

Docket: : A.12-07-007
Exhibit Number : _____
Commissioner : Catherine Sandoval
Administrative Law Judge : Robert Mason
DRA Witness : Tina Miller



**DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION**

**REPORT
ON THE BALANCES IN THE MEMORANDUM
AND BALANCING ACCOUNTS OF
CALIFORNIA WATER SERVICE COMPANY**

**General Rate Case Application 12-07-007
Test Year 2014
Escalation Years 2015 and 2016**

PUBLIC VERSION

**San Francisco, California
March 1, 2013**

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MEMORANDUM

This report presents analyses, findings and recommendations pertaining to the balances in the Balancing Accounts and Memorandum Accounts of California Water Service Company in its General Rate Case Application 12-07-007.

This report is prepared by Tina Miller of Larkin & Associates, on behalf of the *Division of Ratepayer Advocates - Water Branch*. Larkin & Associates, PLLC, is a Certified Public Accounting and Regulatory Consulting Firm. The firm performs independent regulatory consulting primarily for public service/utility commission staffs and consumer interest groups.

Senior Utilities Engineers Yoke Chan and Pat Ma serve as DRA project coordinators, under the supervision of Program and Project Supervisors Ting Pong-Yuen and Lisa Bilir and Program and Project Manager Danilo Sanchez. Selina Shek and Marian Peleo serve as DRA legal counsels in this general rate case.

CHAPTER 1: INTRODUCTION & SUMMARY

Introduction

This Report was prepared by Larkin & Associates, PLLC ("Larkin") on behalf of the Division of Ratepayer Advocates ("DRA") of the California Public Utilities Commission ("Commission") in the A.12-07-007 proceeding. Larkin was retained by the DRA to conduct a review of California Water Service Company's ("CWS," "Cal Water" or "Company") Special Request 11: Closing Memo and Balancing Accounts and Special Request 12: Continuing Memo and Balancing Accounts. The scope of work was later modified to include seven other mechanisms that were not addressed in Special Requests 11 and 12. Regulatory Analyst, Tina Miller of Larkin prepared this report.

Thomas Smegal, Cal Water's VP of Regulatory Matters and Corporate Relations sponsors Special Requests 11 and 12 in his Direct Testimony. The Company identified balances in discovery responses for most of these accounts as of August 31, 2012. DRA reviewed data for 38 balancing/memorandum accounts totaling (\$15,635,707) as of August 31, 2012. The review period for this project consisted of reviewing documentation supporting the account balances and/or transactions that were made subsequent to each account's last review, through August 31, 2012.

Discussion Of Balancing/Memorandum Accounts

Each account is discussed separately under its own heading. Of the 32 balancing/memorandum accounts identified by the Company in Special Requests 11 and 12 of its direct testimony and discovery, CWS requested that 15 be closed and 17 continue.

For the most part, DRA utilized the same item numbering and naming of the balancing/ memorandum accounts in Special Requests 11 and 12 identified in Mr. Smegal's testimony, except added additional sections for the seven other mechanisms (the conservation one-way balancing account approved in D.06-08-011, was combined

1 by the Company into the WCEBA, preliminary statement N) it was requested to review
2 in the amended scope of work.

3 For each of the accounts, DRA compared the balances identified by the Company
4 against the supporting documentation provided. The balance identified by DRA does
5 not constitute DRA's recommendation for amortization or recovery by CWC since
6 recovery may be dependent on specific future actions, such as completion of projects,
7 future calculations or earnings tests. Amortization should be in accordance with
8 Standard Practice U-27-W and any other relevant policy decisions as well as those
9 specific to the M/B accounts. Within each account discussion, DRA has included its
10 findings and recommendations.

11 **Concerns With CWS's Maintenance of its Memorandum and Balancing Accounts**

12 During its review of the Memorandum and Balancing (“M/B”) accounts, Larkin
13 identified the following concerns regarding the Company's methodology and
14 maintenance of these accounts. The Company admitted there is "much confusion"
15 regarding these accounts.¹

16 No formal procedures in place

17 As there are numerous M/B accounts which have been implemented and managed
18 by different individuals over the years, Cal Water does not have procedures in place for
19 maintaining its balancing and memo accounts on a consistent basis. The Company is in
20 the process of developing procedures for recording and tracking these accounts
21 uniformly, which would only apply to more recently implemented accounts.² CWS
22 provided a draft of the procedures it recently created for maintaining the M/B accounts
23 to DRA on January 3, 2013. The draft guidelines provided by the Company consisted of a
24 five page document which described the Company's procedures to record, report and
25 track balancing and memorandum accounts. The draft guidelines provided were a

¹ Conference call with DRA and Cal Water on January 7, 2013.

² Id.

1 general overview of the Company's methodologies regarding its memo and balancing
2 accounts.

3 DRA recommends that these guidelines be expanded to contain a more detailed
4 description of the step-by-step processes of recording transactions in the accounts.
5 Detailed instructions for the process of determining which transactions are eligible to be
6 included should also be included (e.g., effective date that transactions can begin being
7 recorded in the accounts, types of costs, etc.). The Company should also include a
8 detailed discussion of how certain departments will coordinate with respect to
9 memo/balancing accounts that require different types of costs to be captured (e.g.,
10 engineering (plant expenditures), legal costs, etc.) The Company should also finalize its
11 "approach for storing and organizing legal invoices" and include detailed instructions as
12 to how the legal invoices will be recorded and/or allocated to the litigation memo
13 accounts. The Company should also include a detailed discussion of how to ensure
14 expenses that are already included in rates, are not also double-counted in the
15 memo/balancing accounts (e.g., internal labor, overhead costs, legal expense, etc.) The
16 Company should also include instructions for maintaining the older balancing and memo
17 accounts. In addition, a line in the document was titled "Balancing and Memorandum
18 Account Tracking Process" but did not contain any discussion under it, DRA inquired
19 during a conference call as to whether that section was a heading or if the language was
20 still being developed, in which the Company stated it would "find out."³ The current
21 appendix to the guidelines should be expanded to contain a column for each account that
22 identifies any special reporting the Company is required to make in association with the
23 account (e.g., litigation status reports, conservation reports, etc.). Another suggestion is
24 attaching all the existing preliminary statements as an appendix to the guidelines for ease
25 of reference for the users of the manual. Furthermore, the manual should be updated
26 systematically (e.g., annually, every GRC cycle, etc.) and periodically to account for any
27 new changes in the existing accounts as well as addition/deletion of accounts.

³ As of the writing of this report, DRA has not received a response.

1 Methodology does not conform with Commission guidelines

2 The Company's method of recording transactions in the M/B accounts does not
3 conform with Commission guidelines.

4 *Recording transactions in the account on a timely basis.*

5 One example is that information in some accounts is not timely being tracked.
6 Many of the Company's preliminary statements for the M/B accounts contain language
7 that monthly entries are to be made to the account. There are instances where some
8 accounts currently have no balance or a partial balance because the Company is "in the
9 process of determining the amounts that will be recorded."⁴ Another example regarding
10 this is that some of the litigation memo accounts also track related capital expenditures,
11 which the company has not included in the current balances of these accounts. The
12 company has stated that when it requests amortization of these costs it will include the
13 incremental capital expenditures.⁵

14 In D.10-11-034, the Commission found that since Great Oaks Water Company
15 was not properly tracking litigation expenses in the specified memo account, there was
16 no eligible balance in the account. The decision states in part:

17 Third, Great Oaks' Resolution W-4534 tariff pages, specifically section
18 F.4.a., clearly provide that any expense eligible for memorandum account
19 treatment must be recorded on a monthly basis. We agree with DRA that
20 Great Oaks' failure to comply with the requirement and properly track its
21 SCVWD litigation expenses means there is presently no eligible balance in
22 this account.

23
24 Based on the above discussion, we disallow all SCVWD litigation
25 expenses included in Outside Services, Account 798 and find that Great
26 Oaks must use the memorandum accounting procedures established in
27 Resolution W-4534 for any SCVWD litigation expenses it seeks to recover
28 from ratepayers.

29

⁴ e.g., 2010 tax memo account, GOSMA.

⁵ MSD-013-17 through 20.

1 *Costs booked to accounts prior to authorization*

2 In some memo accounts, the Company has included costs predating the effective
3 date of the Advice Letters which requested authority to implement them. When
4 questioned about this, the Company's response to MSD-013-12f stated:

5 For any of Cal Water's memo and balancing accounts, amounts
6 characterized as being "in" an account can mean many things.

7 In some cases, a figure refers only to amounts that can be amortized. In
8 other cases, it may also include costs that are relevant to a project, and thus
9 share a project or project ID, but are not necessarily recoverable through
10 the memo or balancing account mechanism. For example, some costs may
11 already be in rates, or some costs could be associated with the subject
12 matter of the memo or balancing account but were incurred prior to
13 authorization of the memo or balancing account.

14 What an amount in a particular memo or balancing account represents
15 depends on many factors. Recently, the Rates Department and the
16 regulatory accounting staff have been working together to clarify what the
17 figures in recently-established and new memo and balancing accounts
18 should represent.

19 The Company's response to MSD-008-12(g) states in part:

20 Tracking vs. recovery: The effective date of the memo account serves a
21 regulatory purpose - it identifies the date before which expenses incurred by Cal
22 Water cannot be recovered via the memo account. The accounting procedures
23 used to track costs can be independent of the regulatory analysis conducted to
24 calculate the specific balance for which Cal Water may seek recovery.

25 The Commission's decision in A. 01-09-062 references D. 92-03-094 which
26 states that memorandum account tracking could only occur prospectively:⁶

27 It is a well established tenet of the Commission that ratemaking is done on
28 a prospective basis. The Commission's practice is not to authorize
29 increased utility rates to account for previously incurred expenses, unless
30 before the utility incurs those expenses, the Commission has authorized
31 the utility to book those expenses into a memorandum account or
32 balancing account for possible future recovery in rates. This practice is
33 consistent with the rule against retroactive ratemaking. (Emphasis added.)

⁶ D.02-08-054.

1 *Inclusion of non-incremental costs*

2 Another example of questionable costs the company has included in some
3 accounts is those for internal labor. MSD-014-39(d) which pertains to the Department
4 of Toxic Substances Control ("DTSC") memo account asked:

5 d. Do the labor costs shown on attachment MSD-009 Attachment 23
6 represent Cal Water internal labor? If so, were those labor costs
7 removed from the prior and current GRCs? If so, please provide a
8 reference to the workpaper in the filing which reflects where these labor
9 costs were removed. If the Cal water internal labor costs were not
10 reduced by the amount charged the DTSCMA, provide an explanation
11 of how this would not constitute a double recovery of labor costs, if the
12 costs are later approved to be recovered.

13 The Company's response stated:

14 Yes, all labor is internal labor. At this time, Cal Water does not believe
15 that any labor costs were removed from the revenue requirement. When
16 recovery is sought, Cal Water will only seek recovery for costs that were
17 not already recovered through rates.⁷

18 Commission D. 06-01-018, the proceeding where Cal Water requested approval
19 to establish an arsenic memorandum account ("KRIMA"), states:

20 D. 04-03-039 only allowed the water company to post costs that were truly
21 incremental, and not already recovered in rates:

22 The costs booked to the memorandum account must be the incremental
23 capital costs and expenses. We emphasize incremental. The utility must
24 be able to demonstrate that existing rates do not directly or indirectly
25 include consideration for the recovery of these costs. If they do, the utility
26 must be able to show that appropriate consideration of those costs was
27 given in determining what the incremental costs in the memorandum
28 account should be... They should be net of any previously recovered costs
29 related to the old MCL activities replaced or augmented by the new MCL
30 activities.

31 MSD-015-30 requested the Company to identify any expenses that were included
32 in the memo accounts that are included in rates or if not, to identify the adjustment

⁷ MSD-014-39(d), MSD-018-08.

1 where the costs were removed. The response was still outstanding as of the preparation
2 of this report.

3 *Recording Monthly Interest*

4 For some accounts, it did not appear that the Company was recording the
5 90-day commercial interest amounts in the account detail provided.⁸ For
6 instance, the Company's response to MSD-002 Attachment 6-1 contains the
7 following statement for several accounts:

8 When recovery is sought, [interest] will be calculated at a rate equal to
9 one-twelfth of the recent month's interest rate on Commercial Paper
10 (prime, 90 day), published in the Federal Reserve Statistical Release, H.
11 15.

12 *Memo Accounts Recorded on the Balance Sheet*

13 The Company indicated it records several memo accounts on its balance sheet.
14 The Company's Draft Policy and Procedures Manual for Balancing and Memorandum
15 Accounts states:

16 Memorandum accounts are booked on the Balance Sheet and Income
17 Statement when it is probable the CPUC will authorize CalWater to
18 recover or refund these transactions via a rate change. If it is not probable
19 that the CPUC will authorize recovery or refund, these costs are only
20 tracked in Memo accounts as an "off-book accounting record." Generally,
21 memorandum accounts which were initiated by the CPUC have a higher
22 likelihood of recovery than utility-initiated accounts. In some cases,
23 memorandum accounts track a spectrum of potential outcome and the
24 recoverable amounts recorded therein may be subject to a future
25 determination of the policy outcome underlying the account.

26 However, Generally Accepted Accounting Principles have requirements for
27 recording and recognizing assets and liabilities, which may differ from regulatory
28 requirements. Per Standard Practice, U-27-W, memo accounts are to be recorded off-
29 book, as they are not guaranteed for recovery until they have undergone a reasonableness
30 review. The issue of recording memo accounts on the balance sheet was addressed in

⁸ MSD-002 Attachment 6-1.

1 A.02-09-030, a California American Water rate proceeding. The Commission's decision
2 in that case, D. 04-05-023 states in part:

3 One more aspect of this issue merits noting. Resolution W-4089 makes
4 the following statements in reference to contamination litigation
5 memorandum accounts:

6 A memorandum account is not a guarantee of eventual recovery of
7 expenses, nor is it carried as a regular account under the uniform system of
8 accounts for water utilities. It is carried 'off the books,' as a memo
9 account.

10 * * *

11 Our policy on memo account treatment has always been that the burden of
12 proof of the reasonableness of expenses charged to the account is the
13 responsibility of the utility requesting reimbursement of such expenses.
14 We see no reason to deviate from this procedure in this instance.

15 According to the Company, the following memo accounts are recorded on its
16 balance sheet:

- 17 • MTBE Memorandum Account⁹ (Received \$34 million in settlement proceeds
18 which are to be offset by MTBE plant investments)
- 19 • LIRA Memorandum Account¹⁰
- 20 • Water Conservation Memorandum Account (Prelim I)¹¹ (No balance)
- 21 • Water Conservation Expense Memorandum Account (Prelim L)¹² (filed Tier 3AL
22 2006 to amortize balance, approved by Resolution W-4870 to transfer to a
23 balancing account)
- 24 • A.08-05-019 (HOMESERVE/ESP) Memorandum Account¹³ (settlement filed
25 and pending final decision, to refund \$2 million to ratepayers)
- 26 • CalTrans Litigation Memorandum Account¹⁴

⁹ MSD-016-43, MSD-006-1 Attachment 10.

¹⁰ MSD-006-1 Attachment 10, which was dated July 27, 2011. Subsequent to this presentation, the LIRAMA was modified to track the LIRA credits and surcharges in a BA and the administrative and data sharing costs in a MA. MSD-016-43a & b.

¹¹ MSD-016-43b.

¹² MSD-016-43a.

¹³ Id.

¹⁴ MSD-016-43a & b.

- Cost of Capital Interim Rate Memorandum Account¹⁵ (still tracking, filed Tier 1 AL 2085 identifying lower ROR adopted in D. 12-07-009, which will result in a refund to ratepayers)

Combined Accounts

DRA notes that information for multiple M/B accounts is contained in the same account. Keeping the data separate would streamline the review process and reduce the potential for errors and/or confusion. Also, many memo/balancing accounts are only applicable to specific districts. Some examples are identified below.

The Company records legal costs (which contain legal costs that impact several litigation memo accounts) in Account 798100, Legal Expenses. The Company's response to MSD-008-12(d) stated:

The transactions for this account (provided in response to MSD-02) are from Account 798100, which has historically been the account used for all legal invoices. The transactions on the list were identified based on key words in the description of the transactions. Because invoices from other legal cases are included in this account, there are no screen shots from the balance sheet that will mirror the total reflected on the list of transactions for this account. (Cal Water is in the process of developing a more robust approach for organizing and storing legal invoices.)

The Company indicated during a conference call on January 7, 2013 to discuss the Company's M/A general procedures, that legal invoices would be assigned codes specific to the proceeding. It was also noted that some legal invoices could reflect charges for more than one legal proceeding, in which an invoice could be assigned multiple "product codes."

Another example is that the Company combined the balances for the conservation accounts established in D. 06-08-011 and D. 08-07-008.¹⁶ DRA asked whether the Company had Commission authority to combine these accounts to which the Company replied:

¹⁵ Id.

¹⁶ MSD-009-32(a).

1 Cal Water notes that as a general matter, it does not necessarily need
2 Commission authority to "combine" accounts. In addition, "combining" an
3 account does not necessarily mean that activities in a combined account
4 cannot be separately identified and tracked. In particular, the amounts for
5 the D. 06-08-011 and the D. 08-07-008 accounts are both in Payables
6 Account 213308 can be isolated from one another.¹⁷

7 Another example is that the Company records the PBA, ICBA (ALs 1964, 1965,
8 and 2024-A), and WCEMA in Accounts 149303 (Balancing Memo Account Asset). The
9 company stated that there are three separate surcharges for each account's amortization.¹⁸
10 The Company records the ICBA (ALs 1964, 1965, and 2024-A), WCEBA, HomeServe
11 and CalTrans Litigation MA in 213308 (Balancing Account Memo Liab.).

12 Outstanding Discovery

13 Many responses to discovery requests were not provided by the initial due date.
14 While the Company requested extensions for many data requests, some requests were
15 still not provided by the extended due dates. In addition, some responses were still
16 outstanding as of the preparation of this report, which are listed in the table below:

- 17 • MSD-009-29 (originally due 11/20/12)
- 18 • MSD-013-9(d), 12(d) and 19 (originally due 12/14/12)
- 19 • MSD-014-9(c)
- 20 • MSD-015-27(b,c &d), 28 and 30 (originally due 12/27/12)
- 21 • MSD-016-35(a, c, d, & e), 37, 40(a-d) and 44 (originally due 1/11/13)

22 Failure to File Required Information

23 DRA also notes that in some instances the Company was requested by the
24 Commission to file status reports or other information for some M/B accounts and did

¹⁷ MSD-009-32(a).

¹⁸ MSD-002- Attachment 6-1, MSD-016-38.

1 not file the requested information.¹⁹ Specifically, the information was requested by the
2 Commission for the following accounts:

3 *1) American Jobs Creation Act Mechanism*

4 Ordering paragraph 11 of D. 06-08-011) states:

5 For each of the eight districts in this proceeding, Cal Water shall collect
6 subject to refund the amount of its adopted revenue requirement that
7 results from our computational assumption that the American Jobs
8 Creation Act of 2004 does not apply, until our order finally establishing in
9 a future proceeding the actual tax benefit, if any, conveyed to Cal Water
10 under the Act. Cal Water shall report the amount collected and the status
11 of its tax liability under the Act in each GRC for these districts until the
12 Commission has made a final determination.

13 The Company stated that "Cal Water has not reported on this memo account in
14 previous GRCs. Cal Water is requesting a final Commission determination in this
15 proceeding."²⁰

16 *2) Rate Support Fund*

17 Page 1 of the settlement agreement in D.10-12-017 stated:

18 Cal Water agrees to provide a summary report on RSF benefits provided
19 and surcharges collected in the next GRC for the RSF rate areas. Cal
20 Water further agrees to:

- 21 1) provide information separate from any other accounts, such as the
22 Low Income Rate Assistance account, and
- 23 2) provide updated information for each district, on income levels,
24 usage levels, rate base per customer, availability of public loan
25 funds and average bills in each rate area and provide its assessment,
26 based on information, of whether any additional rate areas should
27 receive subsidies from the RSF program, or if any current RSF rate
28 areas should no longer receive RSF subsidies.

29 The Company stated "Cal Water did not provide this information due to an
30 oversight. At this time, Cal Water has not prepared this additional information."²¹

¹⁹ e.g., MSD-008-12a and MSD-14-37a, MSD-015-22.

²⁰ MSD-009-27(e).

1 3) *Stockton Litigation Memo Account*

2 Paragraph 5 of Preliminary Statement AD states:

3
4 REPORTING: Cal Water will consult with the Division of Water &
5 Audits (DWA) and the Division of Ratepayer Advocates (DRA) on a
6 semi-annual basis and submit a report in the form of an informational-only
7 advice letter to DWA with a copy to DRA that will outline the litigation
8 status, memorandum account charges, and an estimate of current damages
9 to ratepayers.

10 The Company stated that no reports have been submitted concerning the status of
11 this account.²²

12 Resolution No. W-4799 delegates authority to staff for enforcing compliance by
13 water and sewer utilities with the Commission's orders and the Public Utilities Code.
14 The Resolution that Staff may issue citations after written notice of non-compliance or
15 violation has been given to the utility and the utility has failed to correction the non-
16 compliance or violation in a timely manner. Appendix A of the resolution contains a list
17 of violations and corresponding fines. The fine for Class A utilities for not complying
18 with Commission ordering paragraphs not specified otherwise in the resolution is
19 \$10,000 per event. The fine for a Class A utility for failing to file a required report on
20 time or at all, in violation of Rule 6.2 of G.O. 96-B is \$1,000 per event. The
21 Commission should impose the appropriate fines for the areas found for non-
22 compliance.

23 **Summary of Recommendations**

24 DRA recommends the company implement formal procedures so that the
25 accounts are maintained consistently. DRA also recommends that the function of
26 maintaining information regarding the accounts and keeping the account balances up to
27 date be centralized among one or two employees to create consistency and reduce the
28 "confusion" regarding these accounts. DRA agrees with the Company's request to add

²¹ MSD-015-22.

²² MSD-008-12(a) and MSD-14-37(a).

1 an additional employee, regulatory cost analyst (memo and balancing account
2 emphasis), to handle the M/B accounts, which is addressed in Chapter 3, Payroll
3 Expense, Payroll Taxes and Business License Tax Expense of DRA's GO Report.

4 Of these 38 balancing/memorandum accounts, DRA recommends that that 21 be
5 closed and 17 continue. A table summarizing the M/B accounts is presented on the
6 following page, The table contains the account balances and proposed status of accounts as
7 reported by the Company and DRA as well as concerns identified by DRA.

8

ACCOUNT	BALANCE 8/31/12 - Undercollected/(Overcollected)			OPEN/CLOSE		DRA CONCERNS
	CWC	DRA	DIFFERENCE	CWC	DRA	
RWMA	\$ -	\$ -	\$ -	CLOSE	CLOSE	Company did not know status of similar account, DRWBA
MFRPMA	\$ -	\$ -	\$ -	CLOSE	CLOSE	None
WCMA	\$ -	\$ -	\$ -	CLOSE	CLOSE	None
WCEMA	\$ 959,879	\$ 959,879	\$ -	A/C NEXT GRC	A/C	None
WCEBA	\$ (33,802)	\$ (33,802)	\$ -	A/C	A/C	Combined previously authorized memo accounts without Commission authorization
GRCCMA	\$ -	\$ -	\$ -	CLOSE	CLOSE	None
A.08-05-019 HOMESERVE MA	\$ (2,161,000)	\$ (2,161,000)	\$ -	A/C 12/31/13	A/C 12/31/13	None
TIRBA	\$ (1,141,920)	\$ (1,141,920)	\$ -	A/C	A/C	None
COIIMA	\$ -	\$ -	\$ -	CLOSE	CLOSE	None
2010 TAX ACT MA			\$ -	A/C	OPEN	No entries recorded to date
CCIRMA	\$ (2,489,044)	\$ (2,489,044)	\$ -	A/C	A/C	Did not include interest
KRIMA	\$ -	\$ -	\$ -	CLOSE	CLOSE	None
SWTMA	\$ -	\$ -	\$ -	CLOSE	CLOSE	None
GOSMA	\$ -	\$ -	\$ -	A/C	CLOSE	Company did not identify the balance
ICBAS	\$ 367,867	\$ 367,867	\$ -	A/C	A/C	None
AJCA ADJ MECHANISM	\$ (287,822)	\$ (287,822)	\$ -	CLOSE	CLOSE	Company did not provide status report in prior GRC
LIRAMA	\$ 586,502	\$ 340,045	\$ (246,457)	OPEN/AMORT BALANCE	OPEN/AMORT BALANCE	Company recorded the MA prior to a reasonableness review on its balance sheet, and included non-incremental labor and overhead costs
CEBA [1]	\$ (6,649,888)	\$ (6,649,888)	\$ -	OPEN	OPEN/AMORT BALANCE 12/31/13	None
HCMA	\$ -	\$ -	\$ -	OPEN/AMORT BALANCE 12/31/13	CLOSE	Company did not record any entries in this account
PCBA	\$ (8)	\$ (8)	\$ -	OPEN/AMORT BALANCE 12/31/13	OPEN/AMORT BALANCE 12/31/13	None
PRVMA	\$ 124,151	\$ 124,151	\$ -	OPEN	CLOSE	No interest recorded
IFRSMA	\$ -	\$ -	\$ -	OPEN	CLOSE	None
IMA	\$ -	\$ -	\$ -	OPEN	OPEN	Company did not track capital investments against gains in a memo account
RSFBA [1]	\$ (276,355)	\$ (364,898)	\$ (88,543)	OPEN	OPEN	Company did not file status reports, included admin costs which were previously disallowed
SLMA	\$ 51,491	\$ 9,885	\$ (41,606)	OPEN	OPEN	Company did not file status reports, included costs prior to effective date, did not record interest
OEEPMA	\$ -	\$ -	\$ -	OPEN	CLOSE	Company did not record the OEEP projects or any entries in this account
LBA	\$ 6,471,280	\$ 6,471,280	\$ -	OPEN	OPEN	Should reflect interest separately
DTSCMA	\$ 379,446	\$ 321,240	\$ (58,206)	OPEN	OPEN	Company included inappropriate costs, did not include interest
WMA	\$ 416,713	\$ (7,045)	\$ (423,758)	OPEN	OPEN	Included costs prior to effective date, did not include interest
MTBEMA	\$ (16,264,851)	\$ (16,525,351)	\$ (260,500)	OPEN	OPEN	Company recorded duplicate invoice, incorrect plant amount
TLMA	\$ -	\$ -	\$ -	OPEN	AMORT/CLOSE	Company did not identify the balance
PCELMA	\$ (126,838)	\$ (518,594)	\$ (391,756)	OPEN	OPEN	Company included inappropriate costs, did not include interest
TCPLMA	\$ -	\$ -	\$ -	OPEN	OPEN	None
CTLMA	\$ 2,061,649	\$ 1,289,936	\$ (771,713)	OPEN	OPEN	Company included inappropriate costs, did not include interest
CEMA	\$ -	\$ -	\$ -	OPEN	OPEN	None
WCLMA	\$ -	\$ -	\$ -	OPEN	OPEN	None
WCOC ADJ MECHANISM	\$ -	\$ -	\$ -	OPEN	OPEN	None
D.08-08-030 MA	\$ -	\$ -	\$ -	OPEN	CLOSE	None
Total	\$ (15,635,707)	\$ (17,918,246)	\$ (2,282,539)			None

1 **CHAPTER 2: SPECIAL REQUEST 11: MEMO AND BALANCING**
2 **ACCOUNTS CWS PROPOSES TO CLOSE**

3 **Item 1: Recycled Water Memorandum Account (“RWMA”) Preliminary Statement E**

4 **A. BACKGROUND**

5 On January 29, 2004, Cal Water filed Advice Letter (“AL”) No. 1614 to establish
6 rates for recycled (non-potable) water for irrigation and/or industrial purposes in its
7 Palos Verdes district. The AL also requested permission to establish a recycled water
8 memorandum account to track the revenue received and costs incurred associated with
9 the sale of recycled water. Page 2 of this AL states that the Company has established a
10 Recycled Water Balancing Account in its Dominguez District. Cal Water requested that
11 the AL filing become effective on the later of regulatory statutory notice or the effective
12 date of the Commission's final order in A.03-01-034.²³

13 On March 25, 2004, the Company filed Supplemental AL No. 1614-A with the
14 CPUC for purposes of explaining its need to establish a memorandum account. Page 2
15 of AL-1614-A states "Cal Water has a recycled water memorandum account in its
16 Dominguez District to achieve these same objectives."

