



November 14, 2016

Proposed Resolution W-5122

Agenda ID: 15319

To: All Interested Persons

Enclosed is Proposed Resolution W-51222 of the Water Division, which authorizes California Water Service Company's surcharges to recover \$2,945,166 for expenses due to mandatory conservation in twenty three districts. Proposed Resolution W-5122 is scheduled to appear on the December 15, 2016 Commission Meeting Agenda (ID#15319).

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-5122 via email to [Water.Division@cpuc.ca.gov](mailto:Water.Division@cpuc.ca.gov) on or before **December 5, 2016**. Please reference **"Proposed Resolution W-5122"** 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 Water Division. If email is unavailable, please submit comments to:

California Public Utilities Commission  
Water Division  
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 Water Division at [Water.Division@cpuc.ca.gov](mailto:Water.Division@cpuc.ca.gov) or (415) 703-1133. Please reference "Proposed Resolution W-5122."

/s/RAMI S. KAHLON

Rami S. Kahlon, Director  
Water Division

Enclosures: Proposed Resolution W-5122  
Certificate of Service  
Service List

# PROPOSED RESOLUTION

Resolution W-5122  
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Agenda ID #15319

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION  
Water and Sewer Advisory Branch

RESOLUTION W-5122  
December 15, 2016

### RESOLUTION

**(RES. W-5122) CALIFORNIA WATER SERVICE  
COMPANY, ORDER AUTHORIZING SURCHARGES  
TO RECOVER \$2,945,166 FOR EXPENSES DUE TO  
MANDATORY CONSERVATION IN ITS TWENTY  
THREE DISTRICTS.**

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By Advice Letter 2226-A, filed October 12, 2016.

### SUMMARY

This Resolution grants California Water Service Company's (Cal Water) recovery in rates of \$2,945,166 from Cal Water's twenty three districts by adding surcharges of \$0.0207 per 100 cubic feet (CCF) in Antelope Valley, \$0.0208 in Bayshore, \$0.0219 in Bear Gulch, \$0.0230 in Bakersfield, \$0.0222 in Chico, \$0.0222 in Dixon, \$0.0222 in Dominguez, \$0.0222 in East Los Angeles, \$0.0202 in Hermosa Redondo, \$0.0213 in Kern River Valley, \$0.0206 in King City, \$0.0185 in Livermore, \$0.0226 in Los Altos, \$0.0226 in Marysville, \$0.0213 in Oroville, \$0.0207 in Palos Verdes, \$0.0208 in Redwood Valley, \$0.0227 in Selma, \$0.0206 in Salinas, \$0.0218 in Stockton, \$0.0208 in Visalia, \$0.0221 in Willows, and \$0.0217 in Westlake, to the Quantity Rates in each customer's bill with an amortization period of twelve months. For the flat rate customers in Bakersfield, Marysville, and Selma, a fixed charge of \$0.91 per month in Bakersfield, \$0.40 in Marysville, and \$0.85 in Selma will be added to their bills for a period of twelve months.

As a result, the bill for the typical customer using 15 CCF per month will increase by \$0.31 per month in Antelope Valley, \$0.31 in Bayshore, \$0.33 in Bear Gulch, \$0.35 in Bakersfield, \$0.33 in Chico, \$0.33 in Dixon, \$0.33 in Dominguez, \$0.33 in East Los Angeles, \$0.30 in Hermosa Redondo, \$0.32 in Kern River Valley, \$0.31 in King City, \$0.28 in Livermore, \$0.34 in Los Altos, \$0.34 in Marysville, \$0.32 in in Oroville, \$0.31 in Palos Verdes, \$0.31 in Redwood Valley, \$0.34 in Selma, \$0.31 in Salinas, \$0.33 in Stockton, \$0.31 in Visalia, \$0.33 in Willows, and \$0.33 in Westlake.

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The increases requested are to recover the 2014-2015 balances recorded in Cal Water's Drought Memorandum Account (DRMA), which tracks expenses associated with the compliance and implementation of mandatory conservation measures.

## **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.

In compliance with Section 24 of the Drought Procedures which states in part,

"All expenses incurred by utility to activate both Rule 14.1 voluntary conservations and Schedule 14.1 mandatory rationing efforts that have not been considered in a General Rate Case or other proceeding, shall be recoverable by utility if determined to be reasonable by Commission. These monies shall be accumulated by the utility in a separate memorandum account for disposition as directed or authorized from time to time by the Commission."

Cal Water filed Advice Letter (AL) 2124 on April 1, 2014, subsequently approved with an effective date of May 1, 2014, to create and implement the Drought Memorandum Account (DRMA) to track expenses incurred by the activation of Rule 14.1 and Schedule 14.1.

On April 1, 2015, the Governor issued Executive Order B-29-15 which imposed a statewide 25% reduction in potable urban water usage. In accordance with the mandatory conservation, the Commission issued Resolution W-5041 which ordered the water utilities to comply with the restrictions to achieve the statewide 25% reduction.

