



February 21, 2012

Draft Resolution W-4910
Agenda ID #11079

TO: All Interested Persons

Enclosed is draft Resolution W-4910 of the Division of Water and Audits (DWA) affirming the DWA's disposition denying authority to Great Oaks Water Company's amortization of its Monterey-style Water Revenue Adjustment Mechanism. The Commission may act then on this resolution or it may postpone action until later.

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

Interested persons may submit comments on draft Resolution W-4910. An original of the comments, with a certificate of service, should be submitted to:

Division of Water and Audits, Third Floor
Attention: Terence Shia
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Division of Water and Audits, Third Floor
Attention: Rami Kahlon
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Interested persons must serve a written or electronic copy of their comments on the utility on the same date that the comments are submitted to the Division of Water and Audits. Interested persons may submit comments on or before March 12, 2012.

Comments should focus on factual, legal, or technical errors or policy issues in the draft resolution.

Persons interested in receiving comments submitted to the Division of Water and Audits may write to Terence Shia, email him at TS2@cpuc.ca.gov, or telephone him at (415) 703-2213.

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

Enclosures: Draft Resolution W-4910
Certificate of Service
Service List

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIADIVISION OF WATER AND AUDITS
Water and Sewer Advisory BranchRESOLUTION NO. W-4910
March 22, 2012**R E S O L U T I O N**

(RES. W-4910), GREAT OAKS WATER COMPANY (GOWC). ORDER AFFIRMING THE DIVISION OF WATER AND AUDITS' (DWA) DISPOSITION DENYING AUTHORITY TO AMORTIZE GOWC'S MONTEREY-STYLE WATER REVENUE ADJUSTMENT MECHANISM (MONTEREY-STYLE WRAM).

SUMMARY

This resolution denies GOWC the authority to recover in rates, as requested by Advice Letter (AL) 217-W filed on November 15, 2011, the amount of \$242,255. The increase requested is to amortize the balance in GOWC' Monterey-Style WRAM resulting from the difference between tiered quantity rates and a uniform, single quantity rate. On November 18, 2011, the Division of Water and Audits (DWA) issued a letter rejecting without prejudice AL 217-W on grounds that the amortization request is inconsistent with the rate mechanism the Commission has authorized for GOWC, which is a Monterey-Style WRAM. On November 30, 2011, GOWC requested Commission review of the DWA's rejection of AL 217-W. We affirm the DWA's rejection of AL 217-W.

BACKGROUND

In AL 217, GOWC requested authority to amortize its Monterey-Style WRAM, which the Commission authorized in Decision (D.) 10-11-034, by implementing a surcharge of \$0.0728 per Ccf to single-family residential customer bills for a twelve-month period of time beginning November 15, 2011. GOWC has not implemented the requested surcharge pending resolution of its appeal of the rejection of AL 217. The amount to be collected through the surcharge represents 1.86% of GOWC's total revenue requirement and 2.91% of the single-family residential revenue requirement. GOWC claims D.10-11-034 allows the utility to track and seek recovery of lost revenues, resulting from the

implementation of conservation rates, derived from both the metered service charge and quantity charge.¹

On November 18, 2011, the DWA issued a letter rejecting without prejudice AL 217 on grounds that the amortization request is inconsistent with the rate mechanism the Commission authorized for GOWC, which is a Monterey-Style WRAM. On November 30, 2011, GOWC requested Commission review of the DWA's rejection of AL 217.

NOTICE AND PROTESTS

GOWC gave public notice of its rate increase request via newspaper notice and customer bill inserts, per General Order 96-B (GO 96-B), Water Industry Rule 3.1 and General Rule 4.2. The publication and bill inserts indicate the proposed increases to the applicable rate schedules.

GOWC served copies of AL 217 in accordance with GO 96-B, Water Industry Rule 4.1 and General Rules 4.3 and 7.2. Service was provided to GOWC's Service List.

DISCUSSION

We affirm the DWA's determination that GOWC's amortization request is inconsistent with the Monterey-style WRAM the Commission authorized for GOWC in D.10-11-034. As we explain below, the Monterey-style WRAM does not allow for the tracking and potential amortization of revenues recovered through the meter service charge.

