

Decision 08-11-023 November 6, 2008

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of California-American Water Company (U210W) to Decrease Revenues for Water Service in its Coronado District by (\$73,100) or (0.46%) in 2008, and Increase Revenues by \$266,200 or 1.67% in 2009, and \$260,900 or 1.61% in 2010.

Application 07-01-036
(Filed January 22, 2007)

And Related Matters.

Application 07-01-037
Application 07-01-038
Application 07-01-039

DECISION ADOPTING CONSERVATION RATE DESIGN SETTLEMENTS FOR THE CORONADO, VILLAGE, AND LARKFIELD DISTRICTS OF CALIFORNIA AMERICAN WATER COMPANY

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**DECISION ADOPTING CONSERVATION RATE DESIGN SETTLEMENTS FOR
THE CORONADO, VILLAGE, AND LARKFIELD DISTRICTS OF
CALIFORNIA AMERICAN WATER COMPANY**

1. Summary

This decision adopts a June 26, 2008 settlement agreement resolving all Phase II rate design issues for the Coronado and Village districts in this proceeding. The decision also adopts the June 30, 2008 settlement agreement resolving all Phase II rate design issues for the Larkfield district in this proceeding. Finally, this decision grants the motions to shorten or waive comments on the settlements.

The settlements propose the first conservation rate designs as Pilot Programs, for customers in the Coronado, Village, and Larkfield districts of California American Water Company (Cal Am). The Pilot Programs incorporate two ratemaking mechanisms that remove any disincentive for Cal Am to implement conservation rates and conservation programs. The Pilot Programs will become effective 90 days after the Commission decision adopting the settlements. The Parties agree to meet and adjust the Pilot Programs if there is a disparate impact on ratepayers or shareholders. The Pilot Programs will be reviewed in Cal Am's next general rate case proceeding for each district.

The Coronado and Village districts settlement is sponsored by Cal Am and the Commission's Division of Ratepayer Advocates (DRA). The Larkfield district settlement is sponsored by Cal Am, DRA, and the Mark West Community Services Committee. No party opposed the settlements. We direct Cal Am to take all necessary steps to implement the new conservation rate designs as soon as possible. These proceedings are closed.

2. Procedural Background

Cal Am is a Class A water company with seven districts.¹ The Commission regulates water service provided by Cal Am in its seven California districts pursuant to Article XII of the California Constitution, the Public Utilities Code, and the Commission's rules and regulations. For Cal Am and other Class A water utilities, Public Utilities Code Section 455.2, as implemented in Decision (D.) 07-05-062, the Rate Case Plan (RCP), provides for a general rate case (GRC) proceeding every three years.

The Coronado district was established in 1886 for the purpose of supplying water to the residents of the area known today as the City of Coronado. American Water Works Company, Inc. (American Water) acquired the company in 1966. Cal Am is a wholly owned subsidiary of American Water.² The Coronado district serves the Cities of Coronado and Imperial Beach, a portion of the City of San Diego lying south of San Diego Bay and a small area of South Chula Vista located in the County of San Diego. All of the water provided to the Coronado district's approximately 21,000 customers is purchased from the City of San Diego.

The Village Water Company was established to serve land developers in the Conejo Valley. It was acquired by Cal Am in 1967. Between 1970 and 2006 the number of customers in the Village district grew from approximately 7,200 to

¹ Class A water companies are privately held water companies with over 10,000 service connections. Cal Am's seven districts are Coronado, Felton, Larkfield, Los Angeles, Monterey, Sacramento, and Village.

² The Coronado and Village districts were both acquired by American Water, but for operating purposes they are part of Cal Am, a wholly owned subsidiary of American Water.

slightly less than 21,000 with the completion of several new developments in the area. With the increase in customers, the amount and quality of water the district was able to supply to its customers from local wells became inadequate. In 1974 the use of local well water was discontinued. Since then all water provided by the Village district has been purchased from the State Water Project.