17 The Company indicated the RWMA was authorized by D. 04-04-041 issued on
18 April 22, 2004 in Cal Water's Application to increase rates in its Palos Verdes, Oroville,
19 Selma and Dominguez districts to track over/under collections associated with the
20 purchase and sale of recycled water and provided pages 3 through 5 of Attachment D to
21 the order.

22 Attachment D (page 3), Rate Setting Appendices for the Dominguez tariff states
23 in part:

- 24 3. A Recycled Water Memorandum Account has been established to track
25 under/over collections associated with the purchase and sale of recycled
26 water. This account will track all charges from West Basin Municipal
27 Water District not included in the current recycled rate, as well as the
28 lower cost of water derived from charges and billings under west basins
29 declining block structure and the Company's declining block structure.

²³ The Opinion approving settlement in A. 03-01-034 was issued on April 22, 2004.

1 West Basin Municipal Water District credits not credited directly to a
2 customer will be credited to this accounts and will offset future rate
3 increases for recycled water customers. This account will be reconciled
4 at least annually on or about the date when West Basin Municipal
5 Water District changed its rates.
6

7 Attachment D of the decision, Rate Setting Appendices for the Palos Verdes Tariff
8 Area (page 11) does not appear to contain any discussion of a recycled water
9 memorandum account.

10 The Company's description of this account provided in response to MSD-002,
11 Attachment 6-1 (10-19-12) states that "recycled water is purchased from West Basin
12 Municipal Water District and sold in Palos Verdes and Rancho Dominguez districts."

13 On May 20, 2004, the Company filed AL No. 1614-A with the CPUC to add a
14 preliminary statement tariff that outlines the process that will be followed for tracking
15 costs or savings in a RWMA and to request the approval to establish rates for recycled
16 water for irrigation and/or industrial purposes under a new Schedule No. PV-6 in its
17 Palos Verdes district.

18 Preliminary Statement E filed on March 25, 2004 identifies the purpose of the
19 account as follows:

20 The purpose of the RWMA is to track the revenue received and the costs
21 incurred associated with the sale of recycled water. Cal Water will
22 experience varying amounts of additional costs or cost savings depending
23 upon the number of customers that sign up for recycled water service and
24 their associated water usage. The RWMA will track actual costs and
25 savings compared to expected costs and savings, upon which the recycled
26 water rates were established. The balance in the RWMA will be recovered
27 in rates after the CPUC review and audit of the recorded RWMA balance.

28 Page 34 of Mr. Smegal's testimony states that:

29 This account was opened to track the revenue and costs associated with
30 providing non-potable water for irrigation and industrial uses in Cal
31 Water's Palos Verdes and Rancho Dominguez Districts. This account has
32 no balance because the Palos Verdes District has never received recycled
33 water, and is no longer necessary because since 2011 recycled water has

1 been included in the WRAM and MCBA accounts. Cal Water requests
2 authorization to close this account and cancel Preliminary Statement E.

3 **B. REVIEW SCOPE AND OBJECTIVES**

4 DRA's objectives were to verify the balance of the RWMA and to evaluate the
5 appropriateness of the continuation of the account.

6 **C. REVIEW PROCEDURES AND RESULTS**

7 DRA requested the Company to provide the balance in this account in MSD-002-
8 11. MSD-002 Attachment 6-1 (10-8-12 and 10-19-12) indicates that this account had a
9 zero balance as of December 2011 and August 31, 2012. DRA reviewed the workpapers
10 and discovery responses submitted by the Company pertaining to this account.

11 With respect to the Dominguez RWBA referenced in AL No. 1614-A, DRA
12 asked the following in MSD-007-12(d):

13 Have any costs and/or savings been tracked in that account? If so, identify
14 the current balance and provide an itemization of all transactions since the
15 inception of the account. If not, explain fully why not. In addition, please
16 indicate whether the Company is requesting that the Dominguez account
17 be kept open or closed.

18 The Company provided the following response on December 14, 2012:

19 Cal Water is evaluating the status of the account referenced in AL-1614-A and
20 does not have a response at this time.

21 The Accounting Procedure Section of Preliminary Statement E states in part:

22 Entries will be made at the end of each month as follows: (Emphasis added.)
23

24 **D FINDINGS AND RECOMMENDATIONS**

25 According to the Preliminary Statement, the RWMA is applicable to the Rancho
26 Dominguez and Palos Verdes districts. Since the Palos Verdes RWMA has a zero
27 balance as of August 31, 2012 and no transactions have been recorded in it since its
28 inception, DRA agrees with the Company that the account be closed and that
29 Preliminary Statement E be canceled. With respect to the Dominguez Balancing
30 Account, it appears that the Company has not been maintaining adequate documentation

1 as it was not able to identify a balance or provide the transactions in the account.
2 Balancing and memo account information should be kept up-to-date and be readily
3 available for review. As stated in the introduction section of this report, in the Great
4 Oaks case, D.10-11-034 stated that, since the Company was not tracking the balance in
5 the account, there was no eligible balance. Therefore, the Company should not be
6 permitted to later provide balance information and/or request recovery for the
7 Dominguez balancing account as it was not able to identify the status of the account
8 pursuant to DRA's request in a timely manner.

9 **Item 2: Military Family Relief Program Memorandum Account (“MFRPMA”)**

10 **Preliminary Statement G**

11 **A. BACKGROUND**

12 On November 28, 2005, CWS filed AL No. 1761 requesting approval for
13 implementation of the MFRP and an associated Memorandum Account to comply with
14 the requirements established by Assembly Bill No. 1666 (AB 1666), effective January 1,
15 2006. CWS proposed to track the uncollectibles and program implementation costs
16 associated with the MFRP in the MFRPMA for later recovery.

17 Preliminary Statement G filed on December 1, 2005 describes the MFRPMA
18 account as follows:

- 19 1. The Company shall establish a Memorandum Account to provide
20 for review and potential future recovery of reduced revenues
21 resulting from implementation of its MFRP as described in Rule
22 Number 21.
- 23 2. Charges to the Memorandum Account shall consist of MFRP
24 credits on customer bills and the costs of publishing related notices
25 and applications plus interest consistent with Commission
26 Memorandum Account Procedures.
- 27 3. Credits to the Memorandum Account shall consist of amounts
28 recovered through authorized surcharge collections plus interest
29 consistent with Commission Memorandum Account Procedures.

1 4. The Company shall include cumulative balances in this
2 Memorandum Account in its annual request for account review
3 required by Commission Decision 03-06-072.
4

5 Page 34 of Mr. Smegal's testimony states that:

6 Cal Water proposes to eliminate this memorandum account because it has
7 not recorded any costs in the account since its inception in December
8 2005. Cal Water requests authorization to close this account and cancel
9 Preliminary Statement G.

10 **B. REVIEW SCOPE AND OBJECTIVES**

11 DRA's objectives were to verify the balance of the MFRPMA and to evaluate the
12 appropriateness of the continuation of the account.

13 **C. REVIEW PROCEDURES AND RESULTS**

14 DRA requested the Company to identify the balance in this account in MSD-002-
15 11. MSD-002 Attachment 6-1 (10-19-12) indicates that this account had a zero balance
16 as of December 2011 and August 31, 2012. DRA reviewed the workpapers and
17 discovery responses submitted by the Company pertaining to this account and did not
18 note any discrepancies.

19 **D. FINDINGS AND RECOMMENDATIONS**

20 Since the account has a zero balance and no costs have been recorded in it, DRA
21 agrees with the Company that the account be closed and that Preliminary Statement G be
22 canceled.

23 **Item 3: Water Conservation Memorandum Account ("WCMA") Preliminary**
24 **Statement I**

25 **A. BACKGROUND**

26 On January 11, 2007, Order Instituting Investigation to Consider Policies to
27 Achieve the Commission's Objectives for Class A Water Utilities was opened (I. 07-01-
28 022). The Class A water utilities including Cal Water, each filed Applications
29 Requesting Approval to Establish a Water Revenue Balancing Account, a Conservation

1 Memo Account and to implement increasing block rates and were subsequently
2 consolidated into a single proceeding.

3 On April 23, 2007, DRA and Cal Water filed a Settlement Agreement on Water
4 Revenue Adjustment Mechanism (“WRAM”) and Conservation Rate Design Issues that
5 proposed a trial program consisting of conservation rate designs for most customers,
6 WRAMs, and Modified Cost Balancing Accounts (“MCBA”) in most of Cal Water's
7 districts.

8 On May 3, 2007, Cal Water filed AL 1807 requesting authorization to establish a
9 temporary water conservation memorandum account in its South San Francisco, Mid-
10 Peninsula, and Bear Gulch districts. Cal Water requested that this account remain in
11 effect until a Commission authorized WRAM is effective or the San Francisco Public
12 Utilities Commission (“SFPUC”) no longer requests that customers conserve water to
13 avoid the potential of mandatory rationing, whichever comes first. In that AL, Cal
14 Water requested "that this service area be made effective 30 days from the date of
15 filing."

16 On June 15, 2007, the parties filed an amended settlement proposing to modify
17 the trial program so that rate design for residential customers in seven of Cal Water's
18 districts includes a decreased meter charge, in addition to the tiered rates originally
19 proposed in those districts.

20 On February 29, 2008, D. 08-02-036 was issued which approved
21 CalWater/DRA/TURN settlement on conservation, rate design, WRAM and MCBA.

22 Preliminary Statement I, effective June 21, 2007, states:

23 This memorandum account will track changes in fixed costs and related
24 income taxes included in the quantity rates due to changes in water sales.

25 Pages 34-35 of Mr. Smegal's testimony state:

26 In May 2007, Cal Water filed Preliminary Statement I, "Water
27 Conservation Memorandum Account" for Bear Gulch, Mid-Peninsula, and
28 South San Francisco districts. Cal Water did not track the balance in this
29 account at the time and never requested amortization of any balance. The
30 account was superseded by the WRAM/MCBA accounts in July 2008. Cal

1 Water requests authorization to close this account and cancel Preliminary
2 Statement I.

3 **B. REVIEW SCOPE AND OBJECTIVES**

4 DRA's objectives were to verify the balance of the WCMA and to evaluate the
5 appropriateness of the continuation of the account.

6 **C. REVIEW PROCEDURES AND RESULTS**

7 DRA requested the Company to identify the balance in this account in MSD-002-
8 11. However, MSD-002 Attachment 6-1 (10-19-12) indicates that this account had a
9 zero balance as of December 2011 and August 31, 2012. Furthermore the response to
10 MSD-002-16 states there is no balance in this account. DRA reviewed the workpapers
11 and discovery responses submitted by the Company pertaining to this account and did
12 not note any discrepancies.

13 **D. FINDINGS AND RECOMMENDATIONS**

14 Cal Water requested the WCMA be implemented temporarily until a WRAM was
15 approved by the Commission. Since a WRAM was subsequently approved and the
16 account has no balance, DRA agrees with the Company that the account be closed and
17 that Preliminary Statement I be canceled. According to the Preliminary Statement, the
18 WCMA is applicable to the Bear Gulch, Mid-Peninsula and South San Francisco
19 districts.

20 **Item 4: Water Conservation Expense Memorandum Account (“WCEMA”)**

21 **Preliminary Statement L**

22 **A. BACKGROUND**

23 D. 07-12-055 issued on December 20, 2007, authorized Cal Water to establish a
24 WCEMA to track conservation expenses.

25 On May 6, 2008, Cal Water filed AL No. 1856 to establish the WCEMA pursuant
26 to D. 07-12-055 which was requested to be effective immediately upon filing.

27 On August 4, 2008, Cal Water filed AL 1856-A to formalize its WCEMA for Cal
28 Water's Bakersfield, Dixon, King City, Oroville, Selma, South San Francisco, Westlake,
29 and Willows Districts. The significant change in the supplement was that the WCEMA

1 is effective after December 20, 2007, the date of D. 07-12-055, as well as other
2 clarification changes to the text.

3 As of June 30, 2010, Cal Water had a balance of \$1,861,877 in the WCEMAs and
4 filed AL No. 2006 requesting to amortize this amount. On October 20, 2010, DWA
5 suspended AL No. 1856 as a resolution was required.

6 Ordering paragraph 1 of Resolution W-4870 dated February 24, 2011 authorized
7 Cal Water to transfer the \$1,861,877 from its memo accounts to balancing accounts to
8 recover \$1,861,877 or 1.8% of authorized revenues via a surcharge.

9 On January 27, 2012 the Company filed AL No. 2006-A pursuant to Resolution
10 W-4870 to recover in rates the \$1,861,877 in revenues from the WCEMAs.

11 Preliminary Statement L states in part:

12 The purpose of the WCEMA is to track conservation expenses with a cap
13 of 1.0% of adopted revenues for the 2007-8 test year, and 1.5% of adopted
14 revenues for the 2008-2009 and 2009-2010 escalation years.

15 Page 35 of Mr. Smegal's testimony states:

16 The balance in this account was approximately \$1.8 million at the time the
17 Commission ordered it to be amortized in February 2012. Amortization of
18 this account should be complete by March 2013. Cal Water will request
19 amortization of any under- or over-collection of the surcharge in its next
20 GRC.

21

22 **B. REVIEW SCOPE AND OBJECTIVES**

23 DRA's objectives were to verify the balance of the WCEMA and to evaluate the
24 appropriateness of the continuation of the account. When asked to identify the date of
25 the last review of this account, the Company's response to MSD-007-20a stated,
26 "Amortization of the account was requested in AL 2006-A submitted on January 27,
27 2012, and was subsequently approved."

28 **C. REVIEW PROCEDURES AND RESULTS**

29 DRA requested the Company to identify the balance in this account in MSD-002-
30 11. MSD-002 Attachment 6-1 (10-8-12 and 10-19-12) indicates that this account
31 balance of \$1,800,000 as of December 2011 and \$959,879 as of August 31, 2012.

1 The Company was requested to provide documentation supporting the balance
2 identified. The response to MSD-007-20 Attachment 20 provided the general ledger
3 balances and account detail. DRA reviewed the workpapers and discovery responses
4 submitted by the Company pertaining to this account and did not note any discrepancies.

5 **D. FINDINGS AND RECOMMENDATIONS**

6 DRA reviewed the balance in this account through August 31, 2012. Once the
7 remaining balance of \$959,879 is amortized, the account should be closed and that
8 Preliminary Statement L should be canceled. According to the Preliminary Statement,
9 the WCEMA is applicable to the Bakersfield, Dixon, King City, Oroville, Selma, South
10 San Francisco, Westlake and Willows Districts.

11 **Item 5: Water Conservation Expense One-Way Balancing Account (“WCEBA”)**

12 **Preliminary Statement N**

13 **A. BACKGROUND**

14 D. 06-08-011, issued on August 24, 2006, authorized Cal Water to track its actual
15 conservation expenses by district against the corresponding budget allowances adopted
16 in the decision in a one-way balancing account for its Antelope Valley, Bear Gulch,
17 Dominguez-South Bay, Hermosa-Redondo, Kern River Valley, Marysville, Palos
18 Verdes, and Redwood Valley districts.

19 D. 08-07-008, issued on July 10, 2008, authorized Cal Water to implement a one-
20 way balancing account to record conservation expenses for its Chico, East Los Angeles,
21 Livermore, Los Altos, Mid-Peninsula, Salinas, Stockton and Visalia districts. The
22 settlement required Cal Water to refund all but "max carryover" amounts specified in the
23 decision.

24 The Company filed AL No. 1875 on August 11, 2008 in compliance with D. 08-
25 07-008 to formalize the Water Conservation Expenses One-Way balancing Account
26 (WCBA) and requested it become effective on that day pending the Commission's Staff's
27 approval.

28 Preliminary Statement N states:

1 The purpose of the WCBA is to ensure ratepayers fund conservation
2 programs consistent with the adopted settlement approved by the
3 Commission in D. 08-07-008.

4 Because the revised rate case plan delayed the GRC Cal Water's Antelope Valley,
5 Bear Gulch, Dominguez-South Bay, Hermosa-Redondo, Kern River Valley, Marysville,
6 Palos Verdes, and Redwood (Coast Springs, Lucerne and Unified) districts, the
7 Commission issued D. 08-08-030 on August 21, 2008, which increased the annual
8 conservation budget from \$538,933 (approved in D. 06-08-011) to \$766,600 for those
9 districts. The settlement provided that the additional conservation funding be booked
10 into the memo account as a result of the delay in the GRC for those districts. The
11 Company's response to MSD-015-21(c) states that the settlement adopted in D.08-08-
12 030 established a memo account for the 1.5 year gap for the 8 districts in that GRC.

13 D. 10-12-017 issued on December 2, 2010 stated that:

14 Within 90 days of the effective date of rates adopted in this decision,
15 California Water Service Company shall file a Tier 2 advice letter to close
16 any existing conservation memorandum accounts and conservation one-
17 way balancing accounts. This advice letter shall provide a comparison of
18 the authorized and actual conservation expenses from the last general rate
19 case for each district. Existing balances in the accounts shall be amortized
20 in accordance with General Order 96-B except that for under-spending in
21 one-way accounts, the advice letter shall include a methodology for
22 refunding to customers the unexpended funds and accrued interest for each
23 district. The accrued interest and the interest rate are specified in Section
24 5, One-Way Balancing Account, of the revised settlement agreement
25 adopted in ordering paragraph 1.

26 On March 2, 2011, the Company filed AL No. 2025 pursuant to D.10-12-017,
27 returning unspent conservation funds authorized in D. 06-08-011 of \$682,565 for its
28 Antelope Valley, Bear Gulch, Dominguez, Hermosa-Redondo, Kern River Valley,
29 Marysville, Palos Verdes, and Redwood Valley districts.

30 On March 2, 2011, the Company filed AL 2026 pursuant to D.10-12-017,
31 returning unspent conservation funds authorized in D. 08-07-008 of \$730,266 for its
32 Chico, East Los Angeles, Livermore, Los Altos, Mid-Peninsula, Salinas, Stockton and
33 Visalia districts.

1 Page 35 of Mr. Smegal's testimony states:

2 In both the 2005 and 2007 GRC's Cal Water was required to return to
3 customers unspent funds recorded in a one-way balancing account.²⁴ In D.
4 10-12-017, the Commission authorized Cal Water to amortize both
5 mechanisms by twelve month surcredits. The amortization is complete.
6 However, Cal Water retains a \$35,000 balance as of April 2012 due to
7 under-amortization. Cal Water requests to move this credit amount to its
8 general balancing account to be re-amortized with other accounts at a later
9 date. Cal Water also requests Commission authorization to cancel
10 Preliminary Statement N and close both memorandum accounts.

11 MSD-007-9(f) requested the Company to identify where the D. 08-08-030
12 conservation one-way account was addressed in its direct testimony. The Company's
13 response stated "The Direct Smegal Testimony at page 34-35 discusses how the purpose
14 of this account is now moot, and the account should be closed."

15 In an email dated December 2, 2012, the Company stated that Conservation One
16 Way account established by D. 06-08-011 (which is not included in the preliminary
17 statement) and Conservation One Way account established by D. 08-08-030 (also not
18 included in the preliminary statement) should have been included in the list of accounts
19 identified in Section D (9) that Cal Water is requesting remain open. Amortization has
20 already been authorized (however further amortization could be required.)

21 The Company's response to MSD-015-26(a) amended the Company's position
22 stated in the email regarding the memo account established by D. 08-08-030 and states
23 in part:

24 Upon further investigation, it appears that the response to MSD-007,
25 Question 9(f), was erroneous - the conservation memo account authorized
26 by D. 08-08-030 was confused with the conservation memo account of
27 Preliminary Statement I because both memo accounts occurred in relation
28 to the industry-wide investigation into conservation issues, I. 07-01-022.
29 (The conservation settlement approved in D. 08-08-030 was filed in I. 07-
30 01-022; as discussed in AL 1807, the Preliminary Statement I memo
31 account arose as a result of another settlement - the WRAM Settlement

²⁴ The 2005 authorization in D. 06-08-011 was never formalized in Cal Water's preliminary statement, as Cal Water only received direction to file preliminary statements for the balancing and memorandum accounts in 2007.

1 that was filed in the same proceeding (the WRAM settlement was
2 approved in D. 08-02-036 and is the genesis of Preliminary Statement M).)

3 **B. REVIEW SCOPE AND OBJECTIVES**

4 DRA's objectives were to verify the balance of the WCEBA and to evaluate the
5 appropriateness of the continuation of the account. When asked when this account was
6 last reviewed by DWA or DRA, the Company stated in response to MSD-009-32b that,
7 "amortization of the conservation accounts authorized in D. 06-08-011 and D.08-07-008
8 were requested in Advice Letters 2025 and 2026, respectively, which were filed on
9 March 2, 2011 and subsequently approved."

10 **C. REVIEW PROCEDURES AND RESULTS**

11 DRA requested the Company to identify the balance in this account in MSD-002-
12 11. DRA reviewed the workpapers and discovery responses submitted by the Company
13 pertaining to this account. MSD-002 Attachment 6-1 (10-8-12 and 10-19-12) did show
14 a balance for this account as of December 2011 and identified a balance of (\$33,802),
15 which represents a refund to ratepayers, as of August 31, 2012.

16 As previously stated, DRA notes that the balances for the conservation accounts
17 approved in D.06-08-011 and D. 08-07-008 accounts have been combined. The
18 Company's response to MSD-015-27(a) stated that:

19 In the absence of further clarification, Cal Water notes that as a general
20 matter, it does not necessarily need Commission authority to "combine"
21 accounts. In addition, "combining" an account does not necessarily mean
22 that activities in a combined account cannot be separately identified and
23 tracked. In particular, the amounts for the D. 06-08-011 and the D. 08-07-
24 008 accounts are both in Payables Account 213308 can be isolated from
25 one another.²⁵

26
27 **D. FINDINGS AND RECOMMENDATIONS**

28 DRA reviewed the balance in this account through August 31, 2012. DRA
29 recommends that the remaining balance of (\$33,802) be amortized and returned to
30 customers and that the WCEBA be closed and preliminary statement N be canceled.

²⁵ MSD-009-32(a).

1 The conservation balancing account adopted in D. 06-08-011, applied to the
2 Antelope Valley, Bear Gulch, Dominguez-South Bay, Hermosa-Redondo, Kern River
3 Valley, Marysville, Palos Verdes, and Redwood Valley districts. The conservation
4 balancing account adopted in D. 08-07-008, applied to the Chico, East Los Angeles,
5 Livermore, Los Altos, Mid-Peninsula, Salinas, Stockton and Visalia districts. The
6 settlement required Cal Water to refund all but "max carryover" amounts specified in the
7 decision.

8 **Item 6: Groundwater Rule Compliance Cost Memorandum Account**
9 **("GRCCMA") Preliminary Statement O**

10 **A. BACKGROUND**

11 On August 12, 2008 CWS filed AL No. 1876 to formalize the GRCCMA
12 pursuant to Ordering Paragraph 24 of D. 08-07-008 dated July 10, 2008 which states in
13 part:

14 24. Cal Water is ordered to file Tier 1 advice letters within 30 days to
15 include in its preliminary statement: (1) a memorandum account to
16 record costs associated with complying with the Federal Groundwater
17 Rule; ... as described in the Settlement.

18 Paragraph 2.1.7 of the Settlement states:

19 2.1.7. The Parties request that the Commission order that Cal Water file a
20 change to its preliminary statement to create a memorandum account
21 for compliance with the federal groundwater rule.

22 Preliminary Statement O filed on August 12, 2008 describes the purpose of the
23 account as:

24 This memorandum account will track all incremental costs to comply with
25 the federal EPA Groundwater Rule (40 CFR Parts 9, 141, and 142) and
26 any California regulation implementing the Groundwater Rule.

