

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**



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Order Instituting Rulemaking on the Commission's Own Motion into Addressing the Commission's Water Action Plan Objective of Setting Rates that Balance Investment, Conservation, and Affordability for the Multi-District Water Utilities of: California-American Water Company (U210W), California Water Service Company (U60W), Del Oro Water Company, Inc. (U61W), Golden State Water Company (U133W), and San Gabriel Valley Water Company (U337W).

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NOVEMBER 10, 2011  
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R.11-11-008

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**REPLY COMMENTS OF CALIFORNIA WATER SERVICE COMPANY (U-60-W)**

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Dated: March 22, 2012

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**I. INTRODUCTION**

Pursuant to Rule 6.2 of the Commission's Rules of Practice and Procedure ("Rules"), and the November 10, 2011 *Order Instituting Rulemaking into Addressing the Commission's Water Action Plan Objective of Setting Rates that Balance Investment, Conservation, and Affordability for Multi-District Water Utilities* ("OIR"), California Water Service Company (U 60 W) ("Cal Water") submits these Reply Comments in response to Comments filed by parties on March 1, 2012.

Cal Water is in agreement with many aspects of the Comments submitted in response to the OIR. The Comments clearly reflect parties' willingness to engage in a thoughtful discussion of the issues, and also reflects their commitment to achieving the appropriate balance between investment, conservation, and affordability consistent with the Commission's sixth objective of the Water Action Plan. Importantly, a consistent underlying concern of the parties is the careful

development or modification of any consolidation policies and support mechanisms so that different fact circumstances lead appropriately to different outcomes. Cal Water wholeheartedly supports this cautious approach, given our already-complicated regulatory processes, and the potential for unintended consequences.

Given the breadth of issues raised by parties that merit in-depth analysis, Cal Water supports the process envisioned in the preliminary Scoping Memo, also championed by several parties, for further exploration through workshops.<sup>1</sup> Accordingly, Cal Water limits its Reply Comments to a handful of observations below.

## II. DISCUSSION

*Question 1 – Identify current mechanisms utilized to subsidize rates and prevent rate shock, such as low income rates and rate support funds. Are these current mechanisms adequate to address ratepayer needs in general? Do these current mechanisms achieve an appropriate balance between utility investments, conservation and affordability of rates?*

**Rate Support Fund (“RSF”):** Cal Water welcomes review of its Rate Support Fund, and further discussions about possible modifications and/or expansions to develop a similar mechanism for other companies. Cal Water also suggests further exploration of possible cost consolidation approaches, such as those suggested by California-American Water Company (“California-American”) and Golden State Water Company (“Golden State”), as well as Cal Water.<sup>2</sup>

**Sinking Fund:** DRA describes a “Sinking Fund” as “a type of savings account where funds are collected in advance via a surcharge and set aside for emergencies or infrastructure

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<sup>1</sup> With the premium on resources that all potential workshop participants are likely experiencing, it would be valuable to use parties’ comments to narrow the issues for discussion, rather than broadening them. For example, given the notable lack of support for an industry-wide water high cost fund modeled after those in the telecommunications industry, it may be appropriate to give this option a lower priority in workshop discussions.

<sup>2</sup> California-American Water Company (“California-American”) Comments at 5; Golden State Water Company (“Golden State”) Comments at 13, and; Cal Water Comments at 7-10.

improvements.”<sup>3</sup> Cal Water has found that, among the many challenges of acquiring and maintaining small water systems with historically insufficient investment, the costs associated with improving water quality in particular can become prohibitive. A kind of water quality “sinking fund” may be appropriate when applied to specific circumstances. For example, the Commission could facilitate necessary investments in small water systems with significant water quality issues by authorizing a sinking fund, created through surcharges across a broad customer base, that could offset costs while the water quality project (or other appropriate project) is being completed.

*Question 2 – Should the Commission modify the existing 1992 consolidation guidelines, as described in D.05-09-004? If so, what specific modifications are warranted and what are the justifications for those modifications?*

While Cal Water agrees with many of DRA’s comments regarding the goals and principles of consolidation, such as the continuing need for case-by-case analyses, potential flexibility in applying the proximity criterion,<sup>4</sup> DRA refers several times to the need for “actual cost savings” if a consolidation is considered.<sup>5</sup> For example, DRA offers qualified support for the Commission’s review of the consolidation guidelines “when such consolidations achieve real economies of scale, efficiencies and actual cost savings.”<sup>6</sup> Because DRA’s intent in referring to “actual cost savings” is unclear, Cal Water emphasizes that there may be sufficient benefits to merit rate consolidation, without operational consolidation, if the rate impact of such consolidation is small.

As an unrelated matter, several parties noted the need for a common understanding of the appropriate terminology for discussion of these issues. For example, California-American highlights the difficulty of using the term “subsidization” in discussions about the issue in this

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<sup>3</sup> Division of Ratepayer Advocate (“DRA”) Comments at 11.

<sup>4</sup> DRA Comments at 15.

<sup>5</sup> DRA Comments at 15.

<sup>6</sup> DRA Comments at 15.

proceeding.<sup>7</sup> Given that “subsidies” and “cross-subsidization” are words with loaded political and regulatory connotations that go beyond the technical definitions, Cal Water agrees that the cost-sharing implicit in consolidation should be distinguished from the explicit subsidies generally provided by existing low-income and high-cost-type funds. Cal Water also supports the recommendation by the National Law Center (“NCLC”) and The Utility Reform Network (“TURN”) that parties use the term, “consolidation,” consistently,<sup>8</sup> or urges the parties to routinely clarify the specific kind of consolidation (e.g., operational consolidation vs. single tariff treatment vs. cost consolidation) under discussion, in order to prevent unnecessary confusion.

*Question 4 – What advantages and disadvantages, if any, would result from implementing a “High-Cost” fund? How could such a “High-Cost” fund operate?*

A review of the CAPS standard procedure memos provided by DRA in attachments to its Comments raises another possible use of a modest “high cost” fund. As illustrated on page 2 of the January 23, 1992 memorandum, there are different ways to recover deferred revenue when high adopted rates in a district are phased-in over time. Rather than first implementing lower-than-adopted rates, and then eventually increasing rates above adopted levels in order to recover deferred revenue, the Commission could allow deferred revenue to be recovered through a high cost fund drawn from a broader base of customers within a company. The benefits of this approach would be that use of the high cost fund would be temporary, targeted, and could be designed to have minimal impacts on ratepayers contributing to the fund.

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<sup>7</sup> California-American Comments at 2, note 1.

<sup>8</sup> National Consumer Law Center (“NCLC”) and The Utility Reform Network Comments (“TURN”) at 13.

### III. CONCLUSION

Cal Water looks forward to further discussion of these and other issues in workshops.

Respectfully Submitted,

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