The Larkfield Water Company was constructed and granted a certificate of public convenience and necessity in 1969. It was merged into Citizen's Utilities in 1995, and acquired by American Water in 2002. The Larkfield district provides water service to an unincorporated portion of Sonoma County about four miles north of Santa Rosa, CA. The service area includes the Larkfield and Wikiup subdivisions which lie along the eastern boundary of U.S. Highway 101 and the community of Fulton which is located west of U.S. Highway 101. An interconnected distribution system serves the three areas of the district and provides water to approximately 2,400 customers. The mix of water provided to Larkfield district customers consists of well water and water purchased from the Sonoma County Water Agency.

On January 22, 2007, Cal Am filed applications for rate increases and/or decreases for its Coronado, Larkfield, Sacramento, and Village districts. DRA filed a timely protest on February 21, 2007, and a prehearing conference (PHC) was held on March 23, 2007, in San Francisco. The Mark West Area Community Services Committee (Mark West) filed a motion to intervene on March 12, 2007. At the PHC, Mark West's motion was granted and the proceedings were consolidated without objection.

The assigned Commissioner's and Administrative Law Judge's (ALJ) Scoping Memo was issued on April 11, 2007. On April 13, 2007, DRA filed a motion to bifurcate the proceeding into two phases, a revenue requirement phase

(Phase I) and move the conservation rate design, Modified Cost Balancing Account (MCBA) and Water Rate Adjustment Mechanism (WRAM) requests into a second phase (Phase II) of the proceeding. There was no opposition to the motion. On May 1, 2007, an ALJ Ruling granted DRA's motion to bifurcate the proceeding and adopted its proposed new schedule, which indicated a decision in Phase II would be issued in early March 2008.

Subsequent to the May 5, 2007 ALJ Ruling, parties teleconferenced with the ALJ seeking a delay in the start of the Phase II proceeding. Parties believed ongoing settlement negotiations in the Cal Am Los Angeles district GRC would aid in reaching settlement on the Phase II issues in this proceeding. The ALJ agreed to the delay.

By June 9, 2008, with no settlement filed by the parties in the proceeding, an Amended Scoping Memo and Ruling was issued establishing a new procedural schedule for Phase II and removing consideration of the Sacramento district rate design from this proceeding.³

3. Proposed Settlement

Pursuant to Article 12 of the Commission's Rules of Practice and Procedure, Cal Am and DRA submitted a motion for review and approval of proposed settlements to the Commission. On June 27, 2008, the parties filed a motion for adoption of the settlement agreement for the Coronado and Village districts and to require that initial comments be filed within seven days and reply comments five days following initial comments. On June 30, 2008, the

³ The rate design for Cal Am's Sacramento district will be considered in its next GRC which is scheduled for November 2008.

parties filed a motion for adoption of the settlement for the Larkfield district and to waive the comment period.

3.1. Standard of Review for Settlements

We review the settlement under the requirements set forth in Rule 12.1(d). This rule provides that, prior to approval, the Commission must find a settlement “reasonable in light of the whole record, consistent with the law, and in the public interest.”

In addition, Rule 12.5 states that, unless the Commission expressly provides otherwise, Commission adoption of a settlement does not constitute approval of, or precedent regarding, any principle or issue in the proceeding, or in any future proceeding.

3.2. Terms of the Settlement

The proposed settlements are attached as Appendices A and B to this decision.⁴ The parties state that the settlement proposes conservation-oriented increasing block rates and related WRAM and MCBA ratemaking mechanisms for ensuring full recovery of all authorized fixed costs and actual variable costs. The conservation rate design and related ratemaking mechanisms constitute a Pilot Program to become effective within 90 days after a Commission decision adopting the proposed settlement.⁵ The Pilot Program will be reviewed in the next GRC proceeding for each district pursuant to D.07-05-062, the decision revising the RCP.

⁴ Appendix A contains the parties’ settlement for the Coronado and Village districts and Appendix B contains the parties’ settlement for the Larkfield district.

⁵ The MCBA is proposed for the Larkfield district only.