27 Page 35 of Mr. Smegal's testimony states that:

28 There is no balance in this account because Cal Water was able to meet the
29 requirements without major expenditures. Cal Water therefore requests
30 authorization to close the account and cancel Preliminary Statement O.

1 **B. REVIEW SCOPE AND OBJECTIVES**

2 DRA's objectives were to verify the balance of the GRCCMA and to evaluate the
3 appropriateness of the continuation of the account.

4 **C. REVIEW PROCEDURES AND RESULTS**

5 DRA requested the Company to identify the balance in this account in MSD-002-
6 11. MSD-002 Attachment 6-1 (10-19-12) indicates that this account had a zero balance
7 as of December 2011 and August 31, 2012. Additionally, the Company's response to
8 MSD-007-22 states that "no costs were ever tracked in this account because major
9 expenditures were not incurred." DRA reviewed the workpapers and discovery
10 responses submitted by the Company pertaining to this account and did not note any
11 discrepancies.

12 **D. FINDINGS AND RECOMMENDATIONS**

13 Since the account has a zero balance and no costs have ever been recorded in it,
14 DRA agrees with the Company that the account be closed and that Preliminary
15 Statement O be canceled. According to the Preliminary Statement, the GRCCMA is
16 applicable to all territories served.

17 **Item 7: A.08-05-019 Memorandum Account ("HOMESERVE/ESP MA")**

18 **Preliminary Statement Q**

19 **A. BACKGROUND**

20 Ordering paragraph 18 of D.07-12-055 states that:

21 If Cal Water elects to continue offering the ESP service, Cal Water shall
22 set up a memorandum account tracking all costs and revenue associated
23 with the ESP Service until the Commission determines how those funds
24 should be allocated.

25 ALJ Ruling dated May 11, 2009 in A. 08-05-019 states that:

26 Pending the resolution of this proceeding, Cal Water is directed to track
27 all revenues received from utility customers for the subject services and
28 all costs incurred since the inception of the service in a memorandum
29 account. Costs should be tracked under two methodologies: (1) Cal

1 Water's affiliate transaction rules (greater of cost or fair market value);
2 and (2) the excess capacity rules for utilities established in D. 00-07-018,
3 as modified by D. 03-04-028 and D. 04-12-023.

4 The Company filed AL No. 1925 on May 20, 2009 requesting authority to
5 establish a memorandum account to record all revenues and costs associated with its
6 contract with Home Emergency Insurance Solutions. The requested effective date was
7 June 19, 2009.

8 Preliminary Statement Q which was filed on May 20, 2009 describes the purpose
9 of the account as:

10 Cal Water has signed a contract with its affiliate, CWS Utility Services
11 (CWSUS), to provide services in connection with CWSUS' contract with
12 Home Emergency Insurance Solutions. Pursuant to ALJ Ruling, Cal
13 Water is directed "to track all revenues received from utility customers for
14 the subject services and all costs incurred since the inception of the service
15 in a memorandum account." Cal Water is to track costs and revenues
16 under both the "excess capacity" rules and Cal Water's affiliate transaction
17 rules.

18
19 On June 23, 2009, the Company filed supplemental AL No. 1925-A to provide
20 page numbers for the preliminary statement and table of contents associated with AL
21 1925. The requested effective date was June 19, 2009.

22 Page 36 of Mr. Smegal's testimony states that:

23 This account was opened to track the costs and revenue associated with a
24 third-party contract with Home Emergency Insurance Solutions ("HEIS"
25 now "HomeServe USA"). As described in the Procedural Request
26 regarding Coordination with Open Commission Proceedings, a proposed
27 settlement agreement addresses the historical balance in this account, and
28 would resolve how future costs and revenues should be handled, is
29 currently before the Commission in A. 08-05-019. If the proposed
30 settlement is adopted, the only costs left to be tracked will be those
31 incurred between June 30, 2011 and January 14, 2014. In that event, Cal
32 Water proposes that this account be amortized and closed on or after
33 December 31, 2013.

34
35 On November 8, 2012, D. 12-11-012 was issued extending the statutory deadline
36 to January 25, 2013. The case is currently pending the adoption of a final decision.

37 **B. REVIEW SCOPE AND OBJECTIVES**

1 DRA's objectives were to verify the balance of the A. 08-05-019 memo account
2 and to evaluate the appropriateness of the continuation of the account. When asked
3 when the last review of this account occurred, the Company stated that "DRA
4 presumably reviewed this account in the course of entering into a settlement with Cal
5 Water submitted in A. 08-05-019 on October 11, 2011." ²⁶

6 **C. REVIEW PROCEDURES AND RESULTS**

7 DRA requested the Company to identify the balance in this account in MSD-002-
8 11. DRA reviewed the workpapers and discovery responses submitted by the Company
9 pertaining to this account.

10 MSD-002 Attachment 6-1 (10-8-12 and 10-19-12) indicates that this account had
11 a balance of (\$2,161,000) as of December 2011 and August 31, 2012. DRA requested
12 documentation from CWS supporting the balance identified.

13 The Company's response to MSD-007-23 stated that this account is being
14 addressed in a separate open proceeding, A. 08-05-019. A settlement was submitted to
15 the Commission in October 2011. A proposed decision was issued in February 2013 by
16 the Assigned Administrative Law Judge, and a final decision is pending before the
17 Commission. A final decision on the settlement agreement is expected in late February
18 or early March 2013. The Settlement states on page 4:

19 **ACTIVITIES RELATING TO HOMESERVE PRIOR TO**
20 **JUNE 30, 2011**

21
22 A. Prior to June 30, 2011, Cal Water provided services to CWSUS to
23 support the ESP program, and subsequently, the HomeServe program. All
24 references to "services to CWSUS" in this section refer to those services.

25 B. All costs and revenues related to Cal Water Services to CWSUS during
26 this time period have been tracked in the Memorandum Account
27 authorized by the Commission.

28 1) The Parties agree that the costs and revenues in the Memorandum
29 Account up until June 30, 2011 will reflect the regulatory accounting
30 principles for affiliate transactions that the Commission establishes for
31 Cal Water in D. 97-12-011.

²⁶ MSD-007-23.

- 1 2) The Parties further agree that Cal Water has properly applied those
2 affiliate transaction rules with regard to Cal Water's services to
3 CWSUS as reflected in the memorandum account.
4 3) The Parties agree that the balance in the memorandum account as of June 30,
5 2011 will be amortized over a 12-month period, together with the one-time
6 payment to ratepayers discussed in Section V below.
7 4) Any remaining balance in the memorandum account will be addressed in Cal
8 Water's next general rate case. In no event, will a surcharge be levied against
9 ratepayers.
10 C. As part of this Agreement, the Parties agree that there should be no
11 Commission penalties or sanctions relating to Cal Water's services to CWSUS
12 during this time period.
13

14 **ACTIVITIES RELATING TO HOMESERVE BEGINNING**
15 **JUNE 30, 2011**
16

- 17 A. Beginning on June 30, 2011, Cal Water has been providing services directly
18 to HomeServe pursuant to the B&C Agreement between Cal Water and
19 HomeServe.
20 B. The Parties agree that, consistent with the Affiliate/NTP&S rules, ratepayers
21 will receive a share of Cal Water's gross revenues associated with two aspects
22 of the B&C Agreement:
23 1) Beginning July 1, 2011²⁷, ratepayers will receive a 10% share of the
24 monthly revenues that Cal Water receives from HomeServe (referred to as
25 the "Administrative Fee" and the "Fee" in Sections 1 and 6 of the B&C
26 Agreement).
27 2) Beginning with the November 2, 2012²⁸ annual payment from
28 HomeServe, ratepayers will receive a 10% share of the annual payment
29 that Cal Water receives from HomeServe (referred to as the "Annual
30 Payment" in Sections 1 and 6 of the B&C Agreement).
31 3) These ratepayer shares will be reflected in the Memorandum Account
32 until the amounts are incorporated in rates in Cal Water's next general rate
33 case. At the conclusion of that GRC, Cal Water will provide a surcredit to
34 its ratepayers for the amounts recorded in the Memorandum Account from
35 June 30, 2011 to the effective date of the final GRC decision. The
36 amortization period will be as specified in Standard Practice U-27-W.
37 Additionally, Cal Water will incorporate a forecast of the shared revenue
38 in that GRC's revenue requirement.

²⁷ Footnote omitted.

²⁸ Id.

- 1 C. The Parties agree that, as of June 30, 2011, the memorandum account for A.
2 08-05-019 does not need to include accounting using affiliate transaction
3 rules. Section 4.A in the Preliminary Statement for the memorandum account
4 can therefore be eliminated. Cal Water will continue to provide accounting
5 using excess capacity rules as described in the section currently identified as
6 Section 4.B of the Preliminary Statement.
- 7 D. As part of this Agreement, the Parties agree that Cal Water's rights and
8 responsibilities under the B&C Agreement are consistent with Commission
9 rules and policies, including the Affiliate/NTP&S Rules.

10 Section V of the settlement states:

- 11 A. The Parties agree that Cal Water's residential ratepayers will receive a one-
12 time payment in the amount of two million dollars (\$2 million) to be
13 amortized over a 12-month period.
- 14 B. Cal Water will submit an advice letter requesting authority to amortize the
15 one-time payment, plus the amount from the Memorandum Account as
16 discussed in Section III.B(3) above, within 30 days of a Commission decision
17 approving this Agreement.
- 18 C. Seven days prior to submitting the advice letter discussed in Section V.B, Cal
19 Water will provide DRA with a draft copy of the advice letter with supporting
20 workpapers that reconcile the revenues and expenses and the surcredit to
21 ratepayers.
- 22 D. The Parties agree that the Commission should authorize Cal Water to file a
23 Tier 1 advice letter consistent with this Agreement.

24 With respect to the transactions after June 30, 2011, the Company's response to
25 MSD-16-41 states in part;

26 From a ratemaking perspective, there is no established "balance" in the
27 account until the CPUC decides which ratemaking methodology [excess
28 capacity or affiliate transactions methodology] to apply through adoption
29 of a final decision.

30 Interest will be applied, however, for costs and revenues tracked using the
31 excess capacity methodology for transactions after June 30, 2011. Those
32 amounts have not yet been calculated.

33 **D. FINDINGS AND RECOMMENDATIONS**

34 DRA reviewed the balance in this account as of August 31, 2012, which was
35 (\$2,161,000) and only included costs prior to June 30, 2011. If the proposed settlement
36 is adopted, only the costs left to be tracked will be those incurred between June 30, 2011

1 and January 1, 2014. DRA recommends that the transactions from June 30, 2011
2 through January 1, 2014 be reviewed for reasonableness. DRA is not opposed to
3 amortizing the balance and closing the MA after the remaining transactions are
4 reviewed. According to the Preliminary Statement, the HomeServe MA is applicable to
5 all territories served.

6 **Item 8: Temporary Interest Rate Balancing Account (“TIRBA”) Preliminary**
7 **Statement R**

8 **A. BACKGROUND**

9 D. 09-05-019 adopted the TIRBA for CalWater "to remove the uncertainty of
10 debt financing costs during the current financial market and credit dislocation," due to
11 the highly unusual problems in the 2008 financial markets. The TIRBA tracks the
12 difference between the interest cost for long-term debt issued after January 1, 2009 and
13 the interest cost in the adopted cost of capital for debt issues in 2009 or later.²⁹

14 Preliminary Statement R which was effective January 1, 2009 states:

15 California Water Service Company (Cal Water) shall maintain a
16 Temporary Interest Rate Balancing Account (TIRBA) to record the
17 difference in interest expenses between the actual interest cost for long-
18 term debt issued after January 1, 2009, and the interest cost included in the
19 adopted cost of capital for debt issues in 2009 or later.

20 Page 36 of Mr. Smegal's testimony states:

21 Closure of the TIRBA and amortization of the amounts recorded therein is
22 the subject of a settlement proposed in A. 11-05-001, et. al. Cal Water
23 anticipates full amortization of the TIRBA balance before the Test Year in
24 this application. Therefore, Cal Water requests to move any remaining
25 balance in this account as of January 1, 2014 to its general balancing
26 account to be re-amortized with other accounts at a later date. Cal Water
27 also requests Commission authorization to cancel Preliminary Statement R
28 at that time.

29 The Company filed AL No. 2084 on July 17, 2012 to establish a twelve-month
30 credit to refund the balance of \$1,141,919 recorded in the TIRBA to ratepayers. Cal

²⁹ Page 42.

1 Water requested an effective date of August 31, 2012, to allow for inputs to the utility
2 billing system.

3 Cal Water filed AL No. 2084-A on August 8, 2012 to supplement the filing of AL
4 No. 2084 because it inadvertently excluded the count of flat-rate customers in the
5 surcredit calculation for the Selma District. The supplemental filing incorporated the
6 flat-rate customer count into the surcredit calculation, resulting in a smaller credit per
7 customer in Selma. The requested effective date was August 31, 2012, to allow for
8 inputs to the utility billing system.

9 D. 12-07-009 dated July 12, 2012 states Cal Water's TIRBA balance of
10 \$1,141,919 will be amortized over twelve months via a customer surcredit and the
11 decision also eliminates the TIRBA.

12 **B. REVIEW SCOPE AND OBJECTIVES**

13 DRA's objectives were to verify the balance of the TIRBA and to evaluate the
14 appropriateness of the continuation of the account. When asked when this account was
15 last reviewed, the Company stated in its response to MSD-007-24(b) that "DRA
16 reviewed the TIRBA in Cal Water's most recent Cost of Capital proceeding, A. 11-05-
17 001. DWA reviewed the TIRBA in Cal Water's request for amortization submitted in AL
18 2084-A."

19 **C. REVIEW PROCEDURES AND RESULTS**

20 DRA requested the Company to identify the balance in this account in MSD-002-
21 11. The Company stated the TIRBA is a one-way balancing account and is reported on
22 the Company's balance sheet.³⁰ Although the decision is silent on the issue, DRA notes
23 that the TIRBA is actually a two-way balancing account. D.09-05-019 states:

24 The temporary interest rate balancing account shall record the difference in
25 interest expense between the actual interest cost for long-term debt for debt issued
26 after January 1, 2009, and the interest cost included in the adopted cost of capital
27 for debt issues in 2009 or later.

³⁰ MSD-016-46 and MSD-006-1 Attachment 10.

1 The reason it is a two-way account is because it would track the difference
2 whether is higher or lower than what was adopted. This means it could result an over or
3 under collecting depending how the actual compares to the adopted interest cost. A one
4 way account is typically capped meaning the utility cannot recover more than the cap. If
5 the actual amount is lower, the difference would be refunded to ratepayers.

6 MSD-002 Attachment 6-1 (10-8-12 and 10-19-12) indicates that this account had
7 a balance of (\$1,141,920) as of December 2011 and August 31, 2012. The balance as of
8 September 30, 2012 was (\$1,086,210). The Company provided a printout from its
9 general ledger and workpapers supporting the balance shown. DRA reviewed the
10 workpapers and discovery responses submitted by the Company pertaining to this
11 account and did not note any discrepancies.

12 **D. FINDINGS AND RECOMMENDATIONS**

13 DRA reviewed the balance in this account as of August 31, 2012 which was
14 (\$1,141,920.) As D.12-07-009 authorized the amortization of the (\$1,141,919) and
15 elimination of the TIRBA, DRA does not object to the closure of the account and
16 cancellation of Preliminary Statement R once the remaining balance of \$1,086,210 is
17 amortized. According to the Preliminary Statement, the TIRBA is applicable to all
18 districts served.

19 **Item 9: Conservation OII Expenses (I.07-01-022) Memorandum Account** 20 **("COIIMA") Preliminary Statement Y**

21 **A. BACKGROUND**

22 As stated in the discussion under Item 3, Conservation Memorandum Account,
23 the Commission opened I. 07-01-022, Order Instituting Investigation to Consider
24 Policies to Achieve the Commission's Objectives for Class A Water Utilities on January
25 15, 2007.

26 D.08-02-036 issued on February 28, 2008 authorized the Class A water utilities to
27 establish memorandum accounts to track legal and related costs of participating in the
28 proceeding. D. 10-04-001 issued on April 8, 2010 affirmed D. 08-02-036's approval of a

1 memorandum account to track legal and related expenses incurred in I. 07-01-022 for all
2 Class A water utilities.

3 The Company filed AL No. 1987 on May 7, 2009 requesting to add Preliminary
4 Statement Y, titled "OII 07-01-022 Memorandum Account (OII 07-01-022 MA) to its
5 tariff sheets to track legal and related expenses for participating in OII 07-01-022 from
6 the date of its issuance and legal and related expenses pursuant to D. 08-02-036. Cal
7 Water requested an effective date of January 16, 2007.

8 Cal Water filed AL No. 1987-A on May 13, 2009 in supplement to the previous
9 advice letter by changing the effective date from January 16, 2007 to January 11, 2007.

10 Preliminary Statement Y states:

11 The purpose of Order Instituting Investigation 07-01-022 Memorandum
12 Account (OII 07-01-022 MA) is to track legal and related expenses for
13 participating in OII 07-01-022 from January 11, 2007, the date of
14 issuance of OII 07-01-022 and legal and related expenses pursuant to D.
15 08-02-036 and D. 10-04-001. Legal and related expenses incurred in
16 preparing the application consolidated with this proceeding, whether
17 incurred prior or subsequent to the issuance of this Order Instituting
18 Investigation, are excluded from this memorandum account.

19 Page 36 of Mr. Smegal's testimony states:

20 This account was opened to track incremental regulatory costs associated
21 with participating in the Commission's Order Instituting Investigation into
22 Conservation Issues (I. 07-01-022.) Cal Water requests authorization to
23 close this account because the proceeding is now closed, and Cal Water
24 does not request recovery for any incremental consultant costs incurred.

25 **B. REVIEW SCOPE AND OBJECTIVES**

26 DRA's objectives were to verify the balance of the Conservation OII Expense
27 Memorandum Account and to evaluate the appropriateness of the continuation of the
28 account. The Company stated in response to MSD-008-7b that no review has been
29 conducted because there is no balance in this account.

30 **C. REVIEW PROCEDURES AND RESULTS**

31 DRA requested the Company to identify the balance in this account in MSD-002-
32 11. The excel spreadsheet provided in response to MSD-002 Attachment 6-1 (10-8-12

1 and 10-19-12) showed a zero balance as of December 2011 and August 31, 2012. DRA
2 reviewed the workpapers and discovery responses submitted by the Company pertaining
3 to this account and did not note any discrepancies.

4 **D. FINDINGS AND RECOMMENDATIONS**

5 DRA reviewed the balance in this account as of August 31, 2012 which was \$0.
6 DRA agrees that this account should be closed as it has a zero balance and the OII 07-
7 01-022 proceeding is closed. According to the Preliminary Statement, the COIIMA is
8 applicable to all districts served.

9 **Item 10: 2010 Tax Law Memorandum Account ("2010 Tax Act MA") Preliminary**
10 **Statement AE**

11 **A. BACKGROUND**

12 On April 14, 2011, the Commission issued Resolution L-411 which establishes a
13 one-way memorandum account for all Cost-of-Service Rate-Regulated Utilities, except
14 for exempted energy and water Utilities, Class C and D water and sewer utilities, and
15 small local exchange telephone companies to allow the Commission to consider revising
16 rates to reflect the Tax Relief, Unemployment Insurance Reauthorization, and Job
17 Creation Act Of 2010 ("2010 Tax Act").

18 On June 23, 2011, the Commission issued Resolution L-411A, which revised the
19 previous resolution to "remove the inconsistencies, correct the errors and clarify the
20 Ordering Paragraphs of the original resolution." This resolution establishes a one-way
21 memorandum account for all cost of service rate regulated utilities that do not address
22 the New Tax law in a 2011 or 2012 test year General Rate Case proceeding, to track the
23 impacts of the Tax Relief, Unemployment Insurance Reauthorization and Job Creation
24 Act of 2010.

25 Resolution L-411A states in part:

26 The effective date of the memorandum account established by the
27 resolution remains April 14, 2011.

1 More specifically, the memorandum account established by this resolution
2 will track on a CPUC-jurisdictional, revenue requirement basis: (a)
3 decreases in each impacted utility's revenue requirement resulting from
4 increases in its deferred tax reserve; (b) other direct changes in revenue
5 requirement resulting from taking advantage of the New Tax Law. This
6 resolution also authorizes impacted utilities to use savings from this new
7 tax law to invest in certain additional, needed infrastructure, not otherwise
8 funded in rates, within a time frame shorter than would be practicable
9 through the formal application or advice letter process. The establishment
10 of a memorandum account does not change rates, nor guarantee that rates
11 will be changed in the future. This mechanism simply allows the
12 Commission to determine at a future date whether rates should be changed,
13 without having to be concerned with issues of retroactive ratemaking.

14 Accordingly, for a utility that wishes to use savings from the New Tax law
15 to invest in additional needed utility infrastructure, not otherwise funded in
16 rates, the following guidelines should be followed. Allowable types of
17 infrastructure projects would include typical types of projects included in
18 general rate case type applications.

19 For water utilities, allowable types of infrastructure would include
20 distribution systems, storage, pipelines, pumping, and treatment facilities.

21 The property that the investment is made must be Commission
22 jurisdictional. For all utilities that provide more than one kind of service,
23 e.g., both gas and electric, at least 90% of the incremental investment must
24 be attributable to the tax benefits associated with that particular service
25 function. The property that the investment is made in must itself be
26 eligible for bonus depreciation. At least 90% of the investment must have
27 a tax depreciable life of at least 15 years, and any remaining investments
28 must be ancillary to such investments.

29 In comments on the Second Draft Resolution, the California Water
30 Association (CWA) raised concerns about how the requirement to
31 establish the memorandum account will apply to multi-district water
32 utilities. Accordingly, we provide the following guidance here. Each
33 district whose rates are separately set will need a separate memorandum
34 account, with a separate Memo Account Period. However, only those
35 districts that have plant placed into service benefitting from bonus
36 depreciation under the new Tax Law prior to their next GRC will need to
37 record any entries in their memorandum account. Where plant benefits
38 more than one district, the revenue requirement impacts shall be
39 proportionally allocated among districts according to previously adopted
40 methodologies, according to benefit received, or as determined in the next
41 GRC.

1 On August 1, 2011, the Company filed AL No. 2047 pursuant to
2 Resolution L-411A to add Preliminary Statement AE, titled "Tax Relief,
3 Unemployment Insurance Reauthorization and Job Creation Act of 2010
4 Memorandum Account" to its tariff sheets for purposes of establishing a
5 one-way memo account to track the impacts of Tax Relief Act.

6 August 19, 2011, the Company filed AL No. 2047-A pursuant to the CPUC's
7 DWA request as follows:

- 8 1. Change Memorandum Account Entries 'e' to read: "Credit for increase in
9 revenue requirement resulting from additional Utility infrastructure
10 investment consistent with the limitations set forth by Ordering Paragraph 5 of
11 Resolution L-411A and detailed in Purpose of this Preliminary Statement."
- 12 2. Change the "Applicability" statement to read; "The 2010 Tax Act
13 Memorandum Account applies to each ratemaking area within the Utility's
14 service areas tracking the revenue requirement impact of each change
15 resulting from the New Tax Law."

16 Preliminary Statement AE states in part:

17 The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act
18 of 2010 Memorandum Account ("2010 Tax Act Memorandum Account") is
19 established in accordance with CPUC Resolution L-411A. The purpose of this
20 memorandum account is to track on a CPUC-jurisdictional, revenue requirement
21 basis, the impacts of the Tax Relief, Unemployment Insurance Reauthorization,
22 and Job Creation Act of 2010 ("The New Tax Law") not otherwise reflected in
23 rates from April 14, 2011 until the effective date of the revenue requirement
24 changes in the Utility's next General Rate Case ("Memo Account Period"). The
25 Utility shall record in this memorandum account; (a) decreases in revenue
26 requirement resulting from increases in deferred tax reserve; (b) offsets to reflect
27 additional costs or expenses, not otherwise recovered in rates, incurred as a result
28 of additional utility infrastructure investment enabled by the bonus depreciation
29 provisions of the New Tax law, to the extent allowed by Ordering Paragraph 5 of
30 Resolution L-411A; and (c) amounts to reflect the impacts of any decrease in
31 Section 199 deductions resulting from bonus depreciation taken, changes in
32 working cash resulting from the New Tax Law, and any other direct changes in
33 revenue requirement resulting from the Utility's taking advantage of the New Tax
34 Law.

35 The 2010 Tax Act Memorandum Account shall be used in determining whether
36 any future rate adjustment is appropriate to reflect the impacts of the New Tax
37 law during the Memo Account Period. This memorandum account shall not be
38 used to recover any net revenue requirement increase recorded during the
39 Memorandum Account Period. If, at the end of the Memo Account Period, this

1 memorandum account reflects a net revenue requirement increase, the
2 memorandum account shall be terminated without any impact on rates.

3 The following limits allowed by Ordering Paragraph 5 of Resolution L-411A
4 apply to the additional utility infrastructure investments that may be tracked in the
5 2010 Tax Act Memorandum Account: (a) the property in which the investment is
6 made must be Commission-jurisdictional; (b) the property in which the investment
7 is made must itself be eligible for bonus depreciation, (c) at least 90% of the
8 investment must have a tax depreciable life of 15 years, and any remaining
9 investments must be ancillary to such investment; and d) if a utility determines
10 that it would be best to invest in something other than the typical types of projects
11 included in general rate case type applications, the utility must file an application
12 or advice letter seeking Commission approval in order to record the revenue
13 requirement impact of that investment as an offset in the memorandum account.

14 Pages 36-37 of Mr. Smegal's testimony states:

15 The Commission required creation of this account in Resolution L-411A to track
16 any ratepayers benefit associated with the bonus depreciation provided by the
17 2010 Tax Act. The statute relates to activities in 2011 and 2012, so calculations
18 for the balance in the account will be finalized and available for amortization in
19 mid-2013. Cal Water requests it be allowed to file a tier 2 advice letter to request
20 amortization and closure of the account at that time.

21 **B. REVIEW SCOPE AND OBJECTIVES**

22 DRA's objectives were to verify the balance of the 2010 Tax Law Memorandum
23 Account and to evaluate the appropriateness of the continuation of the account. The
24 Company stated in its response to MSD-009-29b that "To Cal Water's knowledge, this
25 account has not been reviewed."