In AL 217, GOWC requests Commission approval to amortize its Monterey-style WRAM but incorrectly includes recovery of \$60,700.69 in metered service charge revenue. The Commission initially adopted a Monterey-style WRAM for California American Water Company in 1996 in D.96-12-005.² More recently, the Commission

¹ In support of this argument, GOWC cites to D.10-11-034, Ordering Paragraph No. 9, which states: "Great Oaks Water Company...shall file a Tier 2 advice letter with implementing tariff pages to create a Monterey-style water revenue adjustment mechanism that tracks and corrects for the difference between revenue collected under conservation rates and revenue that would have been collected under uniform rate design". We note that Ordering Paragraph 9 explicitly orders GOWC "to create a Monterey-style water revenue adjustment mechanism", and, as we explain below, the Monterey-style WRAM only allows for the tracking and potential amortization of lost revenues derived from the quantity charge.

²There, the Commission authorized the ratemaking mechanism in the context of implementing conservation rates for California American Water Company's Monterey District. In subsequent conservation rate design proceedings and settlements, the Commission has authorized balancing account mechanisms styled after and consistent with the Monterey-style WRAM it authorized for California

adopted Monterey-style WRAMs for several other utilities: San Jose Water Company (SJWC) in D.08-08-030 Suburban Water Systems (SWS) in D.08-02-036, and San Gabriel Valley Water Company (SGVWC) in D.10-04-031.³ In all these decisions, the Monterey-style WRAM only tracks and allows for the potential amortization of the difference between revenue the utility receives for actual metered sales through the tiered volumetric rate and the revenue the utility would have received through a uniform, single quantity rate if such a rate had been in effect.⁴ As the Commission explained when authorizing the Monterey-style WRAM in the past:

The balancing account [i.e., Monterey-style WRAM] will track the actual water amount sold in a month and apply the single quantity rate to result in an adjusted revenue amount for that month. The difference between the adjusted revenue and the actual revenue will be reflected in the balancing account [i.e., Monterey-style WRAM]. The account will not track revenues recovered through the service charge. (Emphasis added.)⁵

American Water Company's Monterey District, and these mechanisms have come to generally be referred to as the "Monterey-style WRAM".

³D.08-08-030, Ordering Paragraph 1 and the discussion on p. 22; D.08-02-036, Ordering Paragraph 1 and the discussion on p. 25; and D.10-04-031, Ordering Paragraph 4 and the discussion on page 34.

⁴ The reason the Commission has set up this balancing account mechanism in the Monterey-style WRAM is to promote conservation. One of the Commission's goals in establishing conservation rates is to have the utility recover more of its revenues through the quantity charge (where the amount of the revenues received will vary with consumption) rather than the metered service charge (which is a fixed, monthly amount). The Monterey-style WRAM provides an incentive to a utility to promote conservation by allowing the utility to track and seek amortization of losses in revenues (as a result of establishing conservation rates) derived from the quantity charge. The Monterey-style WRAM is not set up to track and allow for potential recovery of losses in revenues from the metered service charge because allowing for this tracking and potential recovery would remove the incentive a utility has in promoting conservation.

⁵ D.08-08-030, foot note 30. Also, D.10-04-031, foot note 107, contains nearly identical language. Furthermore, the settlement agreements the Commission adopted in the above mentioned decisions make clear that the Monterey-style WRAM does not include revenues recovered through the metered service charge. For example, the settlement agreement resulting in the SJWC's Monterey-style WRAM adopted in D.08-08-030 states: "The Parties propose that the Commission authorize San Jose to open a balancing account that is a 'price-based' revenue adjustment mechanism. The mechanism is 'price-based' in that the goal is to adjust San Jose's revenues for the difference between the current single quantity rate and the proposed conservation rates for actual quantities sold. This pricing adjustment mechanism is different from a 'conventional' water revenue adjustment mechanism that completely decouples revenues from sales. The proposed mechanism for San Jose is the same type of balancing account that the Commission adopted for California American Water's WRAM for its Monterey District (also referred to as a 'Monterey-style WRAM')."

