

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



Draft Resolution No. W-4775
Agenda ID #8664

June 30, 2009

TO: All Interested Parties in California American Water Company's Advice Letter No. 742

Enclosed is draft Resolution W-4775 of the Division of Water and Audits. It will be on the Commission's July 30, 2009 agenda. The Commission may then act on this Resolution or it may postpone action until later.

When the Commission acts on the draft resolution, it may adopt all or part of it as written, amend or modify it, or set it aside and prepare a different resolution. Only when the Commission acts does the resolution become binding on the parties.

Parties to this matter may file comments on this draft resolution. An original and 2 copies of the comments, with a certificate of service, should be submitted to:

Division of Water and Audits, Third Floor
Attention: Seaneen M. Wilson
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Parties may submit comments on or before July 20, 2009. The date of submission is the date the comments are received by the Division of Water and Audits. Parties must serve a copy of their comments on all persons on the service list attached to the draft Resolution, on the same date that the comments are submitted to the Division of Water and Audits.

Comments shall be limited to five pages in length plus a subject index listing the recommended changes to the draft resolution, a table of authorities and appendix setting forth the proposed findings and ordering paragraphs.

Comments shall focus on factual, legal, or technical errors in the draft resolution, and shall make specific reference to the record or applicable law. Comments which fail to do so will be accorded no weight and are not to be submitted.

/s/ RAMI KAHLON
Rami Kahlon, Director
Division of Water and Audits

Enclosures: Draft Resolution W-4775
Certificate of Service
Service List

DWA/RSK/ SMW

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER & AUDITS
Utility Audit, Finance and Compliance BranchRESOLUTION NO. W-4775
July 30, 2009R E S O L U T I O N

(RES. W-4775), CALIFORNIA AMERICAN WATER COMPANY, (Cal Am), LOS ANGELES DIVISION (LA Division). ORDER AUTHORIZING CAL AM TO REVISE ITS CURRENT DISTRIBUTION SYSTEM IMPROVEMENT CHARGE (DSIC)

SUMMARY

This resolution approves, with modifications, Cal Am's revised Advice Letter (AL) No. 742, originally filed on April 2, 2009, and revised on June 18, 2009. Cal Am filed this AL pursuant to Resolution No. (Res.) W-4734, and Decisions (D.) 06-12-012, 07-08-030, as modified by D.08-10-045 (the Decision). In AL 742, Cal Am requests approval of increases in its DSIC, related to the completion of infrastructure projects from January 1, 2007 through February 28, 2009. We authorize a DSIC of \$204,448, or 4.29%, applicable to the first quarter of 2009.

BACKGROUND

Cal Am's LA Division serves approximately 27,200 customers in three physically separated subsystems, San Marino, Duarte, and Baldwin Hills. The district is served by wells and irrigation water utilizing Cal Am's groundwater rights and purchases from municipal wholesalers.

In AL 742, Cal Am requested a DSIC of \$203,894 or 4.28%. At the request of the Division of Water and Audits (DWA), Cal Am made minor revisions to its request, based upon the input and methodology authorized in Res. W-4734. Cal Am also updated inputs for more recently available information.

DISCUSSION

We require Cal Am to separately track the DSIC surcharge. The DSIC surcharge collected shall be compared to authorized amounts. All over/under collections, including interest at the 90-day commercial paper rate, shall be refunded/charged to

LA division customers as a surcredit/surcharge. For those dollars authorized today that have not yet been collected, we authorize Cal Am to track those DSIC surcharge dollars and the applicable 90-day commercial paper rate in a balancing account, and collect them via a separate surcharge on Los Angeles district customer bills.

In order to ensure compliance with all terms and conditions for Cal Am's pilot DSIC program authorized in the Decision, the Division of Water and Audits (DWA):

- 1) Verified that the DSIC methodology and inputs are correct;
- 2) Reviewed Cal Am's proposed tariff language; and
- 3) Verified that the DSIC infrastructure projects were those approved in D.07-08-030 and that invoices that Cal Am submitted were related to those projects.

Methodology and Inputs

DWA verified that the basic methodology used by Cal Am to calculate the DSIC is in accordance with that authorized in Res. W-4734, and that the correct inputs were used. DWA found that Cal Am did not use the updated inputs and balances authorized in Res. W-4734, due to the fact that the figures used by Cal Am in AL 742, were, in part, based on those used in its AL 716, which was filed prior to the issuance of Res. W-4734. Upon DWA's request, Cal Am updated its inputs, so that the results were in compliance and alignment with those authorized in W-4734. Cal Am also revised the Base Rate Revenue, utilized in the DSIC calculation, based on its recently authorized 2009 Base Rate Revenue (AL 721).

