



October 3, 2014

Proposed Resolution W-5005

Agenda ID: 13361

To: All Interested Persons

Enclosed is Proposed Resolution W-5005 of the Division of Water and Audits, which affirms the Division of Water and Audits' ministerial disposition of California-American Water Company's Advice Letter No. 1025-W that requested for the 2014 Step Increase for the Monterey County District excluding Toro Service Area. Proposed Resolution W-5005 is scheduled to appear on the November 6, 2014 Commission Meeting.

The Commission may act on this resolution or it may postpone action until later. When the Commission acts on a proposed resolution, the Commission may adopt all or part of the proposed resolution, as written, or amend or modify the proposed resolution; or the Commission may set the proposed resolution aside and prepare a different resolution. Only when the Commission acts does the resolution become binding

Interested persons may submit comments on Proposed Resolution W-5005 via email to Water.Division@cpuc.ca.gov or via mail to the following addresses below:

Division of Water and Audits
Attention: Michael Zelazo
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 October 27, 2014.

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

Persons interested in receiving comments submitted to the Division of Water and Audits may contact Michael Zelazo at mz3@cpuc.ca.gov or (415) 703-5327.

/s/ BRUCE DEBERRY for
Rami S. Kahlon, Director
Division of Water and Audits

Enclosures: Proposed Resolution W-5005
Certificate of Service
Service List

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Agenda ID #13361

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch

RESOLUTION W-5005
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RESOLUTION

(RES. W-5005) THIS RESOLUTION AFFIRMS DIVISION OF WATER AND AUDITS (DWA) MINISTERIAL DISPOSITION OF CALIFORNIA-AMERICAN WATER COMPANY'S (CAL-AM) ADVICE LETTER NO. 1025-W (AL 1025-W) REQUEST FOR THE 2014 STEP INCREASE FOR THE MONTEREY COUNTY DISTRICT EXCLUDING TORO SERVICE AREA

SUMMARY

California-American Water Company (Cal-Am) requests Commission review of the disposition by the Division of Water and Audits (DWA) rejecting Advice Letter (AL) 1025-W. This resolution affirms DWA's disposition of Cal-Am's AL 1025-W and orders corrections to Cal-Am's inaccurate ratemaking practices and its misapplication of additions to rate base.

BACKGROUND

On November 19, 2013, through AL 1025-W, a Tier 2 advice letter, Cal-Am requested an increase in revenue for the 2014 escalation year in the amount of \$504,344, or 1.00%, with an additional \$92,728, or 0.18%, for net Business Transformation costs and savings, and \$116,762, or 0.23%, for rate base additions from the Regional Desalination Project (RDP). Cal-Am also requested to implement a one-time refund of \$76,380 in over collections connected with the RDP to comply with Resolution (Res.) W-4959.

On December 23, 2013, DWA received a revised set of workpapers that removed the Business Transformation costs and savings and made other minor adjustments. On April 2, 2014, DWA received another set of revised workpapers that included minor adjustments. Cal-Am and DWA met on June 6, 2014 to resolve the outstanding issues in AL 1025-W. Material factual issues with AL 1025-W remained after that meeting. DWA

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issued its disposition rejecting the advice letter on June 23, 2014. Cal-Am appealed DWA's disposition on July 3, 2014 and requested Commission review.

NOTICE

Notice of AL 1025-W was delivered to the advice letter distribution list of the Monterey County District and other parties of interest in accordance with General Order (G.O.) 96-B, Water Industry Rule 4.1. Cal-Am posted AL 1025-W on its website per G.O. 96-B, Water Industry Rule 3.3.

PROTESTS

No protests were filed against AL 1025-W.

DISCUSSION

Monterey District Ratesetting

The Commission's Revised Rate Case Plan (Decision (D). 07-05-062) allows water and sewer utilities to increase their authorized test year expenses to keep pace with general price changes for the first and second escalation years. Most utilities file these "step" increase requests for each of their districts and include a summary of earnings to show the revenue necessary to cover the inflation-related increase in costs. In the case of Cal-Am's Monterey County District, the utility has been authorized to separate the district into three distinct service areas. One service area includes the Monterey Main, Hidden Hills, Ryan Ranch, Bishop, Ambler Park, Ralph Lane, and Chualar systems. Another service area includes only the Toro system. The final service area consists only of the newly-acquired Garrapata system.