In D.10-11-034, Ordering Paragraph 9, the Commission explicitly directed GOWC to “file a Tier 2 advice letter... to create a Monterey-style [WRAM]”. Also, in discussion in this decision, the Commission clearly explained that the Monterey-style WRAM it is authorizing for GOWC is styled after and consistent with the Monterey-style WRAMs the Commission has authorized in D.96-12-005, D.08-08-030, D.08-02-036 and D.10-04-031 (which did not allow for the tracking and amortization of revenues recovered through the metered service charge). The Commission stated:

...[DRA] recommends the WRAM balancing account styled after California-American Water Company’s Monterey District (generally referred to as a Monterey-style WRAM) as this is sufficient to ensure Great Oaks does not have a financial disincentive to implement the conservation rate design DRA proposes. The Commission has previously adopted the Monterey-style WRAM for San Jose Water Company in D.08-08-030, for Suburban Water Systems in D.08-02-036, and most recently for the Fontana and Los Angeles County divisions of San Gabriel Valley Water Company in D.10-04-031.⁶ ...

...

We agree with DRA that a Monterey-style WRAM is the appropriate mechanism for Great Oaks to adopt in conjunction with the Commission’s introduction of conservation rate design.

(D.10-11-034, pp. 57-8.) As we discuss above, the Monterey-style WRAM does not allow for the tracking and potential amortization of revenues recovered in the metered service charge. Thus, GOWC should remove the metered service charge revenue from its request to amortize its Monterey-style WRAM, consistent with D.10-11-034 and other Commission orders authorizing a Monterey-style WRAM, when it files for recovery of balances.

⁶ DRA asserted “that the Monterey-style WRAM is appropriate for Great Oaks as it removes the utility’s disincentive to implement an increasing block rate design to encourage water conservation while, consistent with the Commission’s standard rate design, leaves Great Oaks at risk for lost revenues from decreased sales and allows Great Oaks to retain excess revenues from increased sales”. (D.10-11-034, p. 58.) DRA did “not support a ‘full’ WRAM that would decouple sales from revenues because it assert[ed] that Great Oaks is not under a production limitation, has not implemented a conservation program, does not actively encourage its customers to conserve, and its recorded consumption data do not show its customers have significantly conserved.” (*Id.*)

In its request for review, GOWC states that D.10-11-034 is the only decision that is relevant to its request.⁷ As we discuss above, in D.10-11-034 the Commission referenced to decisions D.96-12-005, D.08-08-030, D.08-02-036, and D.10-04-031 specifically for the purpose of explaining that it was authorizing a Monterey-style WRAM for GOWC consistent with the Monterey-style WRAMs the Commission adopted in these decisions. Also, GOWC maintains that there is no “standard method for [Monterey-style] WRAM accounts” because the Monterey-style WRAMs are different.⁸ However, none of the differences GOWC points to affect the implementation of the Monterey-style WRAM.⁹ Most tellingly, GOWC ignores the most significant aspect that is common in all these decisions. In every case where the Commission has adopted the Monterey-style WRAM, the Commission has maintained the fundamental operation of using only the quantity rates to track dollars in the Monterey-style WRAM for potential recovery. In future requests for amortization of its Monterey-style WRAM, GOWC should not include recovery of meter service charge revenues, for all the reasons we discuss above.

Also, GOWC argues that by the DWA looking to D.08-08-030 and D.08-02-036 to reject its request, the DWA is holding GOWC to standards established for other water utilities and not GOWC, and that if the standards set forth in these decision were to apply to

⁷GOWC argues that the Commission “incorporated by reference” no other decisions in D.10-11-034. (November 30, 2011 Request for Review of Industry Rejection of Great Oaks Water Company Advice Letter 217-W, p ._____.)

⁸ November 30, 2011 Request for Review of Industry Rejection of Great Oaks Water Company Advice Letter 217-W, p 3.

⁹GOWC argues that the SJWC and SWS’s Monterey-style WRAMs lack a metered service charge differential between tiered rates and the uniform rate and that SGVWC’s Monterey-style WRAM has a variation in the quantity charge for calculating the balance. In the first instance, the metered service charge is not captured in any Monterey-style WRAMs (including those adopted for SJWC and SWS) that the Commission has authorized, so this difference has no bearing on how the Monterey-style WRAM operates. Similarly, in the second instance, the variation in the quantity charge does not affect the fundamental operation of the Monterey-style WRAM. The Monterey-style WRAM established in the SGVWC case uses a single, uniform quantity rate agreed upon by the parties in that proceeding compared to the tiered, conservation quantity rates for tracking dollars in the Monterey-style WRAM. GOWC claims that this uniform quantity rate is higher than the non-conservation quantity rate, but GOWC fails to note that the metered service charge rates are higher than the conservation service charge rates. This rate design adopted for SGVWC still reflects a revenue neutral design (which ensures that the utility is authorized a rate design that collects the authorized revenue requirement given the authorized adopted quantities for customer water sales so that the utility does not over-collect or under-collect on its authorized revenues) that was agreed upon in that proceeding in the same way that GOWC was authorized a revenue neutral rate design.