In their motion for adoption of the settlement, the settling parties state that they represent all active parties in Phase II of this proceeding and are fairly representative of affected interests; DRA represents the interests of customers in general; Mark West Community Services Committee represents the interests of a portion of the Larkfield district customers; and Cal Am represents the interest of the utility.

The settlement is presented as an integrated package, such that parties are agreeing to the settlement as a whole, as opposed to agreeing to specific elements of the settlement. The parties state that approval of the proposed settlement by the Commission should not be construed as precedent or statement of policy of any kind in any current or future proceeding.

We review the specific provisions of the proposed settlements next.

3.2.1. Conservation Rate Design

The settlement proposes a conservation rate design with the objective of providing all classes of customers with greater financial incentive to conserve water. This meets the Commission's Water Action Plan objective of setting rates that encourage conservation.

The tariff sheets for each of the three districts include customer categories of General Metered Service, Measured Irrigation Service, and Private Fire Protection Service. All of the residential, commercial, industrial, public authority, irrigation and "other" customers in the three districts have metered service connections.⁶ Current rates for each customer class include a service (or meter) charge and a single quantity charge (or volumetric rate) per hundred

⁶ The only flat-rate customers are privately owned fire protection service. Fire protection is a fixed charge, much like a meter service charge.

cubic feet. Customers in the Coronado and Larkfield districts are billed on a bimonthly basis. Customers in the Village district are billed on a monthly basis.

The proposed conservation rate design for all customer classes except private fire service is as follows:

- Residential customers will have an increasing quantity three tier (or block) rate design;
- Commercial, industrial, and public authority will have single quantity rates;
- For both residential and non residential customers, Cal Am will move an additional portion of fixed costs from the meter charge into the quantity charge; and
- The overall revenue requirement for each district and customer class will remain the same under conservation rates as they are under the current rate structure and will follow the cost allocation adopted by the Commission.

In determining the proposed rates, the consumption blocks, and the amount of fixed cost that should be moved from the service charge to the quantity charge, the parties reviewed meter readings from calendar year 2007 in each district. The parties conducted several customer consumption analyses and tested various assumptions. The parties balanced the goals of encouraging conservation, preventing rate shock and maintaining revenue neutrality within both the residential and non-residential customer class.

Conservation Rates for Residential Customers

For residential customers, the parties propose an aggressive rate design implementing three different rate tiers depending on consumption to replace the

single quantity charge and reducing the meter charge by 50%.⁷ To determine the break points in consumption blocks, the parties considered ratepayer impact and revenue neutrality, and followed the guidelines in the California Urban Water Conservation Council Handbook and the American Water Works Association, Principles of Water Rates, Fees, and Charges. The resulting consumption blocks and quantity rate tiers are shown in the tables below:

Consumption Blocks
Tier 1 - Metered usage from zero units to the average annual use in the Coronado district, and the average winter use in the Village and Larkfield districts. (Parties agree this provides a proxy for indoor water use, ensuring low and average users stay within Tier 1.)
Tier 2 - Metered usage from the top of Tier 1 to the average summer usage.
Tier 3 - All consumption above the top of Tier 2.

Volumetric Rates
Tier 1 - The percentage increase over the current single quantity rate by district: Coronado district - 10% Village district - 3% Larkfield district - 9%
Tier 2 - 15% greater than Tier 1
Tier 3 - 25% greater than Tier 2

Under this rate design, residential customers will receive more accurate price signals. For large users in particular, some explanation of the new rate design is warranted to avoid confusion and explain why bills going forward may be higher. As residential customers consume more, their average cost per unit will increase. For this reason we suggest that Cal Am work with the

⁷ For the Larkfield district, parties propose consideration of a 5-tier increasing block rate structure in the next GRC. In the interim, Cal Am agrees to collect data on the number of apartment units and water consumption.

Commission's Public Advisor's Office to develop a suitable consumer information message.

Conservation Rates for Non-Residential Customers

For the commercial, industrial, public authority, gravity irrigation, and pressure irrigation customer classes, the parties propose a conservation rate design consisting of a reduced service charge and a single (uniform) quantity charge for each customer class. The service charge will be reduced by approximately 50% with corresponding increases in the quantity rate to achieve revenue recovery neutrality.

