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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of California-American Water Company (U 210 W) for an Order Authorizing a Special Conservation Program and Modifications to its Rate Design in its Monterey District, and Authorization to Increase its Rates for Water Service in its Monterey District.

Application 07-12-010
(Filed December 14, 2007)

Application of California-American Water Company (U210W) for Authorization to Increase its Revenues for its General Office by \$5,499,716 or 33.51% in the year 2009; \$424,049 or 1.94% in the year 2010; and \$456,078 or 2.04% in the year 2011.

Application 08-01-024
(Filed January 30, 2008)

Application of California-American Water Company (U210W) for Authorization to Increase its Revenues for Water Service in its Monterey District by \$24,718,200 or 80.30% in the year 2009; \$6,503,900 or 11.72% in the year 2010; and \$7,598,300 or 12.25% in the year 2011 Under the Current Rate Design and to Increase its Revenues for Water Service in the Toro Service Area of its Monterey District by \$354,324 or 114.97% in the year 2009; \$25,000 or 3.77% in the year 2010; and \$46,500 or 6.76% in the year 2011 Under the Current Rate Design.

Application 08-01-027
(Filed January 30, 2008)

**JOINT ASSIGNED COMMISSIONER AND ADMINISTRATIVE LAW JUDGES'
RULING SETTING SPECIAL PROCEDURES TO DEVELOP RECORD ON
CONSERVATION AND RATIONING PROGRAMS**

Summary

In light of the urgent need to reduce water consumption in the Monterey District, we depart from our routine rate case procedures and direct the parties, under the direction of a Specially Assigned Administrative Law Judge, to comprehensively examine the proposed conservation and rationing programs to potentially develop alternatives that best achieve our goal of actual water savings at a reasonable cost.

Background

California-American Water Company (Cal-Am) has filed the three above-captioned applications seeking rate increases in its Monterey district and General Office. In A.07-12-010, Cal-Am presented its conservation programs and proposed to nearly quadruple the annual budget for these programs.¹ Cal-Am also seeks an additional \$2.9 million per year for rationing costs.² The conservation and rationing costs will be on top of rate increases sought in General Rate Case docket and, as discussed at the prehearing conference, the conservation and rationing proposals may be transferred to that docket.

In Application 08-02-018, Cal-Am is further requesting that the Commission modify Decision (D.) 03-02-030, which establishes the existing

¹ For test year 2009, Cal-Am proposes to spend \$2.4 million on conservation programs, of which \$739,000 is for programs at the Monterey Peninsula Water Management District.

² Comprised of \$1.65 million for Monterey Peninsula Water Management District, and \$1.3 million for Cal-Am.

rationing memorandum account, to include the costs of modifications to Cal-Am's bill design and billing system to track data necessary to implement the proposed rationing program. Cal-Am did not offer an estimate of these billing system modification costs. In that application, Cal-Am also sought to develop a process to give Monterey Peninsula Water Management District access to individual customer consumption data and bill information. The privacy implications of Cal-Am's proposal have been moved to the Conservation proceeding, A.07-12-010.

Need for Coordinated Evaluation of Requests

The severe water supply limitations in Cal-Am's Monterey district are well-known, as are the growing financial burdens placed upon ratepayers in this district. The conservation and water rationing programs are complex and increasingly expensive. Accordingly, it is essential that these programs be effective in reducing actual water consumption as well as efficient in delivering these savings at the lowest reasonable cost. Due to the supply limitations and revenue requirement increases, this district faces unique and urgent needs to implement water conservation measures that produce verifiable water savings at a reasonable cost. Successfully implementing water saving measures will also help avoid activating rationing programs.

We have serious concerns about the conservation and rationing proposals as presented by Cal-Am. Therefore, we are adopting a special process to coordinate the review of these proposals.

The objective of this review is to (1) comprehensively identify all of Cal-Am's proposed conservation and rationing programs, with particular focus on projected costs; (2) critically assess the data offered to demonstrate the proposal

will result in verifiable water savings; (3) evaluate each program proposal based on cost and verifiable water savings; (4) rank projects based on these factors; and, (5) bring forward a proposal most likely to result in actual water savings. We have provided some questions to begin this process in Attachment 1. We would also like to better understand the growing role of the Monterey Peninsula Water Management District in allocating costs to Cal-Am's customers, and have provided some initial questions in Attachment 2.

Procedural Steps

Chief Administrative Law Judge Angela K. Minkin has specially assigned retired ALJ James C. McVicar to lead the parties in this effort. The parties shall work cooperatively, and provide such data and analysis as the ALJ may request. The ALJ shall keep the assigned Commissioner and assigned ALJs informed of the progress of this effort and may offer recommendations at the conclusion. Because we want to create a collaborative and innovation-friendly environment for this effort, we expect that most of the work will be conducted informally; that is, without formal filings and official transcripts.

No later than May 20, 2008, Cal-Am shall prepare and distribute to the parties a comprehensive matrix on its conservation and rationing proposals, including components to be provided by the Monterey Peninsula Water Management District. The matrix shall identify each component of the program, describe the purpose, and state the projected cost and anticipated water savings. The basis for any quantified water savings shall be clearly stated and supported by succinct work papers. Where water savings cannot be quantified, the rationale for program shall be included.

To the extent other parties have issues, comments, or alternatives to Cal-Am's proposals, those parties are encouraged to distribute them also on May 20, 2008.