GOWC it should have been noticed for due process requirements. GOWC also claims that the Commission has not established standards for conservation rates and the Monterey-style WRAMs, and if the Commission were to establish these standards, GOWC should be a party to the proceeding(s), along with all other water utilities. Contrary to GOWC's arguments, the Commission has in fact opened such a proceeding in order to set standards for conservation rates and ratemaking mechanism like the Monterey-style WRAM. This proceeding is the Commission's Order Instituting Investigation to Consider Policies to Achieve the Commission's Conservation Objectives for Class A Water Utilities (I. 07-01-022), which issued D.08-08-030 and D.08-02-036.¹⁰ Furthermore, GOWC was not only provided notice of this proceeding but was in fact made a party to this proceeding, along with all the other Class A Water Utilities.¹¹

Finally, GOWC calculates the two percent threshold for amortizing the Monterey-style WRAM using only the single-family residential revenue requirement. However, GOWC should use its total revenue requirement to calculate whether the two percent threshold is met consistent with the Commission's treatment for other utilities. The Commission has formally recognized this method of using a utility's total adopted revenue requirement, and not just the single-family revenue requirement, in past decisions, including D.96-12-005¹² and D.08-02-036¹³. GOWC should submit a Tier 2

¹⁰The Commission discussed its objectives and goals concerning water revenue adjustment mechanisms (WRAMs) in section 2.2 of I.07-01-022. As the Commission stated in this section, one of the questions its investigation would address is "[w]hat methodology for a WRAM should be adopted" and if "all revenue [should] fall under a WRAM or just some subset". (I.07-01-022, p. 6.) In I.07-01-022, the Commission consolidated several pending conservation rate design applications that were already underway when the Commission launched I.07-01-022. The Commission decided to address (in the first phase of this proceeding) rate-related conservation objectives in the process of addressing these consolidated applications and ordered the utilities that were made respondents to discuss (in settlement agreements or motions) specific issues, such as revenues to be included in the WRAM. (D.08-02-036, pp.6-8.)

¹¹ (OII. 07-01-022) OP #2: All Class A Water Utilities are made respondents to this investigation. We note that GOWC chose not to actively participate in this proceeding. GOWC is also on the service list to this proceeding.

¹² E.g., D.96-12-005, Ordering Paragraph #9 states, "Cal-Am is authorized to establish a new balancing account to record the variations in revenue incurred under the Water Revenue Adjustment Mechanism, with any balance to accrue interest at the 90-day commercial paper rate. Cal-Am is further authorized to file an advice letter to amortize any such balance at any time the balance exceeds 5% of gross annual revenues and is anticipated to exceed 5% of gross annual revenues within the following six months for the Monterey District." (Emphasis added.)

¹³ D.08-02-036 states for Suburban on page 25, "The over- or under-collection of revenues will be amortized consistent with Standard Practice U-27-W, once the threshold of 2% of the tracked revenue

advice letter with a new tariff sheet for Preliminary Statement J, Monterey-Style Water Revenue Adjustment Mechanism, clarifying that the two percent threshold is based on total authorized revenues.

COMMENTS

Public Utilities Code Section 311(g)(1) generally requires that resolutions must be served on all parties and be subject to at least 30 days public review and comment prior to a vote of the Commission. This resolution was mailed on February 22, 2012 to the parties on the service list attached to AL 217-W.