26 **C. REVIEW PROCEDURES AND RESULTS**

27 DRA requested the Company to identify the balance in this account in MSD-002-
28 11. DRA reviewed the workpapers and discovery responses submitted by the Company
29 pertaining to this account. The excel spreadsheet provided in response to MSD-002
30 Attachment 6-1 (10-8-12 and 10-19-12) did not contain an amount in the balance
31 column for December 2011 and contained "TBD" in the balance column for August 31,
32 2012. MSD-009-29 which was initially due November 20, 2012, requested the
33 Company to identify the balance in this account as well as provide documentation
34 supporting the balance. The Company provided the following responses to this request:

1 November 20, 2012 - To be provided by 11/30/2012

2 November 30, 2012 - Cal Water hopes to provide this response by 12/7/2012.

3 December 7, 2012-Cal Water believes that this response can be provided by
4 12/14/2012.

5 December 16, 2012 (via email): Also, please note that I am not planning to send
6 another partial response for MSD-009 at this time. Regarding the two
7 outstanding questions in that DR:

8 For Question 29 (MSD-009) – Cal Water was not able to complete a response to
9 this question regarding the 2010 Bonus Tax Depreciation memo account, but
10 should be able to do that this coming week.

11
12 As of the date of the preparation of this section of DRA's report, this response
13 was still outstanding.

14 Page 14 of the Company's 2011 Form 10-K contained the following discussion
15 regarding the tax memo account;

16 In 2011, Cal Water filed for and received approval to track the benefits from
17 federal tax accelerated depreciation in a memorandum account due to the Tax
18 Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010.
19 Additional federal income tax deductions for assets placed in service after
20 September 8, 2010 and before December 31, 2011 was \$6.6 million for 2010 and
21 estimated at \$10.5 million for 2011. The CPUC will determine the disposition of
22 amounts recorded in the memorandum account in Cal Water's next GRC.

23 **D. FINDINGS AND RECOMMENDATIONS**

24 According to the Company, as of August 31, 2012, the balance in this account
25 was \$0. Resolution No. L-411A required that a memorandum account is to be
26 established for all cost of service rate regulated utilities that do not address the effects of
27 the 2010 Tax Law in a 2011 or 2012 test year GRC as it provides for bonus depreciation
28 for property placed in service during that time period.³¹ Since the current GRC is
29 utilizing a 2014 test year, use of this memorandum account is applicable to Cal Water.
30 DRA is concerned that the company has not been tracking the effects of the 2010 Tax
31 Law for the period "April 14, 2011 until the effective date of the revenue requirement

³¹ The Tax Relief Act provides for 100% bonus depreciation on certain business property placed in service after September 30, 2010 and before January 1, 2012 and 50% bonus depreciation for property placed in service after January 1, 2012 and prior to January 1, 2013.

1 changes in the Utility's next General Rate Case ("Memo Account Period")" in the memo
2 account as it was not able to identify the balance in a timely manner. As the Company's
3 2011 Form 10-K identified additional federal income tax deductions for assets placed in
4 service after September 8, 2010 and before December 31, 2011 was \$6.6 million for
5 2010 and estimated at \$10.5 million for 2011, it is not unreasonable to assume the
6 Company has the data, at least for the year 2011.

7 Furthermore, the American Taxpayer Relief Act of 2012, extended the 50%
8 bonus depreciation through the 2013 calendar year. Since the 50% bonus depreciation
9 has been extended and as DRA was not able to review the balance in this account, DRA
10 recommends that this memorandum account remain open to also capture the effect of the
11 50% bonus depreciation for 2013. DRA witness Jose Cabrera also recommends that the
12 Tax Law Memo Account remain open to capture the effects of the American Taxpayer
13 Relief Act of 2012.³²

14 DRA recommends that the Commission order the Company to provide on a
15 CPUC-jurisdictional, revenue requirement basis, the impacts of the Tax Relief,
16 Unemployment Insurance Reauthorization, and Job Creation Act of 2010 ("The New
17 Tax Law") not otherwise reflected in rates from April 14, 2011 until the effective date of
18 the revenue requirement changes in the Utility's next General Rate Case ("Memo
19 Account Period") as stated in Resolution L-411A. This should include: (a) decreases in
20 revenue requirement resulting from increases in deferred tax reserve; (b) offsets to
21 reflect additional costs or expenses, not otherwise recovered in rates, incurred as a result
22 of additional utility infrastructure investment enabled by the bonus depreciation
23 provisions of the New Tax law, to the extent allowed by Ordering Paragraph 5 of
24 Resolution L-411A; and (c) amounts to reflect the impacts of any decrease in Section
25 199 deductions resulting from bonus depreciation taken, changes in working cash
26 resulting from the New Tax Law, and any other direct changes in revenue requirement
27 resulting from the Utility's taking advantage of the New Tax Law. The Company should

³² Testimony of DRA witness Jose Cabrera (see DRA's Company-Wide Report on the Results of Operations, Chapter 6 – Income Taxes.)

1 be ordered to provide this information and all supporting calculations and workpapers no
2 later than mid-year 2013.

3 At the conclusion of this GRC cycle, DRA recommends that the balance in this
4 account be reviewed once the Company has completed the required entries pursuant to
5 L-411A including bonus depreciation through 2013, and for the other years in the GRC
6 cycle, if the bonus depreciation is subsequently extended. During the review process,
7 the Company should be required to provide all calculations, assumptions and details
8 used in calculating the balance in this account. According to the Preliminary Statement,
9 the 2010 Tax Act MA is applicable to each ratemaking area within the utility's service
10 areas tracking the revenue requirement of each change resulting from the New Tax Law.

11 If at the end of the GRC cycle, the memo account reflects a net revenue
12 requirement decrease, the balance shall be refunded to ratepayers. If, at the end of the
13 Memo Account Period, this memorandum account reflects a net revenue requirement
14 increase, the memorandum account shall be terminated without any impact on rates.

15 **Item 11: Cost of Capital Interim Rate (“CCIRMA”) Memorandum Account -**
16 **Preliminary Statement AH**

17 **A. BACKGROUND**

18 In A. 11-05-001, Cal Water was permitted to establish a memo account to track
19 the difference between current and final rates. This account would allow the final rates
20 adopted by the Commission in that proceeding to be trued up to January 1, 2012.

21 The Company filed AL No. 2055 on December 29, 2011 pursuant to the
22 Administrative Law Judge's December 14, 2011 ruling granting DRA's motion for a
23 memorandum account in A. 11-05-001. The requested effective date was January 1,
24 2012.

25 The Company filed AL No. 2085 on August 6, 2012 to adjust its revenue
26 requirement to reflect a ROR of 8.24% pursuant to D. 12-07-009 and to refund the
27 difference between the revenue requirement calculated at previously adopted 8.58%

1 ROR and the ROR of 8.24% in the amount of \$2,489,044. The requested effective date
2 was September 1, 2012 to facilitate inputs into its billing system.

3 The Company filed AL No. 2085-A on August 8, 2012 to supplement AL No.
4 2085 inadvertently excluded the count of flat-rate customers in the surcredit calculation
5 for the Selma District. The supplemental filing incorporates the flat-rate customer count
6 in the surcredit calculation, resulting in a smaller credit per customer in the Selma
7 district. The requested effective date was September 1, 2012.

8 Preliminary Statement AH states the purpose of the CCIRMA is to:
9 ...track the difference between rates the charged beginning January 1, 2012, and
10 the rates that would have been charged if the final rates from a decision in
11 Application 11-05-001 had been in effect beginning January 1, 2012.

12 Page 37 of Mr. Smegal's testimony states:

13 The Cost of Capital Interim Rate Memorandum account tracks the difference
14 between the revenue requirement of Cal Water's districts at the current adopted
15 weighted cost of capital against the weighted cost of capital adopted in A. 11-05-
16 001, et. al. Amortization of this account will occur in 2012 and 2013. In its
17 amortization advice letter, Cal Water will request to close this account, cancel the
18 preliminary statement, and move any over- or under-amortization to the general
19 balancing account for disposition.

20
21 **B. REVIEW SCOPE AND OBJECTIVES**

22 DRA's objectives were to verify the balance of the COCIRMA and to evaluate the
23 appropriateness of the continuation of the account. The Company stated in its response
24 to MSD-015-20 that this account was last reviewed by CPUC staff in Cal Water's most
25 recent Cost of Capital proceeding, A. 11-05-001 (D. 12-07-009).

26 **C. REVIEW PROCEDURES AND RESULTS**

27 DRA requested the Company to identify the balance in this account in MSD-002-
28 11. DRA reviewed the workpapers and discovery responses submitted by the Company
29 pertaining to this account. The excel spreadsheet provided in response to MSD-002
30 Attachment 6-1 (10-8-12 and 10-19-12) did not contain an amount in the balance
31 column as of December 2011 but showed an amount of (\$2,489,044) as of August 31,
32 2012. DRA requested the company's workpapers supporting the balance shown. The

1 Company provided a printout from its general ledger for Account 222308, ST
2 Regulatory Liability showing a balance of (\$2,489,044.10) as well as workpapers
3 supporting the change in ROR by district, which comported with the RORs 8.58% and
4 8.24% authorized in D. 10-12-017 and D. 12-07-009, respectively. DRA tested the
5 mathematical accuracy of a sample of calculations in the workpapers. However, DRA
6 notes that Preliminary statement AH states that the change in rate of return should
7 (include the 90-day commercial paper rate). It was not evident from the workpapers
8 provided where the interest was reflected. The Company's response to MSD-002
9 Attachment 6-1 states that this account is non-interest bearing MSD-018-8 asked about
10 the discrepancy regarding the two documents and if interest was included in the account
11 balance. The Company's response stated that the Company that the balance in this
12 account does not include interest.

13 **D. FINDINGS AND RECOMMENDATIONS**

14 DRA reviewed the balance in this account as of August 31, 2012 which was
15 (\$2,489,044) which did not include interest. DRA recommends interest be calculated on
16 the balance monthly and that the workpapers supporting the balance in this account
17 reflect the applicable interest amounts separately. DRA recommends a review of the
18 transactions subsequent to August 31, 2012 when the company seeks amortization.
19 DRA does not object to the closure of the account and cancellation of Preliminary
20 Statement AH once the authorized balance is amortized. According to the Preliminary
21 Statement, the CCIRMA is applicable to all districts served.

22 **Item 12: Kern River Improvement Memorandum Account (“KRIMA”) No** 23 **Preliminary Statement**

24 **A. BACKGROUND**

25 Cal Water was granted permission in D. 06-01-018 to establish a memorandum
26 account to record costs not to exceed \$7.5 million associated with complying with new
27 arsenic treatment standards adopted by the Federal Environmental Protection Agency
28 ("EPA") which became effective on January 23, 2006.

1 Page 35 of Mr. Smegal's testimony states that:

2 Cal Water has completed its compliance, and never recorded any balance
3 for collection due to delays in construction of the required facilities. Cal
4 Water requests authorization to close this account without amortization.
5

6 **B. REVIEW SCOPE AND OBJECTIVES**

7 DRA's objectives were to verify the balance of the KRIMA and to evaluate the
8 appropriateness of the continuation of the account.

9 **C. REVIEW PROCEDURES AND RESULTS**

10 DRA requested the Company to identify the balance in this account in MSD-002-
11 11. The excel spreadsheet provided in response to MSD-002 Attachment 6-1 (10-19-12)
12 did not contain an amount in the balances columns as of December 2011 and August 31,
13 2012. The Company's response to MSD-007-24 confirmed that no transactions were
14 ever recorded in this account and that it has a zero balance. DRA reviewed the
15 workpapers and discovery responses submitted by the Company pertaining to this
16 account and did not note any discrepancies.

17 **D. FINDINGS AND RECOMMENDATIONS**

18 DRA reviewed the balance in this account as of August 31, 2012 which was \$0. Since
19 the account has a zero balance and no costs have ever been recorded in it, DRA agrees with the
20 Company that the account be closed. According to the D. 06-01-018, the KRIMA is applicable
21 to the Kern River Valley District.

22 **Item 13: Salinas Water Treatment Memorandum Account ("SWTMA") No**

23 **Preliminary Statement**

24 **A. BACKGROUND**

25 Cal Water was granted permission in D. 02-08-054 dated August 22, 2002 to record
26 incremental costs from the date of that order in a memorandum account for ion-exchange
27 purification equipment for four wells in the Salinas district. The decision also stated that the
28 Company may seek Commission consideration of the amounts in the account in its next GRC.
29 Recovery of the amounts recorded in the memorandum account shall only be allowed to the

1 extent CalWater did not exceed its authorized rate of return in the years the expenses were
2 incurred.

3 D. 04-03-025 modified D. 02-08-054 by accepting the Company's request to seek
4 ratemaking consideration of the accounts via an annual advice letter filing rather than the next
5 GRC, for purposes of mitigating rate shock as the balance in the account had become
6 significant, \$750,000.

7 The Company filed AL No. 1734 on July 8, 2005 requesting recovery of \$1,228,502 (or
8 7.62% of annual revenues for the Salinas district) booked to the WTMA over three years.

9 On December 2, 2005, the Company filed AL No. 1734-A requesting recovery of
10 \$1,054,838 (or 6.54% of annual revenues for the Salinas district) booked to the WTMA over
11 three years. Cal Water revised AL No. 1734 to exclude amounts accrued in 2005, which will be
12 filed in 2006. The Advice Letter also states that the Company provided CPUC staff with
13 documents showing it did not earn more than its authorized rate of return in the calendar years
14 2002-2004 as required by D. 02-08-054.

15 Page 37 of Mr. Smegal's testimony states that:

16 Cal Water made one filing to amortize the balance in the account accrued
17 from November 1, 2002 through December 31, 2004, citing authority in D.
18 04-03-025. The account continued to accrue until after the effective date of
19 rates in A. 04-09-028, which was July, 21, 2005. After 2004, however,
20 CalWater did not further accrue any balances in the account. Cal Water
21 requests authorization to close the account without further amortization.

22
23 **B. REVIEW SCOPE AND OBJECTIVES**

24 DRA's objectives were to verify the balance of the WTMA and to evaluate the
25 appropriateness of the continuation of the account. When asked when this account was last
26 reviewed, the Company stated in response to MSD-008-14a that "In AL 1734-A (filed
27 December 2, 2005), Cal Water requested amortization of amount [sic] in the account at that
28 time. The advice letter was approved. DRA and DWA presumably reviewed the advice letter
29 prior to its approval."

1 **C. REVIEW PROCEDURES AND RESULTS**

2 DRA requested the Company to identify the balance in this account in MSD-002-
3 11. DRA reviewed the workpapers and discovery responses submitted by the Company
4 pertaining to this account.

5 The excel spreadsheet provided in response to MSD-002 Attachment 6-1 (10-8-
6 12 and 10-19-12) did not contain an amount in the balance column as of December 2011
7 and listed a balance of \$1 million as of August 31, 2012. The Company was requested
8 to provide an itemization of all transactions in the account since its inception in MSD-
9 008-14c. The Company's response stated that the balance in the account was zero and
10 did not provide any account detail.

11 **D. FINDINGS AND RECOMMENDATIONS**

12 DRA reviewed the balance in this account as of August 31, 2012 which was \$0.
13 Since the account has a zero balance and the Company is not requesting amortization of
14 any balance, DRA agrees with the Company that the account be closed. According to
15 the Preliminary Statement, the SWTMA is applicable to the Salinas district.

16 **Item 14: General Office Synergies Memorandum Account ("GOSMA") - No**
17 **Preliminary Statement**

18 **A. BACKGROUND**

19 In A. 01-09-062 ORA (now DRA) removed Cal Water's proposed
20 synergies/savings adjustment related to the combining of Dominguez Water
21 Corporation's general office functions with Cal Water's general office functions. As part
22 of the settlement, Cal Water and ORA agreed that the issue of the general office merger
23 related synergies should be addressed in Cal Water's first combined rate application for
24 the Hermosa-Redondo, Palos Verdes and Dominguez' South Bay district in July 2002.
25 The parties also agreed that the Commission should authorize Cal Water to establish a
26 memorandum account to track the revenue requirement associated with Cal Water's
27 proposed synergies adjustment for subsequent recovery, if found reasonable.

1 On January 12, 2010, the Company filed Advice Letter 1972 to implement
2 surcharges adopted in D. 08-07-008 allowing recovery of the GO Synergies memo
3 account. Section 5.5 of the Settlement Agreement stated:

4 The Parties agree as stated in DRA's report to allow Cal Water to amortize
5 the remaining balances in its general office synergies memorandum
6 accounts as proposed in the applications. Those memorandum accounts
7 stopped accruing entries at the effective date of rates in D. 05-07-022, but
8 were only amortized through January 1, 2005 in the last GRC.

9 Page 37 of Mr. Smegal's testimony states that:

10 This account was opened to track the difference in synergies allocations
11 between the 2001 and 2005 general rate cases and was authorized in D. 03-
12 09-021. Cal Water and DRA acknowledged in the earlier case that they
13 were allocating savings from the Cal Water/Dominguez merger
14 imprecisely and agreed to true-up the allocation of synergies after the next
15 GRC. Due to the staggered nature of rate case filings until 2009, Cal
16 Water amortized these balances pursuant to several different Commission
17 Orders. Remaining amounts from under-amortizing the balances or due to
18 interest remain in the account. Cal Water requests authorization to
19 amortize and close this account.

20
21 **B. REVIEW SCOPE AND OBJECTIVES**

22 DRA's objectives were to verify the balance of the GOSMA and to evaluate the
23 appropriateness of the continuation of the account. When asked to identify the last
24 account review, the Company's response to MSD-007-17a stated that "no review has
25 been done of the account as a whole, however, DWA and DRA presumably reviewed
26 the requests for amortization that were authorized." DRA requested copies of such
27 advice letters, the Company's response to MSD-014-9(c) included a copy of AL 1972
28 and stated that it was "still locating other advice letters."

29 **C. REVIEW PROCEDURES AND RESULTS**

30 DRA requested the Company to identify the balance in this account in MSD-002-
31 11. The excel spreadsheet provided in response to MSD-002 Attachment 6-1 (10-19-12)
32 did not contain an amount in the balance column as of December 2011 but stated "Most
33 recovered; approx. \$700 ('000's)" in the column pertaining to August 31, 2012. No

1 supporting account detail was attached. The Company was requested to provide an
2 itemization of all transactions in the account since its inception in MSD-007-17(b).

3 MSD-007-17 was issued on October 26, 2012. The Company requested several
4 extensions for this data request and its response provided on December 14, 2012 stated:

5 This account does not have "transactions," per se. The accounting codes
6 now used to track amortizations were not established when surcharges for
7 this account were applied for each set of districts. Surcharges were applied
8 to customer bills for the authorized durations of time, and then were
9 removed from customer bills.

10 Because no accounting codes were established when the amortizations
11 occurred, the current "balance" for each set of districts must be calculated.
12 Cal Water has not yet performed those calculations at this time.

13 As the Company was not able to identify the current balance in this account,
14 DRA was not able to verify the balance.

15 **D. FINDINGS AND RECOMMENDATIONS**

16 DRA reviewed the balance in this account as of August 31, 2012 which was \$0.
17 DRA agrees with the Company that this account should be closed. Since the Company
18 does not appear to be tracking anything in this account and did not identify a balance, it
19 should not be permitted to amortize any further balance in this account if one is later
20 identified. According to AL 1972, the GOSMA is applicable to the Chico, East Los
21 Angeles, Livermore, Los Altos, Mid-Peninsula, Salinas, Stockton and Visalia districts.

22 **Item 15: Incremental Cost Balancing Accounts ("ICBAs"), Also Known as Water** 23 **Production Reserve Accounts - No Preliminary Statement**

24 **A. BACKGROUND**

25 The Company described the purpose of this account as:

26 Prior to the adoption of the WRAMs and MCBAs, each ratemaking area
27 historically had a set of ICBAs to track increased costs caused by unit rate
28 increases in purchased water and purchased power that occurred between
29 rate cases. The ICBAs did not include increased costs caused solely by
30 changes in water consumption.³³

³³ MSD-015-28.

1 A document provided in response to MSD-002 Attachment 6-1 describes the
2 Incremental Cost Balancing Account (aka Water Production Cost Reserve) as "Water,
3 power & pump tax expenses charges to I/S prior to July 2008."

4 The Company identified D. 03-06-072 (June 19, 2003)³⁴ and D. 06-04-037 (April
5 13, 2006)³⁵ as the authority to implement this account. D. 03-06-072 revised the
6 existing procedures for recovery of under collections and over collections in balancing-
7 type memorandum accounts existing on or after November 29, 2001 as follows:

- 8 (1) If a utility is within its rate case cycle and is not overearning, the utility
9 shall recover its account subject to reasonableness review; and (2) If a
10 utility is either within or outside of its rate case cycle and is
11 overearning, the utility's recovery of expenses from the accounts will be
12 reduced by the amount of the overearning, again subject to
13 reasonableness review. The utility shall remove the amount of the over
14 earning from the account and shall amortize it below the line. Utilities
15 shall use the recorded rate of return means test to evaluate earnings for
16 all years.

17 D. 06-04-037 revised the procedures that Class A water utilities must follow in
18 order to recover balances from balancing accounts existing on or after November 29,
19 2001.

20 On December 10, 2009, the Company filed AL No. 1964 in accordance with D.
21 06-06-072 to report on the balance in the balancing account through June 30, 2006.
22 Pursuant to D. 06-04-037, the advice letter also reported the balances in the "balancing-
23 type memorandum accounts" from July 1, 2006 through June 30, 2008. AL No. 1964
24 applied to Cal Water's Bakersfield district. The AL requested to transfer the balances in
25 the memorandum accounts to the balancing account and that the total amount including
26 interest be amortized in a surcredit to ratepayers for twelve months. The total amount as
27 of September 30, 2009 was \$2,388,146. The requested effective date was January 15,
28 2010. AL 1964 applies to the Bakersfield District.

³⁴ Final Decision revising the procedures for recovery of balancing-type memorandum accounts existing on or after November 29, 2001.

³⁵ Opinion granting petition for modification of (D.) 03-06-072.

1 On December 14, 2009, Cal Water filed Al 1965 pursuant to D. 03-06-072 and D.
2 06-06-072, reporting on the balances in the balancing accounts and the "balancing-type
3 memorandum accounts" in the Antelope Valley, East Los Angeles, Hermosa-Redondo,
4 Kern River Valley, King City, Los Altos Suburban and West Lake. The AL requested to
5 transfer the balances in the memorandum accounts to the balancing account and that the
6 total amount including interest be amortized in a surcredit to ratepayers for twelve
7 months. A sum of the balances for the aforementioned districts was (\$2,493,397). The
8 requested effective date was January 15, 2010. AL 1965 applies to the Antelope Valley,
9 East Los Angeles, Hermosa-Redondo, Kern River Valley, King City, Los Altos,
10 Suburban, and Westlake Districts.

11 On February 22, 2011, Cal Water filed AL No. 2024 with a requested effective
12 date of April 1, 2011, in accordance with D. 10-12-017, which stated:

13 California Water Service Company shall file a Tier 2 advice letter within 90
14 days of the effective date of this decision to amortize the remaining
15 balances in its incremental cost balancing accounts for all districts that have
16 not met the two percent trigger specified in D. 03-06-072. A sum of the
17 balances for the specified districts was (\$1,413,641).

18 On March 21, 2011, the Company filed AL No. 2024-A, to correct an error in the
19 spreadsheet it discovered during the customer notice process. The error results in a
20 surcredit for the Oroville district. The calculations for the other districts were
21 unchanged. The requested effective date was April 1, 2011. A sum of the balances for
22 the specified districts was (\$1,386,472). AL 2024-A applies to the Bayshore, Bear
23 Gulch, Chico, Dixon, Dominguez, Livermore, Marysville, Oroville, Palos Verdes,
24 Redwood Valley (Cost Spring, Lucerne, and Unified Rate Areas, Salinas, Selma,
25 Stockton, Visalia, and Willows districts.

26 Page 38 of Mr. Smegal's testimony states that:

27 Cal Water stopped booking to its ICBA's in July 2008. The remaining
28 balances are being amortized pursuant to advice letters 1964, 1965 and
29 2024-A. Cal Water requests to move remaining amounts to its general
30 balancing account to be re-amortized with other accounts at a later date.

1 MSD-002-021 stated "the timing for further amortization of this account is being
2 considered as part of a greater analysis of when and how to close out numerous
3 memorandum and balancing accounts."

4 **B. REVIEW SCOPE AND OBJECTIVES**

5 DRA's objectives were to verify the balance of the ICBA and to evaluate the
6 appropriateness of the continuation of the account. When asked when the last review of
7 this account by DRA or DWA took place, the Company's response to MSD-009-31(b)
8 stated that, "data relating to this account was submitted in Cal Water's 2011 Annual
9 Report to the CPUC in March 2012." The Company stated the ICBA is a one-way
10 balancing account.

11 **C. REVIEW PROCEDURES AND RESULTS**

12 DRA requested the Company to identify the balance in this account in MSD-002-
13 11. DRA reviewed the workpapers and discovery responses submitted by the Company
14 pertaining to this account and did not note any discrepancies.

15 MSD-002 Attachment 6-1 (10-8-12 and 10-19-12) did not show a balance in the
16 December 2011 column but identified net receivable balances of \$109,871 for (AL
17 1964/1965) and \$257,997 (AL 2024-A) as of August 31, 2012, totaling \$367,867.

18 The Company's 2011 Form 10-K contains the following discussion regarding the
19 ICBA:

20 Prior to the adoption of the MCBA on July 8, 2008, the CPUC required
21 incremental cost balancing accounts (ICBA) memorandum and balancing
22 accounts which had a remaining balance of approximately \$1.4 million as
23 of December 31, 2010. In CPUC decision 10-12-017, Cal Water was
24 authorized to file to recover its remaining balances in these accounts. This
25 filing occurred in the first quarter of 2011 with an effective date of April 1,
26 2011. The refunds and billings started at the end of calendar year 2010 and
27 will be completed during calendar year 2012. As of December 31, 2011,
28 the ICBA net receivable balance was \$0.6 million.

