilities with approved drought loss memorandum accounts to reduce their memorandum account recovery by an amount equal to a 20 basis point reduction in the utility's last authorized rate of return on equity from the utility's cost of capital proceeding.

In accordance with D. 91-10-042, Cal-Am complied with the risk reduction adjustment ordered in D. 91-10-042, by reducing the requested recovery of the VCMRRAMA by an amount equal to a 20 basis point reduction on the last authorized rate of return on equity. However, Cal-Am did not use the proper methodology for determining lost revenues and saved expenses during the conservation period. In AL 1102-A, Cal-Am used WRAM and Modified Cost Balancing Account (MCBA) mechanisms to determine revenue shortfall, which are not the authorized methods for recovery of the Water Conservation Memorandum Account.

D. 90-08-055 states that a utility's adopted annual water sales are based on the adopted normalized annual water use per connection. The adopted monthly water sales are determined by using historical sales distribution data. DWA utilized the method outlined in D. 90-08-055 and revised Cal-Am's adopted monthly water sales accordingly. DWA subsequently estimated the revised total sales difference and used this figure to determine the expense reduction due to reduced water sales.

DWA's estimated balance of Cal-Am's VCMRRAMA, added into the Sacramento CEBA, and adjusted by the increase authorized in AL 1110-A results in a total balance of \$2,524,003, which yields a surcharge of \$0.0244 per CGL, to be applied over general metered service over a 12 month period.

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## SAFETY CONSIDERATIONS

The recovery of the balances in Cal-Am's VCMRRAMA will provide the utility with additional financial resources to safely operate and maintain its operations for the benefit of its customers, employees, and members of the general public.

## COMMENTS

Although Public Utilities Code 311(g)(2) allows the 30-day period for public review and comment to be waived for uncontested matters, DWA has made substantial changes to the methodologies used to determine Cal-Am's VCMRRAMA under-collection. Therefore, the proposed resolution will be served on all parties and be subject to a public review and comment period of 30 days or more, prior to a vote of the Commission on the resolution.

Accordingly, this proposed resolution was mailed to the utility and its service list, and made available for public comment on May 20, 2016.

Comments have been incorporated into this resolution and addressed.

## FINDINGS AND CONCLUSIONS

1. On December 7, 2015, California-American Water Company (Cal-Am) filed Advice Letter (AL) 1102 to request amortization of its Voluntary Conservation or Mandatory Rationing Revenue Adjustment Memorandum Account (VCMRRAMA). Cal-Am requested to recover in rates the amount of \$2,447,670, or 4.64% of 2015 authorized revenues by adding a surcharge of \$0.0234 per 100 gallons to the Quantity Rates in each metered customer's bill to be recovered over 12 months.
2. No protests were received for AL 1102.
3. On December 10, 2015, the Division of Water and Audits (DWA) suspended AL 1102.
4. Decisions (D.) 90-08-055 and 91-10-042 established the method for computing revenue losses resulting from mandatory and voluntary conservation programs. Cal-Am has used the proper methodology outlined in D. 90-08-055 and

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- D. 91-10-042 applying a 20 basis point risk reduction adjustment to the VCMRRAMA balance.
5. In accordance with D. 15-04-007, Cal-Am is authorized to transfer the VCMRRAMA balance into Cal-Am's Consolidated Expense Balancing Account (CEBA).
  6. DWA found several errors in AL 1102: (1) the number of prorated days to determine the VCMRRAMA undercollection in March 2014 was incorrect, (2) several 90-day commercial paper rates used to calculate interest were incorrect, (3) Cal-Am's Sacramento District's CEBA balance is not up to date and does not reflect the most recent CEBA balance as authorized in AL 1110-A, which became effective February 1, 2016, and (4) the estimated metered usage in Cal-Am's Sacramento District for 2016 was incorrect.
  7. Cal-Am was notified of the errors present in AL 1102 and submitted AL 1102-A with the necessary corrections on April 12, 2016. In AL 1102-A, Cal-Am requested to recover in rates the amount of \$1,717,200, or 3.24% of 2015 authorized revenues.
  8. ORA found that Cal-Am did not use the proper methodology outlined in D. 90-08-055 and D. 91-10-042 to determine revenues lost in the VCMRRAMA.
  9. DWA revised Cal-Am's workpapers using the proper methodology for Water Conservation Memorandum Account recovery. DWA estimates that the total under-collection from the VCMRRAMA is \$4,097,614. The incorporation of the VCMRRAMA balance into the CEBA, and a further reduction by the increase authorized in AL 1110-A results in a total under-collection of \$2,524,003. The total under-collection results in a surcharge of \$0.0244 per 100 gallons to be applied over general metered service over a 12 month period.