AL 1025-W requested recovery of estimated 2014 escalated expenses to be incurred by Cal-Am for operating its water system in the Monterey County District, excluding expenses for the Toro and Garrapata systems. Expenses were estimated using several different escalation factors; one factor is the Consumer Price Index for Urban Customers (CPI-U). The total revenue requirement for the aforementioned systems was then determined by calculating income taxes and the authorized return on rate base.

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Once the total revenue requirement for the Monterey County District (excluding the Toro and Garrapata service areas) was determined, the company removed the revenue components attributable to the Ambler Park, Ralph Lane, and Chualar systems, while retaining the escalated expenses of these systems in the summary of earnings. For Ambler Park, the company applied the district-wide percentage increase in revenue to Ambler Park's present revenues to determine the proposed revenue and sets rates for the system based on the adopted rate design. Cal-Am correctly calculated the proposed revenue to be \$659,910. However, on a separate workpaper, Cal-Am removed a value of \$653,638 from the total district revenue. The two amounts should match. Therefore, Cal-Am should remove an additional \$6,272 from the total district revenue requirement to match the correctly calculated value of \$659,910.

For Ralph Lane and Chualar, the company removed a value representing the combined 2014 proposed revenue for the two systems from the total district revenue but did not show calculations to support the value. The proposed revenue workpaper shows service charges and quantity rates for the Ralph Lane service area but does not calculate the proposed revenue. No information for the proposed revenue for the Chualar service area is shown on the workpaper. Cal-Am must calculate the proposed 2014 revenue for the Ralph Lane and Chualar service areas in a similar manner as shown for Ambler Park. The calculation should show the authorized quantities for 2014 and the proposed rates. In addition, the calculation of the proposed revenue for the Chualar service area must be consistent with the revenue generated by AL 1019-W, as discussed below.

On November 13, 2013, Cal-Am filed AL 1019-W in compliance with D. 12-06-016 and the adopted settlement agreement to implement the 2014 step increase for the Chualar system. Rates were increased by the CPI-U to generate the proposed revenue for 2014. This procedure differs from that adopted in the Commission's Revised Rate Case Plan.¹ It is also at variance to the procedure employed in AL 1025-W, the present AL, where Cal-Am escalated the expenses of the Chualar system at a greater rate than the CPI-U for most of the expense items. This procedure results in a higher estimate of Chualar system expenses in AL 1025-W than in AL 1019-W.

1. D. 07-05-062 at A-19.

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To comply with the settlement agreement adopted in D. 12-06-016 for the Chualar system and with accurate ratemaking practices, Cal-Am must calculate the portion of the 2014 revenue requirement in AL 1025-W attributable to the authorized 2013 expenses of serving the Chualar system when escalated to 2014. Cal-Am must identify the 2013 Chualar expenses in the Monterey District's authorized summary of earnings. The expenses must be escalated by the CPI-U for 2014 and the proposed revenue should be calculated from these escalated expenses. Cal-Am must remove the 2013 Chualar expenses from the Monterey District's authorized summary of earnings prior to escalating the District's other expenses to 2014 and calculating the 2014 proposed revenue.

Further, Cal-Am must show a calculation of the proposed revenue requirement resulting from the increase in rates approved in AL 1019-W. Cal-Am must remove the amount of the revenue requirement calculated in AL 1025-W that is in excess of that calculated in AL 1019-W when it files a new advice letter.