1 **D. FINDINGS AND RECOMMENDATIONS**

2 DRA reviewed the balance in this account as of August 31, 2012 which was
 3 \$367,867. DRA recommends that the remaining net balance of \$367,867 be amortized
 4 and surcharged to the respective districts identified below and the account closed.

AL 1964/65	Amount	Refund/Collection
Bakersfield	\$ (122,431)	Refund
East Los Angeles	\$ (146,347)	Refund
King City	\$ (25,224)	Refund
Antelope Valley	\$ 32,849	Collection
Hermosa Redondo	\$ 99,169	Collection
Kern River Valley	\$ 43,176	Collection
Los Altos	\$ 90,487	Collection
Westlake	\$ 138,191	Collection
Subtotal	\$ 109,870	
AL2024A		
Bear Gulch	\$ 20,864	Collection
Dominguez	\$ 42,469	Collection
Livermore	\$ 5,607	Collection
Palos verdes	\$ 107,226	Collection
Selma	\$ 9,584	Collection
Stockton	\$ 15,607	Collection
Visalia	\$ 46,882	Collection
Coast Springs	\$ 484	Collection
Lucerne	\$ 6,547	Collection
Armstrong Valley	\$ 300	Collection
Chico	\$ (1,541)	Collection
Dixon	\$ 233	Refund
Marysville	\$ 817	Refund
Oroville	\$ 188	Refund
Salinas	\$ 3,825	Refund
Bayshore	\$ (1,012)	Collection
Willows	\$ (83)	Collection
Subtotal	\$ 257,997	
TOTAL	\$ 367,867	

5

1 **Item 16: American Job Creation Act True-Up Mechanism ("AJCA Adj**
2 **Mechanism")- No Preliminary Statement**

3 **A. BACKGROUND**

4 The Commission issued D. 06-08-011 on August 24, 2006 in the matter of Cal
5 Water's application to increase rates in its Antelope Valley, Bear Gulch, Dominguez-
6 South Bay, Hermosa-Redondo, Kern River Valley, Marysville, Palos Verdes, and
7 Redwood Valley (Lucerne, Unified and Coast Springs) districts. Ordering paragraph 11
8 states:

9 For each of the eight districts in this proceeding, Cal Water shall collect
10 subject to refund the amount of its adopted revenue requirement that results
11 from our computational assumption that the American Jobs Creation Act of
12 2004 does not apply, until our order finally establishing in a future
13 proceeding the actual tax benefit, if any, conveyed to Cal Water under the
14 Act. Cal Water shall report the amount collected and the status of its tax
15 liability under the Act in each GRC for these districts until the Commission
16 has made a final determination.

17 The Company's response to MSD-009-27(e) states that "Cal Water has not
18 reported on this memo account in previous GRCs. Cal Water is requesting a final
19 Commission determination in this proceeding."

20 Page 61 of Mr. Smegal's testimony states:

21 Cal Water has determined that, due to the American Jobs Creation Act (addressed
22 by the Commission in D. 06-08-011), there is a ratepayer benefit of \$287,800 that
23 should be returned to ratepayers. Cal Water proposes that this amount be
24 incorporated into rates for this GRC. See **Attachment F** to my testimony for
25 calculation details.

26 The Company is proposing to close this mechanism after the balance is refunded
27 to ratepayers.³⁶

28 **B. REVIEW SCOPE AND OBJECTIVES**

29 DRA's objectives were to verify the balance of the American Job Creation Act
30 True-Up mechanism and to evaluate the appropriateness of the continuation of the

³⁶ MSD-018-007.

1 account. Cal Water's response to MSD-009-27(b) stated it was not aware of any reviews
2 conducted by DRA or DWA.

3 **C. REVIEW PROCEDURES AND RESULTS**

4 DRA reviewed the Company's workpapers in Attachment F of Mr. Smegal's
5 testimony as well as discovery responses pertaining to this account, which shows the
6 balance in this account to be refunded to customers as (\$287,822). DRA noted (and the
7 company acknowledged) that in Attachment F, some cells were pulling data from the
8 wrong source, but those particular cells did not impact the calculation of the account
9 balance to be refunded to customers.

10 **D. FINDINGS AND RECOMMENDATIONS**

11 DRA reviewed the balance in this account as of August 31, 2012 which was
12 (\$287,822). DRA agrees with Cal Water's proposal to return the (\$287,822) to
13 ratepayers. DRA recommends discontinuing the AJCA mechanism once the balance is
14 refunded to ratepayers in the applicable districts identified in Attachment F of Mr.
15 Smegal's testimony. DRA witness Jose Cabrera also recommends that the accumulated
16 ratepayer tax benefits stemming from the American Job Creation Act of \$287,800³⁷ be
17 returned to ratepayers.³⁸

³⁷ Page 61 of Mr. Smegal's testimony rounds this amount to \$287,800, and Attachment F of his testimony shows the actual amount of the refund as \$287,822.

³⁸ Testimony of DRA witness Jose Cabrera (see DRA's Company-Wide Report on the Results of Operations, Chapter 6 – Income Taxes.)

1 **CHAPTER 3: SPECIAL REQUEST 12: MEMO AND BALANCING**
2 **ACCOUNTS CWS PROPOSES TO CONTINUE**

3 **Item 1: Low Income Ratepayer Assistance Memorandum Account (“LIRAMA”) -**
4 **Preliminary Statement H**

5 **A. BACKGROUND**

6 As part of A. 05-10-035, Cal Water requested approval to implement a memorandum
7 account to track the Low-Income Ratepayer Assistance ("LIRA") program. The Company
8 stated the purpose of the memorandum account is to contain LIRA credits, surcharge revenues,
9 incremental costs, franchise fees, uncollectible accounts, and monthly interest.

10 D. 06-11-053 issued in that proceeding, which was dated November 30, 2006 authorized
11 Cal Water to implement a LIRA Program, along with related tariff schedules in all 24 of its
12 ratemaking districts. Ordering paragraph 5 of the decision stated that Cal Water was authorized
13 to implement a memorandum account to record the initial and ongoing expenses of its low-
14 income program and that the memorandum account will be audited for reasonableness at the
15 next general rate case proceeding. Page 6 of the decision stated:

16 CWS will provide an annual summary report of its LIRA program to the
17 Commission's Water Division and DRA, and continue program review in its future
18 General Rate Cases (GRC).

19 DRA requested copies of the annual summary reports. The Company's response
20 stated:

21 There are no annual LIRA reports submitted to the Water Division. The
22 only reference to annual documents on page 6 of D.06-11-053 is the
23 annual notice of the LIRA program itself that Cal Water must give to its
24 customers:

25 CWS will send two notices to its customers in the first year of the program, then
26 annual thereafter. Community based Organizations will also be provided an
27 annual notice, and LIRA information will be included on the CWS website.³⁹

³⁹ However, Cal Water's quote from the decision appears on page 5 of the decision.

1 On December 15, 2006 the Company filed AL No. 1802 requesting implementation of
2 the LIRA memorandum account with an effective date upon filing as the D. 06-11-053 was
3 dated November 30, 2006.

4 Preliminary Statement H stamped with an effective date of December 20, 2006 states the
5 purpose of the memorandum account is to track the LIRA program costs and credits against the
6 surcharge revenues collected.

7 On February 9, 2012, the Company filed a Petition to Modify D. 06-11-053 requesting
8 relief. Cal Water's petition stated that due to the unexpectedly high enrollment in the LIRA
9 program, a significant deficit existed in the funds collected by the surcharge on non-LIRA
10 customers. The petition stated that in December 2011, company-wide LIRA subsidies of
11 \$312,786 were provided to customers, while only \$102,937 was collected in surcharges. The
12 petition identified the LIRA memo account balance as of December 31, 2011, to be \$4,910,396.
13 In its petition, Cal Water requested to:

- 14 • Increase the LIRA surcharge rate from \$0.01 per ccf to \$0.07 per ccf for
15 metered non-LIRA customers;
- 16 • Implement a temporary LIRA surcharge of \$0.0299 for 24 months to zero out
17 the current LIRA memorandum account;
- 18 • Create a LIRA balancing account that only tracks LIRA subsidies and LIRA
19 surcharge collections (non-discretionary charges). Cal Water's existing LIRA
20 memorandum account would then be modified to track only LIRA program
21 administration costs (discretionary charges).
- 22 • Adopt a mechanism to annually adjust the LIRA surcharge via a Tier 1 advice
23 letter. The goals of the annual adjustment would be to update calculations to
24 reflect current LIRA enrollment levels, and to true-up balances collected to
25 date in the new LIRA balancing account.

26 On September 13, 2012, the Commission issued D. 12-09-020 adopting a settlement
27 agreement between the Company and DRA. The decision resolved all issues in the PTM and
28 states:

1 In connection with Cal Water's Low Income Ratepayer Assistance
2 (LIRA) program, the settlement authorizes Cal Water to 1) create a LIRA
3 Balancing Account; modify the existing LIRA Memorandum Account;
4 implement a temporary surcharge to reduce the current balance of the
5 LIRA Memorandum Account related to undercollection of non-
6 discretionary LIRA charges; 4) increase the LIRA surcharge rate; and
7 adopt a mechanism to allow annual adjustment and true-up of LIRA
8 balances pursuant to a Tier 2 Advice Letter.

9 Pursuant to D. 12-09-020, the costs included in the LIRA memo account will now
10 include:

- 11 a) Costs related to the data sharing process adopted in D. 11-05-020, with
12 one-time and ongoing expenses tracked separately (tracking only)
- 13 b) All other costs related to the LIRA program except those in (a) above,
14 with one-time and on-going expenses tracked separately (tracking only)
- 15 c) Incremental LIRA program costs not reflected in authorized rates, with
16 those costs in (a) and (b) above, identified separately (debit)
- 17 d) Monthly interest expense calculated at one-twelfth (1/12th) of the most
18 recent month's interest rate on Commercial Paper (prime, 90 day),
19 published in the Federal Reserve Statistical Release (debit or credit)
20

21 The decision also stated that franchise fees and uncollectible accounts would no longer be
22 tracked in this account.

23 On October 8, 2012, the Company filed AL No. 2086 to implement the following
24 changes to how Cal Water obtains recovery for LIRA subsidies which was approved in
25 D. 12-09-020:

- 26 • create a LIRA balancing account (“LIRABA”)
- 27 • modify the existing LIRA Memorandum Account (“LIRAMA”)
- 28 • implement a temporary surcharge to address past under-collection on non-
29 discretionary LIRA expenses (“LIRA-SC”)
- 30 • increase the LIRA surcharge rate (“LIRA-SC”); and
- 31 • adopt a mechanism to allow annual adjustment and true up of balances
32 pursuant to Tier 2 AL (“LIRABA”)

1 On October 11, 2012 the Company filed AL No. 2086-A to implement the changes to
2 how Cal Water obtains recovery for LIRA subsidies which was approved in D. 12-09-020. The
3 requested effective date was October 12, 2012.

4 On October 30, 2012 the Company filed AL No. 2089 pursuant to D. 12-09-020 to adjust
5 the LIRA surcharge rates for the year 2013 on the forecasted balance in the LIRA Balancing
6 Account for the fourth quarter of 2012 and the forecasted LIRA subsidy for 2013. The
7 requested effective date was January 1, 2013.

8 Page 38 of Mr. Smegal's testimony states:

9 Cal Water has requested modifications to the customer surcharge and
10 credit portion of the LIRA memorandum account in a separate
11 application. However, Cal Water has incurred around \$645,000 plus
12 interest in the LIRA and LIRA data sharing memorandum accounts since
13 the inception of the LIRA program in late 2006. The detailed balance is
14 shown in my Attachment E. Cal Water has not asked for recovery of the
15 administrative cost portion of this account in petitioning to modify D. 05-
16 10-035. Cal Water requests the Commission find the charges prudent and
17 allow Cal Water to recover these costs by a 12-month surcharge on non-
18 LIRA customers.

19
20 **B. REVIEW SCOPE AND OBJECTIVES**

21 DRA's objectives were to verify the balance of the LIRAMA and to evaluate the
22 appropriateness of the continuation of the account. When asked when this account was
23 last reviewed, Cal Water's response to MSD-007-14-a stated in part:

24 The amounts tracked in the LIRA account relating to LIRA credits and
25 surcharges were submitted in Cal Water's Petition to Modify D. 06-11-
26 053 ("PTM"), and were reviewed by the Commission and DRA. In a
27 settlement adopted by the Commission in D. 12-09-020, these amounts
28 (for LIRA credits and surcharges only) formed the basis for calculation
29 of (1) the amount by which the on-going LIRA surcharge rate was
30 increased, and 2) the amount of under-collected funds authorized to be
31 collected via a 36-month temporary surcharge.

32 Any DWA or DRA review of the other costs tracked in the LIRA memo
33 account, the costs associated with setting up and maintaining the LIRA
34 program itself, is discussed in the response to subsection (i) below.

35 The response to subsection (i) states:

1 Other than the detailed review of the LIRA subsidies and surcharges
2 conducted by DRA and the Commission in response to Cal Water's
3 petition to Modify D. 06-11-053, discussed in the response to subsection
4 (a), above, no "audit" of the LIRA memo account, per se, has been done,
5 to Cal Water's knowledge.

6 However, the cap for the LIRA subsidy was increased from \$10 to \$12 in
7 Cal Water's GRC filed in 2009 (D. 10-12-017, Attachment D, page D-6),
8 and the parties agreed that low-income impacts such as LIRA
9 disconnections should be reported in the subsequent GRC (D. 10-12-017,
10 Attachment C, page C-502). Cal Water is not aware of the extent to
11 which the LIRA implementation and maintenance costs were reviewed by
12 DWA or DRA in that proceeding.

13 **C. REVIEW PROCEDURES AND RESULTS**

14 DRA reviewed the Company's workpapers in Appendix E of Mr. Smegal's testimony.
15 DRA reviewed the workpapers and discovery responses submitted by the Company pertaining to
16 this account.

17 DRA requested the Company to identify the balance in this account in MSD-002-11.
18 MSD-002 Attachment 6-1 (10-8-12 and 10-19-12) indicates that this account had a balance of
19 \$5.526 million as of December 2011 and \$7.164 million as of August 31, 2012.

20 As described above, the LIRAMA has been modified by recording the credits and
21 surcharges in the LIRABA and administrative and data sharing costs in the LIRAMA. As stated
22 above, the balance of the LIRABA has recently been addressed in PTM D. 06-11-053.

23 During a conference call on January 10, 2013, the Company indicated that for
24 "accounting purposes" the LIRABA and LIRAMA accounts are not separate although the
25 information can be segregated. The Company's response to MSD-015-24 states that, "The costs
26 have not been split between the LIRBA and the LIRAMA in Attachment 14 because there [sic]
27 approval of the LIRA BA was relatively recent."

28 The Company's response to MSD-007-14(f) stated:

29 [it] appears that the administrative costs cited in the Direct Smegal
30 Testimony do not include costs incurred for 2006 in the amount of
31 \$20,421, and mistakenly includes administrative costs for the RSF
32 program in the amount of \$82,608. Taking these differences into account
33 reconciles the \$645,978 cited in the Direct Smegal testimony with the

1 approximately \$586,502 in LIRA administrative costs, not including data
2 sharing costs.

3 According to MSD-015-22,

4 Administrative charges for both the LIRA and RSF programs are charged
5 to the same account, and are allocated equally between them as discussed
6 during the January 10, 2013 meeting.

7
8 For 2006-2009, this allocation totaled \$88,544 and was included in the
9 RSF account as shown in cell K31 of the "LIRA Admin Costs" tab of
10 Attachment 22c. Beginning in 2010, no administrative costs have been
11 allocated to the RSF account, as evidenced by the absence of costs since
12 2010 in the LIRA Admin Costs tab.⁴⁰

13
14 The RSF program provides a low income credit to three of Cal Water's districts. Costs
15 and collections for the RSF program are recorded the RSFBA, discussed in a subsequent section
16 of this report. D.10-12-017 stated that administrative costs were to be removed from the
17 RSFBA and should not be recorded in the account in the future.

18 The Company has stated that the administrative costs for the LIRAMA are recorded on
19 the balance sheet.⁴¹ As described in the introductory section of this report, memo accounts are to
20 be maintained off-book. The Company did not have Commission authority to record the
21 administrative costs associated with the LIRAMA as a regulatory asset.

22 In addition, the balance in the LIRAMA includes approximately \$246,457 of labor and
23 corresponding overhead costs in this account. The Company maintained that these costs
24 resulted from customer service representatives (CSRs) charging time to the LIRA program but
25 were incremental to those in rates.⁴² However, the Company did not provide any documentation
26 showing how the labor and overhead costs were incremental to those already included in rates.

27 The Company identified \$121,628 of data sharing costs related to the LIRA.⁴³ An email
28 from Cal Water dated January 10, 2013 stated:

⁴⁰ MSD-015-22.

⁴¹ MDS-015-22 Attachment c, 1/11/13 email.

⁴² January 10, 2013 conference call with DRA and Cal Water.

⁴³ MSD-015-22 Attachment 22c.

1 All of the data sharing transactions identified in 23(b) are related to labor.
2 Because the 2011 costs flowed through to the operating statement, they
3 were picked up in the recorded 2011 data used to forecast our revenue
4 requirement. Therefore, Cal Water has not requested (and does not intend
5 to request) any separate recovery for those amounts (for either 2011 or
6 2012).

7 The Company's response to MSD-007-14(f) states in part, "Also note that, unlike the
8 other administrative costs for the LIRA program, the administrative costs for the data sharing
9 portion of the program are on the P&L,⁴⁴ and not the balance sheet."

10 **D. FINDINGS AND RECOMMENDATIONS**

11 DRA reviewed the balance in this account as of August 31, 2012 which was
12 \$586,502. According to the D. 06-11-053, the LIRA program is applicable to all 24
13 districts.

14 DRA recommends that the labor and corresponding overhead amounts totaling \$246,457
15 that were not supported as costs incremental to those in rates be removed from the LIRMA.
16 Also, when amortization is sought, the \$121,628 of labor data sharing costs identified by the
17 Company should not be included as they are included in recorded labor costs.

18 DRA notes that D.10-12-017 disallowed administrative costs to be recorded in the
19 RSFBA, another account which subsidizes low income assistance for three of Cal Water's
20 districts.

21 In addition, DRA notes that the Company did not did not receive Commission approval
22 to record the administrative costs recovered through the LIRMA on its balance sheet. Memo
23 accounts that contain costs that have not underwent a reasonableness review should not be
24 recorded as regulatory assets on the balance sheet.

25 Furthermore, DRA also recommends the Company be required to maintain the
26 LIRABA and LIRAMA as two separate accounts for accounting purposes to streamline
27 future reviews of the account and to eliminate any confusion regarding the two account
28 balances.

⁴⁴ Profit and Loss.

1 **Item 2: Conservation Expense Balancing Account (“CEBA”) Preliminary Statement**

2 **Z**

3 **A. BACKGROUND**

4 D. 10-12-017 issued on December 2, 2010 stated that Cal Water shall file a Tier 1 AL to
5 implement a one-way balancing account to track the difference between the actual and
6 authorized conservation expenses. The Decision also instructed the Company to file a Tier 2 AL
7 closing any existing conservation memorandum and one-way balancing accounts. D. 10-12-017
8 approved the settlement authorizing general rate increases for 24 of Cal Water's districts. The
9 settlement provided for a conservation budget of \$9,703,600 for 2011 and \$9,676,200 for each
10 of the years 2012 and 2013. These budgets are specific to each year and are not subject to
11 escalation. The settlement in that case allowed for unspent fund to be rolled over to subsequent
12 years in that GRC cycle.

13 As discussed in Section Special Request 11, Item 5 (WCEBA) of this report, the
14 Company filed AL's 2025 and 2026 pursuant to D. 10-12-017, to close out the existing
15 conservation M/B accounts.

16 On January 1, 2011, the Company filed AL No. 2016 adding Preliminary Statement Z to
17 establish one-way balancing accounts to track its authorized conservation expenses and actual
18 expenses for each district. Any unspent funds at the end of each rate case cycle are to be
19 returned to ratepayers. The Company requested AL No. 2016 to be effective as of January 1,
20 2011.

21 On March 3, 2011, the Company filed AL No. 2027 to modify the language in
22 Preliminary Statement Z, adopted in AL No. 2016. In AL 2016 Cal Water included language to
23 record 1/12 of the conservation budget monthly. After observing the January balance, Cal
24 Water realized that recording 1/12 of the conservation budget monthly may cause interest to be
25 improperly calculated due to the difference in the monthly spread. So the Company proposed to
26 modify the language to state "The annual authorized amount shown in D. 10-12-017,
27 Attachment C, Table 5.1 on page C-37, will be booked on a monthly level based on the spread
28 of revenue adopted in Cal Water's Preliminary Statement M." Since AL No. 2027 changed only

1 the language in Preliminary Statement Z, Cal Water requested the effective date to be January 1,
2 2011.

3 Preliminary Statement Z states the purpose of the account is to:

4
5 ...ensure ratepayers fund only the conservation programs consistent with
6 the adopted settlement approved by the Commission in D. 10-12-017.
7 The account will track the difference between recorded expenses and
8 authorized expenses and refund to customers amounts included in rates
9 which were not spent during the three-year authorization period.

10 Pages 38-39 of Mr. Smegal's testimony state:

11 In D. 10-12-017 the Commission authorized an account to track the
12 difference between recorded expenses and authorized expenses, and
13 refunds to customers amounts included in rates that were not spent during
14 the three-year authorization period. Cal Water requests continuation of
15 this mechanism in the 2012 GRC cycle,⁴⁵ with new budgeted amounts for
16 conservation programs as discussed in the Direct Testimony of Kenneth
17 Jenkins on Conservation and Efficiency, and the Report on the
18 Conservation Program recommendations and Budgets by M. Cubed.

19
20 **B. REVIEW SCOPE AND OBJECTIVES**

21 DRA's objectives were to verify the balance of the CEBA and to evaluate the
22 appropriateness of the continuation of the account. When asked when this account was last
23 reviewed by DWA or DRA, Cal Water's response to MSD-008-8b stated, "Cal Water's annual
24 conservation report (provided as Attachment 8a-1) submitted to DWA and DRA in May 2012
25 (revised in June 2012) reflected amounts in this account up to that date."

26 **C. REVIEW PROCEDURES AND RESULTS**

27 DRA requested the Company to identify the balance in this account in MSD-002-11.
28 MSD-002 Attachment 6-1 (10-8-12 and 10-19-12) indicates that this account had a balance of
29 (\$4,328, 000) as of December 2011 and (\$5,977,000) August 31, 2012. A printout from the
30 general ledger showed the balance in this account to be (\$5,976,962) as of August 31, 2012 and
31 (\$6,649,888) as of September 30, 2012.

⁴⁵ Cal Water does not propose in this rate case to have internal spending caps by conservation category as authorized in D. 10-12-017; instead, Cal Water proposes tracking the adopted and actual conservation on a comprehensive level.

1 DRA reviewed the workpapers and discovery responses submitted by the Company
2 pertaining to this account. Supporting detail for this account was requested in MSD-015-27.
3 During a conference call on January 30, 2013, the Company stated it would provide detail
4 supporting the conservation balancing account balance by district. The Company provided data
5 supporting the balance in the account as of December 31, 2011. DRA noted a difference of
6 \$32,047 between the balance in the actual amount of conservation expense the company
7 provided by the Conservation Manager and the amount used to calculate the balance in the
8 CEBA.

9 One document showed 2011 conservation expense to be \$5,348,005 and another showed
10 it to be \$5,380,052. The Company provided a spreadsheet identified what the differences
11 related to for each specific district. The Company stated that:

12 The \$5,380,052 includes expenses charged to Account 774500
13 (conservation account) by all departments in 2011. The \$32,047
14 difference between the \$5,380,052 and the \$5,348,005 provided in my
15 spreadsheet is not expected to be included for recovery at the end of the
16 three-year period for tracking conservation expenses and would be
17 adjusted when we complete our matching at the end of the three year
18 period.⁴⁶

19 The Company stated that providing conservation expense by district as of August 31,
20 2012 would require significant manual computations and would take approximately three weeks
21 to provide. DRA was not able to tie in the conservation expense as of August 2011 by district.
22 The Company stated it had data as of September 30, 2012 readily available and provided the
23 conservation expense by district. Cal Water provided a schedule by district showing actual
24 conservation expenditures as of September 30, 2012 were \$4,949,991. The data provided by the
25 Company did not reconcile with the September 30, 2012 balance in the CEBA. There was a
26 difference of approximately \$44,323. DRA asked the Company for an explanation to which it
27 responded:

28 The amount in the balancing account should just be the actual
29 expenditures.

⁴⁶ Email dated 2/15/13.

