



**FILED**

03-14-11  
04:59 PM

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

Application of California American Water Company (U210W) for Authorization to Increase its Revenues for Water Service by \$4,134,600 or 2.55% in the year 2011, by \$33,105,800 or 19.68% in the year 2012, by \$ 9,897,200 or 4.92% in the year 2013, and by \$10,874,600 or 5.16% in the year 2014.

Application No. 10-07-007  
(Filed July 1, 2010)

**MOTION OF CALIFORNIA-AMERICAN WATER COMPANY FOR LEAVE TO  
PROVIDE SUPPLEMENTAL TESTIMONY ON RATE DESIGN FOR THE  
MONTEREY COUNTY DISTRICT**

Sarah Leeper  
Olivia Para  
California American Water  
333 Hayes St., Suite 202  
San Francisco, CA 94102  
Telephone: 415.863.2960  
Facsimile: 415.863.0615  
Email: sarah.leeper@amwater.com

Attorneys for Applicant  
California-American Water Company

Lori Anne Dolqueist  
Manatt, Phelps & Phillips, LLP  
One Embarcadero Center, 30<sup>th</sup> Floor  
San Francisco, CA 94111  
Telephone: (415) 291-7400  
Facsimile: (415) 291-7474  
Email: ldolqueist@manatt.com

Attorney for Applicant  
California-American Water Company

March 14, 2011

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

Application of California American Water Company (U210W) for Authorization to Increase its Revenues for Water Service by \$4,134,600 or 2.55% in the year 2011, by \$33,105,800 or 19.68% in the year 2012, by \$ 9,897,200 or 4.92% in the year 2013, and by \$10,874,600 or 5.16% in the year 2014.

Application No. 10-07-007  
(Filed July 1, 2010)

**MOTION OF CALIFORNIA-AMERICAN WATER COMPANY FOR LEAVE TO  
PROVIDE SUPPLEMENTAL TESTIMONY ON RATE DESIGN FOR THE  
MONTEREY COUNTY DISTRICT**

**I. INTRODUCTION**

Pursuant to Rule 11.1 of the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission”), California-American Water Company (“California American Water”) hereby submits this motion for a ruling granting it permission to provide supplemental testimony on rate design issues for the Monterey County District for consideration as part of this general rate case. Due to the lack of progress in Phase 3 of the Coastal Water Project proceeding (A.04-09-019), as well as the Monterey County District customers’ strong interest in rate design issues in this general rate case, it is critical that the Commission consider California American Water’s supplemental testimony on rate design so that the Commission may resolve the rate design issues by the end of the year.

**II. FACTUAL AND PROCEDURAL BACKGROUND**

On August 2, 2010, California American Water filed its rate design compliance filing and served supplemental direct testimony on rate design issues. At the time of the filing, California American Water did not include a rate design proposal for the Monterey County

District. Instead, California American Water recommended that the Commission consider all aspects of Monterey County District rate design, not just those specific to the desalination project, as part of the Coastal Water Project proceeding. David Stephenson, Director of Rate Regulation, explained:

The Coastal Water Project will have a substantial impact on Monterey customer rates and the rate design implications of the project are significant. Therefore, it is best to consider all Monterey County District rate design issues in this context.<sup>1</sup>

At the time that California American Water made its compliance filing, it expected that the Commission would set a schedule for Phase 3 of the Coastal Water Project proceeding that would allow it to issue a decision on a new rate design for the Monterey County District by the end of 2011. Mr. Stephenson specifically noted in his testimony that if the Commission did not adopt a Phase 3 schedule that provided for a decision by the end of 2011, California American Water would “*seek to have certain Monterey County District rate design issues resolved as part of this general rate case.*”<sup>2</sup>

On December 2, 2010, the Commission issued a decision in the Coastal Water Project proceeding, in which it adopted a settlement agreement and approved the Regional Desalination Project. In its decision, D.10-12-016, the Commission stated, “Cost allocation and rate design related to the Coastal Water Project will be addressed in Phase 3 of this proceeding and will be coordinated with Cal-Am’s current General Rate Case proceeding, Application (A.) 10-07-007.”<sup>3</sup> The Commission further explained that the “assigned Commissioner and ALJ will set a prehearing conference to determine the schedule for these issues.”<sup>4</sup>

---

<sup>1</sup> Supplemental Direct Testimony of David P. Stephenson, August 2, 2010 (“Stephenson Supplemental”), p. 2 (emphasis added).