Pro Forma Revenue

The revised rate case plan, D.07-05-062, requires that all step filings be subject to an earnings test for the pro forma period prior to the escalation year.² The earnings test determines the adjustments, if any, to be made to the escalation year summary of earnings. Standard Practice (SP) U-34-W contains the procedure for calculating the rate of return to be used in the pro forma earnings test. SP U-34-W states:

The Pro-Forma Rate of Return will be a reasonable indication, on a ratemaking basis, of a utility's current level of earnings when the full effects of the current revenues, expenses and tariff rates in conjunction with decision authorized determinations are taken into account.³

2. *Ibid*, at A-19

3. SP U-34-W at 2.

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In AL 1025-W, Cal-Am included an earnings test for the utility's service in the Monterey Main, Hidden Hills, Ryan Ranch, Bishop, Ambler Park, Ralph Lane, and Chualar systems. In AL 1026-WA, approved on June 16, 2014, Cal-Am included an earnings test for the utility's service in the Toro service area. Cal-Am did not include the utility's service of the Garrapata system in either advice letter. Cal-Am must include the Garrapata system in AL 1025-W in order to estimate the "full effects of the current revenues, expenses and tariff rates" consistent with SP U-34-W.

Cal-Am filed AL 992-W to establish rates for the Garrapata system in compliance with D. 13-01-033, effective April 1, 2013.⁴ The pro forma period in AL 1025-W is the 12-month period from October 1, 2012 to September 30, 2013. Cal-Am argues that since Garrapata was not included in its previous authorized summary of earnings, including it now would amount to an unequal comparison. However, excluding revenue from the Garrapata system would not give a current level of earnings of the utility for the Monterey County District.

Further, Ordering Paragraph (OP) 3 of D. 13-01-033 states that Cal-Am's "service territory in Monterey County is expanded so that it may provide public utility water service to the current customers of the Garrapata Water Company." Unlike with the Toro system, no decision since D. 13-01-033 ordered Cal-Am to exclude Garrapata from the Monterey County District for ratemaking purposes. As such, Cal-Am should include the expenses and revenues associated with the acquired Garrapata system in its pro forma test. Cal-Am should show the number of connections, sales (ccf), and tariff rates applicable to the service area in its calculation of the pro forma revenue and the portion of the expenses in the Monterey District attributable to the Garrapata system consistent with the procedures in SP U-34-W.

Adjustments to Rate Base and Refunds for Regional Desalination Project

AL 1025-W requests additions to rate base in the amounts of \$517,212 and \$417,512 and refunds \$53,714 and \$22,666 for past over collections associated with Cal-Am's misapplication of rate base additions associated with the RDP as shown in Res. W-4940

4. D. 13-01-033 OP 5.

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and Res. W-4959, respectively. Cal-Am's request is unreasonable given the procedural history of the company's rate base offset requests as detailed below.

The Regional Desalination Project

The Monterey Peninsula is short on water. In 2004, Cal-Am filed Application (A.) 04-09-019, which proposed the RDP to ameliorate the Peninsula's water supply problems. The RDP was conceived of as a partnership between Cal-Am and some local public agencies to develop a water desalination facility and aquifer storage and recovery system. Under this partnership, Cal-Am would construct, own, operate, and maintain certain facilities, known as the "Cal-Am only facilities."

However, the RDP ultimately proved infeasible, and in D.12-07-008, we closed the RDP proceeding. However, we also directed DWA to continue processing any outstanding Advice Letters dealing with rate base offsets for the Cal-Am only facilities.⁵

AL 923-W and AL 932-W

Pursuant to that direction, Cal-Am filed AL 923-W on November 15, 2011. AL 923-W requested a total of \$785,460 to add to rate base and recovery of an additional \$99,372 of revenue requirement in rates.⁶ DWA did not complete its review within 45 days so, on January 1, 2012, the rates in AL 923-W went into effect⁷ and Cal-Am implemented its revenue requirement⁸ pursuant to the procedure explained in D. 10-12-016. DWA

5. D.12-07-008 at p. 2.

6. AL 923-W consisted of \$753,099 in project costs plus \$32,361 in AFUDC. See Workpaper 5-3 of AL 923-W.

7. D. 10-12-016 at 145: "As envisioned by the Settling Parties, Commission staff would have 45 days to review the advice letter for "prudency" and the rates would go into effect, subject to true-up if the review could not be completed during that timeframe."

