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 DECISION (D.) 08-02-036, D.08-08-030, D.08-09-026, AND D.09-05-005

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DECISION ADDRESSING AMORTIZATION OF WATER REVENUE ADJUSTMENT MECHANISM RELATED ACCOUNTS AND GRANTING IN PART MODIFICATION TO DECISION (D.) 08-02-036, 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 Decision (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 under-collections, and these under-collections are often quite substantial. Appendices B and C to this decision show the under-collections 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 under-collections.

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 under-collections as deferred rather than current revenue, and (2) cash flow concerns arising from the length of the existing amortization schedule.

In the proposed decision mailed on March 19, 2012, rather than adopting parties' proposals, the assigned Administrative Law Judge proposed smaller adjustments to the WRAM/MCBA amortization schedule and also proposed a percentage cap on each year's surcharge of 7.5% of the last authorized revenue requirement. These proposals were made because of a concern that the mechanisms are not working as intended, for reasons that are not clear, and that the high under-collections experienced in many districts lead to substantial surcharges being passed through to customers without notice in Tier 1 Advice Letters.

In comments on the proposed decision, the joint applicants oppose the proposed amortization schedule and surcharge cap, as well as the proposed decision's focus on the substantial customer bill impacts of the surcharges rather than focusing on the financial accounting and cash flow impacts to applicants of

a delay in collecting these account balances, as well as any "intergenerational equity" problem for ratepayers that may occur under longer amortization periods. In its comments, the Division of Ratepayer Advocates (DRA) supports the proposed decision's recommendations and finds the surcharge cap a reasonable safeguard for customers.[2]

Based on the comments, the proposed decision is revised to allow applicants to address existing large under-collections under their proposed alternative amortization schedule, which in most respects is the same as DRA's proposal, while requiring that (1) a more vigorous review of the WRAM/MCBA mechanism and options to the mechanism, as well as sales forecasting, be conducted in each applicant's pending or next GRC proceeding and (2) following that GRC review, a cap be placed on the total WRAM/MCBA surcharges of 10% of the last authorized revenue requirement. The revised amortization schedule and GRC effective dates for each applicant are shown at revised Appendix A. To implement these revisions, we allow advice letter filings for the 2011 WRAM/MCBA account balances to be made within 30 days after adoption of a decision in this proceeding or, where the applicant has already filed its advice letters, to allow applicant to update its filings based on a decision in this proceeding.

Finally, we address here the seven other requests of applicants for clarification and modification of the Advice Letter WRAM/MCBA balancing

[2] DRA's proposed safeguard is for the Commission to implement a formal review process when the annual WRAM/MCBA under-collection for a district is greater than 15% of the last authorized revenue requirement.

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) (Applicants), all Class A water utilities regulated by the Commission.[3] 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 (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;[4] this amortization schedule

[3] A Class A water utility serves over 10,000 customers.

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

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 under-collections, with approximately one-third of the districts reporting WRAM/MCBA under-collections that ranged from 10% to 27% of annual revenue.[5]

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 (Administrative Law Judge (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, Golden State and Park submitted proof of customer notice. Cal-Am submitted its proof on May 23, 2011.[6]

While waiting for customer notice to be completed, applicants prepared additional data on (1) possible causes of the high WRAM/MCBA balances,

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[5] 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.

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

(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 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 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.[7]

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 under-collections. 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
- 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 under-collections that under current Commission rules might require the utilities to reflect these

[7] See D.08-02-36, issued February 29, 2008, mimeo at 25.

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 under-collections in each district, (b) seeking to identify the cause(s) of the high under-collections, 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 under-collections since there have been very few over-collections, and no party proposes changes to our refund rules.

3.1.1. Quantifying the WRAM/MCBA Under-collections

The June 8, 2011 Scoping Memo identifies by district, or ratemaking unit, the level of under-collections 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.[8]

The 2008 and 2009 under-collections, 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 under-collections that exceeded 10%; and
- 1 district had an under-collection that exceeded 20%.

[8] 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.

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

- 32 of the 37 districts had under-collections that exceeded 5%;
- 11 of the 32 had under-collections that exceeded 10%; and
- 5 of the 11 had under-collections that exceeded 20%.[9]

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 under-collections, and they also include a monthly dollar amount for each district's average residential customer.[10] In general, Golden State's projected under-collections for 2011 are lower than 2010, Cal Water projects a mixed result (16 districts with higher under-collections, 9 districts with lower under-collections), Apple Valley estimates a lower under-collection, and Park a higher under-collection. 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%[11] of last authorized revenue requirement.

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

[10] 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.

[11] 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 under-collections.

