

WATER/RSK/JB5/TS2/jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch

RESOLUTION NO. W-4910
March 22, 2012

R E S O L U T I O N

(RES. W-4910), GREAT OAKS WATER COMPANY (GOWC). ORDER AFFIRMING THE DIVISION OF WATER AND AUDITS' (DWA) DISPOSITION DENYING AUTHORITY TO AMORTIZE GOWC'S MONTEREY-STYLE WATER REVENUE ADJUSTMENT MECHANISM (MONTEREY-STYLE WRAM).

SUMMARY

This resolution denies GOWC the authority to recover in rates, as requested by Advice Letter (AL) 217-W filed on November 15, 2011, the amount of \$242,255. The increase requested is to amortize the balance in GOWC's Monterey-style WRAM resulting from the difference between tiered quantity rates and a uniform, single quantity rate. On November 18, 2011, the Division of Water and Audits (DWA) issued a letter rejecting without prejudice AL 217-W on grounds that the amortization request is inconsistent with the rate mechanism the Commission has authorized for GOWC, which is a Monterey-style WRAM. On November 30, 2011, GOWC requested Commission review of the DWA's rejection of AL 217-W. We affirm the DWA's rejection of AL 217-W.

BACKGROUND

In AL 217-W, GOWC requested authority to amortize its Monterey-style WRAM, which the Commission authorized in Decision (D.) 10-11-034, by implementing a surcharge of \$0.0728 per Ccf to single-family residential customer bills for a twelve-month period of time beginning November 15, 2011. GOWC has not implemented the requested surcharge pending resolution of its appeal of the rejection of AL 217-W. The amount to be collected through the surcharge represents 1.86% of GOWC's total revenue requirement and 2.91% of the single-family residential revenue requirement. GOWC claims D.10-11-034 allows the utility to track and seek recovery of lost revenues,

resulting from the implementation of conservation rates, derived from both the metered service charge and quantity charge.¹

On November 18, 2011, the DWA issued a letter rejecting without prejudice AL 217-W on grounds that the amortization request is inconsistent with the rate mechanism the Commission authorized for GOWC, which is a Monterey-style WRAM. On November 30, 2011, GOWC requested Commission review of the DWA's rejection of AL 217-W.

NOTICE AND PROTESTS

GOWC gave public notice of its rate increase request via newspaper notice and customer bill inserts, per General Order 96-B (GO 96-B), Water Industry Rule 3.1 and General Rule 4.2. The publication and bill inserts indicate the proposed increases to the applicable rate schedules.

GOWC served copies of AL 217-W in accordance with GO 96-B, Water Industry Rule 4.1 and General Rules 4.3 and 7.2. Service was provided to GOWC's Service List.

DISCUSSION

We affirm the DWA's determination that GOWC's amortization request is inconsistent with the Monterey-style WRAM the Commission authorized for GOWC in D.10-11-034. As we explain below, the Monterey-style WRAM does not allow for the tracking and potential amortization of revenues recovered through the meter service charge.

In AL 217-W, GOWC requests Commission approval to amortize its Monterey-style WRAM but incorrectly includes recovery of \$60,700.69 in metered service charge revenue. The Commission initially adopted a Monterey-style WRAM for California American Water Company in 1996 in D.96-12-005.² More recently, the Commission

¹ In support of this argument, GOWC cites to D.10-11-034, Ordering Paragraph No. 9, which states: "Great Oaks Water Company...shall file a Tier 2 advice letter with implementing tariff pages to create a Monterey-style water revenue adjustment mechanism that tracks and corrects for the difference between revenue collected under conservation rates and revenue that would have been collected under uniform rate design". We note that Ordering Paragraph 9 explicitly orders GOWC "to create a Monterey-style water revenue adjustment mechanism", and, as we explain below, the Monterey-style WRAM only allows for the tracking and potential amortization of lost revenues derived from the quantity charge.