DWA also requested that Cal Am revise selected proposed tariff language, in order to be in compliance with Res. W-4734, which Cal Am did.

Infrastructure Projects

DWA verified that the infrastructure projects for which recovery is requested were those addressed in the Decision. DWA compared the project numbers for the infrastructure projects addressed in D.07-08-033 with the project numbers for which DSIC treatment is requested in AL 742. All project numbers were verified to the Decision.

DWA reviewed all invoices to determine if the projects were completed, and billed during the applicable period of the DSIC program, and found them to be eligible projects.

Implementation and Recovery

Based on the revisions to Cal Am's calculations so that they would be in compliance and alignment with those authorized in W-4734, the surcharge amount recoverable by Cal Am for AL 742 is \$204,488.

Since the time has passed for which Cal Am requested recovery of these DSIC surcharges, we authorize Cal Am to track those DSIC surcharge dollars and the applicable 90-day commercial paper rate in a balancing account, and collect them via a separate surcharge on Los Angeles district customer bills.

Other Matters

By approving Cal Am's DSIC and tariffs by this resolution we are not making a determination as to the reasonableness of the infrastructure projects or their costs. As required by the Decision, prior to inclusion in rate base, these infrastructure projects will be reviewed in Cal Am's next General Rate Case (GRC).

NOTICE

In compliance with General Order No. (GO) 96-B, General Rule 4.2 and Water Industry Rule 3.1, Cal Am notified its Los Angeles District customers of the original DSIC surcharge via separate customer mailing on August 20, 2008. Cal Am also posted a copy of the current advice letter, AL 742, on its website.

No protests to this advice letter were received.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission.

A draft of this Resolution was served on Cal Am and Division of Ratepayer Advocates on June 30, 2009, and posted on the CPUC website, for public review and comment.

FINDINGS

1. Cal Am's LA Division serves approximately 27,200 customers in three separated subsystems.
2. In Decision 07-08-030, the Commission authorized Cal Am to establish a pilot DSIC program in its LA Division for the remainder of the GRC period of 2007 through

2009 and ordered Cal Am to file an advice letter, within 60 days, to implement the DSIC.

3. In AL 742, filed April 2, 2009, Cal Am requested revision of its Distribution System Improvement Charge (DSIC), to recover the return, depreciation, and property taxes related to eligible DSIC infrastructure projects, from January 1, 2007 through February 28, 2009.
4. In AL 742, Cal Am originally requested that its DSIC be \$203,894, with a surcharge rate of 4.28%.
5. DWA reviewed Cal Am's method used to calculate the DSIC, reviewed Cal Am's proposed tariff language, verified that the infrastructure projects were those addressed in the Decision, verified eligible projects to invoices, and reviewed Cal Am's implementation of the DSIC.
6. DWA requested that Cal Am update the inputs to its DSIC calculation based on revisions to the inputs and calculations authorized in Res. W-4734. Cal Am made these requested revisions.
7. Cal Am also revised the Base Rate Revenue, utilized in the DSIC calculation, based on its recently authorized in 2009 Base Rate Revenue (AL 721).
8. Based on revisions to AL 742, Cal Am requests that its DSIC be \$204,488, with a surcharge rate of 4.29%.
9. Pursuant to D.07-08-030, over/under collections of the DSIC surcharge should accrue interest at the 90-day commercial paper rate.
10. Cal Am should track those DSIC surcharge dollars authorized today that have not yet been collected, and the applicable 90-day commercial paper rate in a balancing account, and collect them via a separate surcharge on Los Angeles district customer bills.

THEREFORE IT IS ORDERED THAT:

1. California American Water Company is authorized to recover a DSIC of \$204,488, or 4.29%, from customers in its Los Angeles Division, related to the eligible DSIC infrastructure projects completed during the period January 1, 2007 through February 28, 2009.
2. California American Water Company shall track all DSIC surcharges in a balancing account, and compare the amounts collected versus authorized. All over/under

collections, including interest at the 90-day commercial paper rate, shall be refunded/charged to Los Angeles Division customers as a surcredit/surcharge.

