

DWA/RSK/SMW

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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

RESOLUTION NO. W-4734
March 26, 2009

R E S O L U T I O N

RES. W-4734 CALIFORNIA AMERICAN WATER COMPANY, (Cal Am), LOS ANGELES DIVISION (LA Division). ORDER AUTHORIZING CAL AM TO PLACE INTO EFFECT THE DISTRIBUTION SYSTEM IMPROVEMENT CHARGE (DSIC) AUTHORIZED IN DECISION 07-08-030, AS MODIFIED BY DECISION 08-10-045.

SUMMARY

This resolution approves, with modifications, Cal Am’s revised Advice Letter (AL) No. 694, originally filed on May 30, 2008, and revised on August 13, 2008, AL 703, filed on August 13, 2008, and AL 707, filed on September 29, 2008. Pursuant to Decision (D.) 07-08-030, as modified by D.08-10-045 (the Decision), Cal Am, in AL 694, seeks to place into effect a DSIC and associated tariffs, related to the completion of certain infrastructure projects. We authorize the following DSIC’s for each AL:

Table 1

Advice Letter 694	Advice Letter 703	Advice Letter 707	Total
\$98,113	\$113,180	\$126,415	\$337,708

In ALs 703 and 707, Cal Am requests approval of subsequent quarters of DSIC surcharges, related to the completion of additional infrastructure projects. Pursuant to the Decision, the DSIC tariffs will be effective through the remainder of Cal Am’s current General Rate Case (GRC) cycle addressed in the Decision (2007 through 2009).

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 surcharge on Los Angeles district customer bills. Interest at the 90-day commercial paper rate shall begin to accrue as of the date of this resolution.

Lastly, we order Cal Am to file a compliance advice letter to revise its tariffs as detailed in this resolution; and we authorize Cal Am to file a Petition to Modify D.07-08-030, to allow recovery of DSIC surcharge for quarters prior to the second quarter of 2008, which have not been requested in any application or advice letter filed to date.

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 an effort to balance the need for water utilities to address infrastructure replacement, as discussed in the Commission's Water Action Plan, the Commission authorized Cal Am to institute a pilot DSIC program with effective regulatory oversight, during the remainder of the general rate case period, 2007 through 2009, in which:¹

- a. The surcharge shall be based on the infrastructure projects reviewed and approved in this proceeding, identified in the Cal Am/DRA settlement, and have a total cap of 7% of 2007 annual adopted revenues for the GRC period. The dollar cap for the entire GRC period is \$1,323,588.

¹ See D.07-08-030, Ordering Paragraph (OP) 4.

- 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 this GRC proceeding, and (2) any project that is included at an amount over the level authorized in this 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 4% and any refunds should include interest at the 90-day commercial rate.
- d. Cal Am shall meet and confer with Water Division and DRA to develop DSIC tariff language that implements this decision. Within 60 days, Cal-Am shall file a tariff that includes the following: (1) A statement of purpose and applicability, and definitions of terms; (2) Descriptions and definitions of the categories of plant eligible for inclusion in a DSIC, by account number and type, and a description of supporting documentation to be provided for completed projects; (3) The formulas for calculating the fixed costs that are collected via the customer surcharge; and (4) The DSIC requirements, procedures, and customer safeguards.

AL 694, as revised, is the first quarterly advice letter filed by Cal Am to institute the DSIC pilot program tariffs and surcharge; each DSIC surcharge is intended to apply for one quarter, i.e., 3 months. In AL 694, as revised, Cal Am requests authority to institute a DSIC, in order to recover the return, depreciation, and property taxes related to eligible DSIC infrastructure projects completed during the period January 1, 2007 through February 29, 2008. In AL 694, as revised, Cal Am requests a first quarters’ DSIC of \$97,571, with a DSIC rate of 1.99%, effective April 1, 2008.²

² In a data response, dated July 31, 2008, Cal Am clarified that it was requesting that the first DSIC begin April 1, 2008. However, Cal Am did not begin collecting a DSIC until January, 2009.