FINDINGS AND CONCLUSIONS

1. On November 15, 2011, Great Oaks Water Company filed Advice Letter 217-W to request amortization of its Monterey-style Water Revenue Adjustment Mechanism. Great Oaks Water Company requests recovery in rates of \$242,255.30 by adding a surcharge of \$0.0728 per 100 cubic feet to single-family residential bills for a twelve-month period beginning November 15, 2011.
2. On November 18, 2011, the Division of Water and Audits issued a letter rejecting without prejudice Advice Letter 217-W on grounds that the amortization request was inconsistent with the rate mechanism the Commission authorized for GOWC, which is the Monterey-Style Water Revenue Adjustment Mechanism.
3. Great Oaks Water Company filed a timely request for Commission review of the Division of Water and Audits' disposition of Advice Letter 217-W on November 30, 2011.
4. Great Oaks Water Company's request to amortize its Monterey-style Water Revenue Adjustment Mechanism in Advice Letter 217-W should be rejected without prejudice as this request is inconsistent with the rate mechanism the Commission authorized for GOWC, which is the Monterey-Style WRAM.
5. The Commission set standards for operating a Monterey-style Water Revenue Adjustment Mechanism in its original decision (D. 96-12-005) authorizing the mechanism and through its Conservation OII (OII. 07-01-022).

requirement is reached. In Suburban's request to amortize its Monterey-style WRAM in AL 285-W, it used its total adopted revenue requirement to calculate the 2% threshold.

6. The Commission has authorized the Monterey-style Water Revenue Adjustment Mechanism to track the difference between the tiered conservation quantity rates and a uniform, single quantity rate and excluding metered service charge revenues.
7. The Commission has authorized that the Monterey-style Water Revenue Adjustment Mechanism be amortized only after the balance exceeds a threshold based on a percentage of a utility's entire (i.e., gross) revenue requirement and not just the single family residential revenue.
8. Great Oaks Water Company should submit a Tier 2 advice letter with a new tariff sheet for Preliminary Statement J, Monterey-Style Water Revenue Adjustment Mechanism, clarifying that the two percent threshold is based on total authorized revenues.
9. In future requests for amortization of its Monterey-style Water Revenue Adjustment Mechanism, Great Oaks Water Company should not include recovery of metered service charge revenues.
10. The Draft Resolution was circulated for public comment pursuant to Public Utilities Code Section 311(g) (1).

THEREFORE IT IS ORDERED THAT:

1. Great Oaks Water Company's request to amortize its Monterey-Style Water Revenue Adjustment Mechanism through Advice Letter 217-W is rejected without prejudice.
2. Great Oaks Water Company is ordered to file a Tier 2 advice letter with a new tariff sheet for Preliminary Statement J, Monterey-Style Water Revenue Adjustment Mechanism, clarifying that the two percent threshold is based on total authorized revenues to be made effective within 10 days of the effective date of this Resolution.
3. In future requests for amortization of its Monterey-style Water Revenue Adjustment Mechanism, Great Oaks Water Company shall exclude recovery of meter service charge revenues.

4. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on March 22, 2012; the following Commissioners voting favorably thereon:

PAUL CLANON
Executive Director

CERTIFICATE OF SERVICE

I certify that I have by mail this day served a true copy of Draft Resolution W-4910 on all parties in this filing or their attorneys as shown on the attached list.

Dated February 21, 2012, at San Francisco, California.

_____/s/ JOSIE L. JONES

Josie L. Jones

NOTICE

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

SERVICE LIST
Sheet 1

DRAFT RESOLUTION W-4910

Municipal Water System
City of San Jose
3025 Tuers Road
San Jose, CA. 95121

Safe Drinking Water Office
Department of Water Resources
1416 9th Street, Room 804
Sacramento, CA. 95814

Santa Clara Valley Water District
5750 Almaden Expressway
San Jose, CA. 95118

Danilo E. Sanchez
Division of Ratepayer Advocates
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA. 94102

Legal Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA. 94102

County Clerk
County of Santa Clara
70 W. Hedding Street
San Jose, CA. 95110

Office of Regulatory Affairs
California Water Service Company
1720 North First Street
San Jose, CA. 95112

SERVICE LIST
Sheet 2

DRAFT RESOLUTION W-4910

Raminder Kahlon
Division of Water and Audits
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA. 94102

Ting-Pong Yuen
Division of Ratepayer Advocates
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA. 94102

Regulatory Affairs
San Jose Water Company
110 West Taylor Street
San Jose, CA. 95156

John Roeder, CEO
Great Oaks Water Company
P. O. Box 23490
San Jose, CA 95153