

**PUBLIC UTILITIES COMMISSION**505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298**FILED**

03-19-12

02:54 PM

Agenda ID #11174

Ratesetting

March 19, 2012

TO PARTIES OF RECORD IN APPLICATION 10-09-017

This is the proposed decision of Administrative Law Judge (ALJ) Christine M. Walwyn, previously designated as the presiding officer in this proceeding. It will not appear on the Commission's agenda sooner than 30 days from the date it is mailed. This matter was categorized as ratesetting and is subject to Pub. Util. Code § 1701.3(c). Upon the request of any Commissioner, a Ratesetting Deliberative Meeting (RDM) may be held. If that occurs, the Commission will prepare and publish an agenda for the RDM 10 days beforehand. When the RDM is held, there is a related ex parte communications prohibition period. (See Rule 8.3(c)(4).)

When the Commission acts on the proposed decision, it may adopt all or part of it as written, amend or modify it, or set it aside and prepare its own decision. Only when the Commission acts does the decision become binding on the parties.

Parties to the proceeding may file comments on the proposed decision as provided in Article 14 of the Commission's Rules of Practice and Procedure (Rules), accessible on the Commission's website at www.cpuc.ca.gov. Pursuant to Rule 14.3, opening comments shall not exceed 15 pages.

Comments must be filed pursuant to Rule 1.13 either electronically or in hard copy. Comments should be served on parties to this proceeding in accordance with Rules 1.9 and 1.10. Electronic and hard copies of comments should be sent to ALJ Walwyn at cmw@cpuc.ca.gov and assigned Commissioner. The current service list for this proceeding is available on the Commission's website at www.cpuc.ca.gov.

/s/ KAREN V. CLOPTONKaren V. Clopton, Chief
Administrative Law Judge

KVC:gd2

Attachment

Decision **PROPOSED DECISION OF ALJ WALWYN** (Mailed 3/19/2012)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of California-American Water Company (U210W), California Water Service Company (U60W), Golden State Water Company (U133W), Park Water Company (U314W) and Apple Valley Ranchos Water Company (U346W) to Modify D.08-02-036, D.08-06-002, D.08-08-030, D.08-09-026, D.08-11-023, D.09-05-005, D.09-07-021, and D.10-06-038 regarding the Amortization of WRAM-related Accounts.

Application 10-09-017
(Filed September 20, 2010)

**DECISION ADDRESSING AMORTIZATION OF WATER REVENUE
ADJUSTMENT MECHANISM RELATED ACCOUNTS AND GRANTING IN
PART MODIFICATION TO DECISIONS (D.) 08-02-036, D.08-06-002,
D.08-08-030, D.08-09-026, AND D.09-05-005**

TABLE OF CONTENTS

Title	Page
DECISION ADDRESSING AMORTIZATION OF WATER REVENUE ADJUSTMENT MECHANISM RELATED ACCOUNTS AND GRANTING IN PART MODIFICATION TO DECISIONS (D.) 08-02-036, D.08-06-002, D.08-08-030, D.08-09-026, AND D.09-05-005.....	1
1. Summary.....	2
2. Background.....	4
3. WRAM/MCBA Requested Relief	8
3.1. Amortization of WRAM/MCBA Related Accounts.....	9
3.1.1. Quantifying the WRAM/MCBA Undercollections.....	9
3.1.2. Identifying the Causes of High WRAM/MCBA Undercollections	13
3.1.3. Selecting an Amortization Schedule for Collection of WRAM/MCBA Balances.....	16
3.2. Deadlines for Annual Report and for Requesting Amortization	23
3.3. Procedure for Requesting Amortization	24
3.4. The “Trigger” for WRAM/MCBA Balance Amortization.....	25
3.5. How Surcharge/Surcredit should be Applied to Customer’s Bill	26
3.6. Accounting Method for Amortized Amounts.....	27
3.7. Treatment for Under-Amortized or Over-Amortized Amounts.....	27
3.8. Additional Amortization of Outstanding WRAM/MCBA Balances.....	28
4. Comments on Proposed Decision	31
5. Assignment of Proceeding	31
Findings of Fact	31
Conclusions of Law	34
ORDER	36
 APPENDIX A – Comparison of Existing and Proposed WRAM/MCBA Amortization Schedules	
 APPENDIX B – Estimated 2012 WRAM/MCBA Surcharges Under Existing and Proposed Amortization Schedules	

APPENDIX C - Advice Letter Filings for 2008, 2009, and 2010 Net
WRAM/MCBA Account Balances

APPENDIX D - DRA Table Showing Applicants' Districts in Order of
Greatest 2010 Undercollections (as a Percentage of Last
Authorized Revenue Requirement)

APPENDIX E - Modifications to Decision 08-02-036

APPENDIX F - Modifications to Decision 08-08-030

APPENDIX G - Modifications to Decision 08-09-026

APPENDIX H - Modifications to Decision 09-05-005

**DECISION ADDRESSING AMORTIZATION OF WATER REVENUE
ADJUSTMENT MECHANISM RELATED ACCOUNTS AND GRANTING IN
PART MODIFICATION TO DECISIONS (D.) 08-02-036, D.08-06-002,
D.08-08-030, D.08-09-026, AND D.09-05-005**

1. Summary

In this decision we address the schedule and process that Apple Valley Ranchos Water Company, California Water Service Company, Golden State Water Company and Park Water Company (applicants) use to recover from customers, or refund to customers, the annual net balance in their Water Revenue Adjustment Mechanisms and Modified Cost Balancing Accounts (WRAM/MCBA). We grant, in part, requested modifications to Decisions (D.) 08-02-036, D.08-06-002, D.08-08-030, D.08-09-026, and D.09-05-005. We also grant the June 23, 2011 request of California-American Water Company to withdraw from this proceeding in order to avoid a conflict with similar proposals in its pending General Rate Case (GRC), Application 10-07-007.

The WRAM mechanism tracks the difference between the authorized revenue requirement and the actual revenues received by district for each applicant. The MCBA mechanism tracks the difference between the authorized and actual variable costs for purchased water, purchased power, and pump tax. The WRAMs and MCBAs were adopted as part of pilot programs to promote water conservation. They are intended to ensure that the applicants and their customers are proportionally affected when conservation rates are implemented, so that neither party suffers or benefits from the implementation.¹

¹ See D.08-02-36, issued February 29, 2008, mimeo at 25.

After the WRAM/MCBA mechanisms were first adopted in 2008, there have primarily been undercollections, and these undercollections are often quite substantial. Appendices B and C to this decision show the undercollections by district, or ratemaking unit, with some districts (1) reflecting over 20% of last authorized revenue requirement being undercollected in a year, and (2) cumulative surcharges representing multiple years of large undercollections.

Applicants want to shorten the existing amortization schedule for collection from customers of WRAM/MCBA account balances that are over 10% of last authorized revenue requirement. Their reasons for shortening the amortization schedule are (1) accounting standards of the Financial Accounting Standards Board that may require applicants to recognize high undercollections as deferred rather than current revenue, and (2) cash flow concerns arising from the length of the existing amortization schedule.