In AL 703, dated August 13, 2008, Cal Am requested a second quarter's DSIC of \$111,217, with a DSIC rate of 2.27%, effective July 1, 2008, related to the eligible DSIC infrastructure projects completed during the period January 1, 2007 through May 30, 2008. In AL 707, dated September 29, 2008, Cal Am requested a third quarter's DSIC of \$117,468, with a DSIC rate of 2.40%, effective October 1, 2008, related to the eligible DSIC infrastructure projects completed during the period January 1, 2007 through August 31, 2008.

DISCUSSION

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) Reviewed Cal Am's method used to calculate the DSIC;
- 2) Reviewed Cal Am's proposed tariff language;
- 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; and
- 4) Reviewed Cal Am's implementation of its DSIC.

Methodology

DWA verified that the basic methodology used by Cal Am, to calculate the DSIC, for the most part, is reasonable. Cal Am's methodology considers: infrastructure projects that the Decision approved for recovery through the DSIC; applicable depreciation and ad valorem taxes; and the application of its pre-tax rate of return.

Each individual 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, since January 1, 2007. With each successive quarter, there are incremental additions to this cumulative amount of total additions on which the DSIC is calculated; therefore, the DSIC increases as well. For example, if, in Quarter 1, cumulative eligible additions equal \$100, the DSIC for that quarter would be based on those additions; if, in Quarter 2, there has been another \$50 of eligible additions, that quarters' DSIC would be based on \$100 + \$50, or \$150.

In calculating the surcharge percentage necessary to generate the quarterly DSIC, Cal Am used data from 2007, in particular, the authorized 2007 Quarterly Base Rate Revenue. In order for the DSIC surcharge to most closely yield the authorized DSIC during the quarterly collection period, it is necessary to utilize the most recent authorized Base Rate Revenues in calculating the rate. Therefore, DWA used Cal Am's authorized 2008 Quarterly Base Rate Revenue to determine the correct percentage surcharge to yield the quarterly DSIC in 2008. The annual 2008 Base Rate Revenue of \$18,900,400 was authorized in Cal Am's AL 690 on April 14, 2008.

Tariffs

Cal Am's proposed tariff additions, included in AL 694, as revised, are for the most part, in compliance with the terms and conditions stated in the Decision.³ The proposed tariff language includes a description of the purpose and amount of the DSIC; a list of eligible plant; an example of the calculation of the surcharge; and all applicable special conditions, requirements, procedures, and safeguards. However, DWA determined that certain modifications need to be made to Cal Am's proposed tariffs to clarify their intent and ensure compliance with the Decision. These changes include, but are not limited to, clarifying:

- 1) That the surcharge is a DSIC and not an Infrastructure Replacement Surcharge (ISRS);
- 2) That the amount of the quarterly cap is \$756,376;⁴
- 3) What happens when the maximum caps are reached; and
- 4) That the DSIC is effective when Cal Am submits its advice letter filing, subject to refund when the Commission issues its resolution.

Specific Changes to Tariffs

Cal Am needs to make the following changes to its proposed tariff sheets:

- I. Sheet 4701-W, RATE section:

³ Cal-Am's proposed tariffs are included as Appendix A to this resolution.

⁴ 2007 annual authorized revenue requirement times 4% (\$18,908,400 x 4% = \$756,376).

1. Right after "DSIC Surcharge Rate," add "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."
2. Revise this sentence as follows- 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.

II. Sheet 4705-W:

1. Delete the following at the top of the example:
INFRASTRUCTURE REPLACEMENT SURCHARGE (ISRS),
EXHIBIT A, EFFECTIVE DATE, and 4/1/2007.
2. Delete ISRS under STEP ONE, and replace with DSIC.
3. Delete ISRS under STEP THREE, and replace with DSIC.
4. Delete ISRS under STEP FOUR, and replace with DSIC.
5. Replace ISRS with DSIC at the bottom of the example, that continues "DSIC Surcharge To Be Applied to Bills Rendered From 4-1-07 through 6-30-07".