² There, the Commission authorized the ratemaking mechanism in the context of implementing conservation rates for California American Water Company's Monterey District. In subsequent conservation rate design proceedings and settlements, the Commission has authorized balancing account mechanisms styled after and consistent with the Monterey-style WRAM it authorized for California American Water Company's Monterey District, and these mechanisms have come to generally be referred to as the "Monterey-style WRAM".

adopted Monterey-style WRAMs for several other utilities: San Jose Water Company (SJWC) in D.08-08-030, Suburban Water Systems (SWS) in D.08-02-036, and San Gabriel Valley Water Company (SGVWC) in D.10-04-031.³ In all these decisions, the Monterey-style WRAM only tracks and allows for the potential amortization of the difference between revenue the utility receives for actual metered sales through the tiered volumetric rate and the revenue the utility would have received through a uniform, single quantity rate if such a rate had been in effect.⁴ As the Commission explained when authorizing the Monterey-style WRAM in the past:

The balancing account [i.e., Monterey-style WRAM] will track the actual water amount sold in a month and apply the single quantity rate to result in an adjusted revenue amount for that month. The difference between the adjusted revenue and the actual revenue will be reflected in the balancing account [i.e., Monterey-style WRAM]. The account will not track revenues recovered through the service charge. (Emphasis added.)⁵

In D.10-11-034, Ordering Paragraph 9, the Commission explicitly directed GOWC to “file a Tier 2 advice letter... to create a Monterey-style [WRAM]”. Also, in discussion in this decision, the Commission clearly explained that the Monterey-style WRAM it is

³ D.08-08-030, Ordering Paragraph 1 and the discussion on p. 22; D.08-02-036, Ordering Paragraph 1 and the discussion on p. 25; and D.10-04-031, Ordering Paragraph 4 and the discussion on page 34.

⁴ The reason the Commission has set up this balancing account mechanism in the Monterey-style WRAM is to promote conservation. One of the Commission’s goals in establishing conservation rates is to have the utility recover more of its revenues through the quantity charge (where the amount of the revenues received will vary with consumption) rather than the metered service charge (which is a fixed, monthly amount). The Monterey-style WRAM provides an incentive to a utility to promote conservation by allowing the utility to track and seek amortization of losses in revenues (as a result of establishing conservation rates) derived from the quantity charge. The Monterey-style WRAM is not set up to track and allow for potential recovery of losses in revenues from the metered service charge because allowing for this tracking and potential recovery would remove the incentive a utility has in promoting conservation.

⁵ D.08-08-030, footnote 30. Also, D.10-04-031, foot note 107, contains nearly identical language. Furthermore, the settlement agreements the Commission adopted in the above mentioned decisions make clear that the Monterey-style WRAM does not include revenues recovered through the metered service charge. For example, the settlement agreement resulting in the SJWC’s Monterey-style WRAM adopted in D.08-08-030 states: “The Parties propose that the Commission authorize San Jose to open a balancing account that is a ‘price-based’ revenue adjustment mechanism. The mechanism is ‘price-based’ in that the goal is to adjust San Jose’s revenues for the difference between the current single quantity rate and the proposed conservation rates for actual quantities sold. This pricing adjustment mechanism is different from a ‘conventional’ water revenue adjustment mechanism that completely decouples revenues from sales. The proposed mechanism for San Jose is the same type of balancing account that the Commission adopted for California American Water’s WRAM for its Monterey District (also referred to as a ‘Monterey-style WRAM’).”

authorizing for GOWC is styled after and consistent with the Monterey-style WRAMs the Commission has authorized in D.96-12-005, D.08-08-030, D.08-02-036 and D.10-04-031 (which did not allow for the tracking and amortization of revenues recovered through the metered service charge). The Commission stated:

...[DRA] recommends the WRAM balancing account styled after California-American Water Company's Monterey District (generally referred to as a Monterey-style WRAM) as this is sufficient to ensure Great Oaks does not have a financial disincentive to implement the conservation rate design DRA proposes. The Commission has previously adopted the Monterey-style WRAM for San Jose Water Company in D.08-08-030, for Suburban Water Systems in D.08-02-036, and most recently for the Fontana and Los Angeles County divisions of San Gabriel Valley Water Company in D.10-04-031.⁶ ...

...

We agree with DRA that a Monterey-style WRAM is the appropriate mechanism for Great Oaks to adopt in conjunction with the Commission's introduction of conservation rate design.