In today's decision, rather than adopting parties' proposals, we adopt smaller adjustments to the WRAM/MCBA mechanisms. We do this because the mechanisms are not working as intended, for reasons that are not clear. The goal of these mechanisms is to ensure utility and customer neutrality regarding the implementation of conservation rate design and utility conservation programs. We re-affirm this goal. The mechanisms were adopted as part of conservation pilot programs between 2008-2010 and need to be comprehensively reviewed, and if necessary modified, in each applicant's next GRC proceeding.

Therefore, for WRAM/MCBA undercollections over 10% of the last authorized revenue requirement, we set a limit on rate recovery through the Advice Letter process of up to 7.5% a year, with additional review and recovery done in each applicant's regularly scheduled GRC proceeding for any remaining balance requiring amortization beyond 36 months. This will allow customer

surcharges to increase to no more than a cumulative total of 22% in the three year period between GRC proceedings. We also deny the request of applicants to accelerate amortization of 2010 account balances.

Finally, we address here the seven other requests of applicants for clarification and modification of the Advice Letter WRAM/MCBA balancing account procedures. The specific language we adopt to modify the underlying WRAM/MCBA decisions is set forth in Appendices E through H.

2. Background

This joint application was submitted on September 20, 2011 by California-American Water Company (Cal-Am), California Water Service Company (Cal Water), Golden State Water Company (Golden State), Park Water Company (Park) and Apple Valley Ranchos Water Company (Apple Valley), all Class A water utilities regulated by the Commission.² Applicants request modification of decisions adopting the conservation-related balancing accounts that decouple revenues from water sales – the Water Revenue Adjustment Mechanisms and the Modified Cost Balancing Accounts (WRAM/MCBA), as well as other Commission processes related to amortizing these balancing accounts.

In each of the WRAM/MCBA decisions shown in the caption of this proceeding, the Commission adopted an annual Advice Letter filing process to recover or refund the WRAM/MCBA balances but did not address the amortization time period over which the balances should be recovered/refunded. Therefore, the Commission's Division of Water and Audits

² A Class A water utility serves over 10,000 customers.

(DWA) has applied the amortization period adopted by the Commission in Rulemaking (R.) 01-12-009, a generic proceeding on procedures for water utilities' offset rate increases and balancing accounts;³ this amortization schedule is also reflected in DWA's Standard Practice U-27W. Applicants now propose a shorter period within which to amortize WRAM/MCBA balances.

Prior to the December 3, 2010 prehearing conference (PHC), applicants were directed to provide their actual WRAM/MCBA balances for 2008 and 2009, as well as an estimate of 2010 balances. Each applicant's balances for these periods, by district, is presented in Appendix C of this decision, and reflect generally revenue undercollections, with approximately one-third of the districts reporting WRAM/MCBA undercollections that ranged from 10% to 27% of annual revenue.⁴

At the above PHC, participants discussed whether customers should have been provided notice of this application (under Rule 3.2 of the Commission's Rules of Practice and Procedure) since a change in amortization periods would result in a significant change in customer rates in some instances. After the parties briefed the applicability of Rule 3.2, the presiding officer (ALJ Christine M. Walwyn) ruled on December 20, 2010 that customer notice is required. On May 4, 2011, pursuant to Rule 3.2(d), Apple Valley, Cal Water,

³ See Appendix A of Decision (D.) 03-06-072, issued June 19, 2003.

⁴ These summaries have been updated to reflect the final 2009 and 2010 balances, as submitted in applicants' Advice Letter filings, rather than the initial estimates provided in January 2011.

Golden State and Park submitted proof of customer notice. Cal-Am submitted its proof on May 23, 2011.⁵

While waiting for customer notice to be completed, applicants prepared additional data on (1) possible causes of the high WRAM/MCBA balances, (2) options for dealing with the balances, and (3) why adopted safeguards had not alerted the Commission to this issue sooner.

On January 24 and February 17, 2011, additional PHCs were held to discuss preparation of the data identified above, and on April 15, the applicants submitted the requested material. Due to the very high WRAM/MCBA balances in Cal-Am's Monterey District, and Cal-Am's projection that high balances would continue to accumulate throughout 2011, Cal-Am and the Commission's Division of Ratepayer Advocates (DRA) submitted proposals for separately addressing the Monterey District, and a PHC was scheduled for April 25, 2011 to discuss this.

On June 8, 2011, the assigned Commissioner and Administrative Law Judge (ALJ) issued a ruling and scoping memo (Scoping Memo) that bifurcated the proceeding in order to separately address the very high 2010 and 2011 WRAM/MCBA balances in Cal-Am's Monterey District.

On June 23, 2011, following a June 13th PHC addressing the Monterey District, Cal-Am moved to withdraw from this proceeding and instead litigate its WRAM amortization issues in its pending general rate case (GRC) proceeding, Application (A.) 10-07-007. DRA opposed this motion. Essentially, DRA and

⁵ A limited number of e-mails and letters were received from customers, all generally opposing rate increases. No public participation hearings were held.

Cal-Am differ on whether this proceeding is best suited to deal with the complex and unique issues regarding the Monterey District.

On September 8, 2011, the assigned ALJs in this proceeding and in the GRC conducted a joint PHC. Based on the finding that the GRC proceeding may more comprehensively address Cal-Am's WRAM/MCBA mechanisms, particularly in the Monterey District, Phase 2 of the GRC will include those issues and Cal-Am's motion to withdraw from this proceeding will be granted. Consequently, today's decision will only address the application's proposals as they apply to Apple Valley, Cal Water, Golden State, and Park.

In response to the April 15, 2011 data submitted by applicants, DRA asserted that it could do a limited analysis within 90 days that would allow the Commission to consider the specific amortization issues requested here and then do a comprehensive analysis of the data and the WRAM/MCBA mechanisms in a later proceeding. Accordingly, the June 8, 2011 Scoping Memo set a hearing schedule based on DRA's requested 90 day review period, and directed that a more comprehensive review of the WRAM/MCBA mechanisms be done in upcoming GRCs and the consolidated cost of capital proceeding.

Evidentiary hearings were held on September 28 and 29, 2011. Applicants and DRA filed opening briefs on October 17, 2011 and reply briefs on October 24, 2011. On February 1, 2012, an ALJ ruling reopened the record for the limited purpose of directing applicants to submit information required under Rule 16.4(b) of the Commission's Rules of Practice and Procedure. Applicants timely complied on February 8, 2012 and DRA filed comments on February 13, 2012. The proceeding was re-submitted on February 13, 2012.

3. WRAM/MCBA Requested Relief

The WRAM mechanism tracks the difference between the authorized revenue requirement and the actual revenues received by district for each applicant. The MCBA mechanism tracks the difference between the authorized and actual variable costs for purchased water, purchased power, and pump tax. The WRAMs and MCBAs were adopted as part of pilot programs to promote water conservation. The Commission intended that the mechanisms ensure the applicants and their customers are proportionally affected when conservation rates are implemented, so that neither party suffers or benefits from the implementation.⁶

Applicants have nine specific requests for changes regarding the amortization of WRAM/MCBA accounts. The primary request is to shorten the time period for recovery of large undercollections. This request will be the first issue we address here.