<sup>2</sup> Stephenson Supplemental, p. 3.

<sup>3</sup> D.10-12-016, *In the Matter of the Application of California-American Water Company (U210W) for a Certificate of Public Convenience and Necessity to Construct and Operate its Coastal Water Project to Resolve the Long-Term Water Supply Deficit in its Monterey District and to Recover All Present and Future Costs in Connection Therewith in Rates*, 2010 WL 5033830 (“D.10-12-016, 2010 WL 5033830”), \*2.

<sup>4</sup> D.10-12-016, 2010 WL 5033830, \*72.

The assigned Commissioner and Administrative Law Judge have not yet set a prehearing conference or established procedural schedule for Phase 3 of the Coastal Water Project proceeding. At this point, even if a prehearing conference for Phase 3 were scheduled within the next few weeks, the Commission would not be able to issue a decision on rate design in that proceeding by the end of this year.

At the recent public participation hearings for the Monterey County District, several customers raised issues related to rate design. Customers described the current rate design as flawed, unfair and too expensive to administer. In particular, representatives of the hospitality industry – the number one economic driver in Monterey County – discussed the significant problems caused by the current rate design.<sup>5</sup> One customer, Ms. Bain, asked the Commission to “look at the water rate structure and find a solution that will be equitable and meet the needs of both business and residents”<sup>6</sup> – a sentiment that was shared by residential and commercial customers alike.

California American Water’s request to consider Monterey County District rate design issues would not require the Commission to delay the recently revised procedural schedule for the GRC.<sup>7</sup>

### **III. REQUESTED RELIEF**

California American Water requests permission to provide supplemental rate design testimony on March 22, 2011, at the same time it serves its rebuttal to testimony from DRA and intervenors. California American Water also requests that April 25, 2011 be set as the

---

<sup>5</sup> Reporter’s Transcript (“RT”) 396:22-398:7 (Zimmerman); RT 403:25-404:14 (Glidden); RT 415:7-13 (Cursio); RT 440:9-441:22, 442:14-18 (Narigi).

<sup>6</sup> RT 411:24-26 (Bain)

<sup>7</sup> On March 4, 2011, the *Ruling of the Assigned Administrative Law Judge Revising the Schedule and Seeking Additional Information from the Applicant* (“Ruling”) was issued. In the Ruling, Administrative Law Judge Rochester adopted a revised procedural schedule that California American Water and the Division of Ratepayer Advocates (“DRA”) proposed. The revised schedule allows more time for DRA’s consultant, Overland, to prepare its report on general office issues and adjusts certain other deadlines accordingly.

deadline for responsive testimony on Monterey County District rate design from DRA and intervenors.<sup>8</sup> Finally, California American Water requests that Monterey County District rate design be considered along with all other general rate case issues according to the schedule set forth in Administrative Law Judge Rochester's recent Ruling.

California American Water also offers to have one or more informational meetings on Monterey County District rate design for DRA and interested intervenors. In California American Water's experience, such meetings are very helpful to answer questions and identify and resolve issues.

#### **IV. JUSTIFICATION FOR RELIEF**

At the time California American Water made its rate design compliance filing in August 2010, it expected that the Commission would shortly be considering rate design issues as part of Phase 3 of the Coastal Water Project proceeding. Rather than have two proceedings considering similar issues on parallel tracks, California American Water chose not to provide a rate design proposal for the Monterey County District in this general rate case at that time. Unfortunately, the Commission has yet to begin Phase 3 of the Coastal Water Project proceeding, leaving this as the only venue for resolution of Monterey County District rate design issues by end of the year. As noted above, at the time California American Water made its rate design compliance filing, it provided notice that it would seek to include Monterey County District rate design issues as part of this proceeding if the schedule for Phase 3 was delayed.

As evidenced by multiple customer comments at the recent public participation hearings, there is a strong desire among the company's customers to modify California American Water's current rate design, for both non-residential and residential customers. As Monterey County District customers explained, the current commercial rate design, if continued, will

---

<sup>8</sup> At this time, California American Water does not anticipate the need for rebuttal testimony, but reserves the right to provide such testimony if necessary.

significantly harm the already weakened hotel, restaurant, and hospitality industry in Monterey.