(D.10-11-034, pp. 57-8.) The Commission went on to state:

Based on the discussion above, we find that adoption of a Monterey-style WRAM is the appropriate mechanism for Great Oaks. Therefore, we adopt DRA's recommendation and direct that Great Oaks file tariff pages consistent with the mechanism we have previously approved for other water utilities and implement the Monterey-style WRAM and the conservation rate design on the same date...

(D.10-11-034, p 61.) As we discuss above, the Monterey-style WRAM, which is the ratemaking mechanism the Commission has adopted for Great Oaks in D.10-11-034, does not allow for the tracking and potential amortization of revenues recovered in the metered service charge. Thus, GOWC should remove the metered service charge

⁶ DRA explained "that the Monterey-style WRAM is appropriate for Great Oaks as it removes the utility's disincentive to implement an increasing block rate design to encourage water conservation while, consistent with the Commission's standard rate design, leaves Great Oaks at risk for lost revenues from decreased sales and allows Great Oaks to retain excess revenues from increased sales". (D.10-11-034, p. 58.) DRA did not support a full WRAM that would decouple sales from revenues because it explained that "Great Oaks is not under a production limitation, has not implemented a conservation program, does not actively encourage its customers to conserve, and its recorded consumption data do not show its customers have significantly conserved." (*Id.*)

revenue from its request to amortize its Monterey-style WRAM, when it files for recovery of balances.

In its request for review, GOWC argues that the Commission “incorporated by reference” no other decisions in D.10-11-034.⁷ As we discuss above, in D.10-11-034 the Commission referenced to D.96-12-005, D.08-08-030, D.08-02-036, and D.10-04-031 specifically for the purpose of explaining that it was authorizing a Monterey-style WRAM for GOWC consistent with the Monterey-style WRAMs the Commission adopted in these decisions. Also, GOWC maintains that each Monterey-style WRAM the Commission has authorized “has differences”.⁸ However, the “differences” GOWC points to are irrelevant to the issue at hand.⁹ More importantly, GOWC ignores the fundamental fact that the balancing mechanism the Commission has authorized is the same in all these decisions in that it uses *only* revenues from quantity rates to track dollars for potential recovery. In future requests for amortization of its Monterey-style WRAM, GOWC should not include recovery of meter service charge revenues, for all the reasons we discuss above.

Also, GOWC argues that the DWA looked to D.96-12-005, D.08-08-030, D.08-02-036, and D.10-11-034 to reject its request and held GOWC to standards established for other water utilities and not GOWC, in violation of due process requirements. As we discuss above, DWA rejected AL 217-W because it did not comply with the Monterey-style WRAM the Commission authorized for GOWC in D.10-11-034, and this Monterey-style WRAM is consistent with and styled after the Monterey-style WRAMs the Commission authorized in these other decision. Thus, there is no due process violation. GOWC also claims that the Commission has not established standards for conservation rates and the Monterey-style WRAMs, and if the Commission were to establish these standards, GOWC should be a party to the proceeding(s), along with all other water utilities. Contrary to GOWC’s arguments, the Commission has in fact opened such a proceeding in order to set standards for conservation rates and ratemaking mechanism like the

⁷ November 30, 2011 Request for Review of Industry Rejection of Great Oaks Water Company Advice Letter 217-W, p. 1.

⁸ November 30, 2011 Request for Review of Industry Rejection of Great Oaks Water Company Advice Letter 217-W, p 3.

⁹ GOWC argues that the SJWC and SWS Monterey-style WRAMs lack a metered service charge differential between tiered rates and the uniform rate and that SGVWC’s Monterey-style WRAM has a variation in the quantity charge for calculating the balance. In the first instance, the metered service charge is not captured in any Monterey-style WRAMs (including those adopted for SJWC and SWS) that the Commission has authorized, so this difference has no bearing on how the Monterey-style WRAM operates. Similarly, in the second instance, the variation in the quantity charge does not affect the fundamental operation of the Monterey-style WRAM.