Each section below contains a general discussion of the requested modifications, and specific wording for each decision modified is contained in Appendices E-H of this decision, as follows:

- Appendix E contains specific modifications to D.08-02-036 for Cal Water and Park;
- Appendix F contains specific modifications to D.08-08-030 for Golden State's Regions II and III;
- Appendix G contains specific modifications to D.08-09-026 for Apple Valley; and

⁶ See D.08-02-36, issued February 29, 2008, mimeo at 25.

- Appendix H contains specific modifications to D.09-05-005 for Golden State's Region 1.

Finally, we note that this decision makes no modifications to D.08-06-002, D.08-11-023, D.09-07-021, or D.10-06-038. These decisions relate to Cal-Am's WRAM/MCBA mechanisms and are no longer at issue here.

3.1. Amortization of WRAM/MCBA Related Accounts

Applicants are experiencing high WRAM/MCBA undercollections that under current Commission rules might require the utilities to reflect these balances as deferred rather than current revenue on their financial statements. However, the application did not disclose the actual WRAM/MCBA balances. Parties spent much time in this proceeding (a) quantifying the level of undercollections in each district, (b) seeking to identify the cause(s) of the high undercollections, and then (c) assessing the options available to the Commission that (while adhering to the Commission's water conservation policies and goals) would balance the interests of customers with applicants' accounting and financial objectives. We focus here on undercollections since there have been very few overcollections, and no party proposes changes to our refund rules.

3.1.1. Quantifying the WRAM/MCBA Undercollections

The June 8, 2011 Scoping Memo identifies by district, or ratemaking unit, the level of undercollections that have occurred since the Commission

implemented the full WRAM/MCBA mechanisms beginning in 2008. We attach the final balances for 2008–2010 at Appendix C of this decision.⁷

The 2008 and 2009 undercollections, as set forth in applicants' March 2010 Advice Letter filings show:

- 18 of the 36 districts had undercollected revenues that exceeded 5% of the last authorized revenue requirement;
- 7 of these 18 districts had undercollections that exceeded 10%; and
- 1 district had an undercollection that exceeded 20%.

For 2010, the March 2011 Advice Letter filings show that generally the undercollections were even higher:

- 32 of the 37 districts had undercollections that exceeded 5%;
- 11 of the 32 had undercollections that exceeded 10%; and
- 5 of the 11 had undercollections that exceeded 20%.⁸

For 2011, the latest estimates, provided by Apple Valley, Cal Water, Golden State, and Park on October 14, 2011, are attached at Appendix B to this decision. These estimates project cumulative surcharges rather than annual undercollections, and they also include a monthly dollar amount for each

⁷ The net WRAM/MCBA account balance for each calendar year is reported to the Commission the following March and is reported in (1) actual dollars and (2) as a percentage of the last authorized revenue requirement.

⁸ See June 8, 2011 Scoping Memo at 7 and 8 and Appendices A and B.

district's average residential customer.⁹ In general, Golden State's projected undercollections for 2011 are lower than 2010, Cal Water projects a mixed result (16 districts with higher undercollections, 9 districts with lower undercollections), Apple Valley estimates a lower undercollection, and Park a higher undercollection. For April–December 2012, under existing amortization, 25 of the 35 districts project WRAM/MCBA surcharges that exceed 5% and for 5 of these 25 districts, projected surcharges exceed 10%¹⁰ of last authorized revenue requirement.

The projected 2012 WRAM/MCBA surcharges are substantial for residential customers in many districts, especially under applicants' proposals to shorten the collection period and to accelerate 2010 amortization. For Golden State, where 7 of the 8 districts have average monthly bills ranging from \$44 to \$74, the average monthly surcharge is estimated to be as high as \$16.77 a month (Bay Point district). For Cal Water, average residential customers in 9 of its 35 districts would experience monthly surcharges over \$10 a month, with 4 districts between \$24.08 – \$38.51. For Apple Valley and Park, residential monthly WRAM/MCBA surcharges would average \$11.57 and \$8.18, respectively.

We have examined the underlying decisions adopting the WRAM/MCBA mechanisms. These decisions contain no indication the Commission expected

⁹ Cal-Am did not participate in submitting this data as it was excused from the hearings. Earlier estimates for 2011 balances for Cal-Am are attached to the Scoping Memo.

¹⁰ The April–December period is separately shown at Appendix B because April 2012 is the first time customer bills will reflect calendar year 2011 WRAM/MCBA undercollections.

such high undercollections. While we understood the WRAM/MCBA mechanisms would capture the effects of all changes between adopted and actual revenues, we expected the mechanisms to operate in a similar manner to our electric utilities' revenue adjustment mechanism. In fact, we expected lower levels of undercollections, and a balance of under-and over-collections, similar to our experience over the last 20 years with revenue adjustment mechanisms for California's electric utilities. DRA has well documented this shared understanding of how the WRAM/MCBA mechanisms were expected to work. The applicants had similar expectations.¹¹

Finally, we note that when we adopted the WRAM/MCBA mechanisms, we decided not to adopt a downward adjustment to the applicants' return on equity to reflect the risk reductions provided by these mechanisms. We were persuaded at that time by utility testimony that "a well-designed revenue adjustment mechanism should merely remove the increased risk that resulted

¹¹ DRA cites to (1) Cal Water's testimony in the proceeding that adopted most of the applicable WRAM/MCBA mechanisms, Investigation (I.) 07-01-022, that California's energy utilities have operated with a similar revenue decoupling mechanism for over 20 years without increased costs to customers, (2) language in D.08-02-36 that Cal Water and Park agreed that the WRAMs and MCBA's were designed to ensure that the utilities and ratepayers are proportionally affected so that neither party is harmed nor benefits, (3) language in Cal-Am's D.08-06-002 that the Commission expected only a modest WRAM/MCBA balancing account impact and adopted safeguard provisions for timely adjustments if a disparate impact on ratepayers or shareholders were to occur, and (4) language in Golden State's settlements in D.08-08-030 and D.09-05-005 that if implementation of the WRAM/MCBA pilot programs resulted in a disparate impact on ratepayers or shareholders, parties agreed to propose adjustments so that customers and shareholders share equally in any cost savings or excess revenue. See Exhibit 3 at 17-20, Exhibit 4 at 17-19, D.08-02-036 at 26, and DRA's cites to Golden State's WRAM/MCBA settlements in its Reply Brief at 3.

from the adoption of policies that promote conservation.”¹² Due to the unexpected high undercollections that have occurred since implementation of the WRAM/MCBA mechanisms, we affirm here the Scoping Memo’s directive that the risk consequences of the mechanisms should be further evaluated in the applicants’ consolidated cost of capital proceedings.

3.1.2. Identifying the Causes of High WRAM/MCBA Undercollections

We next analyze possible reasons for the high undercollections.