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### THEREFORE, IT IS ORDERED THAT:

1. California-American Water Company is authorized to transfer \$4,097,614 from its Voluntary Conservation or Mandatory Rationing Revenue Adjustment Memorandum Account to its Consolidated Expense Balancing Account for recovery, for a total under-collection of \$2,524,003. California-American Water Company is authorized to earn interest on the balance in this balancing account at the 90-day commercial paper rate.
2. Authority is granted under Public Utilities Code Section 454 to California-American Water Company to file a supplemental advice letter with the revised schedules attached to this Resolution as Appendix A and concurrently cancel its presently effective rate Schedule No. SC-1, General Metered Service.
3. The schedules attached to this Resolution as Appendix A allow California-American Water Company to implement a surcharge of \$0.0244 per 100 gallons added to the quantity rates over 12 months to recover in rates \$2,524,003 in lost revenues. The surcharge is effective five days from the date of the Resolution.
4. The revised rate schedule in Appendix A is adopted. The effective date of the revised schedules shall be five days from the date of the Resolution.

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 June 23, 2016; the following Commissioners voting favorably thereon:

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TIMOTHY J. SULLIVAN  
Executive Director

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## APPENDIX A Schedule No. SC-1 (Continued) Sacramento District Tariff Area GENERAL METERED SERVICE

### SPECIAL CONDITIONS

#### General Items:

1. Qualifying low-income customers can receive a discount on their bill. Customers must apply with the Company for acceptance into the low-income program. For additional details, please see Tariff Schedule CA-LIRA.
2. Any customer paying for service at a premise where a Residential Fire Sprinkler System (RFSS) is required/requested to be installed by local fire and building codes shall be allowed to have their monthly service charge modified in accordance with the monthly costs for RFSS service charges. Provided, however, that the RFSS rate has been requested by the customer and verified by the Company that the smaller size of meter would be large enough to provide adequate service for the property in absence of the additional demand necessary to supply water to the sprinkler system. The RFSS will not be considered a fire service by the Company, but as an oversized general metered service. As such the rules and conditions of service for general metered service shall apply.

#### Fees and Surcharges:

1. All bills are subject to the reimbursement fee set forth in Schedule No. UF.
2. Per Advice Letter 1072-B, a surcharge of \$0.0052 per hundred gallons will be applied to each bill to fund conservation efforts. The surcharge will remain in effect until otherwise directed by the Commission.
3. Per Advice Letter 1096, a surcharge of \$1.86 for the Low-Income Ratepayer Assistance Program ("LIRAP") Balancing Account will be collected from all non-low income water and wastewater customers.
4. Per Advice Letter 1102-A, the balance in the Sacramento County District Consolidated Expense Balancing Account will be recovered through a quantity based surcharge of \$0.0244 per 100 gallons over 12 months. The effective date for the surcharge is June 28, 2016 and will be recoverable from all customer classes in all service areas.

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END OF APPENDIX A

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## CERTIFICATE OF SERVICE

I certify that I have by either electronic mail or postal mail, this day, served a true copy of Proposed Resolution No. W-5099 on all parties in these filings or their attorneys as shown on the attached lists.

Dated May 20, 2016, at San Francisco, California.

/s/ JENNIFER PEREZ

Jennifer Perez

Parties should notify the Division of Water and Audits, California Public Utilities Commission, 505 Van Ness Avenue, San Francisco, CA 94102, of any change of address to ensure that they continue to receive documents. You must indicate the Resolution number on which your name appears.

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## CALIFORNIA-AMERICAN WATER COMPANY Advice Letter No. 1102-A SERVICE LIST

### By Mail:

California Dept. of Health Services  
Division of Drinking Water &  
Environmental Management  
P.O. Box 997416  
Sacramento, CA 95899-7413

Robert A. Ryan, Jr.  
County of Sacramento  
Downtown Office  
700 H Street, Suite 2650  
Sacramento, CA 95812

Mark Norris  
County Clerk-Recorder  
County of Sacramento  
600 8<sup>th</sup> Street  
Sacramento, CA 95814

Robert C. Baptiste  
9397 Tucumcari Way  
Sacramento, CA 95827-1045

Steven J. Thompson  
5224 Altana Way  
Sacramento, CA 95841

Sacramento County WMD  
827 7<sup>th</sup> Street, Room 301  
Sacramento, CA 95814

Placer County Water Agency  
P.O. Box 6570  
Auburn, CA 95804

Anthony La Bouff, County Counsel  
Placer County  
175 Fulweiler Avenue  
Auburn, CA 95603

Fruitridge Vista Water Company  
P.O. Box 959  
Sacramento, CA 95812

Carol Smith  
6241 Cavan Drive, 3  
Citrus Heights, CA 95621

Walt Shannon  
8356 Auberry Drive  
Sacramento, CA 95828

Rio Linda Water District  
730 L Street  
Rio Linda, CA 95673

Sacramento Surburban Water District  
3701 Marconi Avenue, Suite 100  
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### By E-Mail:

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