III. Sheet 4706-W:

1. Revise Section 2 subparts as follows:
 - a. The maximum quarterly ~~change in~~ allowance for the DSIC surcharge is ~~4%~~ \$756,376.⁵
 - b. The maximum allowance of the DSIC surcharge for the entire rate case period is ~~the lesser of 7% of the annual adopted revenue requirement, or an annual revenue requirement for the surcharge of \$1,323,588~~.⁶
 - c. The DSIC surcharge will not exceed the quarterly or rate case period cap.
2. In Section 3, replace "this cap" with "these caps".

⁵ This figure is calculated by multiplying the 4% quarterly cap rate authorized in the Decision (per Ordering Paragraph 4.c. of Decision), times the 2007 annual adopted revenue requirement.

⁶ Per Ordering Paragraph 4.a. of the Decision.

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 694, AL 703, and AL 707. All but one project number was verified to the Decision. Cal Am pointed out that its accounting system would not allow a single project number for a project that spans more than one year. Cal Am demonstrated that one of the approved projects was started in 2007 but not completed until 2008, resulting in the additional project number.

DWA reviewed all invoices to determine if the projects were completed, and billed during the applicable period of the DSIC program (starting in January 2007). DWA discovered that invoices totaling \$12,782 were billed during 2006, prior to the start of the DSIC program. Since these dollars were spent during a period not eligible for the DSIC program, DWA requested that they be removed from the calculation of the DSIC. Cal Am removed the dollar amounts associated with these 2006 invoices from its request and recalculated the DSIC.⁷

Normally, Cal Am's DSIC advice letters will address only one quarters' worth of infrastructure projects. That is not the case here. To begin this DSIC process, we are incorporating our review and resolution of the three AL's in this one resolution. In AL 694, Cal Am calculated its initial DSIC on the initial fourteen months' worth of eligible infrastructure projects. Since AL 694 was Cal Am's initial advice letter filing for a DSIC, and Cal Am's DSIC request does not exceed the 4% quarterly cap imposed in the Decision, OP 4.c, it is reasonable for Cal Am to base its initial DSIC on the first fourteen months of eligible infrastructure projects. Then, in AL 703 and AL 707, Cal Am added an additional quarter's worth of additions in each AL. These subsequent quarters of additions were reviewed, and determined to be reasonable additions to the initial fourteen months of eligible additions.

Implementation and Recovery

⁷ Cal Am's Revision to AL 694, submitted on August 13, 2008.

In D.07-08-030, it was our intention that the pilot DSIC program should be instituted by Cal Am in order for it to recover those plant additions authorized in the decision, via a quarterly DSIC. Unfortunately, there were unforeseeable delays in Cal Am being able to timely file the required advice letter to institute the program, including: 1) a delay in the issuance of a decision until the third quarter of 2007; and 2) a longer period of time than expected to work out the details of the program with the Division of Ratepayer Advocates. These unavoidable delays do not justify any reduction in Cal Am's recovery of its requested DSIC.

Based on the changes to the Base Rate Revenue and the adjustment to the projects considered in the calculation of the DSIC, the surcharge amounts recoverable by Cal Am for AL's 694, 703, and 707, are \$98,113, \$113,180, and \$126,415, respectively, totaling \$337,708.

For those DSIC surcharge 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 surcharge on Los Angeles district customer bills. Interest at the 90-day commercial paper rate shall begin to accrue as of the date of this resolution.

In its subsequent advice letter filings, Cal Am may request a higher DSIC rate, up to the 4% and 7% cap limitations to reduce or eliminate any under-collections.

A balancing account is being authorized instead of a memorandum account, because the documentation supporting the DSIC rates has been reviewed in this resolution.

Since Cal Am did not request recovery of DSIC surcharges for quarters prior to the 2nd quarter of 2008, we are not able to authorize recovery of those funds in this resolution.⁸ Given the delays discussed above, Cal Am may file a Petition to Modify D.07-08-030, in order to request recovery of the first four quarters of DSIC surcharges for which Cal Am has not previously requested approval. By authorizing this request, we do not guarantee recovery of those amounts.