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 such high under-collections. While we understood the WRAM/MCBA mechanisms would capture the effects of all changes between adopted and actual quantity 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 under-collections, 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.[12]

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[12] DRA cites to (1) Cal Water's testimony in the proceeding that adopted most of the applicable WRAM/MCBA mechanisms, Investigation 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 MCBAs were designed to ensure that the utilities

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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 from the adoption of policies that promote conservation."[13] Due to the unexpected high under-collections 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 Under-collections

We next analyze possible reasons for the high under-collections.

In attempting to identify and quantify the cause(s) of the high under-collections, 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

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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.

[13] See D.08-08-030, issued August 25, 2008, mimeo at 28.

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 under-collections, 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, 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.[14] 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 under-collections; 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,

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[14] 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.

represented the majority of districts with under-collections greater than 15% of the last authorized revenue requirement.[15] Of the 10 districts with under-collections 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.[16] The remaining two districts are Golden State's Region 1 Bay Point and Ojai 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 under-collections 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.[17]

DRA strongly disagrees with applicants' assertion that the high WRAM/MCBA under-collections 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,

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

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

and (3) when DRA and applicants differ in their forecasts, both parties have usually reached settlements on final sales forecast numbers.[18]

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 under-collections, many of them quite substantial. With the limited data available in this record, we cannot quantify the specific cause(s) of the high under-collections, 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 under-collections. 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 under-collections.[19] Therefore, we find that the WRAM/MCBA mechanisms may provide applicants an incentive to make or to agree to high GRC sales forecasts.[20]

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[17] Exhibit 2 at 18.

[18] See DRA opening brief at 16-18.

[19] In its comments on the proposed decision, DRA disagrees that the WRAM/MCBA mechanism may provide applicants an incentive to make or to agree to high GRC sales forecasts and states that in recent GRCs for all applicants, adopted or proposed settlements have reflected the lowest sales forecasts proposed by any party in the case.

[20] 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

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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' offset rate increases and balancing accounts adopted in D.03-06-072 and reflected in DWA's Standard Practice U-27W.[21]

We find here that we should be cautious in shortening the amortization schedule since (1) the cause(s) of the high WRAM/MCBA under-collections 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 WRAM/MCBA under-collections may well continue in the future.

Therefore, while we find applicants' and DRA's proposals reasonable for amortizing under-collections up to 10% of the last authorized revenue requirement, for balances over 10% we limit recovery to no more than 7.5% per

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particular forecast seems to err consistently on one side, that would suggest a flaw in either the process or the methodology of the forecast.

[21] 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.

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 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.[22]

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

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

applicants and DRA have offered alternative amortization options to smooth out the customer rate impacts of high under-collections.

Applicants initially proposed modifications to the amortization schedule in order to be able to reflect all under-collections 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 under-collections, and (2) the intergenerational inequities that may occur under a lengthy recovery period.[23] 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 under-collection 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 under-collections, 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

[23] Opening Brief at 2.

as a carrying charge does not fully compensate them for their delay in recovering the balances.[24]

Applicants continue to support their initial proposal to recover all under-collections 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, under-collections 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 under-collection is over 30%.

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 <u>significant</u> change, especially in districts with less than 10,000 customers.[25] DRA proposes to shorten the amortization period for under-collections between 5-15%. DRA urges that a second phase of this proceeding, in April 2012, focus on districts that have an under-collection 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 under-collections since the applicants have the

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[24] *Id.* at 14-17.

[25] Opening Brief at 3.

option of recognizing their WRAM/MCBA under collections as deferred revenue.[26]

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 under-collection 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 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.[27]

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[26] See DRA Opening Brief at 7-8.

[27] See discussion in applicants' Opening Brief at 20-24.

DRA states that it is mostly concerned with the amount of the WRAM/MCBA under-collections 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.[28] 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, 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 under-collections.

Recognizing applicants' concern that existing WRAM/MCBA account balances for all or portions of 2012 present practical problems for the implementation of a cap on total WRAM/MCBA surcharges on a customer bill at 10% of the last authorized revenue requirement, we should delay implementation of the total 10% cap until at least the March 2014 advice letter filings and allow the Commission and all parties to comprehensively review the WRAM/MCBA mechanisms, options to the mechanisms, and the sales forecasts in each applicant's pending or next GRC proceeding. For the interim, applicants'

[28] See September 29, 2011 Transcript at 215-226 and Opening Brief at 7.

alternative amortization proposal, which in most respects is the same as DRA's proposal, should be adopted. Following the first test year of each applicant's pending or next GRC proceeding, the 10% total cap will be effective. An applicant may request collection of unamortized balances in later GRC proceedings if it specifically includes this request in its GRC application and in its customer notice.