At the Seaside public participation hearing, a customer explained the importance of the hospitality industry:

The hospitality industry is the number one economic driver on the Monterey Peninsula. It employs approximately 22,000 workers, generates \$2 billion, with a B, per year in direct spending, and earns approximately 55 million in local tax revenues.<sup>9</sup>

According to Monterey County District customers, the economic losses that could result from continuation of the current rate design could be devastating to an area already suffering the effects of the current economic downturn. Since there has been no indication that the Commission will begin Phase 3 of the Coastal Water Project proceeding any time soon, it could be a year or more before these problems are corrected if the Commission does not consider these rate design issues as part of this proceeding.

California American Water seeks to address these issues in rate design testimony on March 22, 2011. The rate design proposal that California American Water proposes to submit as supplemental testimony in this proceeding does not change the need for Phase 3 of the Coastal Water Project proceeding or other future rate design modification for the Monterey County District.<sup>10</sup> The Commission's recent Coastal Water Project decision, D.10-12-016, allows for consideration of Monterey County District rate design issues as part of this general rate case proceeding. In that decision, the Commission specifies that Phase 3 of that proceeding will address "cost allocation and rate design *associated with the Coastal Water Project.*"<sup>11</sup> The Commission further recognizes that its review and consideration of the rate design for the Regional Desalination Project should include a more progressive rate design and low-income

---

<sup>9</sup> RT 428:11-17 (Roskoff)

<sup>10</sup> Likewise, by this request, California American Water is not foregoing the opportunity to recover its authorized revenue requirement through the current rate design or through a modified rate design.

<sup>11</sup> D.10-12-016, 2010 WL 5033830, \*72; *see also* D.10-12-016, 2010 WL 5033830, \*\*2, 38, 64, 72, 85 Findings of Fact ¶ 219 (emphasis added).

program that is specifically tailored to the project.<sup>12</sup>

In its rate design proposal in this general rate case, California American Water does not plan to address the cost allocation issues directly related to the Regional Desalination Project or other projects not subject to the current GRC application. There are no constraints on addressing other Monterey County District rate design issues in other proceedings. Therefore, California American Water's supplemental rate design testimony will be limited to certain pressing rate design issues and it will defer remaining issues, such as the cost allocation of and rate design issues relating to the Regional Desalination Project,<sup>13</sup> to another proceeding.

California American Water's proposed schedule provides more than a month for DRA and intervenors to respond to the company's Monterey County District rate design proposals. The informational meetings discussed above will allow the parties to meet this deadline. Moreover, in California American Water's experience, rate design is usually resolved through collaborative, in-person meetings and back-and-forth interactions between California American Water, DRA and other interested analysts. This can occur while the parties are working on responsive testimony and will likely eliminate many, if not all, of the contested issues.

## V. CONCLUSION

Although California American Water had hoped to resolve all Monterey County District rate design issues by the end of this year in Phase 3 of the Coastal Water Project proceeding, that is no longer possible. As demonstrated at the recent public participation hearings, however, there are several pressing rate design issues that must be addressed in a

---

<sup>12</sup> D.10-12-016, 2010 WL 5033830, \*28 (adopting Settling Parties' recommendation for a more progressive rate design proposal); \*3 (stating, "we must look beyond a single rate cycle.").

<sup>13</sup> For example, the Commission is currently reviewing California American Water's surcharge request for recovery of costs for the Carmel River reroute and San Clemente Dam removal project in Application ("A.") 10-09-018 and the Commission's authorization will be based on the then current rate design. The Commission adopted an advice letter process for the pipeline facilities. (D.10-12-016, 2010 WL 5033830, \*68.)

timely manner, and this proceeding is the only venue where that is possible. Given how rate design issues are usually resolved in general rate cases, California American Water's proposed schedule will allow the Commission to consider Monterey County District rate design issues as part of this proceeding and include them in its final decision issued by the end of the year. California American Water therefore requests that the assigned Administrative Law Judge grant the relief requested in this motion.

Dated: March 14, 2011

Respectfully submitted,

By: /s/ Sarah Leeper  
Sarah Leeper

California American Water  
333 Hayes St., Suite 202  
San Francisco, CA 94102  
Telephone: 415.863.2960  
Facsimile: 415.863.0615  
Email: sarah.leeper@amwater.com

Attorneys for Applicant  
California-American Water Company