⁸ These DSIC surcharge would be the first four quarters of DSIC surcharges.

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).

Summary

We order Cal Am to file a compliance advice letter to revise its tariffs as detailed in this resolution; and we authorize Cal Am to file a Petition to Modify D.07-08-030, to allow recovery of DSIC surcharge dollars for the quarters prior to the second quarter of 2008, which have not been requested in any application or advice letter filed to date.

NOTICE

In compliance with General Order (GO) 96-B, General Rule 4.2 and Water Industry Rule 3.1, Cal Am notified its Los Angeles District customers via separate customer mailing on August 20, 2008 of the filing of AL 694. Cal Am also published the customer notice in the Los Angeles Times on August 20, 2008. In compliance with GO 96-B, Water Industry Rule 3.3, Cal Am provided its Los Angeles District Advice Letter Service List with a copy of AL 694, AL 703, and AL 707, and posted a copy of AL 694, AL 703, and 707 on its website.⁹

No protests to these advice letters were received.

COMMENTS

A draft of this Resolution was served on Cal Am on December 23, 2008, and posted on the CPUC website, for public review and comment. Comments were received from Cal Am on January 21, 2009. In its comments, Cal Am stated that the draft resolution should be rejected in its entirety, because: 1) it is not consistent with the intent of D. 07-08-030 and D.08-10-045; 2) overly complicates the recovery of revenues; 3) improperly denies Cal Am's right to recover revenues in the pilot program; 4) erroneously finds Cal Am at fault for delays in implementation of DSIC surcharge; and 5) misstates details of communications with staff. We have made major changes in this resolution in response to these comments.

⁹ <http://www.amwater.com/files/AL%20694%20--%20Distributed.pdf> .

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 694, filed May 30, 2008, Cal Am requested institution of the DSIC pilot program tariffs and surcharge to recover the return, depreciation, and property taxes related to eligible DSIC infrastructure projects completed during the period January 1, 2007 through February 29, 2008. Cal Am requested that the surcharge become effective April 1, 2008.
4. In AL 694, as revised, Cal Am requested that its first DSIC be \$97,571, with a surcharge rate of 1.99%.
5. In AL 703, filed, August 13, 2008, Cal Am requested a DSIC of \$111,217, with a surcharge rate of 2.27%, for the period July 1, 2008 through September 30, 2008, related to the eligible DSIC infrastructure projects completed during the period January 1, 2007 through May 30, 2008.
6. In AL 707, filed September 29, 2008, Cal Am requested a DSIC of \$117,468, with a surcharge rate of 2.40%, for the period October 1, 2008 through December 31, 2008, related to the eligible DSIC infrastructure projects completed during the period January 1, 2007 through August 31, 2008.
7. 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.
8. Each individual 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, since January 1, 2007. With each successive quarter, there are incremental additions to this cumulative amount of total additions on which the DSIC is calculated; therefore, the DSIC increases as well.
9. The DSIC rate should be calculated using the most current Gross Base Rate Revenue figure authorized for Cal Am by the Commission. One-fourth of

this Gross Revenue figure serves as the Quarterly Base Rate Revenue figure in the DSIC calculation.

10. Plant additions occurring during 2006 are not eligible for the DSIC pilot.
11. Since AL 694 is Cal Am's initial advice letter filing for a DSIC, and the surcharge related to the requested fourteen months of infrastructure projects does not exceed the caps established in the Decision, it is reasonable to base the original DSIC on the fourteen months of infrastructure projects.
12. In both AL 703 and AL 707, Cal Am added an additional quarters worth of additions in each AL. It is reasonable to base subsequent DSIC using these and the fourteen month's additions addressed in AL 694.
13. The DSIC surcharge should be tracked in a balancing account instead of a memorandum account, because the documentation supporting the DSIC rates has been reviewed in this resolution.
14. Over/under collections of the DSIC surcharge should accrue interest at the 90-day commercial paper rate. Interest at the 90-day commercial paper rate shall begin to accrue as of the date of this resolution.
15. Since the first three quarterly DSIC periods have already passed, it is likely that Cal Am's authorized DSIC approved by this resolution will be under-collected by the date of this resolution. Therefore, Cal Am is authorized to collect any under-collected amounts (including the authorized interest) via a surcharge on Los Angeles district customer bills. In its subsequent advice letter filings, Cal Am may request a higher DSIC rate, up to the 4% and 7% cap limitations, to reduce any under-collections.
16. Cal Am should be required to submit a compliance advice letter filing, to revise its tariffs.
17. Cal Am may file a Petition to Modify D.07-08-030, in order to request recovery of the quarters prior to the second quarter of 2008, for which Cal Am has not previously requested approval. By authorizing this request, we do not guarantee recovery of those amounts.
18. With the revisions required by this resolution, it is reasonable to approve Cal Am's DSIC pilot program.

