

DWA/RSK/JDR

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER & AUDITS
Utility Audit, Finance and Compliance Branch

RESOLUTION NO. W-4790
December 17, 2009

R E S O L U T I O N

(RES. W-4790), 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 Cal Am's Advice Letter (AL) No. 763, filed on June 23, 2009, as modified by AL No. 763-A filed on August 18, 2009. Cal Am filed AL 763 pursuant to Resolution No. (Res.) W-4734 and Decision (D.) 07-08-030 as modified by D.08-10-045. In AL 763, Cal Am requests approval of an increase in its DSIC related to the completion of infrastructure projects completed from January 1, 2007 through May 31, 2009. We authorize a DSIC of \$236,200, equivalent to a surcharge of 4.89%.

BACKGROUND

In D.07-08-030, the Commission authorized Cal Am to establish a pilot Distribution System Improvement Charge (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. Since the decision was issued, resolutions have been issued that approved Cal Am's implementation of the DSIC as follows.

Resolution W-4734

Res. W-4734, dated March 26, 2009, approved, with modifications, Cal Am's ALs No. 694, 703, and 707. Pursuant to D.07-08-030, as modified by D.08-10-045, Cal Am, through these advice letters, sought to place into effect a DSIC and associated tariffs, related to the completion of certain infrastructure projects. Res. W-4734 approved the three advice letters and authorized a DSIC of \$337,708 to recover the return, depreciation, and property taxes related to eligible DSIC infrastructure projects completed during the period January 1, 2007 to August 31, 2008.

In Res. W-4734, we required Cal Am to separately track the DSIC surcharge. We ordered the DSIC surcharge collected to be compared to authorized amounts. All over/under collections, including interest at the 90-day commercial paper rate are to be refunded/charged to LA division customers as a surcredit/surcharge. Interest at the 90-day commercial paper rate began to accrue as of the date of Res. W-4734. Also, we ordered Cal Am to file a compliance advice letter to revise its tariffs as detailed in Res. W-4734.

Res. W-4734 also restated and clarified several important provisions of D.07-08-030, including the following:

a. The surcharge shall be based on the infrastructure projects reviewed and approved in D.07-08-030, identified in the Cal Am/DRA settlement, and have a total cap for the entire GRC period of \$1,323,588.

b. Cal Am shall file by quarterly advice letter, under the Tier 3 procedures specified in D.07-01-024, for its DSIC surcharge. It should explicitly and clearly state in each advice letter filing, and provide supporting documentation, for (1) any project that was not approved in that GRC proceeding, and (2) any project that is included at an amount over the level authorized in that GRC proceeding.

c. To allow for interim recovery, each advice letter shall be effective immediately, subject to refund if necessary when the Commission issues its resolution. This "interim" surcharge should have a quarterly cap of \$756,376 and any refunds should include interest at the 90-day commercial rate.

AL 694 was Cal Am's initial advice letter filing for a DSIC, and Cal Am was therefore authorized to base its initial DSIC on the first 14 months of eligible infrastructure projects. Subsequently, in ALs 703 and AL 707, Cal Am added an additional quarter's worth of capital additions in each AL. These subsequent quarters of additions were reviewed, and determined to be allowable additions to the initial fourteen months of eligible additions.

Each DSIC advice letter filing is to add a quarter of new eligible infrastructure additions in order to recover the return, depreciation, and property taxes on the current and prior quarters. For the initial 14 month period, a DSIC of \$98,113 was authorized in Res. W-4734. For ALs 703 and 707, Cal Am received approval of two additional quarters with a DSIC of \$113, 180 and \$126,415, respectively. Each DSIC surcharge is intended to apply

during one quarter, i.e., for three months. The total DSIC authorized for these three ALs was \$337,708.

Resolutions W-4774, W- 4775, W-4776

Res. W-4774, dated July 30, 2009, approved Cal Am's AL 716. In this AL, Cal Am requested an increase of its DSIC to recover the rate of return, depreciation, and property taxes related to eligible DSIC infrastructure projects completed through November 30, 2008. Cal Am requested a DSIC of \$142,992 with a surcharge of 2.84%. 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 its inputs with more recently available information. We authorized a DSIC of \$143,567, equivalent to a surcharge of 3.01% for an additional quarter.