3. As required by the Decision, prior to inclusion in rate base, the DSIC infrastructure projects shall be reviewed in the next General Rate Case (GRC).
4. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a regular conference of the Public Utilities Commission of the State of California held on July 30, 2009; the following Commissioners voting favorably thereon:

PAUL CLANON
Executive Director

**APPENDIX A
TARIFF SHEETS
AS PROPOSED
BY CAL-AM**

CALIFORNIA-AMERICAN WATER COMPANY
303 H St., Suite 250
CHULA VISTA, CALIFORNIA 91910

Cancelling

Revised C.P.U.C. SHEET NO. 5060-W

Revised C.P.U.C. SHEET NO. 4922-W

Schedule No. LA-DSIC
Los Angeles District Tariff Area
DSIC Rate Tariff

APPLICABILITY

The tariff rate specified herein shall be applicable to all bills for water service on or after the effective date noted below for the duration of the pilot authorized in D.07-08-030, August 23, 2007.

PURPOSE

The purpose of this tariff is to provide a mechanism to recover the fixed costs of replacement capital projects completed in the Los Angeles District on or after January 1, 2007. The eligible capital projects to be included in this charge are detailed below.

RATE

DSIC Surcharge Rate is calculated as shown in ELIGIBLE PLANT 8,
and is effective when a DSIC advice letter is filed with the Commission,
subject to refund when the Commission issues its resolution on the
advice letter.

	<u>Percent of Total Water Bill</u>	
	4.29%	(1)

This percentage is applied to all bills for water service on or after the effective date, which shall be the date the advice letter is filed with the Commission, and which is noted hereon.

SPECIAL CONDITIONS APPLICABLE TO THE CHARGE

1. The charge is applicable to all water service billed under tariff rate Schedules LA-1, LA-3M and LA-4.
2. The charge above shall be applied to all bills rendered on or after the effective of this tariff.
3. The charge will not be applicable to Special Condition Surcharges.
4. The charge is subject to the PUC reimbursement fee set forth in Schedule No. UF.
5. Any charge in effect as a result of D.07-08-030 will be reset to zero at the time of the approval of new rates from the next Los Angeles District rate case to be filed in November 2008.

DEFINITION OF TERMS

1. DSIC – Distribution System Improvement Charge
2. Mass Property – All items replaced under a general category where the replacement cost is less than \$20,000.
3. Rehabilitation – refers to substantial repairs to facilities that are eligible for capitalization under the National Association of Regulated Utility Commissioners Plant accounting guidelines. This would include for example, well relining, cement coating of mains, installation of distribution tank liners, etc.

ELIGIBLE PLANT

1. The DSIC Surcharge is applicable to the replacement or rehabilitation of existing supply, production, water treatment, and transmission and distribution facilities that are revenue-neutral (non-revenue producing, non-expense reducing), are generally for "in-kind" replacements of deteriorated facilities that have reached the end of their useful lives.

(continued)

(TO BE INSERTED BY UTILITY)	ISSUED BY	(TO BE INSERTED BY C.P.U.C.)
ADVICE LETTER NO. <u>742</u>	<u>D. P. STEPHENSON</u>	DATE FILED _____
	<small>NAME</small>	EFFECTIVE _____
DECISION NO. <u>& Res. W-4734</u>	<u>DIRECTOR - RATES & REVENUES</u>	RESOLUTION NO. _____
	<small>TITLE</small>	

CALIFORNIA-AMERICAN WATER COMPANY
303 H St., Suite 250
CHULA VISTA, CALIFORNIA 91910

Revised C.P.U.C. SHEET NO. 5062-W
Canceling Original C.P.U.C. SHEET NO. 5096-W

Schedule No. LA-DSIC (continued)
Los Angeles District Tariff Area
DSIC Rate Tariff

DSIC REQUIREMENTS, PROCEDURES AND SAFEGUARDS

1. The DSIC adopted is a routine infrastructure surcharge as a pilot program, with the intention that if this is successful in meeting our Water Action Plan objectives, a similar surcharge mechanism could be considered for other California American Water districts and other Class A water utilities. The Commission will fully review the pilot in California American Water's next Los Angeles District GRC proceeding scheduled according to the Rate Case Plan, D.07-05-062.
2. The DSIC surcharge is capped as follows:
 - a. The maximum quarterly allowance for the DSIC surcharge is \$756,376.
 - b. The maximum allowance of the DSIC surcharge for the entire rate case period is \$1,323,588,
 - c. The DSIC surcharge will not exceed the quarterly or rate case period cap.
3. California American Water will have flexibility within these caps to reprioritize or add projects, and to shift authorized funding between projects, provided it continues to follow its existing internal project review process and submits supporting documentation (as discussed in Section 6 of this tariff) to the Commission at the time it requests new or revised projects be included under the DSIC surcharge.
4. California American Water will submit its infrastructure surcharge requests under the Commission's Tier 3 advice letter filing procedure that requires a formal Commission resolution, as specified in the General Order 96B. The advice letter procedure is a process that provides notice to all interested parties, a full protest period, and requires a formal Commission resolution for adoption.
5. The quarterly DSIC surcharge requested in the advice letter filing shall be effective immediately, upon filing of advice letter, subject to refund.
 - a. All refunds to customers will include interest at the 90-day commercial paper rate. The interest will be applied to the average monthly balance of DSIC surcharges to be refunded, and compounded monthly.
6. The DSIC surcharge is intended to recover the fixed costs of eligible plant "not previously reflected in rate base", and placed into service during the three month period that ended one month prior to the DSIC surcharge appearing on bills.
7. California American Water shall explicitly and clearly state in the advice letter filing, and provide supporting documentation, for (1) any project that was not approved in this GRC proceeding, and (2) any project that is included at an amount over the cost estimate authorized in this GRC proceeding.
8. California American Water retains the same burden of proof to justify costs approved in this DSIC procedure in its next GRC.