8. Section 9.4.2 of the Settlement Agreement adopted in D. 10-12-016: "If the advice letter is not processed and cannot be made effective on July 1 or January 1 of the

Footnote continued on next page

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rejected AL 923-W on February 9, 2012. Cal-Am requested a formal review of DWA's disposition on February 21, 2012. With its request for formal review of AL 923-W pending, Cal-Am filed AL 932-W on February 27, 2012 to lower its requested rate base additions by \$56,676 to \$728,784, retroactive to January 1, 2012, and to lower its requested revenue requirements to \$92,202.⁹ DWA's "prudency" review period expired on April 12, 2012 (45 days after the filing of AL 932-W on February 27, 2012). Cal-Am implemented its revenue requirement on April 13, 2012 pursuant to the Section 9.4.2 of the Settlement Agreement adopted in D. 10-12-016.

On February 13, 2013, Res. W-4940 resolved both advice letters and authorized a total rate base addition of \$517,212 which consisted of \$508,431 in project costs and \$8,781 in AFUDC.¹⁰ To comply with Res. 4940-W, Cal-Am was ordered to reduce its rate base offset request by \$211,572 from \$728,784 to \$517,212 and file a supplement to AL 932-W incorporating the tariffs in Attachment A of Res. W-4940.¹¹ In addition, Cal-Am was ordered to refund its revenue collected in excess of the authorized amount of \$65,435.¹² To date, Cal-Am has not filed to comply with these orders. Cal-Am must file an advice letter to make the ordered corrections. Cal-Am must implement its refund by the procedure specified in the Refund section below.

AL 944 and its Supplements

In a second request to add plant associated with the RDP to its rate base, Cal-Am filed AL 944-W on May 15, 2012. AL 944-W requested \$533,238 to add to rate base, and set rates to recover \$67,462, effective on July 1, 2012, pursuant to the same procedure in D.

following year, the revenue requirement as filed by CAW shall be implemented subject to true-up."

9. AL 932-W consisted of \$716,621 in project costs and \$12,163 in Allowance for Funds Used During Construction (AFUDC). See Workpaper 5-3 of AL 932-W.

10. Res. W-4940, Findings and Conclusions (FC) #33, 34, 39 and 40.

11. *Ibid*, FC #35 and OPs #3 and 5.

12. *Ibid*, FC #42 and OP #6

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10-12-016 that applied to AL 923-W and AL 932-W. Cal-Am filed its first supplement (AL 944-WA) on June 22, 2012, which updated the summary of earnings to be in compliance with D. 12-06-016 but did not change the rate base request. On July 1, 2012, in compliance with the initial 45-day review period provided for in D. 10-12-016, Cal-Am added \$533,238 to rate base and implemented its requested rate increase in AL 944-WA subject to refund.¹³ Cal-Am filed its second supplement (AL 944-WB) on October 9, 2012, which decreased the rate base addition to \$483,703 retroactive to July 1, 2012 and set rates according to the revenue requirement of \$59,488 effective October 12, 2012. DWA rejected AL 944-W and its supplements on January 18, 2013, and issued a revised rejection letter on February 8, 2013. On February 27, 2013, Cal-Am was granted Commission review of DWA's letters of disposition.

On September 19, 2013, Res. W-4959 resolved AL 944-W and its supplements and authorized a total rate base addition of \$417,512 which consisted of \$411,580 in project costs and \$5,932 in AFUDC.¹⁴ To comply with Res. W-4959, Cal-Am was ordered to reduce its rate base offset request by \$66,191, from \$483,703 to \$417,512, and file a third supplement to AL 944-W incorporating the tariffs in Attachment A of Res. W-4959.¹⁵ In addition, Cal-Am was ordered to refund its revenue collected in excess of the authorized amount of \$51,327.¹⁶ To date, Cal-Am has not filed to comply with these orders. Cal-Am must file an advice letter to make the ordered corrections. Cal-Am must implement its refund by the procedure specified in the Refund section below.

Compliance Extension

Cal-Am was granted an extension to file the supplement to AL 932-W to coincide with the filing of the supplement to AL 944-W. Cal-Am was ordered to file the supplements

13. Res. W-4959 FC #12.

14. *Ibid*, FC #13 and 14

15. *Ibid*, FC #24 and OPs #3 and 5.

16. *Ibid*, FC #17 and OP #7

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by September 24, 2013 – five days after the effective date of Res. W-4959. Cal-Am did not comply with this order.