The parties state that developing increasing block rates for non-residential customers is currently not feasible as it would likely require reclassification of these customers based on customer and consumption data that is currently unavailable.⁸

The parties propose that the Pilot Program, consisting of the conservation rate design and the related WRAM and MCBA mechanisms, become effective within 90 days after a Commission decision adopting the proposed settlement. The 90 days will allow Cal Am to modify its billing system and to distribute information regarding the new rate design to customers.

Discussion

The underlying goal of the settlement's conservation rate design proposal is to reduce consumption by all major customer groups in a reasonable manner, without sudden rate shock. The proposal targets reductions in discretionary use,

⁸ See Motion for Adoption of Settlement Agreement, p. 5.

and does this by developing tier break points based on residential consumption usage patterns in each district that avoid dramatic increases between rate tiers.

The parties state that during this Pilot Program they will closely monitor residential and commercial consumption data, and measure the demand response that takes place within each customer class and service area. The parties expect to propose further refinements to the conservation rate design in the next GRC period based on the measurement and evaluation of this Pilot Program.

We find the proposed rate design gives clear price signals to customers to reduce their usage. Important conservation features included in the proposed rate design are (1) shifting 50% of the current fixed cost recovery from the service charge to the quantity rate; and (2) introducing increasing tiered rates for all customers billed under volumetric rates. These features are consistent with the Water Action Plan goals and the conservation principles being developed in our Conservation OII, Investigation (I.) 07-01-022.

We appreciate the careful usage and billing analysis performed by Cal Am and DRA in determining the break points for the residential tiers. We find the degree of rate increase for each tier in each district to be appropriate for a Pilot Program.

As with the proposed settlement for Cal Am's Los Angeles district, adopted with modifications in D.08-06-002, we have two concerns about the parties' proposal. First, there is no plan to move Coronado and Larkfield to monthly billing cycles even though monthly customer billing provides customers with timely conservation price signals. We encourage the parties to investigate the most cost-effective way to move customers from bi-monthly to monthly billing cycles in these districts. Cal Am should present a proposal in its

next GRC filing. The proposal can contain separate timelines for customer classes or service areas, and a mixture of meter reading personnel and investment in new metering technology.

The second weakness is that the proposal for non-residential customer groups is narrower than the proposal for residential customers. Since there were no evidentiary hearings, the record does not contain sufficient evidence to evaluate additional measures for non-residential customers. In the settlement, the parties state that an increasing block rate design for non-residential customers is “currently not feasible” because the necessary data is unavailable. Once again, Cal Am should investigate ways to more fully involve non-residential customers in a conservation rate design and present a proposal in its next GRC.

On the whole, we find the settlements’ proposals represent real progress toward implementing conservation rate design and the settlement should be adopted. The two areas of concern we identified should be revisited by Cal Am in the next GRC proceeding.

Given the importance of conservation rates, Cal Am should make every effort to implement the proposed conservation rate design as soon as possible after the Commission issues a final decision in this proceeding. The settlement is unopposed and the proposed decision recommends it be adopted. Therefore, Cal Am can begin the process of customer notification and billing system modifications when the proposed decision is first issued, and it should give priority to quickly accomplishing these tasks.

3.2.2. WRAM and MCBA Mechanisms

The rate design encourages conservation, while ensuring the revenue requirement is met. In addition to the conservation rate design, the parties also

propose as part of the Pilot Program, two related decoupling mechanisms. In Section VI of the settlements, the stated goals of the decoupling mechanisms are to (1) remove any disincentive for Cal Am to implement conservation rates and programs, (2) ensure any cost savings resulting from conservation are passed on to ratepayers, and (3) reduce overall water consumption. The settling parties propose adopting a WRAM and MCBA in the Pilot Program as the decoupling mechanisms.