The above amortization schedule and total surcharge cap will protect customers by placing a reasonable limit on the level of surcharges that can be imposed through advice letter filings and our delay in implementing a cap on the surcharges will provide applicants a window of 2-4 years to collect existing large balances under their requested amortization schedule without a cap.

We agree with DRA that our focus should also be on the amount of the WRAM/MCBA under-collections, not just the amortization schedules. As stated in our scoping memo, each applicant's GRC proceeding should comprehensively review the WRAM/MCBA mechanisms. We find it reasonable to specify here that in each upcoming GRC proceeding, applicants provide testimony that at a minimum addresses the following options.

- Option 1: Should the Commission adopt a Monterey-style WRAM rather than the existing full WRAM? The Monterey-style WRAM is not a revenue decoupling mechanism as such, it is rather a revenue adjustment mechanism that allows the utility to true-up the revenue it actually recovers under its conservation rate design with the revenue it would have collected if it had an equivalent uniform rate design at actual sales levels.
- Option 2: Should the Commission adopt a mechanism that bands the level of recovery, or refund, of account balances based on the relative size of the account balance. For example, an annual WRAM under-collection/over-collection less than 5% of the last authorized revenue requirement would be amortized to provide 100% recovery/refund, balances between 5-10% would

be amortized to provide only 90% recovery/refund, and balances over 10% would be amortized to provide only 80% recovery/refund.

- Option 3: Should the Commission place WRAM surcharges only on higher tiered volumes of usage, thereby benefiting customers who have usage only in Tier 1 or have reduced their usage in the higher tier levels?
- Option 4: Should the Commission eliminate the WRAM mechanism?
- Option 5: Should the Commission move all customer classes to increasing block rate design and extend the WRAM mechanism to these classes?

It is in the GRC proceedings that customers have an opportunity at public participation hearings (PPHs) and through written communication, to present their views on the WRAM/MCBA mechanisms to the Commission and for the Commission to consider all aspects of each applicant's operation. We recognize that Golden State and Park are currently in their GRC proceedings and, therefore, the assigned ALJs to those proceedings may chose to not require supplemental testimony on these options but rather conduct a different WRAM/MCBA mechanism review.[29] Both Golden State and Park will have two years of the new amortization schedule before their new GRC rates are effective, and will have had an opportunity to adjust both their WRAM/MCBA mechanisms and sales forecasts prior to the 10% total cap being effective for their

[29] We note that in Golden State's current GRC proceeding, A. 11-07-017, over 2,000 customers attended the PPHs and nearly all who spoke opposed the requested rate increases, many specifically citing their opposition to the WRAM mechanism. Comments from customers on the WRAM mechanism generally focused on (1) the lack of notice regarding the surcharges and (2) a belief that the WRAM mechanism penalized those who conserved water, while unfairly benefitting the utilities.

March 2014 advice letter filing. We distinguish these two open GRC proceedings from Apple Valley's current GRC, A.11-01-001, where the record is closed and a proposed decision is being drafted.

Cal Water, unlike the other applicants, does not separately show WRAM/MCBA surcharges on customer bills. We find that with the magnitude of these under-collections, 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 applicants' alternative amortization schedule for net WRAM/MCBA balancing accounts. In addition, effective with the first test year of each applicants current or next GRC, we adopt a cap on the total surcharge being passed-through by advice letter. The effective date of the cap is as follows:

- Golden State and Park: Advice Letter filings in March 2014
- Cal Water – Advice Letter filings in March 2015
- Apple Valley – Advice Letter filings in March 2016

WRAM/MCBA account balances incurred prior to the first test year referenced above are not subject to inclusion in the 10% total surcharge cap. The amortization schedule we adopt here is different from the amortization 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 settlements 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. Due to the timing of this proceeding, we grant an exception to the March 31st date for requesting to amortize 2011 account balances and for the subsequent advice letter filing. Advice letter filings for the 2011 account balances may be made within 30 days after adoption of a decision in this proceeding, with any applicant who has already filed its advice letter permitted to update its filing to reflect the amortization schedule adopted here within 30 days after adoption of a decision in this proceeding.

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.[30]

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 type of cost be included in the Tier 1 Advice Letter that was not included in the Annual Report.

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

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 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."[31] 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.[32]

3.5. How Surcharge/Surcredit Should be Applied to Customers' Bills

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

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[31] 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.

[32] 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.

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 also avoids the appearance that a WRAM/MCBA credit balance is being refunded disproportionately to those customers who waste water.[33]

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.

