Decision 11-03-039 March 24, 2011

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of Alco Water Service, (U206), (Alco) a California Corporation, for an order 1) authorizing it to increase rates for water service by $3,709,633 or 62.6% in test year 2010; 2) authorizing it to increase rates on July 1, 2011 by $1,752,844 or 18.2% and July 1, 2012 by $1,016,639 or 8.9% in accordance with Decision 08-11-035, and 3) adopting other related rulings and relief necessary to implement the Commission's ratemaking policies.	Application 10-02-006 (Filed February 1, 2010)

DECISION ON THE APPLICATION BY ALISAL WATER CORPORATION, DBA ALCO WATER SERVICE, DENYING A PROPOSED ADVANCED METERING INFRASTRUCTURE PROJECT

1. Summary

This decision finds that Alisal Water Corporation, dba Alco Water Service (Alco) has not met its burden to justify an advanced metering infrastructure system project at this time. The request for funding is denied. There is no change to the rates already adopted for Alco. This proceeding is closed.

2. Standard of Review

Alisal Water Corporation, dba Alco Water Service (Alco) bears the burden of proof to show that the rates it requests are just and reasonable and the related ratemaking mechanisms are fair.

3. Automated Metering Infrastructure

3.1. Alco's Proposal

Alco proposed to develop and install an automated metering infrastructure to replace its current metering and billing. Alco notes that it serves approximately 8,800 customers across 10 square miles of service area. Currently all of its meters are read visually and keyed into electronic handheld devices. Data is then electronically transferred to the billing system computers. Alco argues that this method of meter reading has limitations: first, meters are only read every 30 days and, absent more frequent data, Alco cannot track leaks on customer and utility facilities; and second there is no usage data to help with reducing consumption. (Alco Opening Brief at 37.)

Alco's Proposed Automated Metering Infrastructure (AMI)	
Estimated Cost of AMI System	$4,285,259
Estimated Average Annual Cost	470,966
Estimated Average Annual Cost Savings	200,336
Estimated Average Net Cost Per Year	270,630
Average Annual Cost Per Customer[1]	$ 29.94
Average Monthly Cost Per Customer	$ 2.50
(Alco Opening Brief at 36, citing DRA Data Request SWO-08)	

[1] The above cost per customer is based on 9,039 customers estimated in year 2012 in Alco's filing (i.e. assumed customer growth by 2012).

Alco originally requested funding, by expressing its intended use of the proceeds, in a recent debt authority application.[2] The Commission noted: "Alco intends to install an automatic meter reading (AMR) system at a cost of $700,000. There is currently no Commission Decision or Resolution that authorizes Alco to install an AMR system or to recover the costs of an AMR system. Alco intends to use the proceeds of the debt and equity requested in this proceeding to pay for the AMR system." (Decision (D.) 08-11-035 at 6.) The Commission denied at that time the use of the proceeds from that application for an AMR system. (Ordering Paragraph 1(d).[3]) Alco made a new specific request in this general rate case.

Alco argues there are numerous benefits both tangible in monetary savings and intangible in improved customer satisfaction:

Quantifiable –

- Fewer misreads and re-reads
- Reduced time spent gathering meter reads
- Early notification of customer water leaks
- Improved conservation efforts
- Eliminating move-in/move-out special reads
- Increased service personnel safety (reduced risks)

Intangible -

[2] Application (A.) 07-10-012 to issue notes in the principal amount of $8,000,000 and to execute a related agreement and supplemental security instruments.

[3] "Alco shall not issue debt or equity to finance an Automatic Meter Reading System (AMR) or AMR meters until after Alco has received Commission authorization to install an AMR system."

- Customer awareness of water consumption and flow patterns
- Fewer billing disputes due to early leak detection
- Customer access to real-time water usage consumption tracking and the associated conservation impacts
- Fewer customer service calls once the system is established
- Detection of fraud and misuse of water

Other -

- Data on consumption to predict trends
- Etc. (Alco Opening Brief 37 – 42.)

3.2. DRA's Position

Division of Ratepayer Advocates (DRA) opposes Alco's plan for installing an advanced metering infrastructure system. DRA asserts that Alco's arguments are "based on alleged benefits which are overblown and have not been quantified." (DRA Opening Brief at 35.) DRA also cites that Alco has claimed to have already installed new, accurate meters, in Alco's replacement program and has not justified the asserted savings. (Id.) DRA suggests the Commission undertake a more generic rulemaking to study the need for an advanced metering infrastructure system in any Class B water utility and that it should be considered in the context of conservation programs generally. DRA points out that D.08-11-035 did not direct Alco to file for an advanced metering infrastructure system in this proceeding, only that it needed specific authority in the future and could not use the proceeds from the debt authorized in that decision for such a system. (Id. at 34.)

DRA's final argument is that its own analysis of the need for an advanced metering infrastructure system refutes Alco's assertions on savings and other benefits. (Ex. D-1 at 17-40 – 17-42.) DRA calculates that there would

be no savings for ratepayers and argues that meter readers would only be assigned other duties (not defined), and that the plan does not include all meters (and it is not clear whether the other customers have advanced metering infrastructure-ready meters). (Ex. D-1 at 17-41 and 17-39, respectively.) DRA calculates a negative net-present value of the cost to ratepayers (not savings) of $4.7 million. (Ex. D-1 at 17-42, Figure 17-I.) DRA further argues that advanced metering infrastructures have not been shown to be beneficial for water conservation and the Commission already has aggressive water conservation programs in place as an integral part of the Water Action Plan. (Id. at 17-40.)