Working together the WRAM and MCBA⁹ will generally ensure the company's recovery of all fixed costs authorized through the quantity charge and the recovery of actual variable costs. The WRAM account tracks the differences between adopted and actual revenues recovered through the quantity charge, while the MCBA account will track the actual costs for purchased water and purchased power, as well as pump tax where applicable. The fixed costs not included in these accounts will be recovered through the service charge, which is a monthly charge that customers pay regardless of consumption levels.

Cal Am stipulates that it will exercise due diligence in ensuring the least-cost mix of its water sources and will make a showing in the next GRC filing demonstrating that it has exercised due diligence and that any significant change in water purchases was reasonable.¹⁰

⁹ According to the settlement, the Coronado and Village districts currently have Incremental Cost Balancing Accounts rather than MCBA's, but Cal Am will consider MCBA's in the future.

¹⁰ Significant changes in water purchases are defined for each district in Section IX.D and will be tracked for later reasonableness review.

Each district will have its own WRAM balancing account, with separate reporting by customer class.¹¹ Larkfield will replace its existing Incremental Cost Balancing Account (ICBA) with an MCBA. Coronado and Village will retain their ICBA. The ICBA tracks cost changes attributable to changes in unit price, but not changes in the amount of consumption. The MCBA tracks changes in price and quantity and will capture both cost savings and cost increases. The accounts for each district will always be considered together, *i.e.*, netted, when determining the need for additional revenue recovery from, or for refunds to, ratepayers in that service area. The WRAM and MCBA accounts will accrue interest at the 90-day commercial paper rate.

The settlement provides that by March 31 of each year, Cal Am will provide the Water Division (with a copy to DRA) a written report on the status of the WRAM and MCBA balances. If the report shows the net balance exceeds 2.5% of a district's total recorded revenue requirement for the prior calendar year, Cal Am will file an advice letter within 30 days that amortizes the balance through a volumetric surcharge if it is an under-collection, or a volumetric surcredit if it is an over-collection. If the 2.5% threshold is not met, these balancing accounts will be amortized in the next GRC.

Discussion

The conservation rate design Pilot Program has been structured to result in reduced water consumption while generating sufficient sales revenue to meet the revenue requirement. This is reflected in the proposed balancing account

¹¹ While Cal Am will track revenues in the WRAM account in each service area by customer class for analysis purposes, implementation of a surcharge or surcredit will be calculated using the WRAM balance for all customer classes in each district.

recovery and refund procedures, which have an annual review, with a 2.5% annual revenue requirement threshold.

As a safeguard, the parties have also agreed to a provision in the settlement that would allow for a review and correction if the impacts of the WRAM and MCBA mechanisms produce a disparate impact on ratepayers or shareholders. This provision is found in Section III.3 of the settlements and provides that the parties will meet and discuss adjustments. We find that following this meeting, the parties should individually or jointly file a petition to modify this decision. Since Cal Am will be tracking sales levels by customer class, any disparate impact will be readily apparent and can be quickly addressed.

Given the expected modest balancing account impacts, the safeguards discussed above, and the limited time period of the Pilot Program, we find it reasonable to adopt the proposed WRAM and MCBA mechanisms. We expect that the usage information collected and evaluated during the Pilot Program will allow a conservation focused mechanism to be considered in the next GRC filing.

3.2.3. Return on Equity Adjustment

In D.07-08-030, the Commission stated that the return on equity should be examined in a generic proceeding for all water utilities (I.07-01-022). In August 2008, the Commission issued a decision in Phase 1b of I.07-01-022 moving consideration of the return on equity into the cost of capital proceeding (I.08-05-003, 004, 005).¹² The settlements in this proceeding were filed before the decision in Phase 1b of I.07-01-022, but before the Commission had time to

¹² The cost of capital proceeding for Cal Am is A.08-05-003.

thoroughly review the settlements and issue a decision. For analysis purposes, we substitute the new proceeding number A.08-05-003, in our discussion of the settlements' provisions for adjustment to the return on equity.