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[33] 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.

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 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 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 under-collections, 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 under-collections 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.[34]

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.[35]

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

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[34] 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.

[35] See Exhibit 3 at 14-15.

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 timely filed on April 6, 2012 by Joint Applicants and on April 9, 2012 by DRA. Reply comments were filed on April 16, 2012 by Joint Applicants and DRA.

In the proposed decision mailed on March 19, 2012, rather than adopting parties' proposals, the assigned Administrative Law Judge proposed smaller adjustments to the WRAM/MCBA amortization schedule and also proposed a percentage cap on each year's surcharge of 7.5% of the last authorized revenue requirement. These proposals were made because of a concern that the mechanisms are not working as intended, for reasons that are not clear, and that the high under-collections experienced in many districts lead to substantial surcharges being passed through to customers without notice in Tier 1 Advice Letters.

In comments on the proposed decision, the joint applicants oppose the proposed amortization schedule and surcharge cap, as well as the proposed decision's focus on the substantial customer bill impacts of the surcharges rather than focusing on the financial accounting and cash flow impacts to applicants of a delay in collecting these account balances, as well as any "intergenerational equity" problem for ratepayers that may occur under longer amortization periods. In its comments, the Division of Ratepayer Advocates (DRA) supports

the proposed decision's recommendations and finds the surcharge cap a reasonable safeguard for customers.[36]

Based on the comments, the proposed decision is revised to allow applicants to address existing large under-collections under their proposed alternative amortization schedule while requiring that (1) a more vigorous review of the WRAM/MCBA mechanism and options to the mechanism, as well as sales forecasting, be conducted in each applicant's pending or next GRC proceeding and (2) following that GRC review, a cap be placed on the total WRAM/MCBA surcharges of 10% of the last authorized revenue requirement. The revised amortization schedule and GRC effective dates for each applicant are shown at revised Appendix A. To implement these revisions, we allow advice letter filings for the 2011 WRAM/MCBA account balances to be made within 30 days after adoption of a decision in this proceeding or, where the applicant has already filed its advice letters, to allow applicant to update its filings based on a decision in this proceeding.

In addition, minor changes are also made to add clarifying language to the decision. While both applicants and DRA object to the decision's finding that under the WRAM/MCBA mechanisms applicants may have an incentive to make or to agree to high GRC sales forecasts, this is an observation on how the

[36] DRA's proposed safeguard is for the Commission to implement a formal review process when the annual WRAM/MCBA under-collection is greater than 15% of the last authorized revenue requirement.

mechanism works, not a finding on the cause of the large under-collections. This observation should be given further examination in the upcoming GRCs.[37]

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 Under-collections (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; and
   - 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.

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[37] In its comments on the proposed decision, DRA disagrees that the WRAM/MCBA mechanism may provide applicants an incentive to make or to agree to high GRC sales forecasts and states that in recent GRCs for all applicants, adopted or proposed settlements have reflected the lowest sales forecasts proposed by any party in the case.

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.

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 under-collections. These forecasts were typically included as part of settlements in the GRCs. With a WRAM/MCBA mechanism in place, the applicants may have an incentive to make or agree to 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 under-collections that have occurred. Rather, the Commission expected lower levels of under-collections, 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 under-collections 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 FIFO, 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. It is reasonable to limit the level of WRAM/MCBA surcharges passed through on customers' bills by Tier 1 Advice Letters to 10% of the last authorized revenue requirement.

4. Recognizing that existing WRAM/MCBA account balances in some districts present practical problems for the implementation of a cap on total WRAM/MCBA surcharges, we should allow applicants to address existing large under-collections under their proposed alternative amortization schedule, which in most respects is the same as DRA's proposal, until the first test year after each applicant's pending or next GRC proceeding. The adopted amortization schedule and dates for implementation of a cap on total net WRAM/MCBA surcharges of 10% of the last authorized revenue requirement is set forth at Appendix A.