1 The \$6,694,211 represents the difference between authorized
 2 expenditures (as of Sep 2012) and actual expenditures. It does not
 3 represent the balance in the balancing account.⁴⁷

4 Below is a workpaper summarizing the calculation of the balance in CEBA
 5 provided by the Company:

Approach	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sep	Oct	Nov	Dec	Total
2009 GRC Adopted Revenue	31,352,275	29,329,325	31,393,992	32,926,447	35,912,982	47,386,215	52,573,653	50,896,847	53,478,301	44,858,477	38,413,562	34,253,425	482,775,500
	6%	6%	7%	7%	7%	10%	11%	11%	11%	9%	8%	7%	100%
Monthly Allocation of Adopted Rev	628,389	587,843	629,225	659,940	719,799	949,755	1,053,726	1,020,118	1,071,858	899,092	769,918	686,536	9,676,200
	6%	6%	7%	7%	7%	10%	11%	11%	11%	9%	8%	7%	100%
Quarterly Allocated Revenue Totals			1,845,458			2,329,494			3,145,702			2,355,546	9,676,200
Authorized revenue 2011													9,703,600
Actual expenses 2011													5,380,052
Interest 2011													3,964,02
Liab as at Dec 31, 2011													4,327,512
2011 + YTD Adopted Revenue	10,331,989	10,919,833	11,549,058	12,208,998	12,928,797	13,878,552	14,932,278	15,952,396	17,024,254	17,923,346	18,693,264	19,379,800	
2011 actual expenses	5,380,052	5,380,052	5,380,052	5,380,052	5,380,052	5,380,052	5,380,052	5,380,052	5,380,052	5,380,052	5,380,052	5,380,052	
2012 Actual YTD Expenses GL acct	560,728	859,898	1,615,504	2,160,713	2,718,811	3,606,257	3,882,572	4,614,249					
Deferred Revenue/Reg													
Conservation Liability	(4,391,209)	(4,679,882)	(4,553,502)	(4,668,233)	(4,829,934)	(4,892,242)	(5,669,654)	(5,958,095)	(11,644,202)	(12,543,294)	(13,313,211)	(13,999,748)	
	43%	43%	39%	38%	37%	35%	38%	37%					

6
 7 DRA and the Company had a conference call on January 28, 2013 to discuss the expenses
 8 included in the conservation budget and balancing account. The Company stated that the
 9 conservation budget approved in the prior GRC included labor and benefits, which is what the
 10 CEBA tracks, the difference between the authorized and actual conservation expenses. No
 11 surcharge revenue is collected, the costs tracked are comprised of labor, benefits, program costs
 12 and administrative costs. There was some confusion amongst the company as to whether
 13 payroll and benefits were included in the current GO, district and conservation budget. Another
 14 call was scheduled for January 30, 2013 so that the Company could clarify where the costs were
 15 included in the current GRC.

16 During the second conference call the company provided workpapers to DRA which
 17 showed that conservation labor was not included in the current GO or district payroll, but
 18 conservation benefits were included. Therefore, the Company acknowledged to avoid double
 19 counting conservation benefits, it could either (1) adjust GO/district benefits or (2) adjust the
 20 conservation budget. It was determined that the GO/district benefits would be adjusted to be
 21 consist with the conservation labor expense treatment. During this call, the Company stated the
 22 BA account tracks actual conservation expenses, as opposed to the difference between actual

⁴⁷ Emails dated 2/19/2013 & 2/20/13.

1 and authorized expenses, and the account is reconciled at the end of the GRC cycle, which
 2 would be 2013 for the existing conservation budgets. The Company stated that approximately
 3 \$5.4 million and \$7.5 million was spent on conservation in 2011 and 2012, respectively. Below
 4 is a chart summarizing the conservation expense in 2011 and through September 30, 2012.

	Authorized	Actual	Over/(Under)
2011	\$ 9,703,600	\$ 5,348,005	\$ (4,355,595)
2012 [1]	\$ 9,676,200	\$ 4,949,991	\$ (4,726,209)
2013	\$ 9,676,200	\$ -	\$ -
Total	\$ 29,056,000	\$ 10,297,996	\$ (9,081,804)
[1] As of 9/30/12			

5

6 **D. FINDINGS AND RECOMMENDATIONS**

7 DRA reviewed the balance in this account as of September 30, 2012 which was
 8 (\$6,649,888). According to the Preliminary Statement, the CEBA is applicable to all districts
 9 served.

10 As D. 10-12-017 authorized the Company to track the difference between actual and
 11 authorized conservation expenses in the CEBA for that GRC cycle, the CEBA should be
 12 reconciled at the end of 2013. DRA noted slight discrepancies between the actual conservation
 13 expense for 2011 and 2012 through September 30, 2012 reported by the conservation
 14 department and the actual conservation expense used to calculate the over/undercollection in the
 15 balancing account. DRA recommends that the balance be reviewed at the end of 2013 and any
 16 conservation underspending be returned to ratepayers.

17 DRA witness Chari Worster is also addressing the Company's proposed conservation
 18 programs and expenses going forward. DRA does not oppose continuation of the CEBA and
 19 recommends that authorized conservation expenses for each district continue to be tracked in a
 20 capped, one-way balancing account with unspent funds returned to ratepayers at the end the rate
 21 case cycle.

1 **Item 3: Health Care Memorandum Account ("HCMA") - Preliminary Statement**

2 **AB**

3 **A. BACKGROUND**

4 In A.09-07-001, Cal Water proposed that in lieu of escalation in the 2012 escalation and
5 2013 attrition filings, to implement a balancing account to track the difference between health
6 care costs included in the revenue requirement and recorded costs. D.10-12-017 which was
7 dated December 2, 2010 states that the Settlement provides for a memorandum account limited
8 to unknown and potentially significant cost changes related to the federal health care bill passed
9 by Congress in April 2010. D. 10-12-017 states: the memorandum account will be limited to
10 tracking differences in costs for the following provisions:

- 11 1. Any reimbursement received from the temporary reinsurance program
12 for pre-Medicare retirees which, according to current available
13 information, will provide 80% coverage for claims between \$15,000
14 and \$90,000 for retirees aged 55-64.
- 15 2. Any incremental costs for health care stop-loss insurance, provided that
16 CWS will not lower its stop-loss deductible from the current amount of
17 \$275,000 per covered individual. If CWS cannot obtain stop loss
18 coverage, the memorandum account will record claims expenses that
19 would have previously been covered by CWS's stop-loss policies.
- 20 3. Any incremental costs for dependants of employees who qualify for
21 coverage under the new federal legislation, but would not have been
22 covered under previous terms of CWS's health care plan.

23 Page 39 of Mr. Smegal's testimony in the current case states:

24 Cal Water is proposing an expanded Health Care Balancing Account in
25 this proceeding. As of this time, Cal Water has enough experience with
26 the provisions of the ACA to reliably predict the costs of insuring
27 dependents and the cost of stop-loss insurance. Cal Water did not qualify
28 for expense reimbursement under Section 3.a. of the Preliminary
29 Statement. In 2011, Cal Water experienced approximately \$140,000 in
30 additional costs for dependents between the ages of 23 and 26 who would
31 not have been covered prior to the mandate of the ACA. Cal Water also
32 experienced an increase in the cost of its stop-loss policies of
33 approximately \$90,000. Approximately 80% of these costs are expensed,
34 with the rest capitalized. The account will continue to track these
35 differences in 2012 and 2013. Cal Water requests authority to file a Tier

1 2 advice letter to amortize the balance in this account at the conclusion of
2 2013.

3
4 The Company stated in response to MSD-015-29c that it did not qualify for expense
5 reimbursement because it did not submit its application on time.

6 **B. REVIEW SCOPE AND OBJECTIVES**

7 DRA's objectives were to verify the balance of the HCMA and to evaluate the
8 appropriateness of the continuation of the account. When asked when this account was last
9 reviewed by DWA or DRA, the Company's response to MSD-008-10a stated:

10 The Commission's staff has not reviewed this since its implementation.
11 This memorandum account was established in the 2009 GRC decision,
12 effective January 1, 2011, and covers the period from January 1, 2011
13 through December 31, 2013. Cal Water is not seeking a true-up until the
14 actual data is available for December 31, 2013.

15 **C. REVIEW PROCEDURES AND RESULTS**

16 DRA requested the Company to identify the balance in this account in MSD-002-11.
17 DRA reviewed the workpapers and discovery responses submitted by the Company pertaining to
18 this account. MSD-002 Attachment 6-1 (10-8-12 and 10-19-12) indicates that this account had
19 no balance as of December 2011 and August 31, 2012.

20 Preliminary Statement AB states:

21 Accounting Procedure:

22 Cal Water shall record monthly for future disposition the following entries:

23 a. Any reimbursement received from the temporary reinsurance program for pre-
24 Medicare retirees, which may provide 80% coverage for claims between
25 \$15,000 and \$90,000 for retirees aged 55 through 64 through 2013, subject to a
26 budgetary limit.

27 b. Any changes in expense for health care stop-loss insurance, provided
28 that Cal Water will not lower its stop-loss deductible from the current
29 amount of \$275,000 per covered individual. In addition, if Cal Water
30 is unable to obtain reasonable health care cost stop-loss coverage, the
31 HCEMA will record claims expenses, which would have previously
32 been covered by Cal Water's stop-loss policies.

33 c. Any incremental costs for dependents of employees who qualify for
34 coverage under federal law (until reaching age 26), but who would

1 have not been covered under previously adopted terms of Cal Water's
2 health care plans. Cal Water's previously adopted terms covered
3 dependants up to age 19 unless 1) they are full-time students, in which
4 case the limit was age 23, or 2) they were or became permanently
5 disabled while eligible for coverage under Cal Water's plan.

6 **d.** Cal Water shall record the percentage of health care expenditures
7 booked to expense as a percent of total expenditures in each year.

8 **e.** Monthly interest calculated on the accumulated balance in 3.a,b., and c.
9 calculated at 1/12 of the most recent month's interest rate on
10 Commercial Paper, published in the Federal Reserve Statistical Release
11 H. 15 or its successor.

12 MSD-013-16b asked why the additional insurance costs in 2011 identified in Mr.
13 Smegal's testimony were not recorded in this memo account. The Company's response stated:

14 Cal Water is tracking this amount in excel and has yet to book the additional costs
15 above the recorded amount in the health care memo account. Cal Water intends
16 on recording the balances in December 2012.

17 In addition, the Company's response to MSD-015-29a stated that:

18 The balance is zero because Cal Water has not booked any values to the
19 account. Cal Water is in the process of calculating the values that should
20 be recorded and will book this in 2013.

21 Furthermore, in its response, to MSD-015-29d, the Company confirmed that the
22 \$230,000 additional health care costs identified in Mr. Smegal's testimony are included in
23 recorded health care costs.

24 **D. FINDINGS AND RECOMMENDATIONS**

25 DRA reviewed the balance in this account as of August 31, 2012 which was \$0.
26 According to the Preliminary Statement, the HCMA is applicable to all districts served and the
27 General Office. As of the preparation of this report, the Company had not recorded a balance in
28 this account. As discussed earlier, in D.10-11-034, the Commission found that since Great Oaks
29 Water Company was not properly tracking litigation expenses in the specified memo account,
30 there was no eligible balance in the account. As such, DRA recommends this account be closed
31 without any amortization as the Company has not recorded any amounts in this account since its
32 inception.

1 DRA witness Victor Chan addresses the Company's proposal to implement a health cost
2 balancing account, which would be a separate account in addition to the HCMA.

3 **Item 4: Pension Cost Balancing Account (“PCBA”) Preliminary Statement AA**

4 **A. BACKGROUND**

5 D. 10-12-017 authorized the Company to establish a pension balancing account pursuant
6 to the revised settlement.

7 The Company filed AL 2017 on January 31, 2011, pursuant to D. 10-12-017 to
8 implement a pension cost balancing account.

9 Preliminary Statement AA states the purpose of the PCBA is:

10 The PCBA will track the difference between the adopted pension expense
11 and the total cost incurred as expense in California-regulated operations.

12 The adopted and tracked expenses include only the expensed portion of
13 benefits and exclude pension costs assigned to capitalized overhead,
14 capitalized projects, out of state affiliates, and unregulated entities.

15 Cal Water is requesting authorization to amortize the balance as of December 31, 2013 as
16 well as continuation of the PBA.

17 **B. REVIEW SCOPE AND OBJECTIVES**

18 DRA's objectives were to verify the balance of the PBA and to evaluate the
19 appropriateness of the continuation of the account. The Company stated in response to
20 MSD-008-9a that, "The Commission's staff has not reviewed this since its
21 implementation. The balancing account was established in the 2009 GRC decision,
22 effective January 1, 2011, and covers the period from January 1, 2011 through December
23 31, 2013. Cal Water is not seeking a true-up until the actual data is available for
24 December 31, 2013."

25 **C. REVIEW PROCEDURES AND RESULTS**

26 DRA requested the Company to identify the balance in this account in MSD-002-
27 11. MSD-002 Attachment 6-1 (10-19-12) indicates that this account had a balance of \$0
28 as of December 2011 and \$1,673,629 as of August 31, 2012. Workpapers provided by
29 the Company in response to MSD-008-9, Attachment 9 indicated that the Company had

1 over-recovered pension expense by (\$1,911,208) in 2011. The workpapers showed that
2 the Company had under-recovered pension expense by \$1,911,200 as of the third quarter
3 of 2012, for a net balance of (\$8), over-recovered. DRA reviewed the workpapers and
4 discovery responses submitted by the Company pertaining to this account and did not
5 note any discrepancies.

6 **D. FINDINGS AND RECOMMENDATIONS**

7 DRA reviewed the balance in this account as of August 31, 2012 which was (\$8).
8 DRA does not object to amortization of the of the balance as of December 31, 2013
9 provided that DRA and/or DWA have the opportunity to review the balance as of
10 December 31, 2013 to ensure the balance has properly been tracked. DRA does not
11 object to the continuation of the pension balancing account but does recommend that the
12 Supplemental Executive Retirement Plan ("SERP") expense be excluded from the
13 pension balancing account going forward, consistent with DRA discussion of SERP
14 expense in Chapter 6, Pension and Benefits of the GO report. According to the
15 Preliminary Statement, the PCBA is applicable to all districts served.

16 **Item 5: Pressure Reducing Valve Memorandum Account (“PRVMA”) Preliminary**
17 **Statement AC**

18 **A. BACKGROUND**

19 Cal Water filed Advice Letter No. 1997 on July 16, 2010 which requested the
20 Commission's authority to:

- 21 (1) Commence the implementation of a Research, Development and
22 Demonstration (RD&D) program for the design and construction of
23 prototype, high technology, pressure reducing equipment to reduce
24 kilowatt (kW) loss or increase the efficiency at least 50% by using the
25 Operational Energy Efficiency Program (OEEP) to recover the
26 kilowatt hour (kWh) energy being lost in 2010. The program is also
27 expected to provide precision control of flow and pressure for the
28 water distribution system.
- 29 (2) Expedited Commission approval such that the RD&D kW demand
30 reduction and kWh electrical energy recovery projects commence as
31 soon as possible, and

1 (3) To track all reasonable construction and associated costs (the return of
2 and return on such assets) to the Operational Efficiency Memorandum
3 Account previously authorized by the Commission in D. 10-04-030.
4

5 AL 1997 states, "this RD&D project is a natural extension of the Operational Energy
6 Efficiency Program ("OEEP"), which is a collaborative effort between the Commission,
7 investor-owned water utilities and investor-owned energy utilities (Pacific Gas & Electric
8 Company and Southern California Edison Company). The Company estimated the project cost
9 to be \$1,380,300.

10 Resolution W-4854 was issued on December 2, 2010 which authorized Cal Water
11 (among other California water utilities) to commence implementation of a RD&D program to
12 test use of regenerative Flow Control Valves ("FCVs"), expedites Commission consideration
13 and approval so projects and ratepayers benefit from federal tax credits; approves the
14 establishment of a separate memorandum account for each water utility to track the costs
15 associated with the proposed RD&D projects; and directs Water Utilities, and encourages
16 electrical utilities, to work with the DWA to finalize project details, select an engineering and
17 design firm, and develop appropriate measurement, verification and evaluation protocols.

18 Cal Water filed AL No. 2018 on January 7, 2011 pursuant to Ordering Paragraph 1 of
19 Resolution W-4854, which permitted the Company to add a memorandum account to track all
20 costs associated with the research, development and demonstration of an electrical regeneration
21 flow control valve project proposed in its Advice Letter 1997. AL 2018 requested an effective
22 date of December 7, 2010, pursuant to Ordering Paragraph 1 of Resolution W-4854, which
23 states "the effective date shall be five days after this resolution was approved."

24 Preliminary Statement AC which is stamped with the effective date of December 7, 2010,
25 states:

26 The purpose of the PRVMA is to record all the costs associated with the
27 research, development and demonstration of the electrical regenerative
28 flow control valve projects.
29

30 Cal Water shall record monthly all PRVMA related costs paid by Cal
31 Water, but not limited to, the cost of engineering and design, equipment,

1 installation, outside contractors, software, administrative support, legal
2 consulting and evaluation, measurement and verification.
3

4 Page 41 of Mr. Smegal's testimony states:

5 Cal Water requests to continue this account, as projects developed under
6 this pilot have not yet been evaluated.

7 The Company's response to MSD-013-10 stated:

8 In the Direct Smegal Testimony on pages 41 and 43, Cal Water appears to
9 have confused the PRVMA and the OEEPMA. See the response to
10 Question 4 above, for the correct status of the PRVMA projects.

11 **B. REVIEW SCOPE AND OBJECTIVES**

12 DRA's objectives were to verify the balance of the PRVMA and to evaluate the
13 appropriateness of the continuation of the account. The Company stated in response to
14 MSD-008-11(a) that, "To Cal Water's knowledge, this account has not been reviewed by
15 DRA or DWA."

16 **C. REVIEW PROCEDURES AND RESULTS**

17 DRA requested the Company to provide the balance in this account in MSD-002-11.
18 DRA reviewed the workpapers and discovery responses submitted by the Company pertaining to
19 this account. MSD-002 Attachment 6-1 (10-19-12) indicates that the balance in this account
20 was \$0 and \$107,000 as of December 2011 and August 31, 2012, respectively. The account
21 detail provided by the Company in response to MSD-008-11, Attachment 11, indicated that
22 balance as of August 2012 was \$124,151.29. DRA requested the Company provide copies of
23 documentation supporting the balances in this account in MSD-013-4a. The company provided
24 copies of invoices supporting the transactions in this account. The detail provided did not show
25 any interest entries. Preliminary statement AC states that monthly interest is to be calculated on
26 the accumulated balance. Documentation submitted by the Company showed it recorded these
27 costs in account 103000, Construction Work in Progress. The Company's response to MSD-
28 013-4(c) indicated that the costs in the account relate to the 30 kW HTG project at Bear Gulch
29 District Operations Center. The Company's response to MSD-013-4e states that "All of the

1 transactions in the PRVMA are related to Cal Water paying its share of the overall design effort
2 consistent with Resolution W-4854."

3 Intermittent Status Reports from Black & Veatch ("B&V") dated December 13, 2011
4 through July 20, 2012 indicate no work was done for Cal Water during the period. The status
5 reports state that "Cal Water continues the process of assembling information for their FERC
6 process and sending the information to B&V for use in completing the required submittals."
7 The Company's response to MSD-013-4f stated that the FERC documentation has not been
8 compiled by B&V and Cal Water. The response also states that B&V has been preoccupied
9 with the design effort for San Jose Water and Cal Water has been patiently awaiting on B&V's
10 availability to devote to Cal Water's design effort. MSD-013-4(e) requested the Company to
11 provide additional status reports. The Company responded that there were none issued by B&V
12 or received by Cal Water after June 18th.⁴⁸

13 In Golden State Water Company's ("GSWC") recent GRC, the company informally
14 stated that this project was on "Commission hiatus," and it was unknown if it will pick up again,
15 if ever. In that case, DRA recommended the OEEPMA be closed and GSWC agreed the
16 account could be closed.

17 The Company's response to MSD-016-39 stated the estimated completion date of this
18 project is December 2014.

19 The Company's response to MSD-014-41 states in part that the "OEEPMA initiative is
20 complete and no additional effort is planned on this initiative either by Cal Water or from the
21 Division of Water and Audits, as far as we know."

22 **D. FINDINGS AND RECOMMENDATIONS**

23 DRA reviewed the balance in this account as of August 31, 2012 which was \$124,151.
24 As the project was an extension of the OEEP initiative, which the Company stated is complete
25 and no additional effort is planned and the Company did not provide any additional status
26 reports supporting the completion date. Therefore, DRA recommends this account be closed
27 and the balance of \$124,151 be amortized.

⁴⁸ A status report was provided dated July 20, 2012.

1 **Item 6: International Financial Reporting Standards Memorandum Account**
2 **("IFRSMA") No Preliminary Statement**

3 **A. BACKGROUND**

4 In the Company's last rate case, ordering paragraph of D. 10-12-017 authorized
5 Cal Water to:

6 ...file a Tier 2 advice letter for a memorandum account to track costs
7 required to comply with International Financial Reporting Standards
8 (IFRS) after the Securities and Exchange Commission provides clear
9 guidance on the timelines and actions necessary to implement IFRS. The
10 memorandum account, if authorized, will expire at the beginning of the
11 test year for the next general rate case. (Emphasis added.)

12 Page 41 of Mr. Smegal's testimony states that:

13 Cal Water is requesting a memorandum account to prospectively record
14 these costs because they are uncertain, are potentially significant, are
15 outside Cal Water's control, and are likely to occur before the effective
16 date of rates in the 2012 GRC.

17
18 **B. REVIEW SCOPE AND OBJECTIVES**

19 DRA's objectives were to verify the balance of the IFRSMA and to evaluate the
20 appropriateness of the continuation of the account.

21 **C. REVIEW PROCEDURES AND RESULTS**

22 DRA requested the Company to provide the balance in this account in MSD-002-11.
23 DRA reviewed the workpapers and discovery responses submitted by the Company pertaining to
24 this account. MSD-002 Attachment 6-1 (10-19-12) indicates that the balance in this account
25 was \$0 as of December 2011 and August 31, 2012.

26 MSD-007-16 asked the Company to provide copies of SEC guidance which supports the
27 statement that the costs will "likely occur before the effective date of rates in the 2015 GRC."

28 The Company's response stated:

29 The SEC has not issued a clear action plan for IFRS. The statement,
30 "costs will like [sic] occur before the effective date of rates in the 2015
31 GRC," was based on the SEC's work plan as published by the AICPA
32 (American Institute of Certified Public Accountants). Please see

1 Attachment 16 for an IFRS update. Please see Attachment 16 for an
2 IFRS update. The expectation that the SEC would issue a statement to
3 support the convergence to IFRS in 2010. With a four year
4 implementation, costs were expected to be incurred before 2015. With
5 the SEC's current indecision as to whether clear guidance will be issued, it
6 is important for Cal Water to have a mechanism to track implementation
7 costs considering that implementation will definitely be costly and
8 lengthy.

9 Attachment 16 was a one page excerpt from a document titled *International*
10 *Financial Reporting Standards (AICPA), An AICPA Backgrounder* published in 2011.

11 As acknowledged by Cal Water, there are indications that there is no timetable at the SEC
12 to implement IFRS in the near future. For instance, the SEC issued its final report on IFRS work
13 plan on July 13, 2012. A discussion of the staff report on PWC's website states:

14 What's in the Staff Report on IFRS?

15 First, what's not in the Staff report is worth noting. The Staff report does
16 not include a final policy decision or even a recommendation, as to
17 whether IFRS should be incorporated into the US financial reporting
18 system, or how such incorporation should occur. The Work Plan was not
19 intended to provide an answer to the threshold question of whether a
20 transition to IFRS is in the best interest of US capital markets and US
21 investors. Instead, it is an important information gathering step in the
22 SEC's decision making process.
23

24 In the Staff report, the Staff indicates that IFRS is generally perceived to
25 be of high quality. However, there are areas where gaps remain (for
26 example, accounting for rate-regulated industries and oil and gas
27 industries) and inconsistencies exist in the application of IFRS globally.
28 These findings were set forth in two separate Staff papers issued last year,
29 A Comparison of US GAAP and IFRS and An Analysis of IFRS in
30 Practice.

31
32 What conclusions are reached?

33 As noted above, the Staff report does not reach any conclusion about
34 incorporating IFRS. The Staff report does state, however, that adopting
35 IFRS as authoritative guidance in the United States is not supported by
36 the vast majority of participants in the US capital markets and would not
37 be consistent with the methods of incorporation followed by other major

1 capital markets (for example, the endorsement process followed by the
2 European Commission).

3 In addition, a document prepared by Tapestry Networks, a leadership networking
4 company, and Ernst & Young titled, "Audit Committee Leadership Network in North America,
5 ViewPoints" Issue 38, dated August 7, 2012 summarizes a member discussion session with then
6 SEC chief accountant James Kroeker. The document states:

7 In July, the SEC released its final report on the IFRS Work Plan. In the
8 report "the staff emphasizes that the report does not represent a decision
9 or even a recommendation on whether, when or how to adopt IFRS in the
10 United States. 'Additional analysis and consideration of this threshold
11 policy question is necessary before any decision by the Commission
12 concerning the incorporation of IFRS into the financial reporting system
13 for U.S. issuers can occur,' the report says. It provides no timeline for
14 when such analysis or a final recommendation might be completed."
15 Several weeks after the meeting, SEC spokesman John Nester stated that
16 there was in fact no timeline yet for considering the issue. According to
17 an Ernst and Young brief, a "decision about how and when IFRS should
18 be incorporated into the US financial reporting system" is not expected
19 before 2013.

20 **D. FINDINGS AND RECOMMENDATIONS**

21 DRA reviewed the balance in this account as of August 31, 2012 which was \$0. As the
22 company has not recorded any costs in this account and it does not appear likely that IFRS will
23 be required to be adopted by U.S. corporations during this GRC cycle, DRA recommends that
24 this account be closed.

25 **Item 7: Infrastructure Memorandum Account (“IMA”) PU Code Sec. 790) No**

26 **Preliminary Statement**

27 **A. BACKGROUND**

28 On September 2, 2004, the Commission instituted an Order Instituting Rulemaking for
29 the purpose of considering policies and guidelines regarding the allocation of gains from sales of
30 energy, telecommunications, and water utility assets, R. 04-09-003.

31 D. 06-05-041 was issued on May 25, 2006 in R. 04-09-003. Page five of the decision
32 states:

1 Finally, we provide interpretation of the Water Utility Infrastructure Act
2 of 1995, § 789 *et seq.* We find the Legislature intended the Act to give
3 water companies certainty on how to allocate gains on sale, and to limit
4 Commission flexibility in allocating such gains. However, the statute
5 does not limit our authority to impose recordkeeping requirements on the
6 water companies to ensure they give notice of planned sales and invest
7 proceeds from the sale of formerly used and useful property in new
8 infrastructure, and we impose such requirements here. We also discuss
9 the treatment of proceeds of property purchased with funds that did not
10 come from the water company, such as developer funds and
11 contamination litigation proceeds.

12 Ordering paragraph 17 states:

13 Because the Infrastructure Act may give companies incentives to sell used
14 and useful real property prematurely, safeguards against "churning" are
15 appropriate. All water utilities we regulate shall comply with the
16 following requirements in accordance with the Infrastructure Act:

17 Track all utility property that was at any time included in rate base
18 and maintain sales records for each property that was at any time in
19 rate base but was subsequently sold to any party, including a
20 corporate affiliate.