In the settlements, parties included a procedural process for consideration of a return on equity adjustment for the WRAM.¹³ The settlements provide that if, in A.08-05-003, the Commission adopts a generic basis point adjustment to return on equity for water utilities that have WRAM and MCBA mechanisms similar to those approved for California Water Service Company and Park Water Company in D.08-02-036, then the same generic return on equity adjustment should be applied to the WRAM and MCBA adopted here. Further, the return on equity adjustment should be applied here when conservation rates are implemented. If the return on equity adjustment decision in A.08-05-003 is made after the WRAM and MCBA is implemented for the districts in this proceeding, then the balancing accounts would be subject to true-up to the date of implementation.

The settlement also provides that if the Commission issues a decision regarding a return on equity adjustment in A.08-05-003 that is not consistent with the generic adjustment described in the settlements, the parties will meet to discuss how that decision should affect this Pilot Program.

Consistent with D.08-06-002, we find that more specificity is required regarding the procedural process in the event a Commission decision in A.08-05-003 does not resolve the return on equity adjustment issue for the

¹³ For the Coronado and Village districts, the terms are in Section XI of the Settlement - Appendix A to this decision. For the Larkfield District, the terms are in Section XIII of the Settlement - Appendix B to this decision.

Coronado, Village and Larkfield districts. Therefore, we direct that if the generic return on equity adjustment described in the settlement is not adopted in A.08-05-003, parties should meet and confer within 30 days and then file a petition to modify this decision within 15 days after the meeting. The petition to modify may be filed jointly or separately, proposing a procedural forum and process to address a return on equity adjustment. The WRAM and MCBA balancing accounts adopted here will be subject to true-up to the date a final decision on a return on equity adjustment is made.

3.2.4. Monitoring and Data Collection

The settlements provide that Cal Am will track data, such as billing and usage data by meter size, by month, and by class of customer, for use in analyzing customer response to the proposed conservation rates so that it is readily available to the Commission and the Parties to evaluate the results of this Pilot Program.¹⁴ To ensure an effective Pilot Program, we also direct Cal Am to schedule a meeting every four to six months with all parties to discuss the customer response data it is tracking and whether there should be any changes in its conservation programs in response to the results.

With data tracking and analysis and the additional requirement of a regular meeting between the parties, we find the monitoring and data collection proposed by the parties to be reasonable.

¹⁴ For Coronado and Village the provisions are found in Section X. For Larkfield, the provisions are found in Section XII.

3.3. Action on Proposed Settlement

Based on our review of the terms of the proposed settlement, we find each section to be reasonable in light of the whole record. In reviewing specific terms, we have included further direction to the parties for the review of this Pilot Program in the next GRC filing. We find that with these additions, the settlement is reasonable in light of the whole record, consistent with the law, and in the public interest. Therefore, we should adopt the settlement.

4. Reduction of Comment Period

Pursuant to Rule 14.6(b) of the Commission's Rules of Practice and Procedure, all parties stipulated to reduce the 30-day public review and comment period required by Section 311 of the Public Utilities Code to 12 days. Pursuant to the parties' stipulation, DRA and Cal Am filed initial comments on October 28, 2008, and no party filed reply comments. Appendices A and B have been revised to correct errors in the tables.

5. Assignment of Proceeding

John A. Bohn is the assigned Commissioner and Linda A. Rochester is the assigned ALJ in this proceeding.

Findings of Fact

1. This decision resolves all issues in Phase II of Cal Am's GRC application for its Coronado, Village, and Larkfield districts.
2. Introducing increasing tiered rates for residential customers and shifting 50% of the current fixed cost recovered from the service charge to the quantity rate, is consistent with the goals of our Water Action Plan and the conservation principles being developed in our Conservation OII, I.07-01-022.
3. The conservation rate design proposal for residential customers gives important price signals to customers to reduce their usage.

4. The conservation rate design proposal for non-residential customers is more limited than the proposal for residential customers. It does not include tiered rates.

5. Moving the Coronado and Larkfield districts from bi-monthly to monthly billing would further conservation efforts by providing customers with more frequent usage feedback.

6. The proposed WRAM and MCBA mechanisms ensure recovery of the adopted fixed costs recovered in quantity rates and the actual variable costs for purchased power, purchased water, and pump taxes.