THEREFORE IT IS ORDERED THAT:

1. California American Water (Cal Am) shall establish a pilot Distribution System Improvement Charge (DSIC) program per the terms and conditions detailed in Decision (D.) 07-08-030, as modified by D.08-10-030 (Decision), and in this resolution.
2. Cal Am shall revise its proposed DSIC tariff sheets as described in the section titled "Specific Changes to Tariffs".
3. Cal Am is authorized to recover a DSIC of \$98,113, from customers in its Los Angeles Division, associated with eligible pilot DSIC program infrastructure projects completed from January 1, 2007 through February 29, 2008.
4. Cal Am is authorized to recover a DSIC of \$113,180, from customers in its Los Angeles Division, associated with eligible pilot DSIC program infrastructure projects completed from January 1, 2007 through May 30, 2008.
5. Cal Am is authorized to recover a DSIC of \$126,415, from customers in its Los Angeles Division, associated with eligible pilot DSIC program infrastructure projects completed from January 1, 2007 through August 31, 2008.
6. Cal Am 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 (which interest shall begin to accrue as of the date of this resolution), shall be refunded/charged to LA division customers as a surcredit/surcharge. In its subsequent advice letter filings, Cal Am may request a higher DSIC rate, up to the 4% and 7% cap limitations to reduce or eliminate any under-collections.
7. Cal Am shall file an advice letter to comply with Ordering Paragraphs 2 through 6 no later than ten days after the effective date of this resolution.
8. As required by Ordering Paragraph 4.b of the Decision, Cal Am shall continue to file a Tier 3 advice letter on a quarterly basis, to request authority for the DSIC.
9. 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).
10. Cal Am is authorized to file a Petition to Modify D.07-08-030, in order to request recovery of the first four quarters of DSIC surcharges for which Cal Am has not previously requested approval. Authorization of this request does not guarantee recovery of those amounts.

11. 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 March 26, 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

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

CALIFORNIA-AMERICAN WATER COMPANY Original New C.P.U.C. SHEET NO. 4701-W
 303 H St., Suite 250
 CHULA VISTA, CALIFORNIA 91910 C.P.U.C. SHEET NO.

Schedule No. LA-DSIC		(N)
Los Angeles District Tariff Area		
<u>DSIC Rate Tariff</u>		
<u>APPLICABILITY</u>		
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.		
<u>PURPOSE</u>		
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.		
<u>RATE</u>		
DSIC Surcharge Rate	<u>Percent of Total Water Bill</u>	
	1.99%	
This percentage is applied to all bills for water service on or after the effective date noted hereon.		
<u>SPECIAL CONDITIONS APPLICABLE TO THE CHARGE</u>		
<ol style="list-style-type: none"> 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. 		
<u>DEFINITION OF TERMS</u>		
<ol style="list-style-type: none"> 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. 		
<u>ELIGIBLE PLANT</u>		
<ol style="list-style-type: none"> 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)		(N)

(TO BE INSERTED BY UTILITY)	ISSUED BY	(TO BE INSERTED BY C.P.U.C.)
ADVICE LETTER NO. <u> 694 </u>	<u>D. P. STEPHENSON</u>	DATE FILED <u> </u>
	<small>NAME</small>	EFFECTIVE <u> </u>
DECISION NO. <u> 07-08-030 </u>	<u>DIRECTOR - RATES & REVENUES</u>	RESOLUTION NO. <u> </u>
	<small>TITLE</small>	

CALIFORNIA-AMERICAN WATER COMPANY Original New C.P.U.C. SHEET NO. 4703-W
303 H St., Suite 250
CHULA VISTA, CALIFORNIA 91910 C.P.U.C. SHEET NO.