Cal-Am was granted an extension of 30 days from the effective date of Res. W-4959 to implement the rate changes ordered in Res. W-4940 and Res. W-4959.¹⁷ The extension expired on October 19, 2013. Cal-Am did not file to make the rate changes effective on this date. Res. W-4959 also allowed Cal-Am to put the new rates in place no later than November 15, 2013.¹⁸ Cal-Am did not file to implement the new rates by this date.

On November 15, 2013, DWA made effective the rates in AL 932-W and AL 944-WB. DWA cites Res. W-4940 and Res. W-4959 as the authorizing documents, respectively. However, Res. W-4940 and Res. W-4959 do not authorize the rates filed in the advice letters. As stated previously, Cal-Am has not filed to make effective the rates authorized in Res. W-4940 and Res. W-4959. DWA improperly authorized the rates in AL 932-W and AL 944-WB.

Implementation of Rate Changes

With the filing of AL 1025-W, Cal-Am is seeking to make the corrections ordered in Res. W-4940 and Res. W-4959 by adding the authorized amounts to rate base and implementing the rate components authorized in those resolutions. Cal-Am requested the rates in AL 1025-W to be effective on January 1, 2014 as part of their 2014 step increase. Disposition of AL 1025-W would resolve the orders of Res. W-4940 and Res. W-4959 regarding the correct additions to rate base and rates.

Disposition of AL 1025-W would not resolve the implementation of the refund. The total refund amount must be determined prior to the refund going into effect. Cal-Am continues to collect on an unauthorized revenue requirement until it files in compliance with Res. W-4940 and Res. W-4959. Cal-Am must make the ordered corrections to rate base before its current rates can reflect the Commission's authorizations. Cal-Am's

17. *Ibid*, FC# 28

18. *Ibid*, OPs #5 and 6

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overcollections would cease when the corrected rates become effective and the total amount to be refunded to ratepayers can be determined.

As stated above, Cal-Am must remove \$211,572 in additions to rate base it made when setting rates in AL 932-W, which have not been corrected per Res. W-4940. Cal-Am must also remove \$66,191 in additions to rate base it made when setting rates in AL 944-WB, which have not been corrected per Res. W-4959. The total reduction to rate base equals \$277,763.

Cal-Am argues that its failure to comply with Commission orders does not impact DWA's authorization of the request in AL 1025-W.¹⁹ On the contrary, since Cal-Am is requesting the authorized rate base additions from Res. 4940-W and Res. 4959-W to be included in AL 1025-W, the Commission believes that a proper accounting of the authorized rate base additions should be made before it approves the advice letter.

Cal-Am argues that it never added the requested amounts in AL 932-W and AL 944-WB to rate base and claims that "the increased rate base and associated revenue requirement were kept separate from the GRC authorized rate base to isolate the revenue requirement of the RDP plant which was originally assigned in its entirety to quantity rates only."²⁰ However, Section 9.3.1 of the settlement agreement adopted in D. 10-12-016 instructs Cal-Am to file semi-annual advice letters to allow project costs into rate base and rates. The settlement agreement does not instruct Cal-Am to recover revenue in rates without placing the project costs into rate base.

Further, the workpapers in AL 932 and AL 944-WB show the additions to rate base and the resulting rates that went into effect.²¹ Workpaper 5-2 of AL 932-W shows \$728,784 was added to the prior authorized rate base in AL 917-W. Workpaper 5-2 of AL 944-W shows \$533,238 was added to the proposed rate base in AL 932-W. The addition was

19. Cal-Am's Appeal of DWA's Disposition of AL 1025-W, p. 7, fn 10.

20. *Ibid* p. 8.

21. Chapter 5 of the workpapers in AL 932-W and AL 944-WB show the rate base additions and revenue calculations.

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adjusted to \$483,703 in AL 944-WB. Therefore, the proposed additions to rate base are currently in the rate base account, and AL 1025-W must include a reduction of \$277,763 to rate base. Cal-Am must file a Tier 2 advice letter to reduce its rate base by \$277,763 and to set rates in accordance with that reduction. Once the rates in that advice letter go into effect, Cal-Am must file a Tier 2 advice letter to implement its refund of excess revenue as discussed in the Refund section below.