In attempting to identify and quantify the cause(s) of the high undercollections, applicants submitted data on April 15, 2011. The data (1) broke out actual versus adopted sales by district, (2) further looked at variances by season, class of customer, size of district, (3) included any available information for individual districts regarding wholesale water restrictions, conservation, drought, weather, or economic conditions such as unemployment or foreclosures, (4) compiled utility information on recent trends in shut-offs for non-payment or levels of low-income participation, (5) provided a limited analysis on why energy utilities did not appear to have the same high revenue mechanism undercollections, and (6) reviewed options some municipal water entities have used to address revenue needs.

Based on its review of the utility data, DRA testifies that while the WRAM/MCBA mechanism appears to be removing disincentives for utilities to implement conservation rates and programs, it is also sensitive to the substantial effects from other factors impacting sales, including economic conditions,

¹² See D.08-08-030, issued August 25, 2008, mimeo at 28.

shut-offs due to non-payment, conversion from flat to metered billing, and drought. The interaction of these effects with conservation has led to substantial surcharges in the early years of the pilot programs.¹³ DRA testifies that based only on the two years of data provided by applicants, it did not find a consistent change in the usage trend by district associated with high undercollections; for instance, some districts had reduced sales only in the summer months, other districts had consistent sales reductions throughout the year. DRA also found the data insufficient for specific findings regarding the impact of high surcharges on different customer classes and low-income residential customers.

The only category with any apparent correlation was district size, where DRA found that the smaller districts, those with less than 10,000 customers, represented the majority of districts with undercollections greater than 15% of the last authorized revenue requirement.¹⁴ Of the 10 districts with undercollections over 15%, four are small Cal Water districts, three of which are recipients of subsidized Rate Support Funds (RSF) from Cal Water's other districts, and four are Cal-Am districts being handled separately in A.10-07-007.¹⁵ The remaining two districts are Golden State's Region 1 Bay Point and Ojai

¹³ Cal Water, Park, Golden State Regions II and II and Cal-Am Los Angeles District began pilot programs with a WRAM/MCBA mechanism in 2008. All other pilots began in 2009 except Cal-Am Monterey, which began in 2010.

¹⁴ See Exhibit 3, at 22-24. DRA's table displaying this information is attached to this decision at Appendix D.

¹⁵ Cal Water's Rate Support Fund (RSF) was adopted in D.06-08-011, issued August 25, 2006, mimeo at 7-14, Finding of Fact (FOF) 4, Conclusions of Law (COL) 1-4, and Ordering Paragraph (OP) 1

districts, which are currently under review in Golden State's pending GRC proceeding, A.11-07-017.

Rejecting DRA's analysis, applicants testify that the "primary" reason for the magnitude of WRAM/MCBA undercollections is that the adopted sales were forecasted inaccurately and too high:

In retrospect, it is now apparent that in the GRCs concurrent with and immediately following the adoption of the WRAM/MCBAs, both DRA and the utilities took the statement of the Commission in D.08-02-036, at 27, "Removing sales risk also reduces the importance of sales forecasting in regulatory proceedings," too much to heart.¹⁶

DRA strongly disagrees with applicants' assertion that the high WRAM/MCBA undercollections are primarily due to flawed sales forecasting methodologies, stating that (1) the current methodology, known as "modified Bean," has been in use for decades, (2) applicants are responsible for the specific forecasts in their GRC applications and can propose changes to the methodology, and (3) when DRA and applicants differ in their forecasts, both parties have usually reached settlements on final sales forecast numbers.¹⁷

Based on the discussion above, we find that the WRAM/MCBA mechanisms have behaved differently than (1) the energy revenue mechanisms and (2) our stated expectations. The majority of account balances have been undercollections, many of them quite substantial. With the limited data available in this record, we cannot quantify the specific cause(s) of the high

¹⁶ Exhibit 2 at 18.

¹⁷ See DRA opening brief at 16-18.

undercollections, but we have seen a correlation between high volatility and the districts with the smallest number of customers.

In addition, we agree with applicants that adopted sales forecasts may have played a significant role in the high undercollections. Most of the GRC sales forecasts since 2008 have been the result of settlements, and with a WRAM/MCBA mechanism, applicants incur no risk in agreeing to a high sales forecast. Using a high sales forecast, the Commission would adopt a lower rate increase in the GRC, and applicants' ensuing Advice Letter submissions would show high undercollections. Therefore, we find that the WRAM/MCBA mechanisms may provide applicants an incentive to make or to agree to high GRC sales forecasts.¹⁸

3.1.3. Selecting an Amortization Schedule for Collection of WRAM/MCBA Balances

The length of the time period over which applicants must recover or refund their yearly net WRAM/MCBA account balances is the amortization schedule we discuss here. The underlying WRAM/MCBA decisions that adopted the mechanisms did not address the specific time period over which applicants should amortize each year's net WRAM/MCBA account balance. Therefore, DWA has used the existing amortization schedule for water utilities'

¹⁸ We do not expect or require that a forecast be perfectly accurate. Rather, a forecast should have an approximately equal likelihood of being too high or too low. If a particular forecast seems to err consistently on one side, that would suggest a flaw in either the process or the methodology of the forecast.

offset rate increases and balancing accounts adopted in D.03-06-072 and reflected in DWA's Standard Practice U-27W.¹⁹

We find here that we should be cautious in shortening the amortization schedule since (1) the cause(s) of the high WRAM/MCBA undercollections are still uncertain, and (2) this is not the proceeding to examine adjustments to the mechanisms themselves. Our attention should be focused on mitigating the high customer bill impacts that have resulted from the Commission's implementation of the WRAM/MCBA mechanisms, with an understanding that high WRMA/MCBA undercollections may well continue in the future.

Therefore, while we find applicants' and DRA's proposals reasonable for amortizing undercollections up to 10% of the last authorized revenue requirement, for balances over 10% we limit recovery to no more than 7.5% per year and if this leads to an amortization period beyond 36 months, the remaining balance should be addressed in the next GRC. The existing amortization schedule, parties' proposals, and our adopted changes are set forth in Appendix A to this decision.

We find that the GRC proceedings, where the Commission closely scrutinizes and adopts each applicant's sales forecasts and projected water supply costs, provide the appropriate forum for the Commission to address high rate increase impacts. An example of this is Cal Water's 2011 GRC, A.09-07-001, in which applicant proposed that the Commission adopt a rate deferral plan for

¹⁹ Applicants have been requesting annual recovery of their net WRAM/MCBA account balance through submission of a Tier 1 Advice Letter filing. Under Water Industry Rule 7.3.1 of General Order (GO) 96-B, these advice letters are effective pending disposition and do not require customer notice before the effective date.

districts with a high ratio of water rates to household income and a relatively large percentage change in revenue requirement:

At Cal Water's proposed rates, several districts including Dixon, King City, Marysville, Oroville, Selma, Visalia, and Willows may be appropriate candidates for rate phase-in treatment. Due to the Commission's process, rate case increase requests are necessarily larger in the test year than in the escalation years. Many customers at public hearings request the Commission smooth out the granted rate increase to avoid rate shock. Cal Water management believes it is in the public interest to allow this treatment in specific circumstances, so long as the deferred amounts accrue interest and are later recovered.²⁰

In reviewing applicants' proposals to shorten the Advice Letter amortization schedule, our primary concern is that customers will be exposed to substantial rate increases without any notice or an opportunity to be heard. Both applicants and DRA have offered alternative amortization options to smooth out the customer rate impacts of high undercollections.