By AL 2226 filed on July 15, 2016, Cal Water requests Commission authorization to amortize the accumulated balance for 2014 - 2015 in the DRMA for a total of \$4,243,266. Cal Water filed supplement AL 2226-A on October 12, 2016 to request to amortize the revised DRMA balance for a total of \$2,945,166 over a period of one year through district-specific surcharges.

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## NOTICE AND PROTEST

In accordance with General Rules 4.3 and 7.2, and Water Industry Rule 4.1, of General Order 96-B, Cal Water served copies of AL 2226 to adjacent utilities and other parties requesting such notification, on July 15, 2016. In accordance with Water Industry Rule 3.3 (id), Cal Water also posted the advice letter on its website.

### *Protest by City of Bakersfield*

A protest was received on August 4, 2016, by the City of Bakersfield (Bakersfield). In its protest, Bakersfield states that Cal Water does not have authorization for its request, the request requires consideration in a formal proceeding, and the surcharge would impose an unreasonable, unjustified, and burdensome surcharge on customers of Cal Water. Bakersfield also states that according to Standard Practice (SP) U-27-W and General Order (GO) 96-B Water Industry Rule 7.3.3, memorandum account recovery requests require an earnings test and proof of reasonableness.

On October 10, 2016 Water Division extended the protest deadline to October 13, 2016 and the protest response deadline to October 18, 2016.

### *Cal Water's Response to Bakersfield's Protest*

Cal Water filed a response to Bakersfield's protest on October 19, 2016. In its response, Cal Water states that supplement AL 2226-A reflects discussions with ORA which decrease the surcharges from the original request. Cal Water also states that according to GO 96-B Water Industry Rule 8.1, it has authority to request approval by the Commission to recover Memorandum Account balances in rates. Cal Water states that the memorandum accounts earnings test was removed by D.06-04-037 for Class A utilities. Cal Water goes on to state that pursuant to GO 96-B, Rule 7.6.2, the Commission may approve its request through disposition by resolution. Finally, Cal Water states that it must sustainably manage the company to provide safe and reliable service while under state-mandated drought usage restrictions.

### *Cal Water's Advice Letter Request is Appropriate*

Pursuant to GO 96-B Water Industry Rule 7.3.3, Cal Water may request amortization of memorandum accounts through Commission disposition by resolution, the process by which is described in detail in GO 96-B 7.6.2. Pursuant to D.06-04-037, Cal Water's

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requested recovery is not subject to an earnings test. The reasonableness of Cal Water's request is discussed below.

Cal Water filed supplement AL 2226-A on October 12, 2016 to correct errors found through discussions with the Office of Ratepayer Advocates (ORA).

## DISCUSSION

Cal Water seeks authorization to recover the balance in the DRMA from each of its twenty three districts. The recorded DRMA balance in AL 2226 is \$4,243,266. After discussions with ORA, Cal Water filed supplement AL 2226-A, which reduced the DRMA balance by \$1,298,100, for a revised total balance of \$2,945,166. The purpose of the DRMA is to track expenses directly associated with complying and implementing the mandatory conservation measures, which includes expenses for public relations and conservation education, as well as operations and labor expenses. Customer penalties from water waste violations are also included as an offset to included expenses.

The \$1,298,100 reduction in AL 2226-A is comprised of removal of leak repairs, payroll benefit allocation included in error, accounting reclassification errors, non-drought-specific paid time errors, expense cap corrections, bonus accrual errors, and the addition of customer penalties. The reduction also removes overlap with Cal Water's pending General Rate Case (GRC): Application (A.) 15-07-015 with district-specific surcredit adjustments.<sup>1</sup>

Water Division reviewed the expenses in the DRMA balance by examining the supporting workpapers and requesting copies of invoices to verify costs and reasonableness. The type of expenses tracked in the DRMA range from drought communications and advertising to drought-related IT work and implementation of a Drought Call Center.

After verifying the balances of the DRMA, Water Division reviewed the calculations for the surcharges and surcredit adjustments. Cal Water correctly calculated the surcharges based on adopted sales from Decision (D.) 14-08-011 and subsequently approved advice letters. Flat-rate surcharges convert the metered surcharge to a flat surcharge by using adopted usage in D.14-08-011. As a result, the surcharges, over an amortization period

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<sup>1</sup> AL 2226 originally had non-payroll expenses that Cal Water intended to remove from its pending A.15-07-015 GRC once AL 2226 was approved. Supplement AL 2226-A instead removes them from this advice letter request and leaves the GRC expenses as-is.