To set the next steps for this effort, a meeting of all parties and the Specially Assigned ALJ³ is scheduled for:

**Friday, May 23, 2008
9:00 a.m. – 1:00 p.m.
Golden Gate Room
Commission Offices
505 Van Ness Avenue
San Francisco, CA 94102**

The Specially Assigned ALJ and parties shall subsequently meet for the purpose of developing innovative proposals that will better achieve the goals of verifiable results and lower costs. Such meetings may be informally scheduled and may be limited to subgroups of parties.

IT IS SO RULED.

Dated May 9, 2008, at San Francisco, California.

/s/ JOHN A. BOHN

John A. Bohn
Assigned Commissioner

/s/ MARIBETH A. BUSHEY

Maribeth A. Bushey
Administrative Law Judge

/s/ CHRISTINE M. WALWYN

Christine M. Walwyn
Administrative Law Judge

³ Water Division staff may provide additional assistance as needed. Neither the Specially Assigned ALJ nor Water Division staff shall be considered “decision-makers” with the terms of Rule 8 of the Commission’s Rules of Practice and Procedure.

Attachment 1

1. Long and short-term priorities for obtaining water savings. Plan for methodical steps to achieve priority water savings
2. Verification of water savings.
3. Tying on-going funding to verifiable results.
4. Requiring strong water conservation measures to avoid overall water rationing.
5. Quantifying the extent to which potable water is used for landscape irrigation in the Monterey district and considering plans to diminish or eliminate the need for this use of potable water.
6. Identify and quantify all proposed conservation and rationing expenditures by Cal-Am. Separately list all personnel costs and general advertising or outreach activities.
7. Develop a plan to maximize the use of cost-free publicity, i.e., press releases, interviews, public service messages, bill inserts, existing web sites, electronic mail distribution lists, cooperative ventures with local government.
8. Evaluate funding-specific measures for customers, e.g., extending recycled water lines to large irrigation customers, as an alternative to advertising or other vague efforts.
9. Develop and evaluate least-cost rationing strategies that focus on actual water savings.
10. Catalogue and assess the customer privacy implications of rationing strategies based on specific customer information, such as number of occupants, fixtures, and appliance use.
11. Any other issue that affects the efficiency or effectiveness of the water saving efforts.

Attachment 2

Monterey Peninsula Water Management District

In 1977, the Legislature created The Monterey Peninsula Water Management District for the purposes of: “conserving and augmenting the supplies by integrated management of ground and surface water supplies, for control and conservation of storm and wastewater, and for the promotion of the reuse and reclamation of water.” The Management District’s specific functions are “management and regulation of the use, reuse, reclamation, conservation of water and bond financing of public works projects.”⁴

Although not clearly set out in the statute, the Management District apparently levies a “user fee” on Cal-Am customers, 8.325% on the total bill,⁵ and collects a “connection charge.” This is in addition to the statutorily authorized property tax assessment on real property in its district.

The Management District’s functions are closely related to Cal-Am’s duties as a public utility providing water service, and the potential for overlap and duplication in functions and administrative overhead is apparent. Importantly, the Management District’s funding base consists largely of Cal-Am customers, who are also being asked to shoulder substantial additional costs from Cal-Am and who also pay taxes.

⁴ Stats. 1977, ch. 527, § 2, Deering’s Wat-Uncod. Acts (2008 Supp.) Act 5065, p. 98-9.

⁵ Our review of the Commission’s records has not revealed any authorization for Cal-Am to collect this amount from its customers and remit it to the Water Management District.

Accordingly, to enable the Commission to carefully consider Cal-Am's request for several million dollars in additional funding for Management District, the parties, under the guidance of the specially assigned ALJ should investigate and assemble such additional data, studies, and audits as are necessary to fully understand this issue. We encourage and invite the Management District, a party to these proceedings, to fully participate in this effort. The following questions provide a starting point for the analysis:

1. How much total funding is the Management District seeking from Cal-Am's ratepayers through this rate case and otherwise, and on what basis?
2. What are the policy implications of significant ratepayer-funded programs being beyond Commission supervision?
3. What is the protection mechanism to ensure that ratepayers are getting full value from amounts assessed by the Management District?
4. Does collection of the Management District's "user fee" by Cal-Am create an inaccurate perception among customers that this fee is retained by Cal-Am and has been reviewed and authorized by this Commission?
5. What level of Commission oversight is warranted given the proposed several million dollars in additional funding sought by Cal-Am for the Management District? Are regular audits needed?
6. Is the proposed rationing program the best use of the \$3 million?
7. Does the proposed rationing system with its delayed mandatory restrictions on outdoor water use and intensive data collection requirements reflect the best strategy for implementing water rationing?
8. Fully demonstrate how a full-time, permanent rationing program, with 19 staff, is needed and timely, versus other alternatives; for example, using temporary workers?

9. The Management District has five full time employees for its own conservation program. Why are more employees at both the Management District and Cal-Am necessary to increase conservation effectiveness?

10. What is the Management District's verifiable progress in achieving its goals; e.g., extension of reclaimed water system (purple pipe) to new customers?

11. Any other issues necessary to understand and justify the funds the Management District obtains from Cal-Am ratepayers and the services it provides.

(End of Attachment 2)

INFORMATION REGARDING SERVICE

I have provided notification of filing to the electronic mail addresses on the attached service list.

Upon confirmation of this document's acceptance for filing, I will cause a Notice of Availability of the filed document to be served upon the service list to this proceeding by U.S. mail. The service list I will use to serve the Notice of Availability of the filed document is current as of today's date.

Dated May 9, 2008, at San Francisco, California.

/s/ ELIZABETH LEWIS

Elizabeth Lewis