Applicants initially proposed modifications to the amortization schedule in order to be able to reflect all undercollections as current revenue on financial statements, based on the criteria set forth by the Financial Accounting Standards Board (FASB) in its Emerging Issues Task Force Issue No. 92-7. In opening brief, applicants appear to change their position. They state that the accounting issue of booking current versus deferred income is a "small problem." Instead, their focus is instead on (1) the cash flow impacts of having to finance large undercollections, and (2) the intergenerational inequities that may occur under a

²⁰ See A.09-07-001, filed with the Commission on July 2, 2009, at 9.

lengthy recovery period.²¹ Although financial accounting rules are no longer the primary reason for proposed changes, applicants do request additional acceleration of the collection of 2010 balances in order to avoid the possibility of restating some or all of the undercollection as deferred revenue. We address this request separately in Section 3.9 of this decision.

While applicants appear to accept some responsibility for the large undercollections, they assert that their “massive WRAM/MCBA balances” result in “substantial surcharges” that, under the existing amortization schedule, result in “pancaking” of surcharges over several years. They claim such amortization creates customer confusion and intergenerational inequity between customers, and may erode the utilities’ support for conservation programs. Further, applicants argue that the Commission’s use of the 90 day commercial paper rate as a carrying charge does not fully compensate them for their delay in recovering the balances.²²

Applicants continue to support their initial proposal to recover all undercollections over 5% of the last authorized revenue requirement within an 18 month period. At hearing, applicants offered an alternative, if the Commission favors DRA’s proposal. Under the alternative, undercollections above 15% would be recovered in annual surcharges equal or less than 10% of the last authorized revenue requirement as quickly as possible but in no circumstance over a period to exceed 36 months, even when the annual undercollection is over 30%.

²¹ Opening Brief at 2.

²² *Id* at 14-17.

DRA disagrees with applicants that their proposals are a “relative modest change.” DRA asserts that in some circumstances, applicants’ proposals could double the associated surcharge on a customer’s bill, thereby creating a significant change, especially in districts with less than 10,000 customers.²³ DRA proposes to shorten the amortization period for undercollections between 5-15%. DRA urges that a second phase of this proceeding, in April 2012, focus on districts that have an undercollection of 15% or greater in their 2011 WRAM/MCBA balances.

As an alternative to the above proposal, DRA also supports continuing to follow the existing amortization schedule. DRA does not find the FASB requirements to be a sufficient reason for the Commission to shorten the amortization period for large undercollections since the applicants have the option of recognizing their WRAM/MCBA under collections as deferred revenue.²⁴

While both applicants and DRA have modified their initial proposals in order to allow longer recovery periods for high WRAM/MCBA balances, we remain concerned with the level of surcharges being passed-through in Tier 1 Advice Letters.

Applicants’ proposals would have each year’s undercollection recovered within 36 months, even when the balance exceeds 30%. DRA’s proposal would set a schedule of up to 10% amortization a year with the safeguard of a PHC following the 2012 Advice Letter submissions. Under both proposals, there

²³ Opening Brief at 3.

²⁴ See DRA Opening Brief at 7-8.

would be a cumulative rate impact that could exceed 30% on customer bills by the third year following a GRC proceeding.

At hearings, parties were asked by the ALJ to give their views on a different approach, one that would set a cap on total WRAM/MCBA surcharges on a customer bill at 10% of the last authorized revenue requirement. Applicants respond that while this proposal has superficial appeal, it would create serious practical problems as under existing amortization schedules each applicant has multiple districts that will have in place WRAM/MCBA surcharges totaling over 10% for all or portions of 2012, as shown in Appendix B. In addition, applicants assert that it is the annual “incremental” rate change that produces rate shock for customers, not the cumulative effect of increases.²⁵

DRA states that it is mostly concerned with the amount of the WRAM/MCBA undercollections being passed through to ratepayers, including the rate at which this amount has grown, rather than the specific amortization schedule. DRA did not have an opinion on the 10% total cap. Further, DRA urges the Commission to consider the impacts of all WRAM/MCBA surcharges in the context of other GRC increases as well as pass-through expense offset rate increases.²⁶ Based on the record here, we find parties’ proposed changes to the amortization schedule for surcredits and surcharges up to 5-10%, as displayed at Appendix A, to be reasonable.

However, we cannot support parties’ proposals to pass-through on a ministerial basis, with no customer notice or formal Commission resolution,

²⁵ See discussion in applicants’ Opening Brief at 20-24.

²⁶ See September 29, 2011 Transcript at 215-226 and Opening Brief at 7.

surcharges increasing rates by 10% or more a year between GRC proceedings. Rather, we should place a ceiling on annual and cumulative WRAM/MCBA surcharge increases at a level that will not require additional PHCs as a safeguard to address potential future massive undercollections.

For undercollections that exceed 10% of the last adopted revenue requirement, we direct that these undercollections be amortized at a maximum rate of 7.5% per year.²⁷ Adopting this slower amortization schedule for the largest undercollections, will allow for a maximum cumulative rate impact of 22.5% by the third year following a GRC proceeding. This will also allow the Commission to notice, analyze and properly address any remaining undercollections in the utility's next GRC proceeding. By placing a ceiling on the level of surcharges, we also give an incentive to the applicants to avoid overforecasting sales in the GRC proceeding.

Only in the GRC proceeding, or perhaps in another formal evidentiary proceeding, can the Commission properly address if there is a continuing pattern of what applicants characterize as "massive WRAM/MCBA balances" and, if so, consider a range of options, including modifications to the mechanisms themselves. By adopting a ceiling of 7.5% for each year's WRAM/MCBA surcharges, customers and the Commission itself are assured that there will be a reasonable limit to the level of WRAM/MCBA surcharges passed-through between GRC proceedings.

²⁷ Our adoption of a maximum rate of 7.5% per calendar year for balances over 10% is consistent with our amortization schedule for balances less than 10%. For example, an undercollection of 9%, recovered over 18 months, would result in a surcharge of 6% the first year.

Cal Water, unlike the other applicants, does not separately show WRAM/MCBA surcharges on customer bills. We find that with the magnitude of these undercollections, customers should be provided a line-item on their bill of total WRAM/MCBA surcharges. Therefore, we order Cal Water to modify its billing system within 90 days to provide this customer information and to submit an informational only Advice Letter when the modification is operational.