Res. W-4775, dated July 30, 2009 approved Cal Am's AL 742. In this AL, Cal Am requested an increase of its DSIC, related to the completion of eligible infrastructure projects completed through February 28, 2009. We authorized a DSIC of \$204,448, equivalent to a 4.29% surcharge for an additional quarter.

Res. W-4776, dated July 30, 2009, approved Cal Am's AL 743. In this AL, Cal Am requested recovery of the balance in its DSIC balancing account authorized in Res. W-4734. The balance of \$337,308 will be collected at \$112,436 quarterly over the next three quarters in 2009, using a 2.36% surcharge in each quarter.¹ Recovery of this balance did not represent any additional quarter's DSIC surcharge, but a recovery of the balance remaining from prior quarters' surcharges previously authorized in Res. W-4734.

DISCUSSION

In AL 763, filed on June 23, 2009, Cal Am requested an increase of its DSIC to recover the rate of return, depreciation, and property taxes related to eligible DSIC infrastructure projects completed through May 31, 2009. Cal Am requested a DSIC of \$235,352 or 4.87%. At the request of DWA staff, Cal-Am corrected the revenue multiplier and the depreciation and filed AL 763-A on August 18, 2009.² In AL 763-A, Cal Am requested a DSIC of \$236,200 with a surcharge of 4.89%. DWA noted the

¹ Although Cal Am requested that its first DSIC begin April 1, 2008, Cal Am did not begin collecting a DSIC until January 2009.

² DWA staff reviewed Cal Am's calculations and determined the revenue multiplier was based on a prior period amount and the depreciation was incorrectly reported. These items were corrected in AL763-A.

corrected revenue multiplier and updated depreciation resulted in a corrected DSIC of \$236,200, equivalent to a surcharge of 4.89%.

In order to ensure compliance with all terms and conditions for Cal Am's pilot DSIC program authorized in D.07-08-030, the Division of Water and Audits:

- 1) Verified that the DSIC methodology and inputs are correct;
- 2) 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;
- 3) Verified the DSIC was implemented as per Res. W-4734 (Res. W-4734 states in part in *Background, Paragraph C*, "to allow for interim recovery, each advice letter shall be effective immediately");
- 4) Verified that the proposed DSIC would not exceed the quarterly cap or the cap for the entire GRC period.

Methodology and Inputs

DWA verified that the basic methodology used by Cal Am to calculate the DSIC is in accordance with that authorized in D.07-08-030 and Res. W-4734 and that the correct inputs were used. DWA confirmed that Cal Am made the proper corrections to its revenue multiplier and its depreciation in AL 763-A. DWA confirmed that Cal Am's proposed quarterly DSIC represents the rate of return, depreciation, and ad valorem taxes (applicable costs) for three months based on the cumulative eligible additions in the Los Angeles district, completed during the period from January 1, 2007 until May 31, 2009. DWA confirmed that the DSIC recoverable by Cal Am is \$236,200, equivalent to a surcharge of 4.89%.

Infrastructure Projects

DWA verified that the infrastructure projects on which the DSIC is based were those addressed in D.07-08-030. DWA compared the project numbers for the infrastructure projects addressed in the Decision with the project numbers for which DSIC treatment is requested in AL 763-A. All project numbers were verified to the Decision. DWA reviewed all invoices to determine if the projects were completed and billed during the period of the DSIC program, and found them to be eligible projects.

Compliance with the Quarterly and Total Caps

D.07-08-030 imposed a quarterly cap of \$756,376 and a total cap of \$1,323,588 on the DSIC for this GRC cycle. The total DSIC authorized to date, including the amount authorized by this resolution totals \$1,259,231. Cal Am's authorized DSIC charges to date therefore remain under the aggregate cap of \$1,323,588. Furthermore, the

quarterly cap has not been exceeded, because the quarterly DSIC being authorized here is \$236,200 which is less than the quarterly cap of \$756,376.³

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 D.07-08-030, prior to inclusion in rate base, these infrastructure projects will be reviewed in Cal Am's next General Rate Case (GRC).