Monterey-style WRAM. This proceeding is the Commission's Order Instituting Investigation to Consider Policies to Achieve the Commission's Conservation Objectives for Class A Water Utilities (I. 07-01-022), which issued D.08-08-030 and D.08-02-036.¹⁰ Furthermore, GOWC was not only provided notice of this proceeding but was in fact made a party to this proceeding, along with all the other Class A Water Utilities.¹¹

Finally, GOWC calculates the two percent threshold for amortizing the Monterey-style WRAM using only the single-family residential revenue requirement. This is not consistent with what the Commission has allowed other utilities to do, which is to use total revenues, and not just single-family revenues, to calculate whether the two percent threshold is met.¹² GOWC should submit a Tier 2 advice letter with a new tariff sheet for Preliminary Statement J, Monterey-style Water Revenue Adjustment Mechanism, clarifying that the two percent threshold is based on total authorized revenues.

¹⁰ The Commission discussed its objectives and goals concerning water revenue adjustment mechanisms (WRAMs) in section 2.2 of I.07-01-022. As the Commission stated in this section, one of the questions its investigation would address is "[w]hat methodology for a WRAM should be adopted" and if "all revenue [should] fall under a WRAM or just some subset". (I.07-01-022, p. 6.) In I.07-01-022, the Commission consolidated several pending conservation rate design applications that were already underway when the Commission launched I.07-01-022. The Commission decided to address (in the first phase of this proceeding) rate-related conservation objectives in the process of addressing these consolidated applications and ordered the utilities that were made respondents to discuss (in settlement agreements or motions) specific issues, such as revenues to be included in the WRAM. (D.08-02-036, pp.6-8.)

¹¹ (OII. 07-01-022) OP #2: All Class A Water Utilities are made respondents to this investigation. We note that GOWC chose not to actively participate in this proceeding. GOWC is also on the service list to this proceeding.

¹² See, e.g., D.96-12-005, Ordering Paragraph #9 states, "Cal-Am is authorized to establish a new balancing account to record the variations in revenue incurred under the Water Revenue Adjustment Mechanism, with any balance to accrue interest at the 90-day commercial paper rate. Cal-Am is further authorized to file an advice letter to amortize any such balance at any time the balance exceeds 5% of gross annual revenues and is anticipated to exceed 5% of gross annual revenues within the following six months for the Monterey District." (Emphasis added.) Also, see, e.g., D.08-02-036, which states for Suburban on page 25, "The over- or under-collection of revenues will be amortized consistent with Standard Practice U-27-W, once the threshold of 2% of the tracked revenue requirement is reached. In Suburban's request to amortize its Monterey-style WRAM in AL 285-W, it used its total adopted revenue requirement to calculate the 2% threshold. Also, see, e.g., D.10-04-031, Ordering Paragraph #9 states, "If the water revenue adjustment mechanism over- or undercollection for either ratemaking division exceeds 2% of that area's total authorized revenue requirement for the preceding calendar year, a tier 1 advice letter shall be filed within 30 days by San Gabriel Valley Water Company that requests amortization of the balance in the account, which applies only to the residential class of customers. If the percentage is 2 or less, San Gabriel Valley Water Company shall propose amortizing in the next General Rate Case."

COMMENTS

Public Utilities Code Section 311(g)(1) generally requires that resolutions must be served on all parties and be subject to at least 30 days public review and comment prior to a vote of the Commission. This resolution was mailed on February 22, 2012 to the parties on the service list attached to AL 217-W. Comments were received from the Division of Ratepayer Advocates (DRA) and GOWC, both on March 12, 2012.

DRA supports the draft resolution and advocates that the Commission adopt it, as is. GOWC opposes the draft resolution for reasons similar to those it made in its request for review of DWA's rejection of AL 217-W. In addition, GOWC maintains that the Monterey-style WRAM the Commission adopted in D.96-12-005 authorized tracking of lost service charge revenues. This is incorrect. As reflected in the settlement agreement setting forth the Monterey-style WRAM the Commission adopted in D.96-12-005, only the quantity charge revenues are to be tracked and potentially recovered.¹³ Thus, we find that no changes are needed in response to GOWC's comments. We have, however, edited the draft resolution to further clarify our arguments in support of DWA's determination.

FINDINGS AND CONCLUSIONS

1. On November 15, 2011, Great Oaks Water Company filed Advice Letter 217-W to request amortization of its Monterey-style Water Revenue Adjustment Mechanism. Great Oaks Water Company requests recovery in rates of \$242,255.30 by adding a surcharge of \$0.0728 per 100 cubic feet to single-family residential bills for a twelve-month period beginning November 15, 2011.
2. On November 18, 2011, the Division of Water and Audits issued a letter rejecting without prejudice Advice Letter 217-W on grounds that the amortization request was inconsistent with the rate mechanism the Commission authorized for Great Oaks Water Company in Decision 10-11-034, which is the Monterey-style Water Revenue Adjustment Mechanism.