Schedule No. LA-DSIC (continued)

Los Angeles District Tariff Area

DSIC Rate Tariff

ELIGIBLE PLANT (continued)

(N)

5. Items and amounts pre-reviewed for the years 2007, 2008 and 2009 are as follows:

District	PUC Plant Account	Year	Dollar Estimate Method	Dollar Amount	Description
All	343	2007	Settlement	\$110,800	Small Main Replacement
All	343	2008	Settlement	\$110,800	Small Main Replacement
All	343	2009	Average	\$110,800	Small Main Replacement
All	321-325	2007	Settlement	\$146,800	Pumping Plant Replacements
All	321-325	2008	Settlement	\$146,800	Pumping Plant Replacements
All	321-325	2009	Average	\$146,800	Pumping Plant Replacements
All	342-343	2007	Settlement	\$345,000	Network-Replacement/Renewal
All	342-343	2008	Settlement	\$345,000	Network-Replacement/Renewal
All	342-343	2009	Average	\$345,000	Network-Replacement/Renewal
All	345	2007	Settlement	\$390,000	Service Replacement
All	345	2008	Settlement	\$390,000	Service Replacement
All	345	2009	Average	\$390,000	Service Replacement
All	346-347	2007	Settlement	\$150,000	Meter Replacement
All	346-347	2008	Settlement	\$150,000	Meter Replacement
All	346-347	2009	Average	\$150,000	Meter Replacement
All	348	2007	Settlement	\$24,000	Hydrant Replacement
All	348	2008	Settlement	\$24,000	Hydrant Replacement
All	348	2009	Average	\$24,000	Hydrant Replacement
All	321-325	2007	Settlement	\$80,000	Process Plant Replacement
All	321-325	2008	Settlement	\$80,000	Process Plant Replacement
All	321-325	2009	Average	\$80,000	Process Plant Replacement
BH ¹	343	2007	Settlement	\$308,205	Shenandoah Main
BH	343	2008	Settlement	\$648,500	Garth Res. Zone Main
BH	343	2009	Average	\$478,353	Various
DU ²	343	2007	Settlement	\$518,649	Lemon Res. Zone Main
DU	315	2008	Settlement	\$150,000	Santa Fe Well Improvements
DU	Unk.	2009	Average	\$334,325	Various
SM ³	343	2007	Settlement	\$414,644	Circle & Bald. Ave Mains
SM	-	2008	Settlement	\$0	N/A
SM	343	2009	Average	\$207,322	Various

¹ = Baldwin Hills ² = Duarte ³ = San Marino

6. Items that were not pre-reviewed in the GRC process and items above that exceed the dollar amount specified must be reviewed by Water Division Staff to determine if the expenditure contributes to an adequate ongoing level of new investment and upgrades that are necessary to maintain adequate water service to customers.

(N)

(continued)

(TO BE INSERTED BY UTILITY)	ISSUED BY	(TO BE INSERTED BY C.P.U.C.)
ADVICE LETTER NO. <u> 694 </u>	D. P. STEPHENSON	DATE FILED <u> </u>
	NAME	EFFECTIVE <u> </u>
DECISION NO. <u> 07-08-030 </u>	DIRECTOR - RATES & REVENUES	RESOLUTION NO. <u> </u>
	TITLE	

CALIFORNIA-AMERICAN WATER COMPANY Original New C.P.U.C. SHEET NO. 4705-W
 303 H St., Suite 250
 CHULA VISTA, CALIFORNIA 91910 C.P.U.C. SHEET NO.