Based on the above discussion, we adopt for Apple Valley, Cal Water, Golden State, and Park Water the following amortization schedule for net WRAM/MCBA balancing accounts:

- All surcredit balances be amortized to return money to ratepayers “as soon as possible;”
- Surcharge balances less than 2% of revenue requirement may, at the utility’s option, be amortized over 12 months or be addressed in the next GRC;
- Surcharge balances between 2% and 5% are amortized over 12 months;
- Surcharge balances between 5% and 10% are amortized over 18 months; and
- Surcharge balances over 10% are amortized at up to 7.5% per year, with any balance beyond a 36 month amortization to be addressed in the next GRC.

This schedule is different from the schedule for other types of water balancing accounts; therefore, DWA will update its Standard Practice U-27W to reflect today’s decision.

3.2. Deadlines for Annual Report and for Requesting Amortization

Applicants request that the Commission change the deadline for submitting the annual WRAM/MCBA report from March 31st to November

30th. This change would allow Commission staff to begin review of the account balances earlier, with data through September 30th, rather than waiting for the entire year's data to be reported 30 days before the annual Advice Letter is submitted. DRA supports applicants' proposal because it will allow more time to audit and verify the first nine months of data and the calculations used by the applicants. The proposal also mirrors the schedule used by the energy utilities.

For these reasons, we adopt this proposal. We also find we do not need to modify the applicants' underlying WRAM/MCBA decisions to reflect this change.

However, the decisions adopting the WRAM/MCBA settlements for applicants allow them to request amortization of their WRAM/MCBA balances only on an annual basis. Further, the Golden State and Park GRC settlements require the utilities to request amortization within 30 days of submitting their annual WRAM/MCBA reports. In order to change the annual report submission date to November 30th, while still retaining the 30 day period Advice Letter submission date, Golden State and Park's WRAM/MCBA decisions should be modified.

Therefore, we will require annual requests to amortize net WRAM/MCBA balances accumulated during the previous calendar year to be filed on or before March 31st.

3.3. Procedure for Requesting Amortization

Applicants ask the Commission to clarify that annual Advice Letter submissions to amortize net WRAM/MCBA balances should be made by a Tier 1 Advice Letter, similar to other water utility balancing accounts, in the manner set forth in Water Industry Rule 7.3.1(1) of GO 96-B. DRA supports this proposal. We find this procedure is appropriate, as discussed below.

Under General Rule 7.5.2 and Water Industry Rule 7.3.1, a Tier 1 Advice Letter is effective pending disposition, and the utility may begin to collect the surcharges immediately. However, under General Rule 7.5.3, if DWA finds a defect in the advice letter after it has become effective, the utility must promptly submit an advice letter setting forth a remedial plan both to make adjustments and prospectively correct past errors. If a utility fails to submit a timely or satisfactory revision after notice by DWA, the Commission may impose a penalty and/or take such other actions as may be appropriate to protect consumers and ensure compliance with the law.²⁸

We have adopted safeguards in today's decision that limit the size of the annual surcharges and that also allow DRA and DWA to begin a review four months prior to the Advice Letter submission. In addition, applicants, DRA, and DWA have had several years' experience in handling these requests.

Therefore, we find that good cause exists to approve a Tier 1 Advice Letter process. However, we require that no additional items be included in the Tier 1 Advice Letter that were not included in the Annual Report.

3.4. The "Trigger" for WRAM/MCBA Balance Amortization

Currently, the WRAM/MCBA decisions contain different "trigger" levels for when each applicant must request to amortize a WRAM/MCBA balancing account in an annual Advice Letter. Pursuant to D.03-06-072, for other water balancing accounts, the trigger level is 2% of a water district's "last authorized revenue requirement." The current WRAM/MCBA triggers are 2.5% for Cal

²⁸ See GO 96-B, as revised by D.09-04-005 on April 16, 2009.

Water and Golden State and 2% for Apple Valley and Park. All WRAM/MCBA mechanisms define the trigger as a percentage of “total recorded revenue requirement for the prior year.”

Applicants propose to be consistent with other types of balancing accounts in use of a trigger level of 2% and a definition of “last authorized revenue requirement.”²⁹ DRA supports this proposal on the basis that it provides consistency with other balancing accounts.

We adopt this proposal and make the necessary modifications to the underlying WRAM/MCBA decisions.³⁰

3.5. How Surcharge/Surcredit should be Applied to Customer’s Bill

The WRAM/MCBA decisions require that applicants apply both over- and under-collections to customers’ bills as volumetric surcredits and surcharges, respectively. With the support of DRA, applicants request that over-collections be amortized through a surcredit on the customer’s service charge, not the customer’s quantity charge. With this modification, WRAM/MCBA amortizations will be consistent with other balancing accounts. The modification

²⁹ As discussed in Section 3.1.3, applicants request to differ from existing practice for water balancing accounts by requesting to be allowed the option of amortizing WRAM/MCBA balances under 2% over a 12 month period. We adopt this proposal.

³⁰ We do not modify the settlements adopted in the WRAM/MCBA decisions. We agree with applicants and DRA that it would not be appropriate, or necessary, to do so. The present application was served on all parties to the past settlement agreements.

also avoids the appearance that a WRAM/MCBA credit balance is being refunded disproportionately to those customers who waste water.³¹

We adopt this proposal and make the necessary modification to the underlying WRAM/MCBA decisions.

3.6. Accounting Method for Amortized Amounts

The WRAM/MCBA decisions do not specify the accounting method applicants should use to match the surcharges/surcredits with each year's WRAM/MCBA account balance. Applicants initially proposed the Commission explicitly adopt a requirement that the accounting be done on a "First In, First Out" (FIFO) basis in order to comply with the FASB provisions for recognizing the WRAM/MCBA balances as "current." At the PHCs, however, applicants agreed with the ALJ that Commission approval was not necessary in order for them to implement FIFO accounting.

DRA does not oppose the use of the FIFO method but recommends the Commission allow the utilities to exercise their own discretion. Applicants now agree with DRA's recommendation.

Therefore, we conclude Applicants' proposal is moot.

3.7. Treatment for Under-Amortized or Over-Amortized Amounts

When a surcharge/surcredit does not collect/refund the intended dollar amounts, the utility must deal with the remaining balance. Under-amortization

³¹ In its Opening Brief, DRA states that in extraordinary circumstances, such as what Cal-Am has experienced in its Monterey District, the Commission should apply a surcharge on the customer's entire bill. Since we have adopted amortization schedules for Apple Valley, Cal Water, Golden State, and Park that will avoid these extraordinarily high surcharges, we do not need to address this issue here.

or over-amortization is most likely to occur from a discrepancy between (1) the amount of consumption, or number of services, assumed when the surcharge/surcredit was calculated, and (2) the actual consumption, or actual number of services, while the surcharge/surcredit is in place. The underlying WRAM/MCBA decisions do not address this situation. For other types of balancing accounts, the general practice is to continue the surcharge/surcredit until the end of the amortization period, and retain the remaining balance in the account until the trigger level is reached or the next GRC proceeding is submitted.

Applicants request that in each annual WRAM/MCBA Advice Letter submission, they be allowed to include any remaining amounts that have been under- or over-amortized thus far. By allowing applicants to adjust prior years' amortization surcharges on an annual basis, the likelihood of fully collecting/refunding account balances in the time period originally set is enhanced. After initial opposition, DRA now supports applicants' position.