21 Obtain Commission authorization to establish a memorandum
22 account in which to record the net proceeds from all sales of no
23 longer needed utility property.

24 Use the memorandum account fund as the utility's primary source
25 of capital for investment in utility infrastructure.

26 Invest all amounts recorded in the memorandum account within
27 eight years of the calendar year in which the net proceeds were
28 realized.

29 D. 06-05-041 was modified by D. 06-12-043 on December 14, 2006 by adopting
30 an allocation of 33% to shareholders and 67% to ratepayers for allocating gains on sales
31 of non-depreciable property.

32 Mr. Smegal's testimony states Cal Water requests to continue its Section 790
33 memorandum account as entries to the account are ongoing and will continue in the
34 future.

1 **B. REVIEW SCOPE AND OBJECTIVES**

2 DRA's objectives were to verify the balance of the IMA and to evaluate the
3 appropriateness of the continuation of the account. The Company's response to MSD-009 26a.
4 stated that the date of the last review of this account by DRA or DWA is "unknown."

5 **C. REVIEW PROCEDURES AND RESULTS**

6 DRA reviewed the workpapers and discovery responses submitted by the Company
7 pertaining to this account. DRA requested the Company to provide the balance in this account
8 in MSD-002-11. MSD-002 Attachment 6-1 (10-8-12 and 10-19-12) did not contain an amount
9 in the balance columns for this account as of December 2011 and August 31, 2012. MSD-009-
10 26-a requested the Company to identify the current balance in the IMA. The Company's
11 response stated:

12 Please see Attachments 26a-1 and a-2. Consistent with the requirements
13 of the Infrastructure Act, the Company's investments in infrastructure
14 exceed the net proceeds from sales of no-longer needed-property.

15 Attachment 26a-1 is titled "Real Estate Sales 1996 to2003." Attachment 26a-2 contains a
16 Statement of Income and Retained Earnings for 2004 through June 2012 and account detail for
17 Account 526100, Sale of Property. The Chart of Accounts identifies Account 526100 as "Gain
18 On Sale of Prop." The statement of income and retained earnings contains a line titled "Gain on
19 sale of non-utility property" for 2004-6/2012 totaling to \$5,851,482.

20 Presumably, the Company considers the account IMA account balance to be zero.
21 However, the information provided by the Company did not show or provided an audit trail how
22 these gains were invested in "utility infrastructure, plant, facilities and properties necessary or
23 useful in the performance of the water corporation's duties in providing water utility service to
24 the public" as required by PUC Section 790 (a).

25 The Company has not identified any advice letters filed with the Commission
26 implementing this account nor a preliminary statement outlining the requirements of the
27 IMA.⁴⁹

⁴⁹ MSD-014-40(f).

1 MSD-014-40 requested detail supporting the balance in the IMA and re-investment in
2 property of the gains recognized. The Company's response stated:

3 The gains and losses are being tracked on the Company's accounting books in
4 account 526100.

5 Cal Water has invested the amount of these gains and more in numerous
6 rate cases. The net gain reflected in account 526100 as of June 2012 was
7 approximately \$5.8 million. As reflected in settlement from the 2009
8 rate case, for example, Cal Water's authorized investments just in its
9 Bakersfield District, and solely from what the parties identified as "non-
10 controversial plant projects," were over \$10.8 million in 2009-2012. (D.
11 10-12-017, Appendix C-95 to C-98.)

12 Given the large scale of Cal Water's investments, there should not be a
13 concern that Cal Water is failing to invest property gain on sales in utility
14 infrastructures.

15 For the reasons discussed in response to (c), however, and because Cal
16 Water's request in this GRC application for plant investment significantly
17 exceeds the tracked gains on sale, it is not clear how identifying a random
18 selection of plant accounts in rate base so that they would add up to \$5 or
19 \$6 million would prove enlightening, or would otherwise be necessary to
20 demonstrate compliance with this particular Commission requirement.

21 This issue was addressed in a prior San Gabriel Water GRC. While the Commission did
22 find that the disposition of sales proceeds was accounted for in that case, it did specify
23 guidelines for tracking the data going forward. The Commission's decision stated in part:

24 We find, in fact, that the money is accounted for, at least as to source.
25 However, to ensure proper disposition of sales and condemnation
26 proceeds, this matter should be addressed more thoroughly in Fontana
27 Division's next GRC, where a full record needs to be developed. We
28 require San Gabriel to provide, in its next NOI filing, a complete listing
29 and description of all sale and condemnation proceeds received from 1996
30 onwards with detailed accounting of any reinvestment of sales or
31 condemnation proceeds in rate base, and of any other disposition of funds.
32 San Gabriel must also provide supporting justification for future proposed
33 ratemaking treatment. Since the Commission addresses the usefulness of
34 property and gain on sale on a case-by-case basis, San Gabriel should
35 address each individual transaction separately. (Emphasis added.)

36 In reviewing San Gabriel's sales and condemnation proceeds, and the
37 appropriate ratemaking treatment of such proceeds, parties should keep in
38 mind the following principles. (Emphasis added.)

1 Public Utilities Code Section 851 requires utilities to seek Commission
2 approval before selling or otherwise disposing of facilities or other
3 property necessary or useful in the performance of the utility's duties to
4 the public, and provides that any transaction made contrary to such
5 approval is void. Section 851 applies to sales made under threat on
6 condemnation, and applications for approval of such sales are common.
7 (See, e.g., D.94-01-028.) It also applies to transactions involving
8 property that is not actually currently being used by the utility, but is
9 simply useful to the utility in some fashion.

10 Public Utilities Code Section 790 provides that when a water utility sells
11 real property that once was, but no longer is, necessary or useful, the net
12 proceeds must be reinvested in utility infrastructure, plant, facilities, and
13 properties that are necessary or useful in the performance of its duties to
14 the public. Such infrastructure, etc., if used and useful to the utility, must
15 be included in rate base. If the net proceeds are not reinvested within
16 eight years, they go to ratepayers, with interest. Section 790 notes that
17 the Commission retains continuing authority to determine the used,
18 useful, or necessary status of any and all infrastructure improvements and
19 investments. Section 790 only applies to sales of real property that is no
20 longer necessary or useful. It does not apply to sales of other property, or
21 to transactions that are not sales.

22 To the extent that San Gabriel properly determined that real property was
23 once, but is no longer, necessary or useful in providing utility service,
24 sold that real property at a profit and re-invested the net proceeds in utility
25 plant that is necessary or useful within eight years of the sale, the utility
26 may well be in compliance with Section 790. The problem thus far is that
27 because the utility did not bring its sales and reinvestments to the
28 Commission's attention, the Commission has had no chance to evaluate
29 the utility's determination regarding necessity and usefulness prior to
30 sale, or the prudence of its reinvestment. By not seeking prior review of
31 property sales, San Gabriel runs the risk that we will find it violated
32 Section 851 by selling or otherwise disposing of necessary or useful
33 utility property without our consent. (See, e.g., D.04-03-049.) (Emphasis
34 added.)

35 Unless new utility plant was purchased with proceeds from the sale of real
36 property no longer necessary or useful, the new plant cannot be
37 automatically included in rate base under Section 790. Any new plant
38 that San Gabriel bought with proceeds from inverse condemnation
39 settlements or transactions that did not involve the actual sale of real
40 property is not entitled to the automatic rate base treatment afforded by
41 Section 790.

1 The limited scope of Section 790 does not mean that plant purchased with
2 proceeds that do not qualify for Section 790 treatment must be kept out of
3 rate base. Rate base treatment may be given necessary or useful plant
4 prudently purchased with other funds, provided that shareholders rather
5 than ratepayers were the source of the funds.

6 If further proceedings demonstrate that Section 790 is applicable to
7 certain of the proceeds at issue, then necessary or useful plant prudently
8 purchased with those proceeds should be included in a rate base account.

9 If further proceedings demonstrate that Section 790 is not applicable to
10 specific proceeds, either because the transaction resulting in the proceeds
11 was a sale, but not a sale of real property, or because the transaction was
12 not a sale of any sort, then additional analysis would be required before
13 the Commission could properly determine whether plant bought with the
14 proceeds should be included in rate base. First, the Commission must
15 determine whether the proceeds accrue to shareholders, or to ratepayers.
16 Second, the Commission must determine whether the investment in utility
17 plant was reasonable and prudent, and whether the plant is necessary or
18 useful to the utility in performing its duties to the public. (Emphasis
19 added.)

20
21 We grant City's motion for an audit of San Gabriel's sale and
22 condemnation proceeds because of the confusion surrounding this issue.
23 We will in this decision order Water Division staff to perform an audit
24 prior to Fontana Division's next GRC. In reviewing San Gabriel's sales
25 and condemnation proceeds, and the appropriate ratemaking treatment of
26 such proceeds, staff should review our discussion of Section 790 in D.03-
27 09-021 and D.04-01-052 (granting limited rehearing of D.03-09-021) and
28 our discussion of ratebase reductions or other adjustments related to sales
29 and condemnation proceedings (see, e.g., D.92112 and D.92273).⁵⁰

30 Furthermore, this issue was addressed in a prior Cal Water GRC. The Commission's
31 decision stated in part:

32 The second portion of the Infrastructure Act, codified at § 790, contains
33 the operative portions of the Act. Subsection (a) directs that whenever a
34 water corporation sells any no longer needed real property, the water
35 corporation shall invest any net proceeds in needed water system
36 infrastructure. The water corporation must also maintain records

⁵⁰ D.04-07-034.

1 necessary to document the investment of the net proceeds. (Emphasis
2 added.)

3 These net proceeds are to be the utility’s primary source of capital for
4 infrastructure, and the utility must track the investment of the proceeds.
5 (Emphasis added.)

6 The Infrastructure Act requires water utilities to sell unneeded property
7 that “was at any time” included in rate base, and to reinvest the net
8 proceeds in water utility infrastructure. The utility must carefully track all
9 such revenue to ensure that it is so invested. We have previously
10 determined that net gain proceeds over original cost should go into a
11 memorandum account with interest to be accrued for use as a capital fund
12 for infrastructure additions and repairs. Tahoe Park Water Company, 73
13 CPUC 2d 715, 719 (D.97-08-021).

14 Therefore, in addition to the requirements set out above, we find that the
15 Infrastructure Act requires that water utilities do the following:

- 16 1. Track all utility property that was at any time included in rate base and
17 maintain sales records for each property that was at any time in rate base
18 but which was subsequently sold to any party, including a corporate
19 affiliate.
- 20 2. Obtain Commission authorization to establish a memorandum account in
21 which to record the net proceeds from all sales of no longer needed utility
22 property.
- 23 3. Use the memorandum account fund as the utility’s primary source of capital
24 for investment in utility infrastructure.
- 25 4. Invest all amounts recorded in the memorandum account within eight years
26 of the calendar year in which the net proceeds were realized.⁵¹

27 **D. FINDINGS AND RECOMMENDATIONS**

28 DRA reviewed the balance in this account as of August 31, 2012 which was \$0. DRA is
29 concerned that the Company has not recorded the gains and investments in together in a memo
30 account as the Commission required in D. 03-09-021 and D. 06-05-041. The decisions required
31 that utility:

32 [e]stablish a memorandum account in which to record the net proceeds from all
33 sales of no longer needed utility property.

⁵¹ D.03-09-021.

1 Use the memorandum account fund as the utility's primary source of capital for
2 investment in utility infrastructure.

3 [t]he utility must track the investment of the proceeds.

4 The water corporation must also maintain records necessary to document the
5 investment of the net proceeds.(Emphasis added.)

6 DRA recognizes that Company has made significant investments in plant subsequent to
7 D. 06-05-041, however, CWS has not tracked how these gains were used as the primary source
8 of capital in its determination of test year and rate year amounts in a memo account as the
9 Commission required in that decision.

10 The Commission should order the Company to file a Tier 2 advice letter regarding this
11 account. The advice letter should provide a complete audit trail showing how the dollars are
12 used from Account 526100 to fund utility plant projects and should identify the balance in this
13 account. This advice letter should be filed within 60 days of a final decision in this case. The
14 Commission should also specify that DRA may have additional time beyond the 20 day protest
15 period to audit the way these funds were used. CWS should be required to refund any gains
16 which have not been identified as being reinvested within eight years, to customers. DRA
17 agrees with the Company that the account should remain open to track gains and losses pursuant
18 to D. 06-05-041 and PUC Code 789-790 and that the Company maintain the required
19 information in this account going forward.

20 DRA also recommends that utility and non-utility gains be recorded in separate accounts
21 if they are not already tracked in this way.

22 **Item 8: Rate Support Fund Balancing Account (“RSFBA”) Schedule No. RSF**

23 **A. BACKGROUND**

24 D. 06-08-011 dated August 24, 2006 approved the Rate Support Fund settlement for the
25 duration of that GRC cycle. The decision stated that RSF credits and surcharges were to be
26 booked into a single balancing account.

27 On August 24, 2006, Cal Water filed AL No. 1779 in compliance with D. 06-08-011 and
28 to implement Schedule RSF. Cal Water requested the effective date be August 29, 2006.

29 D.10-12-017 issued on December 2, 2010 adopted the settlement in which the parties
30 agreed to continue the RSF adopted by the Commission in D.06-08-011 with some

1 modifications. The parties agreed that Cal Water should reverse any administrative charges
 2 applied to the account and not book any further administrative charges to the account. Page 4 of
 3 the settlement states that the parties anticipate the effect on the RSF balancing account to be:
 4

RSF Account Reconciliation	
Current balance: (4/30/10)	\$ 1,093,934
Applied to interim rates	\$ (195,117)
Remaining balance	\$ 898,817
Amortize excess balance over 3 years	\$ 299,606
Expected Surcharge Revenue	\$ 1,617,392
Expected cost of updated program	\$ 1,856,072
Annual deficit	\$ (238,680)
Expected balance at 12/31/13	\$ 182,775

5
 6
 7 On December 27, 2010, Cal Water filed AL No. 2015 updating its tariffs pursuant to D.
 8 10-12-017, which included updating Schedule RSF.

9 On January 27, 2011, Cal Water filed AL No. 2015-A which did not contain any
 10 additional changes to schedule RSF.

11 Page 42 of Mr. Smegal's testimony states:

12 Cal Water requests to continue its Rate Support Fund memorandum [sic] account
 13 as entries to the account are ongoing and will continue in the future.

14
 15 **B. REVIEW SCOPE AND OBJECTIVES**

16 DRA's objectives were to verify the balance of the RSF and to evaluate the
 17 appropriateness of the continuation of the account. The Company stated in its response to MSD-
 18 007-15a that it assumes DRA reviewed the RSF account as part of the settlement in A. 09-07-
 19 001.

1 **C. REVIEW PROCEDURES AND RESULTS**

2 DRA requested the Company to identify the balance in this account in MSD-002-11.
3 DRA reviewed the workpapers and discovery responses submitted by the Company pertaining to
4 this account. MSD-002 Attachment 6-1 (10-8-12 and 10-19-12) indicates that this account had a
5 balance of (\$718,792), (\$303,838) and (\$276,355) as of December 31, 2011, August 31, 2012
6 and September 30, 2012, respectively. The Company indicated that accounts 112300 (Rate
7 Support Fund) and 213304 (Regulatory Liability Misc) are used to track these costs. The
8 Company provided an itemization and support of a sample of transactions in Account 112300
9 and 213304.

10 As states above, page 42 of D. 10-12-017 states that pursuant to the settlement
11 agreement, Cal Water will remove the administrative charges from the RSF balancing account
12 and will not book future administrative charges to the BA. DRA asked the Company to identify
13 where the administrative charges were removed from the account. The Company's response
14 stated:

15 Administrative charges for both the LIRA and RSF programs are charged to the
16 same account, and are allocated equally between them as discussed during the
17 January 10, 2013 meeting.

18
19 For 2006-2009, this allocation totaled \$88,544 and was included in the RSF
20 account as shown in cell K31 of the "LIRA Admin Costs" tab of Attachment 22c.
21 Beginning in 2010, no administrative costs have been allocated to the RSF
22 account, as evidenced by the absence of costs since 2010 in the LIRA Admin
23 Costs tab.⁵²

24 When Cal Water reconciles this account for amortization, Cal Water will not
25 include the administrative costs in cell K31.

26 DRA also notes that pages 1-2 of the settlement agreement in D.10-12-017 stated:

27 Cal Water agrees to provide a summary report on RSF benefits provided and
28 surcharges collected in the next GRC for the RSF rate areas. Cal Water further
29 agrees to:

- 30 1) provide information separate from any other accounts, such as the Low
31 Income Rate Assistance account, and

⁵² MSD-015-22.

1 2) provide updated information for each district, on income levels, usage
2 levels, rate base per customer, availability of public loan funds and average
3 bills in each rate area and provide its assessment, based on this information,
4 of whether any additional rate areas should receive subsidies from the RSF
5 program, or if any current RSF rate areas should no longer receive RSF
6 subsidies.

7
8 MSD-015-22e inquired where such information was included in the current GRC. The
9 Company stated "Cal Water did not provide this information due to an oversight. At this time,
10 Cal Water has not prepared this additional information."

11 **D. FINDINGS AND RECOMMENDATIONS**

12 DRA reviewed the balance in this account as of September 30, 2012 which was
13 (\$276,355). DRA does not object to the RSF balancing account continuing as entries to the
14 account are ongoing and will continue in the future. DRA recommends the \$88,544 of
15 administrative charges be removed from this account as the Commission directed in D. 10-12-
16 017. According to the Preliminary Statement, the RSFMA is applicable to all metered
17 customers not participating in the LIRA.

18 DRA also recommends that the Commission require the Company to provide the
19 information specified in the settlement agreement discussed above.

20 As stated previously, the fine for a Class A utility for failing to file a required report on
21 time or at all, in violation of Rule 6.2 of G.O. 96-B is \$1,000 per event.

22 **Item 9a: Stockton Litigation Memorandum Account ("SLMA") Preliminary**

23 **Statement AD**

24 **A. BACKGROUND**

25 On March 9, 2011, the Company filed Advice Letter No. 2028 requesting authority to
26 add Preliminary Statement AD titled "Stockton Litigation Memorandum Account" ("SLMA") to
27 its tariff sheets to record costs associated with litigation related to a purchase water agreement
28 with the Stockton East Water District ("SEWD") and to record overpayments for purchased
29 water made to SEWD. The AL requested an effective date of 30 days after the filing. Advice
30 Letter No. 2028 states in part:

1 Under the terms of the purchase water agreement for the Stockton District, Cal
2 Water has been obligated to make higher purchase water payments because of
3 alleged contract breaches by third parties. The higher payments have been
4 included in rates.

5 For the benefit of ratepayers, Cal Water has been pursuing reimbursement of those
6 payments through several litigation proceedings. Cal Water therefore requests
7 authority to establish a SLMA to record (i) legal fees and costs associated with the
8 litigation that are incremental to those included in rates; (ii) any monetary judgment
9 or settlement in favor of or against CalWater associated with the purchase water
10 agreement with SEWD; (iii) overpayments to SEWD; and (iv) the amount of
11 overpayments already included in rates. Any judgment or settlement monies
12 received by Cal Water will offset costs recorded in the SLMA to the extent that
13 ratepayers bore the costs of all litigation. In seeking recovery, Cal Water shall
14 make a showing that the requested amounts were not included in rates.

15 On March 29, 2011, the Company filed AL No. 2028-A supplementing Advice Letter No.
16 2028 by inserting Paragraph 5 in Preliminary Statement AD which adds reporting language to
17 ensure reasonableness. The AL requested an effective date of April 8, 2011, the date requested
18 in AL 2028.

19 Paragraph 5 of Preliminary Statement AD states:
20 **REPORTING:** Cal Water will consult with the Division of Water & Audits
21 (DWA) and the Division of Ratepayer Advocates (DRA) on a semi-annual
22 basis and submit a report in the form of an informational-only advice letter
23 to DWA (with a copy to DRA) that will outline the litigation status,
24 memorandum account charges, and an estimate of current damages to
25 ratepayers.

26
27 On April 20, 2011, the Company filed AL No. 2028-B supplementing Advice Letter No.
28 2028 by modifying Paragraph 5 in Preliminary Statement AD which adds reporting language to
29 ensure reasonableness. The AL requested an effective date of April 8, 2011, the same date
30 originally requested in AL 2028.

31 Preliminary Statement AD which was stamped effective as of April 21, 2011 states in
32 part:

33 The purpose of the SLMA is to record (i) incremental costs associated with
34 the litigation related to a purchase water agreement with the Stockton East
35 Water District (SEWD) for water serving Cal Water's Stockton District; and
36 (ii) Cal Water's purchased water overpayments to SEWD resulting from

1 alleged breaches of contract by other parties. Cal Water will incur
2 incremental internal and external costs to support its litigation efforts. The
3 SLMA will track actual costs. The SLMA will also track any litigation
4 awards and settlement proceeds, overpayments to SEWD for purchased
5 water, and the amount of overpayments included in rates.

6 Page 43 of Mr. Smegal's testimony states that as the need for this account
7 continues, it requests the Commission take no action in this GRC.

8 **B. REVIEW SCOPE AND OBJECTIVES**

9 DRA's objectives were to verify the balance of the SLMA and to evaluate the
10 appropriateness of the continuation of the account. The Company stated in its response to MSD-
11 008-12(c), that "To Cal Water's knowledge, this account has not been reviewed by DRA or
12 DWA."

13 **C. REVIEW PROCEDURES AND RESULTS**

14 DRA reviewed the workpapers and discovery responses submitted by the
15 Company pertaining to this account.

16 DRA requested the Company to identify the balance in this account in MSD-002-11. The
17 excel spreadsheet provided in response to MSD-002 Attachment 6-1 (10-8-12 and 10-19-12)
18 showed balances of \$43,000 and \$51,491 for the periods December 2011 and August 2012,
19 respectively. The account detail provided in Attachment 6-1 showed that the \$51,491 balance as
20 of August 2012 included transactions from February 28, 2006 through July 28, 2010, which
21 were prior to the effective date of Advice Letter 2028, totaling \$41,606. DRA asked why
22 transactions preceding the effective date of the advice letter were included in the account and the
23 Company's "additional response" to MSD-008-12(d) stated:

24 The transactions in this account (provided in response to MSD-02) are from
25 Account 798100, which has historically been the account used for all legal
26 invoices. The transactions on the list were identified based on key words in
27 the descriptions of the transactions. Because invoices from other legal
28 cases are included in this account, there are no screen shots from the
29 balance sheet that will mirror the total reflected on the list of transactions
30 for this account. (Cal Water is in the process of developing a more robust
31 approach for organizing and storing legal invoices.)

32 The Company's response to MSD-008-12(f) indicated that the litigation is still ongoing.

1 In addition, the detail provided for this account did not show any interest entries. The
2 Preliminary Statement states monthly interest is to be calculated on the average balance.

3 **D. FINDINGS AND RECOMMENDATIONS**

4 DRA reviewed the balance in this account as of August 31, 2012 which the company
5 reported was \$51,491. According to the Preliminary Statement, the SLMA is that the
6 transactions in this account prior to the effective date of Advice Letter 2028/Preliminary
7 Statement V totaling \$41,606 to be removed. In addition, based on Company's response to
8 MSD-008-12(d), DRA is concerned with the Company's method of recording transactions in the
9 litigation applicable to the Stockton district.

10 DRA is not opposed to keeping this account open as litigation is still on-going but
11 recommends memorandum accounts may not be done in the most efficient manner. DRA
12 recommends that the account balance be reviewed when amortization is sought for this account.
13 Furthermore, DRA would like to note that the Company added paragraph 5 to Preliminary
14 Statement AD regarding reporting reasonableness but has not submitted any reports.⁵³ The
15 Commission should require that the Company submit the information in the required format that
16 was specified in preliminary statement AD, as well as to submit the reports on a timely basis
17 going forward. As stated previously, the fine for a Class A utility for failing to file a required
18 report on time or at all, in violation of Rule 6.2 of G.O. 96-B is \$1,000 per event.

19 **Item 9b: Operational Efficiency Memorandum Account ("OEEPMA") Preliminary**
20 **Statement X**

21 **A. BACKGROUND**

22 D. 07-12-050 dated December 20, 2007 approved one-year pilot programs totaling \$6.37
23 million for the major regulated energy utilities which were to develop partnerships with water
24 agencies, undertake specific water conservation programs and measure results. The pilot

⁵³ The Company's responses to MSD-008-12a and MSD-14-37a state that no reports have been submitted concerning the status of this account or consultations conducted.

1 programs and studies were to begin January 1, 2008 and run for 18 months and to consist of the
2 following phases:

- 3 1) Utilities design programs, Energy Division retains consultants to undertake
4 evaluations and studies;
- 5 2) Consultants begin baseline studies and work with utilities to ensure the pilot
6 programs will likely produce useful information;
- 7 3) Utilities implement pilot programs for one year beginning July 1, 2008.

8 D. 08-11-057, dated November 21, 2008 modified D. 07-12-050 by approving an
9 additional \$1.33 million for pilot OEEP to be done in collaboration with California regulated
10 water utilities. Appendix A of the decision identified the following two projects for Cal Water:

- 11 **1. Install Variable Frequency Drive (VFD) on booster E of Cal Water's**
12 **Bakersfield District Station 176, a booster pumping facility at a cost of \$95,000.**
- 13 **2. Install VFD on Well 64 of Cal Water's Chico District, a groundwater production**
14 **facility at a cost of \$110,000.**

15 On April 8, 2010 the Commission issued D. 10-04-030 modifying D. 08-11-057 by
16 approving \$3.4 million for pilot programs to improve energy efficiency for well pumps and
17 booster pumps and authorizing the regulated water utilities to establish memorandum accounts
18 for their OEEP costs. The memo accounts would track OEEP costs and payments from the
19 energy utilities. Attachment 1 of the decision identified the following three projects for Cal
20 Water:

- 21 **1. Bakersfield Station 176: \$156,983**
- 22 **2. Chico Station 64 Well: \$155,983**
- 23 **3. Visalia Station 74 Well: \$155,683**

24 The Company filed AL No. 1986 on May 7, 2010 pursuant to ordering paragraph 5 of D.
25 10-04-030 to add Preliminary Statement X, titled "Operational Energy Efficiency Program
26 Memorandum Account ("OEEPMA") to its tariff sheets to track costs and payments from
27 Pacific Gas and Electric Company and Southern California Edison Company associated with
28 Operational Energy Efficiency Programs approved in Decisions 08-11-057 and 10-04-030. AL
29 No. 1986 states that OEEPMA will be interest bearing and will track OEEP related project costs,
30 OEEP related administrative costs and OEEP payments from energy utilities and that the
31 Company will establish a separate OEEPMA for each OEEP project ratemaking district

1 (Bakersfield, Chico and Visalia). The Company requested the Memorandum account have an
2 effective date of November 21, 2008, the date D.08-11-057 was issued.