Refund

The annual revenue requirement authorized in Res. W-4940, beginning January 1, 2012, is \$65,435.²² The annual revenue requirement authorized in Res. W-4959, beginning July 1, 2012, is \$51,327.²³

Cal-Am was authorized to collect its proposed revenue requirement in AL 923-W from January 1, 2012 through February 9, 2012. Upon rejection of AL 923-W, Cal-Am was required to cease implementation of the advice letter per Section 7.5.3 of G.O. 96-B. Cal-Am was authorized to collect its proposed revenue requirement in AL 932-W from April 13, 2012 until it filed new tariff sheets per Res. W-4940, which Cal-Am has yet to file.

Cal-Am was authorized to collect its proposed revenue requirement in AL 944-WA beginning July 1, 2012. Cal-Am reduced its request in AL 944-WB effective October 12, 2012 until it filed new tariff sheets per Res. W-4959, which Cal-Am has yet to file.

Once Cal-Am files the corrected tariff sheets in compliance with this resolution, the refund to customers can be calculated. Calculation of the refund must consider the implementation of the Water Revenue Adjustments Mechanism/Modified Cost Balancing Account (WRAM/MCBA) to track the variance in revenue received for 2012, 2013, and 2014. The refund should be calculated by multiplying the adopted sales (10 cf or 100 gal) for each year by the proposed increase in rates requested in AL 923-W, AL

22. Res. W-4940, FC #42.

23. Res. W-4959, FC #17.

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932-W, AL 944-WA, and AL 944-WB during their effective periods. The WRAM/MCBA recovers the difference in adopted revenue and actual revenue based on sales. Any amount collected from ratepayers in excess of what results from the refund calculation must be returned to ratepayers as well. Cal-Am must show the amount collected through its implementation of proposed rates in AL 923-W, AL 932-W and AL 944-W and its supplements as well as any recovery of authorized revenue through its WRAM/MCBA for those advice letters.

CONCLUSIONS

Cal-Am should set the 2014 proposed revenue for the Ambler Park service area at \$659,910 and remove this value from the total 2014 proposed revenue. Cal-Am should calculate the 2014 proposed revenue for the Ralph Lane service area by showing the authorized number of customers, sales, quantity rates and service charges in effect for 2014. Cal-Am should identify the 2013 authorized expenses for the Chualar service area and remove them prior to escalating the expenses of the Monterey County District (excluding Toro and Garrapata). Cal-Am should compare the 2014 proposed revenue to cover Chualar's authorized expenses with the revenue authorized in AL 1019-W. Cal-Am should remove any revenue authorized in AL 1019-W in excess of the 2014 proposed revenue calculated from its 2013 authorized expenses in the 2014 step increase advice letter.

Cal-Am should include the expenses and revenues associated with the acquired Garrapata system in its pro forma test. Cal-Am should show the number of connections, sales (ccf), and tariff rates applicable to the service area in its calculation of the pro forma revenue and the portion of the expenses in the Monterey District attributable to the Garrapata system consistent with the procedures in SP U-34-W.

Cal-Am should remove a total of \$277,763 from the authorized rate base for its Monterey County District and file new tariffs reflecting this correction. After approval of the new tariffs, Cal-Am should calculate the amount to be refunded to its customers. The refund should consider the revenue requirement in effect since the filing of AL 923-W and that which was authorized by the Commission. Cal-Am should file a Tier 2 advice letter implementing a one-time surcredit applied to the monthly service charge of those customers funding the Regional Desalination Project.

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COMPLIANCE

As of the date of this resolution, Cal-Am is non-compliant with Res. W-4940 and Res. W-4959. The changes ordered in this resolution correct Cal-Am's non-compliance.

COMMENTS

Public Utilities Code Section 311(g)(1) generally requires that resolutions must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Accordingly, Cal-Am was served a copy of this proposed resolution on October 3, 2014.