Schedule No. LA-DSIC (continued)

Los Angeles District Tariff Area

DSIC Rate Tariff

ELIGIBLE PLANT (continued)

(N)

8. An example of the quarterly calculation is as follows:

CALIFORNIA AMERICAN WATER LOS ANGELES OPERATING DISTRICT INFRASTRUCTURE REPLACEMENT SURCHARGE (ISRS)		EXHIBIT EFFECTIVE DATE	A 4/1/2007
<u>STEP ONE - IDENTIFY ISRS-ELIGIBLE NET ADDITIONS</u>			
<u>January and February 2007- ELIGIBLE NET ADDITIONS</u>			
<u>ACCOUNT NUMBER</u>	<u>DESCRIPTION</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>
325	Other Pumping Equipment	41,360	0
332	Water Treatment Equipment	4,000	0
343.2	Distribution Mains - 6" to 10"	383,160	1,080
345	Services	78,000	1,838
346	Meters	30,000	0
348	Hydrants	4,800	29
	Totals	\$541,320	\$2,947
<u>NET ADDITIONS</u>			
			\$538,373
<u>STEP TWO - CALCULATE ANNUAL AND MONTHLY DEPRECIATION</u>			
<u>ACCOUNT NUMBER</u>	<u>DESCRIPTION</u>	<u>ANNUAL DEPRECIATION RATE</u>	<u>ADDITIONS</u>
325	Other Pumping Equipment	4.98%	41,360
332	Water Treatment Equipment	6.72%	4,000
343.2	Distribution Mains - 6" to 10"	2.44%	383,160
345	Services	3.05%	78,000
346	Meters	4.16%	30,000
348	Hydrants	2.75%	4,800
	Total Annual Depreciation		\$541,320
	Total Monthly Depreciation		\$15,437
			\$1,286
<u>STEP THREE - CALCULATE ANNUAL AND MONTHLY AD VALOREM TAXES</u>			
	ISRS-eligible net additions		\$538,373
	Ratio of ad valorem taxes to net plant		1.00%
	Total additional annual ad valorem taxes		\$5,384
	Total additional monthly ad valorem taxes		\$449
<u>STEP FOUR - CALCULATE ADDITIONAL PRE-TAX RETURN</u>			
<u>2006 PRE-TAX COST OF CAPITAL</u>			
As Determined by CPUC in GRC Decision			
<u>Capital</u>	<u>Amount (000's)</u>	<u>Percent</u>	<u>Capital Cost</u>
Debt	58.97%	6.36%	3.75%
Equity	41.03%	10.00%	4.10%
Total	100.00%		7.85%
			Revenue Multiplier
			1.74627
			Revenue Requirement Factor
			10.92%
<u>4-1-07 SURCHARGE CALCULATION</u>			
	Eligible Net Additions		\$538,373
	Less: Accumulated Depreciation On Jan and Feb Additions (2 Months)		2,573
	Additional Net Rate Base for 4-1-07 ISRS Calculation		\$535,800
	Revenue Requirement For Net Rate Base Increase		\$58,485
	Quarterly Revenue Requirement For Net Rate Base Increase		\$14,621
	Quarterly Depreciation Expense on Eligible Investments		3,859
	Quarterly Ad Valorem Taxes on Eligible Investments		1,346
	Total Quarterly ISRS Costs		\$19,826
	Base Rate Revenue From 4-1-07 to 7-1-07		\$4,727,000
	ISRS Surcharge To Be Applied To Bills Rendered From 4-1-07 to 7-1-07		0.42%

(continued)

(N)

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ADVICE LETTER NO. <u>694</u>	D. P. STEPHENSON	DATE FILED <u> </u>
	NAME	EFFECTIVE <u> </u>
DECISION NO. <u>07-08-030</u>	DIRECTOR - RATES & REVENUES	RESOLUTION NO. <u> </u>
	TITLE	

CALIFORNIA-AMERICAN WATER COMPANY Original New C.P.U.C. SHEET NO. 4706-W
 303 H St., Suite 250
 CHULA VISTA, CALIFORNIA 91910 C.P.U.C. SHEET NO. _____

Schedule No. LA-DSIC (continued)