7. The conservation rate design is expected to have an impact on consumption levels while meeting the adopted revenue requirement.

8. The settlement provides for adjustments to the Pilot Program if the Pilot Program results in a disparate impact on ratepayers or shareholders.

9. If the decision in A.08-05-003 adopts a generic basis point adjustment to return on equity for water utilities that have WRAM and MCBA mechanisms similar to those approved for California Water Service Company and Park Water Company in D.08-02-036, then the same generic return on equity adjustment will be applied to the WRAMs and MCBA adopted here.

10. The WRAM/MCBA balancing accounts adopted here are subject to true-up to the date of a final decision on a return on equity adjustment.

11. The settlement provides for monitoring and data collection for use in analyzing customer response to the proposed conservation rates and conservation programs.

Conclusions of Law

1. The proposed settlements for the Coronado, Village, and Larkfield districts are reasonable in light of the whole record, consistent with the law and in the public interest, and should be adopted.

2. The motions to shorten or waive the comment periods on the settlements should be granted.

3. If a review of the Pilot Program indicates a disparate impact on ratepayers or shareholders, Parties should file a petition to modify this decision.

4. If the Commission issues a decision regarding a return on equity adjustment in A.08-05-003 that is not consistent with the generic adjustment adopted here, the Parties should meet and confer within 30 days and then, jointly or separately, file a petition to modify this decision with 15 days after the meeting.

5. Cal Am should make every effort to implement the new rate design as soon as possible. It should begin the process of customer notification and billing system modifications when the proposed decision is issued.

6. Cal Am should schedule a meeting every four to six months with interested Parties to discuss the customer response data it is tracking and whether there should be any changes in conservation programs in response to the results.

7. Cal Am should be directed to file a Tier 1 advice letter, in accordance with General Order 96-B, and make effective on not less than five days' notice, revised tariff schedules reflecting the adopted conservation rate design and rates and the adopted WRAM and MCBA mechanisms, as well as the schedule of recovery for the balances under these mechanisms.

O R D E R

IT IS ORDERED that:

1. The June 28, 2007 settlement for the Coronado and Village districts, attached at Appendix A, is adopted and the motion to reduce the comment period is granted.

2. The June 30, 2008, settlement for the Larkfield district, attached at Appendix B, is adopted and the motion to waive the comment period is granted.

3. Parties shall meet to develop cost effective methods to move customers in the Coronado and Larkfield districts to monthly billing. During the Pilot Program, California American Water Company (Cal Am) shall collect the necessary data and present a proposal for this in its next general rate case (GRC) filing for the two districts.

4. Cal Am shall meet and confer with all interested Parties to determine the types of data collection necessary in order for the Commission to consider further conservation rate design proposals for non-residential customers in the next GRC proceeding.

5. Cal Am shall make every effort to implement the conservation rate design adopted here as soon as possible.

6. If the Commission issues a decision regarding a return on equity adjustment in Application (A.) 08-05-033 that is not consistent with the generic adjustment described in the settlement, Cal Am shall meet and confer with all interested Parties within 30 days and then, jointly or separately, file a petition to modify this decision within 15 days after the meeting.

7. The Water Revenue Adjustment Mechanism (WRAM) and Modified Cost Balancing Account (MCBA) balancing accounts adopted here shall be subject to true-up to the date of a final decision on a return on equity adjustment.

8. Cal Am shall schedule a meeting every four to six months with interested Parties to discuss the results of the customer response data it is tracking and whether there should be any changes in the conservation programs in response to the results.

9. Cal Am is directed to file a Tier 1 advice letter, in accordance with General Order 96-B, and make effective on not less than five days notice, revised tariff schedules reflecting the adopted conservation rate design and rates and the adopted WRAM and MCBA mechanisms, as well as the schedule of recovery for the balances under these mechanisms.

10. A.07-01-036, A.07-01-037, A.07-01-038, and A.07-01-039 are closed.

This order is effective today.

Dated November 6, 2008, at San Francisco, California.

MICHAEL R. PEEVEY
President
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
TIMOTHY ALAN SIMON
Commissioners