FINDINGS

1. Cal-Am filed AL 1025-W on November 19, 2013 in compliance with D. 12-06-016 as a step increase for 2014 for the Monterey County District excluding the Toro service area with a requested effective date of rates of January 1, 2014.
2. Cal-Am provided DWA with a revised set of workpapers to AL 1025-W on April 2, 2014.
3. The summary of earnings in AL 1025-W includes expenses incurred by the utility from providing water service to the Chualar service area.
4. Cal-Am does not calculate the expenses or proposed revenue for the Chualar system in AL 1025-W.
5. Cal-Am filed AL 1019-W on November 13, 2013 in compliance with D. 12-06-016 as a step increase for 2014 for the Chualar service area with a requested effective date of rates on January 1, 2014.
6. Cal-Am escalated present rates of the Chualar system by the CPI-U to cover estimated expenses for 2014 in AL 1019-W.
7. Cal-Am cites the settlement agreement adopted in D. 12-06-016 as authority to request this procedure for the increase in Chualar rates.
8. Cal-Am did not provide a summary of earnings for the Chualar system in AL 1019-W.
9. Cal-Am did not calculate proposed expenses or total revenue for the Chualar system in AL 1019-W.
10. AL 1025-W does not reference data in AL 1019-W in any of its calculations.

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11. The Revised Rate Case Plan (D.07-05-062) requires that escalation year rate increase requests are subject to the pro forma earnings test.
12. AL 1019-W was approved on April 23, 2014.
13. Cal-Am does not calculate the proposed revenue for the Ralph Lane system in AL 1025-W.
14. The proposed revenue for the Ambler Park system is not consistent in AL 1025-W.
15. Cal-Am does not include revenue from its Garrapata system customers in its pro forma test in AL 1025-W.
16. Cal-Am established rates for the Garrapata system effective on April 1, 2013 in compliance with D. 13-01-033.
17. The pro forma period for AL 1025-W is from October 1, 2012 to September 30, 2013.
18. The procedures for the pro forma test require an estimate of a utility's current revenues for the pro forma period.
19. Pursuant to the procedure explained in D. 10-12-016 and the request in AL 923-W, Cal-Am transferred \$785,460 to rate base and implemented its revenue requirement effective January 1, 2012.
20. DWA rejected AL 923-W on February 9, 2012.
21. Section 7.5.3 of G.O. 96-B required Cal-Am to stop implementing AL 923-W on February 9, 2012.
22. Pursuant to the procedure explained in D. 10-12-016 and the request in AL 932-W, Cal-Am removed \$785,460 from rate base and transferred \$728,784 to rate base and implemented its revenue requirement effective April 13, 2012.
23. Res. W-4940 required Cal-Am to reduce its rate base addition from \$728,784 to \$517,212 and refund the revenue it collected above what was authorized.
24. Pursuant to the procedure explained in D. 10-12-016 and the request in AL 944-WA, Cal-Am transferred \$533,238 to rate base and implemented its revenue requirement effective July 1, 2012.
25. Cal-Am removed \$533,238 from rate base and transferred \$483,703 to rate base and implemented its revenue requirement effective October 12, 2012.
26. DWA rejected AL 944-W and its supplements effective on February 8, 2013 through its replacement letter of disposition.
27. Section 7.5.3 of G.O. 96-B required Cal-Am to stop implementing AL 944-W and its supplements on February 8, 2013.
28. Res. W-4959 required Cal-Am to reduce its rate base addition from \$483,703 to \$417,512 and refund the revenue it collected above what was authorized.