Los Angeles District Tariff Area

DSIC Rate Tariff

DSIC REQUIREMENTS, PROCEDURES AND SAFEGUARDS

(N)

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 change in the DSIC surcharge is 4%
 - b. The maximum allowance of the DSIC surcharge for the entire rate case period is the lesser of 7% of the annual adopted revenue requirement, or an annual revenue requirement for the surcharge of \$1,323,588.
 - c. The DSIC surcharge will not exceed the quarterly or rate case period cap, and all completed projects that could be part of the DSIC surcharge but are excluded by the caps will be either rolled into the next quarterly adjustment in the case of the quarterly cap, or into the next GRC proceeding, in the case of the maximum rate case period cap.
3. California American Water will have flexibility within this cap 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 will be effective immediately, subject to refund, if necessary, when the Commission issues its resolution on the advice letter. All refunds to customers will include interest at the 90-day commercial paper rate. The interest will be applied to customer's payments that include DSIC surcharge billings that need to be adjusted and refunded. The interest will be applied based on an average monthly balance 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.

(continued)

(N)

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 303 H St., Suite 250
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Schedule No. LA-DSIC (continued)

Los Angeles District Tariff Area

DSIC Rate Tariff

DSIC REQUIREMENTS, PROCEDURES AND SAFEGUARDS (continued)

(N)

9. California American Water shall provide notification to customers of the DSIC in the form of a bill insert and a public notice, published in local newspapers, prior to initiating the first DSIC surcharge. California American Water will work with the Commission's Public Advisor on notice language and procedure. Cal Am shall designate on each customer's bill that this quarterly surcharge is a DSIC. (i.e. clearly identify by a line item on the bill, the amount of the surcharge and the name of the surcharge)
10. California American Water shall explicitly address infrastructure replacement in its capital asset planning process.
11. The capital plan shall include: delineating the age, condition, location, operating history and risk associated with the parts of the distribution infrastructure needing replacement or rehabilitation; justifying the extent of infrastructure replacement or rehabilitation warranted; incorporating impacts addressed by water conservation savings; identifying the amount of replacement per year, and how long the replacements will continue to provide safe reliable service to customers; discussing the financing and recovery alternatives considered; describing the long-term financial investment required; and, providing an analysis of the rate impact to customers over the course of the long-term project to replace or rehabilitate infrastructure.
12. The DSIC is subject to audit at the request of the Commission.
13. Annual Report – during the period of the pilot program, Cal Am agrees to submit information about the accomplishments of the DSIC program in the Annual Report that Cal Am submits to the Commission.¹ This annual reporting should include summary results such as quantities of plant replaced such as miles of water main, numbers of hydrants, numbers of services, etc. It should also provide an accounting of how the DSIC surcharge was used – such as an accounting comparing the eligible expenses incurred vs. the revenue received via the surcharge.
14. To avoid over-recovery, the DSIC may be set at zero if, in any quarter, data shows that the amount recovered via the DSIC surcharge would exceed the annual cap in terms of a percentage of amounts billed or percentage of annual revenue requirement.

(N)

¹ Annual Report of District Water System Operations, filed annually by March 31st.

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	NAME	EFFECTIVE <u> </u>
DECISION NO. <u> 07-08-030 </u>	<u> DIRECTOR - RATES & REVENUES </u>	RESOLUTION NO. <u> </u>
	TITLE	

CALIFORNIA AMERICAN WATER COMPANY
 303 H Street Suite 250
 CHULA VISTA, CALIFORNIA 91910

CANCELING

Revised	C.P.U.C. SHEET NO.	4708-W
Revised	C.P.U.C. SHEET NO.	4699-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:

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(Continued)

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	<small>TITLE</small>	RESOLUTION NO. _____

CALIFORNIA-AMERICAN WATER COMPANY	Revised	C.P.U.C. SHEET NO.	4709-W
303 H Street Suite 250			
CHULA VISTA, CALIFORNIA 91910	CANCELING	Revised	C.P.U.C. SHEET NO. 4700-W

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(Continued)

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