5. We should require a more vigorous review of the WRAM/MCBA mechanisms and options to the mechanisms, as well as sales forecasting, be conducted each applicant's pending or next GRC proceeding. We find it reasonable to specify here that in each upcoming GRC proceeding, applicants provide testimony that at a minimum addresses the following options:

- Option 1: Should the Commission adopt a Monterey-style WRAM rather than the existing full WRAM? The Monterey-style WRAM is not a revenue decoupling mechanism as such, it is rather a revenue adjustment mechanism that allows the utility to true-up the revenue it actually recovers under its conservation rate design with the revenue it would have collected if it had an equivalent uniform rate design at actual sales levels.
- Option 2: Should the Commission adopt a mechanism that bands the level of recovery, or refund, of account balances based on the relative size of the account balance. For example, an annual WRAM/MCBA under-collection/over-collection less than 5% of the last authorized revenue requirement would be amortized to provide 100% recovery/refund, balances between 5-10% would be amortized to provide only 90% recovery/refund, and balances over 10% would be amortized to provide only 80% recovery/refund.
- Option 3: Should the Commission place WRAM/MCBA surcharges only on higher tiered volumes of usage, thereby benefiting customers who have usage only in Tier 1 or have reduced their usage in the higher tier levels?
- Option 4: Should the Commission eliminate the WRAM mechanism?
- Option 5: Should the Commission move all customer classes to increasing block rate design and extend the WRAM/MCBA mechanisms to these classes?

For current GRC proceedings for Golden State and Park, the assigned Administrative Law Judges to those proceedings may chose to not require supplemental testimony on these options but rather conduct a different WRAM/MCBA mechanism review.

6. 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.

7. 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.

8. 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.

9. 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.

10. 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.

11. 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.

12. Due to the timing of this proceeding, we grant an exception to the March 31st date for requesting to amortize 2011 account balances. Advice letter filings for the 2011 account balances may be made within 30 days after adoption of a decision in this proceeding, with any applicant who has already filed its advice

letter permitted to update its filing to reflect the amortization schedule adopted here within 30 days after adoption of a decision in this proceeding.

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

14. No additional type or category of cost should be included in the Tier 1 Advice Letters that were not included in the Annual Report.

15. 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.

16. 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. We adopt the amortization schedule set forth in Appendix A with a cap on total net WRAM/MCBA surcharges of 10% of the last authorized revenue requirement. The cap shall be effective the first test year of each applicant's pending or next GRC, as follows:

- Golden State and Park: Advice Letter filings on March 2014
- Cal Water: Advice Letter filings on March 2015
- Apple Valley: Advice Letter filing on March 2016

WRAM/MCBA account balances incurred prior to the first test year referenced above continue to be amortized under the adopted amortization schedule without being subject to the surcharge cap.

4. We require a more vigorous review of the WRAM/MCBA mechanisms and options to the mechanisms, as well as sales forecasting, be conducted each applicant's pending or next GRC proceeding. In each upcoming GRC proceeding, applicants shall provide testimony that at a minimum addresses the following options:

- Option 1: Should the Commission adopt a Monterey-style WRAM rather than the existing full WRAM? The Monterey-style WRAM is not a revenue decoupling mechanism as such, it is rather a revenue adjustment mechanism that allows the utility to true-up the revenue it actually recovers under its conservation rate design with the revenue it would have collected if it had an equivalent uniform rate design at actual sales levels.
- Option 2: Should the Commission adopt a mechanism that bands the level of recovery, or refund, of account balances based on the relative size of the account balance. For example, an annual WRAM/MCBA under-collection/over-collection less than 5% of the last authorized revenue requirement would be amortized to provide 100% recovery/refund, balances between 5-10% would be amortized to provide only 90% recovery/refund, and balances over 10% would be amortized to provide only 80% recovery/refund.
- Option 3: Should the Commission place WRAM/MCBA surcharges only on higher tiered volumes of usage, thereby benefiting customers who have usage only in Tier 1 or have reduced their usage in the higher tier levels?

- Option 4: Should the Commission eliminate the WRAM mechanism?
- Option 5: Should the Commission move all customer classes to increasing block rate design and extend the WRAM/MCBA mechanisms to these classes?

For current GRC proceedings for Golden State and Park, the assigned Administrative Law Judges to those proceedings may chose to not require supplemental testimony on these options but rather conduct a different WRAM/MCBA mechanism review.

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. Due to the timing of this proceeding, we grant an exception to the March 31st date for requesting to amortize 2011 account balances. Advice letter filings for the 2011 account balances may be made within 30 days after adoption of a decision in this proceeding, with any applicant who has already filed its advice letter permitted to update its filing to reflect the amortization schedule adopted here within 30 days after adoption of a decision in this proceeding.

7. 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.

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

9. Applicants cannot include any additional type or category of cost in their Tier 1 Advice Letters that was not included in their Annual Report.

10. 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

Water Revenue Adjustment Mechanism/Modified Cost Balancing Account surcharges on its customers' bills and submit an informational only Advice Letter when the modification is operational.

11. In order to adopt the amortization procedures in Ordering Paragraphs 2, 4, 5, and 6, Decision (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

12. Application 10-09-017 is closed.

This order is effective today.

Dated _____, at San Francisco, California.