(N)

(continued)

(N)

(TO BE INSERTED BY UTILITY)	ISSUED BY	(TO BE INSERTED BY C.P.U.C.)
ADVICE LETTER NO. <u>742</u>	<u>D. P. STEPHENSON</u>	DATE FILED _____
<u>D. 07-08-030</u>	NAME	EFFECTIVE _____
DECISION NO. <u>Res. W-4734</u>	<u>DIRECTOR - RATES & REVENUES</u>	RESOLUTION NO. _____
	TITLE	

CALIFORNIA AMERICAN WATER COMPANY 303 H Street, Suite 250 CHULA VISTA, CALIFORNIA 91910	Revised	C.P.U.C. SHEET NO.	5063-W
CANCELING	Revised	C.P.U.C. SHEET NO.	5057-W

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The following listed tariff sheets contain all effective rates and rules affecting the charges and services of the Utility, together with other pertinent information:

<u>SUBJECT MATTER OF SHEET</u>	<u>C.P.U.C. SHEET NO.</u>	
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SERVICE AREA MAP		
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San Marino	935-W/937-W, 513-W, 1936-W	
Village	2607-W	

(Continued)

(TO BE INSERTED BY UTILITY)	ISSUED BY	(TO BE INSERTED BY C.P.U.C.)
ADVICE LETTER NO. 742	D. P. STEPHENSON	DATE FILED
DECISION NO. D. 07-08-030 & Res. W-4734	DIRECTOR-RATES & REGULATION	EFFECTIVE RESOLUTION NO.
	TITLE	

CALIFORNIA-AMERICAN WATER COMPANY 303 H Street Suite 250 CHULA VISTA, CALIFORNIA 91910	CANCELED	Revised C.P.U.C. SHEET NO. 5064-W Revised C.P.U.C. SHEET NO. 5058-W
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LW-1-LIRA Low Income Ratepayer Assistance Program	4938-W, 4885-W, 4890-W, 4891-W 4892-W, 4893-W, 4894-W
LW-4 Private Fire Protection Service	4939-W, 4840-W
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LA-1-LIRA Low Income Ratepayer Assistance Program	4994-W, 4995-W, 4895-W, 4585-W, 5001-W
LA-3M Measured Irrigation Service	4995-W, 2662-W, 4712-W
LA-4 Private Fire Protection Service	4997-W, 2920-W, 4713-W
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Monterey Peninsula District Tariff Area	
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MO-CC-1 General Metered Service Ralph Lane and Chular Service Areas	4437-W, 4039-W

(Continued)

(TO BE INSERTED BY UTILITY)	ISSUED BY	(TO BE INSERTED BY C.P.U.C.)
ADVICE LETTER NO. <u>742</u>	<u>D. P. STEPHENSON</u>	DATE FILED _____
	NAME	EFFECTIVE _____
DECISION NO. <u>D. 07-08-050</u> <u>& Res. W-4734</u>	<u>DIRECTOR - RATES & REGULATION</u>	RESOLUTION NO. _____
	TITLE	_____

CERTIFICATE OF SERVICE

I certify that I have by mail this day served a true copy of draft Resolution W-4775 on all parties in these filings or their attorneys as shown on the attached list.

Dated June 30, 2009, at San Francisco, California.

/s/ JOSIE R. BABARAN

Josie R. Babaran

NOTICE

Parties should notify the Division of Water and Audits, Public Utilities Commission, 505 Van Ness Avenue, Room 3106, San Francisco, CA 94102, of any change of address to insure that they continue to receive documents. You must indicate the Resolution number of the service list on which your name appears.

SERVICE LIST
DRAFT RESOLUTION W-4775

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