3.2.1. Discussion

Alco is not persuasive that it adequately studied or quantified the true costs or benefits of an automated metering infrastructure (or the earlier entitled automatic meter reading system). Alco's asserted benefits are a recital of information available in the literature on the topic, are not sufficiently grounded in facts specific to Alco, and by Alco's own assessment the quantifiable benefits would fall significantly short of the system's costs. Alco has not met its burden to justify that it needs an automated metering infrastructure for safe and reliable water service at a reasonable cost.[4] We will therefore deny the request.

We agree with DRA that there is not an adequate factual showing of benefits and savings for Alco from an advanced metering infrastructure system at this time. We also see no benefit to funding a study at this time for Alco, as we did for Golden State Water Company (Golden State), as discussed below. We

[4] Pub. Util. Code § 454. "(a) Except as provided in Section 455, no public utility shall change any rate or so alter any classification, contract, practice, or rule as to result in any new rate, except upon a showing before the commission and a finding by the commission that the new rate is justified.… ."

also note that advanced metering infrastructure systems are more likely to be beneficial for conservation when the commodity has a significant time-value attribute, as does electricity, where accurate time of use information may both reduce and shift consumption. With water conservation we are less concerned with shifting consumption (as we strive to do with electricity) and much more concerned with an overall permanent usage reduction (although we also hope to achieve permanent reductions in energy consumption too). We find DRA persuasive that advanced metering infrastructure systems are more meaningful at this time for energy conservation and demand-side management goals.

We believe the smaller utilities and their customers will be better-served by waiting and following on the experiences of the larger Class A water utilities after they install advanced metering infrastructure systems. The Commission recently rejected a more robust proposal for Golden State in D.10-11-035. But even there, "Golden State acknowledges that it has not provided a detailed business plan or issued an RFP [request for proposal] for the implementation of its proposed AMI system." (D.10-11-035 at 70.) Golden State, one of the largest Class A water utilities, was authorized $341,292 in rates to hire a consultant for pre-deployment funding only. (Id. at 70–71.) Golden State had requested authorization of approximately $7 million to test, evaluate, and implement one phase of a $27 million advanced metering infrastructure system in its Region II. (Id. at 69.) Thus, even with one of our largest Class-A water companies its authority was severely restrained to a small fraction of the original request.

4. Procedural History

Alco filed A.10-02-006 on February 1, 2010 as required by D.08-11-035. In Resolution ALJ 176-3249 the Commission determined that this proceeding was a

ratesetting proceeding and required evidentiary hearings. On March 3, 2010 there was a timely protest by DRA and the City of Salinas was permitted to late-file a protest on March 10, 2010. On March 26, 2010, there was an unreported (no transcript) telephonic prehearing conference. An Assigned Commissioner's Scoping Memorandum and Ruling was issued on April 2, 2010. Public Participation hearings were held in Salinas, California, on June 3, 2010. Evidentiary hearings were held on July 8 and 9, 2010. Opening briefs were filed on August 9 and 10, 2010 by DRA and Alco, respectively, and reply briefs on August 23, 2010. A proposed decision on all issues except the disputed advanced metering infrastructure system was mailed on December 28, 2010.

5. Comments of Proposed Decision

The proposed decision of Administrative Law Judge (ALJ) Long in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code, and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. On March 14, 2011 Alco filed opening comments and on March 21, 2011 DRA filed reply comments. We agree with DRA that there were no material factual errors that would alter the outcome of the decision. Minor edits have been made that improve the clarity of the decision. To the extent Alco reargued its litigation position we have ignored those comments.

6. Assignment of Proceeding

Michael R. Peevey is the assigned Commissioner and Douglas Long is the assigned ALJ in this proceeding.

Findings of Fact

1. There is a full and complete record composed of testimony, work papers, examination of witnesses, as well as full and complete opening and reply briefs.

2. An advanced metering infrastructure system would allow for more frequent meter reading.

3. An advanced metering infrastructure system may provide real-time operational information: water consumption, indications of water leaks, and other useful data.

4. An advanced metering infrastructure system does not necessarily contribute to a reduction in water consumption.

5. Alco has existing conservation programs that do not require an advanced metering infrastructure system.

6. DRA calculates an advanced metering infrastructure system would cost customers a negative net-present value of $4.7 million over the life of the project.

7. Alco calculates an annual net cost to ratepayers of $270,630.

Conclusions of Law

1. This decision reasonably relies on the entire record of the proceeding and accords weight based upon the evidence's relevance and the persuasiveness of the parties' arguments.

2. Alco has not justified an automated metering infrastructure pursuant to Pub. Util. Code § 454.

3. A.10-02-006 should be closed.

O R D E R

IT IS ORDERED that:

1. Alisal Water Corporation, dba Alco Water Service has not met its burden to justify an advanced metering infrastructure system project at this time. The request for funding is denied.
2. Application 10-02-006 is closed.

This order is effective today.

Dated March 24, 2011, at San Francisco, California.

MICHAEL R. PEEVEY
President
TIMOTHY ALAN SIMON
MICHEL PETER FLORIO
CATHERINE J.K. SANDOVAL
MARK FERRON

Commissioners