

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

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.

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, 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 \$1,717,220.¹

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.

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

¹ 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.

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. 15-04-007.² 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).

The Water Division reviewed Cal-Am's calculations in AL 1102 and the consolidated surcharge requirements given in D. 15-04-007. The Water Division 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. The Water Division 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 the Water Division'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.

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 the Water Division.

² 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.

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. The Water Division utilized the method outlined in D. 90-08-055 and revised Cal-Am's adopted monthly water sales accordingly. The Water Division subsequently estimated the revised total sales difference and used this figure to determine the expense reduction due to reduced water sales.

The Water Division'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.

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, the Water Division 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.

One comment was received and considered by the Water Division. However, no changes have been made to the resolution

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 Water Division 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

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. The Water Division 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. The Water Division revised Cal-Am's workpapers using the proper methodology for Water Conservation Memorandum Account recovery. The Water Division 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.

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:

/s/ TIMOTHY J. SULLIVAN

TIMOTHY J. SULLIVAN

Executive Director

MICHAEL PICKER

President

MICHEL PETER FLORIO

CATHERINE J.K. SANDOVAL

CARLA J. PETERMAN

LIANE M. RANDOLPH

Commissioners

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

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

By Mail:

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**Resolution W-5099
Water Division**

June 23, 2016

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