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BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Application of California American Water Company (U210W) for Authorization to Implement the Carmel River Reroute and San Clemente Dam Removal Project and to Recover the Costs Associated with the Project in Rates.

A.10-09-018

(Filed September 22, 2010)

**CALIFORNIA-AMERICAN WATER COMPANY
NOTICE OF EX PARTE COMMUNICATIONS**

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Dated: February 16, 2012

Attorney for Applicant
California-American Water Company

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NOTICE OF EX PARTE COMMUNICATIONS**

Pursuant to Article 8 of the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission”), California-American Water Company (“California American Water”) hereby files this notice of ex parte communications conveyed during an all-party meeting. The all-party meeting was attended by interested parties, including California American Water, the Division of Ratepayer Advocates, and the Planning Conservation League Foundation. The meeting was attended by the following Commissioners: 1) President Michael R. Peevey;¹ 2) Commissioner Timothy Alan Simon; 3) Commissioner Mike Florio; 4) Commissioner Catherine J.K. Sandoval; and 5) Commissioner Mark J. Ferron. The following Commissioner chief of staff and advisors² and the assigned administrative law judge (“ALJ”) were also in attendance: 1) Lester Wong, Advisor to President Peevey; 2) Lauren Saine, Advisor to Commissioner Simon; 3) Marcelo Poirier, Legal Advisor to Commissioner Florio; 4) Stephen St. Marie, Advisor to Commissioner Sandoval; 5) Charlotte TerKeurst, Chief of Staff to

¹ President Peevey attended the meeting via video conference. All other commissioners attended in person.

² Other decision makers may have been present; however, due to the large number of people in attendance this notice may not fully report all decision makers who were present.

Commissioner Ferron; 6) Michael Colvin, Advisor to Commissioner Ferron; and 7) ALJ Christine M. Walwyn.

On Monday, February 13, 2012, at approximately 2:00 p.m.³ California American Water representatives presented and responded to questions from the above-mentioned Commissioners at the Main Auditorium of the Commission at 505 Van Ness Avenue, in San Francisco⁴ regarding the revised proposed decision (“RPD”) issued by ALJ Walwyn. California American Water’s communications were both oral and written. The meeting lasted for approximately 1.5 hours. The following California American Water representatives⁵ and partners were in attendance: 1) Lori Anne Dolqueist, Counsel to California American Water, Manatt, Phelps & Phillips, LLP; 2) Sarah E. Leeper, Vice President – Legal, Regulatory, California American Water; 3) Richard C. Svindland, Director of Engineering, California American Water; 4) David P. Stephenson, Director of Rates, California American Water; and 5) Joyce Ambrosius, Central Coast Supervisor – Protected Resources Division, National Oceanic and Atmospheric Administration (“NOAA”).⁶

Ms. Dolqueist discussed the following items: (a) the project’s timeline and mandatory actions and expenses California American Water incurred throughout the years in developing a project and maintaining dam safety; (b) the reasonableness and necessity of these incurred costs; (c) California American Water’s opposition to a “hard” cost cap due to the unique nature of the proposed project; and (d) the RPD’s unjustified ratemaking treatment of California

³ Due to technical difficulties, the meeting did not commence until approximately 2:00 p.m. The meeting was originally scheduled to begin at 1:30 p.m. The meeting concluded at approximately 3:30 p.m.

⁴ The Commission originally scheduled the meeting to take place in Hearing Room C; however, due to the number of people in attendance, the meeting was moved to the main auditorium.

⁵ California American Water President Robert G. MacLean and Jeffrey T. Linam, Vice President of Finance, attended the meeting but did not speak.

⁶ Trish Chapman, Central Coast Regional Manager, California Coastal Conservancy, was in attendance and available to make comments. However, due to time constraints, she did not have the opportunity to speak during the all-party meeting.

American Water's land donation to the Bureau of Land Management. Attached hereto as Attachment A is Ms. Dolqueist's statement from the ex parte meeting on the above-mentioned topics.

Ms. Dolqueist argued that *all* of the costs that California American Water had incurred were necessary to comply with directives and requirements from government agencies such as the Department of Water Resources Division of Safety of Dam ("DSOD"), the NOAA, the Commission, and others. California American Water had no choice but to incur these costs as they were *not* discretionary. Furthermore, these costs are fully documented in the record. California American Water has provided copies of all invoices, background on all vendors, and an explanation of the work done by each vendor.

Ms. Dolqueist next addressed the reasonableness of the project costs tracked in the memorandum account. Without the costs that California American Water has been tracking in the memorandum account California American Water could not go forward with the Reroute and Removal Project. Ms. Dolqueist explained in detail that the costs were fully documented in the record of this proceeding, and in fact, the Division of Ratepayer Advocates had previously agreed to the reasonableness of the costs incurred prior to 2002. Furthermore, the requested return on the future investment required for the project is reasonable because California American Water cannot cover it with short-term debt and the recovery will take place over a long period. As such, California American Water will have to fund the project with long term debt and equity and the Commission should allow California American Water to recover its *actual* financing costs.

Ms. Ambrosius discussed the challenges in developing a dam removal option, the work that California American Water did with NOAA and other entities to develop a feasible

dam removal option, and NOAA and California American Water's continued and ongoing cooperative efforts to address the Dam's issues. Mr. Svindland commented on the used and usefulness of the dam from an engineering perspective. Mr. Svindland explained that the Dam is currently useful as a re-diversion point, and is available for use during high flow periods or an emergency. Mr. Stephenson explained the appropriateness of the accounting treatment of the historical costs as an asset, discussed past ratemaking treatment of the memorandum account costs (including CWIP and ratebase treatment), and commented on the project's impact on rates in the Monterey District and the recovery period proposed in California American Water's application. Finally, Ms. Leeper addressed the allegation in the RPD that California American Water had violated Rule 1.1 of the Commission's Rules of Practice and Procedure. Ms. Leeper argued that from a due process point of view, California American Water should be allowed the opportunity to respond to the allegation before the Commission adopted the procedure set forth in the RPD.

Two handouts entitled *Carmel River Reroute and San Clemente Dam Removal Project A. 10-09-018* and *San Clemente Dam Timeline/History of Key Activities – Events – Milestones* were provided at the meeting. These documents are attached hereto as Attachment B and Attachment C.

Dated: February 16, 2012

Respectfully submitted,

By: /s/ Sarah E. Leeper

Sarah E. Leeper

Attorney for Applicant

California-American Water Company