The DSIC surcharge requested in AL 763 was put into effect on July 1, 2009.⁴

The DSIC surcharge collected shall continue to be compared to authorized amounts and separately tracked pursuant to D.07-08-030 as modified by D.08-10-045. Any over/under collections, including interest at the 90-day commercial paper rate shall be refunded/charged to LA division customers as a surcredit/surcharge when the account is trued up.⁵

NOTICE

Cal Am posted copies of the advice letters AL 763 and AL 763-A on its website in compliance with Water Industry Rule 3.3. Cal Am mailed a copy of AL 763 and AL 763-A to all persons as required by G.O. 96-B General Rule 4.3 and Water Industry Rule 4.1.

No protests to this advice letter were received.

COMMENTS

On September 11, 2009, a draft of this Resolution was mailed to those on the mailing list Cal-Am had used to serve its advice letter, and the draft Resolutions was also posted on the CPUC website, for public review and comment. No comments were received.

³ Even if one adds the "Catch-up surcharge" of \$112,435 per quarter authorized in Res. W-4776 to the surcharge authorized by this Resolution (\$236,200), the quarterly cap of \$756,376 is not exceeded.

⁴ Pursuant to D.07-08-030 and Res. W-4734, the surcharge requested in the AL is put into effect before the commission verifies the correct amount of the DSIC surcharge in a resolution.

⁵ Conclusions of Law Paragraph 8 of D.07-08-030 and Ordering Paragraph 6 of Res. W-4734.

FINDINGS

1. In D.07-08-030, the Commission authorized Cal Am to establish a pilot Distribution System Infrastructure Charge (DSIC) program in its LA Division for the remainder of the GRC period of 2007 through 2009.
2. On June 23, 2009, Cal-Am filed AL 763 per Ordering Paragraph 4 of D.07-08-030. Cal- Am requested a DSIC of \$235,342 for projects completed during the period ending May 31, 2009, equivalent to a surcharge of 4.87%. At the request of DWA staff, Cal-Am corrected the revenue multiplier and depreciation and filed AL 763-A on August 18, 2009. DWA staff verified that the DSIC methodology and inputs are now correct.
3. DWA verified the infrastructure projects were those addressed in D.07-08-0300, verified eligible projects to invoices, and confirmed Cal Am's implementation of the DSIC.
4. DWA staff reviewed the AL and confirmed Cal-Am made the DSIC surcharge requested in AL 763 effective on July 1, 2009.
5. The correct DSIC for the quarter under consideration in this resolution is \$236,200, equivalent to a surcharge of 4.89%.
6. The quarterly DSIC authorized does not exceed the quarterly cap. The DSIC authorized by this resolution is \$236,200 and the quarterly cap is \$756,376.
7. DWA confirmed the aggregate DSIC charges do not exceed the total cap of \$1,323,588 for the current GRC period. The DSIC authorized to date including the amount authorized in this resolution totals \$1,259,231.
8. The surcharge collected should continue to be compared to authorized amounts and separately tracked. Pursuant to D.07-08-030, over/under collections of the DSIC surcharge including interest at the 90-day commercial paper rate should be refunded/charged to Los Angeles Division customers as a surcredit/surcharge when the account is trued up.
9. Prior to inclusion in rate base, the DSIC infrastructure projects should be reviewed in the next General Rate Case, as required by D.07-08-030.

THEREFORE IT IS ORDERED THAT:

1. California America Water Company is authorized to recover a DSIC of \$236,200, equivalent to a surcharge of 4.89%, from customers in its Los Angeles Division, for

the eligible DSIC infrastructure projects completed during the period January 1, 2007 through May 31, 2009

2. California American Water Company shall track all 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 when the account is trued up.
3. As required by D.07-08-030, prior to inclusion in rate base, the DSIC infrastructure projects shall be reviewed in the next General Rate Case.
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 December 17, 2009; the following Commissioners voting favorably thereon:

/s/ PAUL CLANON

Paul Clanon
Executive Director

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