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of twelve months, are \$0.1183 per CCF in Antelope Valley, \$0.0208 in Bayshore, \$0.0219 in Bear Gulch, \$0.0230 in Bakersfield, \$0.0222 in Chico, \$0.0222 in Dixon, \$0.0220 in Dominguez, \$0.0222 in East Los Angeles, \$0.0202 in Hermosa Redondo, \$0.0213 in Kern River Valley, \$0.0206 in King City, \$0.0185 in Livermore, \$0.0226 in Los Altos, \$0.0226 in Marysville, \$0.0213 in Oroville, \$0.0207 in Palos Verdes, \$0.0208 in Redwood Valley, \$0.0227 in Selma, \$0.0206 in Salinas, \$0.0218 in Stockton, \$0.0208 in Visalia, \$0.0221 in Willows, and \$0.0217 in Westlake. The flat rate surcharges over a period of twelve months are \$0.91 per month for flat rate customers in Bakersfield, \$0.40 in Marysville, and \$0.85 in Selma.

We concur in Water Division's findings that the revised DRMA balance and surcharges are accurate and Cal Water's request to amortize the DRMA is just and reasonable.

## SAFETY CONSIDERATIONS

The recovery of the balance in Cal Water's DRMA 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

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

Accordingly, this Proposed Resolution was mailed for public comment.

## FINDINGS AND CONCLUSIONS

1. On July 15, 2016, California Water Service Company (Cal Water) filed Advice Letter (AL) 2226 to request amortization of its Drought Memorandum Account (DRMA) for a total of \$4,243,266 from its twenty three districts. Cal Water filed supplement AL 2226-A on October 12, 2016 to request to recover in rates the revised amount of \$2,945,166 by adding surcharges to be recovered over twelve months as shown in Appendix A attached to this Resolution.
2. The DRMA tracks expenses associated with the compliance and implementation of mandatory conservation measures.

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3. Protests were received for AL 2226.
4. On August 4, 2016, Water Division suspended AL 2226.
5. Supplement AL 2226-A reduces the balance for recovery by \$1,298,100 to reflect discussions with the Office of Ratepayer Advocates (ORA).
6. Water Division finds the AL 2226-A balance of the DRMA and the resulting surcharges over a period of twelve months, attached to this Resolution as Appendix A, to be just and reasonable.
7. California Water Service Company should be authorized to file a supplemental Advice Letter to incorporate the rate schedules attached to this Resolution as Appendix A and to concurrently cancel its presently effective rate schedules.

### **THEREFORE IT IS ORDERED THAT:**

1. California Water Service Company is authorized to recover the balance of its Drought Memorandum Account for a total of \$2,945,166 from its twenty three districts over a period of twelve months.
2. Authority is granted under Public Utilities Code Section 454 to California Water Service Company to file a supplemental Advice Letter incorporating the Rate Schedules attached to this Resolution as Appendix A and to concurrently cancel its presently effective Rate Schedules. The effective date of the Rate Schedules shall be January 1, 2017.

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 December 15, 2016; the following Commissioners voting favorably thereon:

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TIMOTHY J. SULLIVAN  
Executive Director

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**WD**

**December 15, 2016**

## APPENDIX A California Water Service Company

(N)

### Schedule No. AS ADDITIONAL SURCHARGES/SURCREDITS (continued)

#### **3. Recovery for 2014-2015 Drought Expenses**

The following surcharges will be applied to all regulated customers, including Grand Oaks, for a period of twelve months starting Jan. 1, 2017 in order to recover expenses incurred for drought activities in 2014-2015 tracked in the Drought Memo Account (DRMA).

District	A DRMA Surcharge per CCF (Metered Customers)	B DRMA Surcharge per month (Flat-Rate Customers)
Bayshore	\$0.0208	
Redwood Valley	\$0.0208	
Bear Gulch	\$0.0219	
Bakersfield	\$0.0230	\$0.91
Chico	\$0.0222	
Dixon	\$0.0222	
Dominguez	\$0.0220	
East Los Angeles	\$0.0222	
Hermosa Redondo	\$0.0202	
Kern River Valley	\$0.0213	
Livermore	\$0.0185	
Los Altos	\$0.0226	
Antelope Valley	\$0.0207	
Palos Verdes	\$0.0207	
Marysville	\$0.0226	\$0.40
King City	\$0.0206	
Salinas	\$0.0206	
Oroville	\$0.0213	
Selma	\$0.0227	\$0.85
Stockton	\$0.0218	
Visalia	\$0.0208	
Willows	\$0.0221	
Westlake	\$0.0217	
Grand Oaks	\$0.0230	

(N)

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*(End)*

**END OF APPENDIX A**

## 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-5122 on all parties in these filings or their attorneys as shown on the attached lists.

Dated November 14, 2016, at San Francisco, California.

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/s/ KAREN NG

Karen Ng

Parties should notify the Water Division, Third Floor, 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.

**CALIFORNIA WATER SERVICE COMPANY  
ADVICE LETTER NO. 2226-A  
SERVICE LIST**

**By E-Mail:**

Darin Duncan  
California Water Service Company  
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