¹³ The settlement agreement adopted in D.96-12-005 states: "The monthly fixed service charge for residential customers is designed under the current alternative rate design to produce one-half of the total amount that would be recovered under a normal rate design. This is accomplished by charging residential customers one-half of the fixed monthly service charge that will be charged to all other customers. The remaining one-half of the normal fixed monthly service charge that will not be recovered through the monthly residential service charge will be recovered by an additional quantity charge on all consumption. The additional quantity charge is designed to recover the remaining one-half based on total estimated residential consumption as estimated in this stipulation. All variations in the revenue produced due to total consumption variation will be booked to the WRAM account." (Emphasis added. 1996 Cal. PUC LEXIS 1066, at *58-59.)

3. Great Oaks Water Company filed a timely request for Commission review of the Division of Water and Audits' disposition of Advice Letter 217-W on November 30, 2011.
4. Great Oaks Water Company's request to amortize its Monterey-style Water Revenue Adjustment Mechanism in Advice Letter 217-W should be rejected without prejudice as this request is inconsistent with the Monterey-style Water Revenue Adjustment Mechanism the Commission authorized for Great Oaks Water Company in Decision 10-11-034.
5. In Decision 10-11-034, the Commission authorized a Monterey-style Water Revenue Adjustment Mechanism for Great Oaks Water Company styled after and consistent with the Monterey-style Water Revenue Adjustment Mechanisms the Commission authorized in D.96-12-005, D.08-08-030, D.08-02-036, and D.10-04-031.
6. The Monterey-style Water Revenue Adjustment Mechanisms the Commission authorized in D.10-11-034, D.96-12-005, D.08-08-030, D.08-02-036, and D.10-04-031 track, and allow for the potential amortization of, the difference between the tiered conservation quantity rates and the uniform, single quantity rate (that would have been received had the uniform, single quantity rate been in effect).
7. The Monterey-style Water Revenue Adjustment Mechanisms the Commission authorized in D.10-11-034, D.96-12-005, D.08-08-030, D.08-02-036, and D.10-04-031 do not allow for the tracking and amortization of revenues recovered through the metered service charge.
8. The Commission's practice has been to authorize that the Monterey-style Water Revenue Adjustment Mechanism be amortized only after the balance exceeds a threshold based on a percentage of a utility's entire (i.e., gross) revenue requirement and not just the single-family residential revenue.
9. Great Oaks Water Company should submit a Tier 2 advice letter with a new tariff sheet for Preliminary Statement J, Monterey-style Water Revenue Adjustment Mechanism, clarifying that the two percent threshold is based on total authorized revenues.
10. In future requests for amortization of its Monterey-style Water Revenue Adjustment Mechanism, Great Oaks Water Company should not include recovery of metered service charge revenues.
11. The Draft Resolution was circulated for public comment pursuant to Public Utilities Code Section 311(g) (1).

THEREFORE IT IS ORDERED THAT:

1. Great Oaks Water Company's request to amortize its Monterey-style Water Revenue Adjustment Mechanism through Advice Letter 217-W is rejected without prejudice.
2. Great Oaks Water Company is ordered to file a Tier 2 advice letter within 10 days of the effective date of this Resolution incorporating a new tariff sheet for Preliminary Statement J, Monterey-style Water Revenue Adjustment Mechanism, clarifying that the two percent threshold is based on total authorized revenues. The revised tariff sheet is to be effective as of the effective date of this Resolution.
3. In future requests for amortization of its Monterey-style Water Revenue Adjustment Mechanism, Great Oaks Water Company shall exclude recovery of meter service charge revenues.
4. 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 March 22, 2012; the following Commissioners voting favorably thereon:

/s/ PAUL CLANON

Paul Clanon
Executive Director

MICHAEL R. PEEVEY
President

TIMOTHY ALAN SIMON
MICHEL PETER FLORIO
CATHERINE J.K. SANDOVAL
MARK J. FERRON
Commissioners