We will modify the WRAM/MCBA decisions to clarify that we permit applicants to include any under-amortized or over-amortized amounts from ongoing surcharges or surcredits in their annual Tier 1 Advice Letter submissions. Those ongoing surcharges or surcredits may run until the end of their originally intended amortization terms, provided that the 7.5% ceiling on annual Advice Letter amortization, discussed earlier, is not exceeded.

3.8. Additional Amortization of Outstanding WRAM/MCBA Balances

Applicants initially requested to implement additional surcharges to accelerate recovery of any 2009 (and in some cases 2008) WRAM/MCBA balances to ensure that these balances would be fully recovered by the end

of 2011, thereby meeting the FASB standard for current revenue. In their April 15, 2011 data submission analyzing the high undercollections, applicants also requested an ALJ ruling granting an immediate interim surcharge. In support of these requests, applicants asserted they all expected to have to restate their 2010 financial statements, as well as publicly disclose in these financial statements the risk that large undercollections in WRAM/MCBA balances may need to be treated as deferred revenue under the existing FASB standard.

The June 8, 2011 Scoping Memo denied applicants' request for immediate interim surcharges. The denial was based on both (1) the procedural ground that the Commission has not delegated to the ALJ the authority to approve a surcharge, and (2) the substantive ground that review of Cal-Am's, Cal Water's, and Golden State's 10-K Annual Reports for 2010 and 10-Q First Quarter 2011 reports found no disclosure by applicants of the possible need to restate their 2010 financial statements.³²

DRA notes that the request for accelerated recovery prior to December 31, 2011 is moot due to the schedule of this proceeding. In addition, DRA further argues that applicants' updated submissions show the 2011 net WRAM/MCBA balances may not be as large as earlier projected. Finally, some utilities have further protected themselves by including recovery of 2009 (and in some cases 2008) WRAM/MCBA amounts in their 2010 Advice Letter requests.³³

³² The 10-K and 10-Q reports are required by the Securities and Exchange Commission. Because Apple Valley and Park are not publicly traded companies, they are not subject to these reporting requirements.

³³ See Exhibit 3 at 14-15.

Applicants concede that their request to accelerate amortization of 2008 and 2009 balances is moot, but they urge that recovery be accelerated for 2010 balances by implementing another surcharge to amortize the remaining 2010 balances by the end of 2012. The latter surcharge would not be subject to the 10% “cap” on surcharges contained in DRA’s proposal as well as applicants’ alternative amortization proposal.

DRA opposes this new request to accelerate recovery of 2010 WRAM/MCBA balances. First, applicants did not make this request until rebuttal testimony, thus DRA was not afforded an adequate opportunity to analyze the request. Second, DRA references the late-filed hearing exhibits prepared by applicants, included here at Appendix B, that show unacceptably high surcharges would result in some districts if this request is adopted.

We agree with DRA that applicants’ request for accelerated amortization of 2010 WRAM/MCBA balances should not be approved due to the high rate impact that would occur in 2012 in some districts. Under this proposal, Appendix B shows that for Golden State there would be a 27.5% surcharge in the Bay Point District and a 20.2% surcharge in the Los Ojos District. For Cal Water, there would be four districts with over 20% in WRAM/MCBA surcharges, three of which are smaller districts with subsidized Rate Supported Funds. Therefore, we deny this request.

4. Comments on Proposed Decision

The proposed decision of ALJ Walwyn in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on _____, and reply comments were filed on _____ by _____.

5. Assignment of Proceeding

Michael R. Peevey is the assigned Commissioner and Christine M. Walwyn is the assigned ALJ and presiding officer in this proceeding.

Findings of Fact

1. Attached to this decision are Appendices A-H. These appendices are:
 - Appendix A: Comparison of Existing and Proposed WRAM/MCBA Amortization Schedules
 - Appendix B: Estimated 2012 WRAM/MCBA Surcharges Under Existing and Proposed Amortization Schedules
 - Appendix C: Advice Letter Filings for 2008, 2009, and 2010 Net WRAM/MCBA Account Balances
 - Appendix D: DRA Table Showing Applicants' Districts in Order of Greatest 2010 Undercollections (as a Percentage of Last Authorized Revenue Requirement)
 - Appendix E: Modifications to D.08-02-036
 - Appendix F: Modifications to D.08-08-030
 - Appendix G: Modifications to D.08-09-026
 - Appendix H: Modifications to D.09-05-005
2. This joint application was filed by Cal-Am, Cal Water, Golden State, Park, and Apple Valley to modify the amortization process and procedures of the decisions granting them a WRAM/MCBA mechanisms.

3. Applicant Cal-Am has moved to withdraw from this proceeding and to have its requests addressed in its pending GRC.

4. The Cal-Am GRC is better suited than this proceeding to comprehensively address Cal-Am's WRAM/MCBA issues than this proceeding.

5. The WRAM/MCBA mechanisms are part of pilot programs to promote water conservation. The mechanisms were designed to ensure that applicants and their customers are proportionally affected when conservation rates are implemented, so that neither party suffers nor benefits from the implementation of those rates.

6. Each applicant's GRC proceeding, undertaken every three years, includes scrutiny of the underlying sales forecasts and projected water supply costs by the Commission, its staff, and interested parties, with all customers given notice and an opportunity to be heard.

7. A GRC proceeding is the forum in which the Commission is best able to address high rate increase impacts.

8. The existing amortization schedule for net WRAM/MCBA account balances is the same as adopted by the Commission for all water balancing accounts in R.01-12-009, and reflected in DWA's Standard Practice U-27W. The Commission did not provide a different amortization schedule when it authorized the WRAM/MCBA balancing account mechanisms.

9. The adopted sales forecasts may have played a significant role in causing the high WRAM/MCBA undercollections. These forecasts were typically included as part of settlements in the GRCs. With a WRAM/MCBA mechanism in place, the applicants would have an incentive to agree to a settlement that included a high sales forecast. If actual sales revenue fell below authorized revenue requirement (which is likely to happen given a high sales forecast),

applicants would return the following year(s) of the GRC cycle to seek surcharges through the Advice Letter process.

10. In adopting the WRAM/MCBA mechanisms, the Commission did not anticipate the high undercollections that have occurred. Rather, the Commission expected lower levels of undercollections, and approximately a balance of under- and over-collections, similar to the Commission's experience over the last 20 years with revenue adjustment mechanisms for California's electric utilities.

11. Applicants' proposals to shorten the amortization period for net WRAM/MCBA undercollections could expose customers to substantial rate increases without any notice or opportunity to be heard. For example, under these proposals, the WRAM/MCBA amortization period could in some circumstances double the associated surcharge on a customer's bill.

12. Changing the date applicants submit their annual WRAM/MCBA report from March 31st to the previous November 30th would allow Commission staff to begin review of the account balances earlier, with nine months of data through September 30th, rather than waiting for the entire year's data to be reported in 30 days before the annual Advice Letter is submitted.

13. Applicants can now choose their own accounting method, such as First In First Out, to match the surcharges/surcredits with each year's WRAM/MCBA account balances.