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29. Cal-Am must reduce rate base by \$211,572 per Res. W-4940 and \$66,191 per W-4959 for a total of \$277,763.
30. Cal-Am was ordered to file revised tariff sheets to implement to required rate changes due to the total reduction in rate base no later than November 15, 2013 per Res. W-4959.
31. Cal-Am did not file revised tariff sheets to comply with Res. W-4959.
32. DWA made effective the rates filed in AL 932-W and AL 944-WB on November 15, 2013.
33. The rates filed in AL 932-W and AL 944-WB do not comply with Res. W-4940 nor Res. W-4959.
34. Cal-Am requested rate base additions of \$517,212 and \$417,512 in AL 1025-W to comply with Res. W-4940 and Res. W-4959.
35. DWA rejected AL 1025-W on June 23, 2014.
36. Cal-Am requested Commission review of DWA's rejection on July 3, 2014.
37. The correct adjustment to rate base in AL 1025-W is a reduction of \$277,763.
38. The proposed rate base for 2014 in the revised workpapers to AL 1025-W is \$131,042,400.
39. Cal-Am requested to implement a refund of \$76,380 in AL 1025-W to comply with Res. W-4940 and Res. W-4959.
40. Since Cal-Am has not filed revised tariff sheets incorporating the reduced rate base, the total overcollected revenue cannot be determined.
41. Resolution of AL 1025-W addresses Cal-Am's rate base request and incorporates the reduced rate base ordered by Res. W-4940 and Res. W-4959.
42. Section 9.3.1 of the settlement agreement adopted in D. 10-12-016 instructs Cal-Am to file semi-annual advice letters to allow project costs into rate base and rates.
43. The authorized annual revenue requirement for AL 923-W and AL 932-W is \$65,435 beginning January 1, 2012.
44. The authorized annual revenue requirement for AL 944-W and its supplements is \$51,327 beginning July 1, 2012.
45. The refund should be calculated by multiplying the adopted sales (10 cf or 100 gal) for each year to the proposed increase in rates requested in AL 923-W, AL 932-W, AL 944-WA, and AL 944-WB during their effective periods.

PROPOSED RESOLUTION

Resolution W-5005
DWA/RSK/JB5/MZ3/ds4

November 6, 2014

THEREFORE IT IS ORDERED THAT:

1. The Division of Water and Audit's (DWA) ministerial rejection of California-American Water Company's (Cal-Am) Advice Letter (AL) 1025-W is affirmed.
2. Within ten days, Cal-Am shall file a new Tier 2 advice letter complying with this resolution. The advice letter will be effective upon disposition by DWA.
3. Cal-Am shall match the 2014 proposed revenue in AL 1025-W for the Ambler Park system calculated on Workpaper 123C with that shown on Workpaper 121.
4. Cal-Am shall show calculations of the 2014 proposed revenue in AL 1025-W for its Ralph Lane systems on Workpapers 123C and 123D. The amount shall match the revenue removed from the total Monterey County District revenue shown on Workpaper 121.
5. Cal-Am shall show the portion of the 2014 revenue requirement in AL 1025-W attributable to the adopted 2013 expenses of serving the Chualar system. Cal-Am shall remove any amount of the revenue requirement calculated in excess of that estimated in AL 1019-W. Cal-Am shall estimate the revenue generated by the step increase request in AL 1019-W.
6. Cal-Am shall calculate the pro forma revenue generated by its Garrapata system customers and include this revenue in the total pro forma revenue.
7. Cal-Am shall reduce the 2014 proposed rate base by \$277,763 to \$130,764,637. The reduced rate base shall be effective upon approval of the advice letter.
8. Within ten days of approval of the advice letter ordered in Paragraph 2, Cal-Am shall file a Tier 2 advice letter to implement a refund of all revenues collected in excess of what was authorized in Resolutions W-4940 and W-4959. The refund calculation shall be in compliance with this resolution.

PROPOSED RESOLUTION

Resolution W-5005
DWA/RSK/JB5/MZ3/ds4

November 6, 2014

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 November 6, 2014; the following Commissioners voting favorably:

PAUL CLANON
Executive Director

CERTIFICATE OF SERVICE

I certify that I have by either electronic mail or postal mail, this day, served a true copy of Proposed Resolution No. W-5005 on all parties in these filings or their attorneys as shown on the attached lists.

Dated October 3, 2014 at San Francisco, California.

/s/ DANIEL SONG

Daniel Song

Parties should notify the Division of Water and Audits, Fourth 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.

**CALIFORNIA-AMERICAN WATER COMPANY
SERVICE LIST OF PROPOSED RESOLUTION W-5005**

David Stephenson

Rate Regulation Manager

California-American Water Company

4701 Beloit Drive

Sacramento, CA 95838

Danilo Sanchez

Program Manager

California Public Utilities Commission

505 Van Ness Ave

San Francisco, CA 94102