14. On February 1, 2012, by ALJ ruling, the record was reopened for the limited purpose of directing applicants to submit information required under Rule 16.4(b). Applicants timely complied with the ruling and the matter is resubmitted on February 13, 2012.

Conclusions of Law

1. Cal-Am's September 8, 2011 Motion to Withdraw from this proceeding should be granted.
2. The scope of this proceeding is limited to the nine amortization schedule and process issues set forth in the application. Further review of the WRAM/MCBA mechanisms should be undertaken in each applicant's GRC proceeding, and the risk consequences of the mechanisms should be evaluated in applicants' consolidated cost of capital proceedings.
3. We should reject as unreasonable parties' proposals to pass-throughs via a Tier 1 Advice Letter, WRAM/MCBA surcharge increases of 10% or more in a calendar year between GRC proceedings. Advice Letter pass throughs should be limited to not more than 7.5% per year. This limit allows a maximum cumulative rate impact of 22.5% by the third year following a GRC proceeding and allows the Commission to notice, analyze, and properly address any remaining undercollections in the next GRC proceeding.
4. It is reasonable to adopt a "trigger" level of 2% of a water district's "last authorized revenue requirement" for when an applicant must request to amortize a WRAM/MCBA balancing account in an annual Advice Letter.
5. It is reasonable to require that net WRAM/MCBA over-collections be amortized through a surcredit on a customer's service charges and that all under-collections be amortized through a surcharge on the volumetric rate.
6. We should adopt the following amortization schedule for net WRAM/MCBA balances for Cal Water, Golden State, Apple Valley, and Park:
 - All surcredit balances be amortized to return money to ratepayers "as soon as possible;"

- Surcharge balances less than 2% of last authorized revenue requirement may, at the utility's option, be amortized over 12 months or be addressed in the next GRC;
- Surcharge balances between 2% and 5% of last authorized revenue requirement are amortized over 12 months;
- Surcharge balances between 5% and 10% of last authorized revenue requirement are amortized over 18 months; and
- Surcharge balances over 10% of last authorized revenue requirement are amortized at up to 7.5% per calendar year. Any remaining balance requiring amortization beyond 36 months should be addressed in the next GRC.

7. It is reasonable to change the deadline for applicants to submit their annual WRAM/MCBA report from March 31st to the previous November 30th, and to include nine months of recorded data through September 30th in the report.

8. A Tier 1 Advice Letter is reasonable for annual requests to amortize net WRAM/MCBA account balances because pursuant to General Rule 7.5.3, if DWA finds a defect in the Advice Letter after it has become effective, the utility must promptly submit an Advice Letter setting forth a remedial plan both to make prospective adjustments and correct for past errors. If a utility fails to submit a timely or satisfactory revision after notice by DWA, the Commission may impose a penalty and/or take such other actions as may be appropriate to protect consumers and ensure compliance with the law.

9. No good cause exists to require a specific accounting method for applicants to use to match the surcharges/surcredits with each year's WRAM/MCBA account balance.

10. Annual requests to amortize net WRAM/MCBA balances accumulated during the previous calendar year should be filed by Tier 1 Advice Letter on or before March 31st.

11. It is reasonable to allow applicants the option to include in each annual Advice Letter any remaining amounts that have been under-or-over amortized, provided that the 7.5% annual ceiling, as a percentage of the last authorized revenue requirement, is not exceeded. The ongoing surcharges or surcredits already adopted should run until the end of their originally intended amortization term.

12. It is unreasonable to accelerate amortization of 2010 WRAM/MCBA balances. Such amortization would result in excessive impacts in many districts in 2012.

13. No additional items should be included in the Tier 1 Advice Letters that were not included in the Annual Report.

14. Cal Water should modify its billing system within 90 days of the effective date of this decision to provide a separate line item showing WRAM/MCBA surcharges on its customers' bills and submit an informational only Advice Letter when the modification is operational.

15. Today's decision should be made effective immediately.

O R D E R

IT IS ORDERED that:

1. California-American Water Company's September 8, 2011 Motion to Withdraw is granted.

2. Applicants are required to amortize net Water Revenue Adjustment Mechanism/Modified Cost Balancing Account balances at or above 2% of their

last authorized revenue requirement and are permitted to amortize balances below that percentage, on an annual basis.

3. The following amortization schedule for the net Water Revenue Adjustment Mechanism/Modified Cost Balancing Account balances is adopted for California Water Service Company, Golden State Water Company, Apple Valley Ranchos Water Company, and Park Water Company as follows:

- All surcredit balances be amortized to return money to ratepayers “as soon as possible;”
- Surcharge balances less than 2% of last authorized revenue requirement may, at the utility’s option, be amortized over 12 months or be addressed in the next General Rate Case;
- Surcharge balances between 2% and 5% of last authorized revenue requirement are amortized over 12 months;
- Surcharge balances between 5% and 10% of last authorized revenue requirement are amortized over 18 months; and
- Surcharge balances over 10% of last authorized revenue requirement are amortized at up to 7.5% per calendar year. Any remaining balance requiring amortization beyond 36 months should be addressed in the next General Rate Case.

4. Applicants must submit their annual Water Revenue Adjustment Mechanism/Modified Cost Balancing Account report on November 30th, and must include nine months of recorded data through September 30th in the report. The report must be submitted to the Division of Water and Audits, with a copy to the Division of Ratepayer Advocates.

5. Applicants must submit their annual requests for amortization of net Water Revenue Adjustment Mechanism/Modified Cost Balancing Account balances by a Tier 1 Advice Letter on or before March 31st.

6. Applicants may include in each annual Advice Letter any remaining amounts that have been under-or over-amortized, provided that the 7.5% annual Advice Letter ceiling, calculated as a percentage of the last authorized revenue requirement, is not exceeded. The ongoing surcharges or surcredits already adopted shall run until the end of their originally intended amortization term.

7. Applicants' request to accelerate amortization of 2010 Water Revenue Adjustment Mechanism/Modified Cost Balancing Account balances is denied.

8. Applicants can not include any items in their Tier 1 Advice Letters that were not included in their Annual Report.

9. California Water Company must modify its billing system within 90 days of the effective date of this decision to provide a separate line item showing WRAM/MCBA surcharges on its customers' bills and submit an informational only Advice Letter when the modification is operational.

10. In order to adopt the amortization procedures in Ordering Paragraphs 2, 4, 5, and 6, Decisions (D.) 08-02-036, D.08-08-030, D.08-09-026, and D.09-05-005 are modified as set forth in the following Appendices. In all other respects, applicants' request to modify these decisions is denied. These attached Appendices are:

- Appendix E: Modifications to D.08-02-036
- Appendix F: Modifications to D.08-08-030
- Appendix G: Modifications to D.08-09-026
- Appendix H: Modifications to D.09-05-005

11. Application 10-09-017 is closed.

This order is effective today.

Dated _____, at San Francisco, California.

Appendices A, B, C, D, E, F, G, and H

(Ref. CPUC01 # 575310)