3 Preliminary Statement X states:

4 The purpose of the Operational Energy Efficiency Program Memorandum
5 Account (OEEPMA) is to track costs incurred by Cal Water and payments
6 from Pacific Gas and Electric Company and Southern California Edison
7 Company associated with Operational Energy Efficiency Programs
8 (OEEPs) approved in Decisions 08-11-057 and 10-04-030.

9 Page 43 of Mr. Smegal's testimony stated that as the need for this account
10 continues, it requests the Commission take no action in this GRC.

11 **B. REVIEW SCOPE AND OBJECTIVES**

12 DRA's objectives were to verify the balance of the OEEPMA and to evaluate the
13 appropriateness of the continuation of the account. The Company stated in its response to MSD-
14 008 6a that no review of this account has been conducted because there is nothing in this memo
15 account.

16 **C. REVIEW PROCEDURES AND RESULTS**

17 DRA requested the Company to provide the balance in this account in MSD-002-11.
18 DRA reviewed the workpapers and discovery responses submitted by the Company pertaining to
19 this account. MSD-002 Attachment 6-1 (10-8-12 and 10-19-12) indicates that this account had a
20 zero balance as of December 2011 and August 31, 2012. As stated above, the Company's
21 response to MSD-008-6(a) stated there is no balance in this account.

22 DRA asked the Company in MSD-013-10 whether any transactions were expected to
23 occur in the test year or escalation years along with a description of the transactions. The
24 Company's response stated:

25 In the Direct Smegal Testimony on pages 41 and 43, Cal Water appears to
26 have confused the PRVMA and the OEEPMA. See the response to
27 Question 4 above, for the correct status of the PRVMA projects.

28 For the OEEPMA, it appears that all projects are complete and an analysis
29 must now be conducted for memo account purposes. Therefore, there
30 should not be any transactions related to this memo account in the test year
31 or escalation years.

1 MSD-014-41 inquired as to the status of the three OEEP projects identified in D. 08-11-
2 054. The Company's response stated that the three OEEP projects were completed in March
3 2011 and the final accounting was completed in October 2011.

4 The Company subsequently stated:

5 As reflected in the summary below and the attachments, it looks like only
6 the Chico project was actually completed, closed to plant (by accounting),
7 and included in our beginning plant balance. The BK project didn't close
8 to plant until April 2012, and the Visalia project still has not been closed to
9 plant. Our understanding is that the delay between physical completion of
10 a project and the date it is closed to plant is due to various things, including
11 the delay in receiving invoices for the project, the administrative burden
12 faced by accounting, and the goal of only closing projects only once (i.e.,
13 waiting until there's some confidence that no additional charges will come
14 in). Finally, note that because the VIS project is not yet closed, the costs
15 may change from what is identified in the attachment for that project.

16
17 BK 36947

18 Completed on 10/25/2011 (Closed to plant in April 2012)

19 \$61,433.63 (see attached Charges Report)

20 Not in Attachment B

21 CH 10950

22 Completed on 10/25/2011

23 \$143,561.40 (see attached Charges Report)

24 See PDF page from Attachment B

25 VIS 28649

26 Completed on 10/25/2011 (Not yet closed to plant)

27 \$82,695.32 (see attached Charges Report)

28 Not in Attachment B⁵⁴

29
30 DRA inquired why the projects were not recorded in the OEEPMA. The Company's
31 response stated:

32 Cal Water's understanding is that the above projects were included in plant,
33 would be included in rates, and therefore would not be incremental such
34 that their costs could be recovered through the memo account.⁵⁵

⁵⁴ Email dated 2/15/2013.

⁵⁵ Id.

1
2 DRA recommended (and the company agreed) amortizing and closing this account in
3 Golden State Water Company's most recent GRC because GSWC indicated that the water
4 utilities received a verbal directive in November of 2011 from the Director of the Commission's
5 Water and Audit Division advising them to close the OEEPMA memo accounts because no
6 further activity was expected.

7 **D. FINDINGS AND RECOMMENDATIONS**

8 DRA reviewed the balance in this account as of August 31, 2012 which was \$0. Since
9 the Company indicated that the OEEP projects are complete and the account has no balance,
10 DRA recommends that the OEEPMA be closed. Since the Company has not identified a
11 balance in this account, it should not be permitted to request recovery for amounts that were not
12 tracked pursuant to the preliminary statement X which states in part: "Entries will be made into
13 the OEEPMA at the end of each month." According to the Preliminary Statement, the
14 OEEPMA is applicable to all customer classes within each applicable district with OEEP.

15 **Item 9c: Lucerne Balancing Account ("LBA") - Preliminary Statement T**

16 **A. BACKGROUND**

17 D. 08-09-002 authorized Cal Water to impose a temporary surcharge on ratepayers in the
18 Redwood Valley Tariff Area-Lucerne Division to repay the full requested SDWSRF loan of
19 \$7,442,700 with the provision to adjust the surcharges if the approved loan is less. The proceeds
20 of the loan will be used to exclusively finance the construction of a water treatment plant in the
21 CWS Lucerne service area.

22 a) MSD-014-36c stated that consistent with Ordering Paragraph 14 of D. 08-09-
23 002, Cal Water is excluding plant financed through the surcharge from revenue
24 requirement but did not provide any details regarding the excluded plant.

25 b) On December 1, 2009, the Company filed AL No. 1963 in compliance with
26 Ordering Paragraph 9 of D. 08-09-002 which conditionally authorized Cal
27 Water to enter into a loan contract with California Department of Public Health
28 ("CDPH") and the Department of Water Resources ("DWR") for purposes of

1 borrowing up to \$7,442,700 from the Safe Drinking Water State Revolving
2 Fund (“SDWSRF”). Page two of the Advice Letter states that CDPH approved
3 a loan amount of \$7,078,698 and recalculated the surcharges downward to
4 reflect the lower loan amount. The AL requested an effective date of
5 January 3, 2010.

6 On December 10, 2009, the Company filed AL No. 1963-A to 1) correct a typo in the
7 original advice letter, 2) to explain what happens to the reserve fund; and 3) add SDWSRF
8 surcharges for 4" and 6" services. The AL requested an effective date of January 11, 2010.

9 Preliminary Statement T states:

10 This balancing account shall record surcharge and service fee revenues as
11 well as Safe Drinking Water State Revolving Fund (SDWSRF) payments
12 and interest earned on funds deposited with the fiscal agent. It shall be
13 referred to as the Lucerne Balancing Account (LBA).

14 Page 43 of Mr. Smegal's testimony states that as the need for this account continues, it
15 requests the Commission take no action in this GRC.

16 **B. REVIEW SCOPE AND OBJECTIVES**

17 DRA's objectives were to verify the balance of the LBA and to evaluate the
18 appropriateness of the continuation of the account. The Company stated in its response to
19 MSD-007-25a, that "Cal Water presumes that the last review of this account was conducted
20 in response to AL 1963-A submitted on December 10, 2009."

21 However, the response to MSD-014-36b stated that inception of the loan occurred
22 in late 2009 and the first payment was made in 2010.

23 **C. REVIEW PROCEDURES AND RESULTS**

24 DRA requested the Company to identify the balance in this account in MSD-002-11.
25 DRA reviewed the workpapers and discovery responses submitted by the Company pertaining to
26 this account.

27 The excel spreadsheet provided in response to MSD-002 Attachment 6-1 (10-8-12 and
28 10-19-12) did not show a balance in the Dec 2011 column and contained the following notation
29 in the August 2012 column: “Receivable from ratepayers & Payable to SDWSRF of 7 mn.” No

1 account detail was attached. MSD-007-25b requested an itemization of all transactions in the
2 account since inception. MSD-007-25, Attachment 25 Spreadsheet contained data for 2009
3 through 2012. According to MSD-014-36(a) Attachment, the balance in the LBA as of August
4 31, 2012 was \$6,471,280 and \$6,454,363 as of December 7, 2012.

5 AL No. 1963-A states in part:

6 CDPH approved a loan amount of \$7,078,698. Cal Water for the first ten
7 years of the loan will make semi-annual payments of \$129,556 or \$259,112
8 annually. This includes an annual amount of \$23,596 for the loan's reserve
9 requirement that, at the end of the ten years will add up to \$235,960, twice
10 the semiannual payment of \$117,798. The monthly revenues from the
11 surcharge will be credited against the loan amount. For the remaining 20
12 years of the loan, Cal Water will make semi-annual payments of \$117,798
13 or \$235,956 annually.⁵⁶

14 However, the Company stated in an email dated January 10, 2013, the language in AL-
15 1963A is erroneous as the semi-annual loan payments for the entire duration of the loan are
16 \$117,978. According to the documentation provided by the Company, as of August 31, 2012,
17 the Company made five payments of \$117,978 (totaling \$589,890). Monthly customer
18 collections through August 31, 2012 totaled \$674,594.⁵⁷

19 Preliminary Statement T states that the monthly credit entry for interest earned on funds
20 deposited with the fiscal agent should be included in LBA which was not evident in the account
21 detail provided. It was not apparent in the detail provided whether the interest earned on funds
22 deposited was included in the memo account. The Company stated during a conference call on
23 January 10, 2013 that the interest on the funds collected was minimal, because as the funds are
24 collected they are transferred to the fiscal agent who remits the loan payments.

25 **D. FINDINGS AND RECOMMENDATIONS**

26 DRA reviewed the balance in this account as of August 31, 2012 which was \$6,471,280.
27 DRA recommends that the Company file a new AL which clarifies the language in AL 1963-A
28 regarding the loan payment amounts to avoid confusion in future reviews of this account. The

⁵⁶ \$117,798, appears to be a typo and should be \$117,978.

⁵⁷

1 memo account should also show separately, any interest on funds deposited with the fiscal
2 agent. DRA is not opposed to this account remaining open as the loan with CDPH is still in
3 effect and surcharges are currently being collected from ratepayers. According to the
4 Preliminary Statement, the LBA is applicable to the Redwood Valley (Lucerne Division).

5 **Item 9d: Department Of Toxic Substances Control Memorandum Account**
6 **("DTSCMA") - Preliminary Statement P**

7 **A. BACKGROUND**

8 As part of the DTSC's Drycleaner Discovery Project, it identified groundwater
9 contamination in Cal Water's Visalia and Chico districts. The DTSC filed two lawsuits against
10 Cal Water and other defendants. In the lawsuits Cal Water was alleged to have released
11 perchloroethylene (PCE) by pumping its wells and taking wells off-line. After years of
12 litigation, Cal Water entered into two Chico settlements with DTSC. To avoid a similar
13 regulatory burden for the Visalia ratepayers, Cal Water initiated discussions with DTSC
14 concerning a pilot agreement. Under the pilot agreement, DTSC would not initiate a Visalia
15 cost recovery action so long as Cal Water complies with the terms. In return, Cal Water
16 provides DTSC with sampling, well survey and other testing so that operating decisions can be
17 made to prevent the spread of PCE in the Visalia aquifer.

18 February 2, 2009, the Company filed AL No. 1900 requesting authority to establish a
19 memorandum account to record costs associated with the implementation of a pilot agreement
20 with the California Department of Toxic Substances Control ("DTSC") in relation to the Visalia
21 District. The Advice Letter states:

22 These costs will cover groundwater analyses required under the DTSC pilot
23 agreement. With the data yielded from the pilot agreement, operating
24 decisions can be made to prevent Cal Water's water production wells from
25 exacerbating the spread of perchloroethylene (PCE), a dry cleaning solvent.
26 Moreover DTSC will not initiate a cost recovery action against Cal Water
27 as long as Cal Water complies with the pilot agreement. Cal Water
28 proposes to seek recovery of the recorded costs in a Tier 3 advice letter
29 filing upon termination of the pilot agreement.

1 AL 1900 requested an effective date within 30 days pursuant to General Order 96-B,
2 Water Industry Rule 7.3.2 (6).

3 Preliminary Statement P stamped effective March 5, 2009, states:
4

5 This memorandum account will track incremental costs to comply with the
6 groundwater protection pilot agreement with the California Department of
7 Toxic Substances Control (DTSC). It shall be referred to as the DTSC
8 Memorandum Account (DTSCMA).
9

10 The Company's testimony in this GRC states that as the need for this account continues
11 it requests the Commission take no action in this GRC.

12 **B. REVIEW SCOPE AND OBJECTIVES**

13 DRA's objectives were to verify the balance of the DTSC and to evaluate the
14 appropriateness of the continuation of the account. The Company stated in response to
15 MSD-00923a that it is "unknown" when DRA or DWA last reviewed this account.

16 **C. REVIEW PROCEDURES AND RESULTS**

17 DRA requested the Company to provide the balance in this account in MSD-002-11.
18 DRA reviewed the workpapers and discovery responses submitted by the Company pertaining to
19 this account. MSD-002 Attachment 6-1 (10-8-12 and 10-19-12) indicates that the balance in
20 this account was \$371,000 and \$379,446 as of December 2011 and August 31, 2012,
21 respectively. DRA requested the Company provide copies of documentation supporting the
22 balances in this account in MSD-014-39. In the sample of invoices that DRA reviewed, one
23 invoice in the amount of \$11,700 which contained the description, "Standard pump testing in the
24 Bear Gulch district" which did not appear to relate to the DTSC pilot agreement for the Visalia
25 district. Two other invoices contained charges for the DTSC pilot and legal fees related to
26 MTBE and/or Salinas issues. The legal fees related to the MTBE and/or Salinas issues totaled
27 \$1,374. The \$1,374 did not appear to be included in the MTBEMA. The Company also
28 included approximately \$45,132 of internal labor costs in the account, which did not contain any
29 information showing that they were incremental to those in rates.

30 While Preliminary Statement P states that: "The following entries will be recorded
31 monthly to the Visalia District's memorandum account:

- 1 1. A debit or credit entry for operating expenses directly attributable to the
- 2 DTSC pilot agreement compliance;
- 3 2. A debit or credit entry for the revenue requirement (depreciation,
- 4 authorized return on rate base, ad valorem tax, income tax, franchise tax,
- 5 and business license fee) of any facility constructed to comply with the
- 6 DTSC pilot agreement;
- 7 3. Monthly interest expense calculated at 1/12 of the month's interest rate
- 8 on Commercial Paper (prime, 90 day), published in the Federal Reserve
- 9 Statistical Release (debit or credit).

10 With respect to the interest expense, MSD-002 Attachment 6-1 states: "When recovery is
11 sought, [interest] will be calculated at a rate equal to one-twelfth of the recent month's interest
12 rate on Commercial Paper (prime, 90 day), published in the Federal Reserve Statistical Release,
13 H. 15."

14 MSD-014-39 asked what the status of the pilot agreement was with DTSC.
15 The Company's response stated:

16 Phase I of the DTSC pilot agreement was completed in mid-2011. It
17 included the investigation and identification of remedial actions for six CWS
18 water production wells located north of Walnut Avenue in the Visalia
19 district. Currently, CWS and CA DTSC are amending the conditions of the
20 MOU to pursue a second phase of the project that is similar in scope to
21 Phase I, but will focus on wells south of Walnut Avenue.

22 A presentation provided in response to MSD-014-39b dated May 31, 2007 stated the "The
23 Pilot Agreement is in effect two years from the date it is executed." A document provided by the
24 Company indicated there are two Phases for this project.⁵⁸

25 **D. FINDINGS AND RECOMMENDATIONS**

26 DRA reviewed the balance in this account as of August 31, 2012 which the company
27 reported was \$379,446. According to the Preliminary Statement, the DTSCMA is applicable to
28 the Visalia district.

29 DRA recommends removing amounts for unrelated invoices and internal labor from this
30 account totaling \$58,206. As the project appears to still be ongoing, DRA does not oppose

⁵⁸ MSd-009-23 Attachment.

1 keeping the DTSCMA open but recommends a thorough review of transactions subsequent to
2 August 31, 2012 be conducted when further amortization is sought.

3 **Item 9e: Wausau Insurance Litigation Memorandum Account (“WMA”) -**
4 **Preliminary Statement K**

5 **A. BACKGROUND**

6 On November 29, 2007, Cal Water filed AL No. 1839 requesting authority to establish a
7 memo account to record costs associated with insurance coverage litigation. In particular,
8 authority was requested to record (i) legal fees and costs; (ii) a monetary judgment or settlement
9 in favor of Cal Water; and/or (iii) a monetary judgment against Cal Water. Any judgment or
10 settlement monies received by Cal Water would offset costs recorded in the memorandum
11 account to the extent that ratepayers bore the costs of all litigation.

12 From 1955-1985 Cal Water purchased liability insurance from Employers Insurance of
13 Wausau (“Wausau”). The insurance premiums were included in rates. On May 3, 2006,
14 Wausau filed a lawsuit against Cal Water to recover approximately \$1 million in legal defense
15 costs on behalf of Cal Water in two Chico groundwater PCE contamination lawsuits. Wausau
16 refused to contribute any monies toward settlement of the two Chico lawsuits. On September 5,
17 2006, Cal Water filed a counterclaim against Wausau. Cal Water settled the lawsuits on its own
18 and counter sued Wausau for \$4.2 million (net present value). The AL stated the legal costs
19 associated with the Wausau settlements were included in the Chico District General Rate Case
20 A. 07-07-001. The AL requested an effective date of December 29, 2007.

21 On August 11, 2008, the Company filed AL No. 1874 in compliance with D. 08-07-008,
22 to modify its Wausau Insurance Litigation MA to include remediation capital projects. The AL
23 requested the AL become effective upon filing pending the Commission staff's determination.

24 Preliminary Statement K states:

25 The purpose of the WMA is to track the costs incurred with litigation
26 initiated by Employer's Insurance of Wausau (Wausau) against Cal Water
27 and Cal Water's counterclaim. The litigation involves disputed insurance
28 coverage for two groundwater contamination lawsuits filed against Cal
29 Water in Chico. Cal Water will incur internal and external costs to support
30 its Wausau litigation efforts. The WMA will track actual costs incurred

1 and any amounts recovered from Wausau. In addition, the account will
2 track remediation costs incurred as a result of any settlement or judgment in
3 the groundwater contamination lawsuits which may be the responsibility of
4 Cal Water or Wausau pending a resolution of the Wausau litigation. The
5 balance of the WMA will be recovered in rates after a CPUC review and
6 audit of the recorded WMA balance.

7 The Company's testimony in this GRC states that as the need for this account continues,
8 it requests the Commission take no action in this GRC.

9 **B. REVIEW SCOPE AND OBJECTIVES**

10 DRA's objectives were to verify the balance of the WMA and to evaluate the
11 appropriateness of the continuation of the account. The Company stated in response to MSD-
12 007 19a that it is "not aware of any review of this account" when asked when DRA or DWA last
13 reviewed this account.

14 **C. REVIEW PROCEDURES AND RESULTS**

15 DRA requested the Company to provide the balance in this account in MSD-002-11.
16 DRA reviewed the workpapers and discovery responses submitted by the Company pertaining to
17 this account. MSD-002 Attachment 6-1 (10-8-12 and 10-19-12) indicates that the balance in
18 this account was \$414,000 as of December 2011 and August 31, 2012, respectively. Detail
19 provided for this account indicated the balance was \$416,713.⁵⁹ The Company stated that the
20 difference was due to an erroneous entry posted to the account in the amount of \$44,528.⁶⁰
21 DRA reviewed a sample of invoices that were included in this account. The company included
22 numerous transactions totaling \$423,758 in the account that were dated prior to the effective
23 date of AL 1839.

24 In addition, the detail provided for this account did not show any interest entries. The
25 Preliminary Statement states monthly interest is to be calculated on the average balance.

26 MSD-007-19 asked the Company to identify the status of the Wausau litigation in which
27 the Company responded:

⁵⁹ MSD-007-19 Attachment.

⁶⁰ Id.

1 At this time Wausau litigation is on hold pending the outcomes of the PCE
2 and TCP litigations.

3
4 Resolution of the balance in this memo account is dependent upon the
5 outcomes of the PCE and TCP litigations for which Cal Water has two
6 other memo accounts (Preliminary Statements V and W). To the extent
7 that Cal Water obtains compensation from the PCE and/or TCP litigations
8 above the deductible in our insurance contract with Wausau, it is possible
9 that Wausau could be owed compensation.

10 However, a presentation dated July 27, 2011 contained the following notation "concluded
11 two years ago, file to recover," regarding the Wausau litigation MA. DRA asked the Company
12 to clarify the status of the Wausau litigation in MSD-016-35 which stated:

13 This litigation arose from a dispute between Cal Water and Wausau (a
14 provider of insurance to Cal Water) regarding who should bear the
15 litigation costs associated with lawsuits filed against Cal Water (and other
16 defendants) in 2002 by the California Department of Toxic Substances
17 Control ("DTSC"). DTSC alleged that the defendants were liable for the
18 costs of groundwater contamination remediation in the Chico District. In
19 2006, Wausau initiated this litigation against Cal Water.

20 Cal Water entered into Consent Decrees with DTSC in 2007 resolving the
21 original lawsuits, but also initiated other lawsuits against parties who were
22 potentially responsible for PCE and TCP contamination in several Cal
23 Water districts, including the contamination in the original Chico lawsuits
24 brought by DTSC. The PCE and TCP lawsuits are the subjects of other Cal
25 Water memo accounts (Preliminary Statements V and W).

26 In 2009, Cal Water and Wausau entered into a confidential "Settlement
27 Agreement and Mutual Release." The terms of the settlement address the
28 allocation of litigation costs and settlement proceeds between Cal Water
29 and Wausau resulting from the original lawsuits brought by DTSC, as well
30 as from the PCE litigations to the extent that the costs and proceeds relate
31 to the original DTSC lawsuits. Since the relevant PCE cases are still
32 ongoing, and the reconciliation of costs between Cal Water and Wausau
33 cannot occur until resolution of those cases, the Wausau memo account
34 should remain open. In addition, Cal Water has further clarified that that
35 the TCP litigations do NOT have a link to the Wausau account.

36 Note: At this time, Cal Water is not providing the confidential settlement between Cal
37 Water and Wausau, or describing the terms of that settlement more precisely, because a
38 confidentiality clause in the settlement requires advance consent from Wausau before

1 such disclosure, and the provision of information under seal. (Knowledge of the terms of
2 the agreement could impact Cal Water’s existing contamination litigation against
3 potentially responsible parties.) When amortization and closure of this account is ripe,
4 Cal Water plans to work with Wausau and CPUC staff to determine the level of
5 disclosure that is necessary for CPUC staff to carry out its review of this memo account
6 in light of the parties’ need for confidentiality at that time.

7 The last entry recorded in this account was dated October 4, 2010, more than two years
8 ago. In addition the Company stated that "remediation related to the original DTSC lawsuits has
9 been completed in Chico and have been included in rates. At this time, Cal Water does not
10 know of any incremental remediation costs for which recovery would be sought through this
11 memo account."⁶¹

12 **D. FINDINGS AND RECOMMENDATIONS**

13 DRA reviewed the balance in this account as of August 31, 2012 which the company
14 reported was \$416,713. According to the Preliminary Statement, the WMA is applicable to the
15 Chico district served.

16 DRA recommends that the transactions recorded in the account totaling \$423,758, which
17 were incurred prior to the effective date of AL be removed, which would leave a credit balance
18 (refund to ratepayers) in the account of (\$7,045). Since the Wausau litigation is related to the
19 PCE litigation, which is still ongoing, DRA does not oppose the WMA remaining open but
20 recommends a thorough review of the balance be conducted when amortization is sought.

21 **Item 9f: Methyl Tertiary-Butyl Ether Memorandum Account (“MTBEMA”) -** 22 **Preliminary Statement F**

23 **A. BACKGROUND**

24 On February 2, 2005, Cal Water filed AL No. 1707 to request permission to establish a
25 memorandum account to track actual costs the Company incurs in connection with its legal
26 action against the manufacturer, refiners, and service station operators, referred to as potentially
27 responsible parties (“PRPs”), who produced, distributed, and/or released products that contained
28 methyl tertiary butyl ether (“MTBE”) in the vicinity of Cal Water wells. The AL requested it

⁶¹ MSD-016-35(e).

1 become effective upon filing. The Advice Letter states Authority for the Company's request was
2 given in Resolution No. W-4094, dated March 26, 1998.

3 Resolution W-4094 authorizes all water utilities to establish a memorandum account to
4 water contamination litigation expenses. Resolution W-4094 states that the provisions and
5 conditions of Resolution W-4089 apply to this resolution. Resolution W-4089 states in part:

6 The costs SCWC seeks to include in the balancing account include legal
7 fees, public relations fees, water quality testing costs and other consulting
8 fees.

9 SCWC requests to use the memorandum account to record all costs since
10 April 24, 1997, related to this lawsuit, which it claims are not elsewhere
11 reflected in rates. (emphasis added.)

12 ...the unexpected expenses associated with the contamination litigation and
13 the resulting memorandum account should be just those associated with the
14 legal defense of the lawsuit. Without prejudging the reasonableness of the
15 expenses SCWS intends to book to the memo account, we want to put the
16 company on record that we will carefully scrutinize the amounts and types
17 of expenses booked to the memorandum account. For example, the
18 Company may want to reconsider the inclusion of public relation fees into
19 the memo account. Also, to the degree that the cost of water testing is
20 already being recovered in rates, the same caution applies.

21 Also the Commission said in the Southern California Water Co. Headquarters
22 case, D. 92-03-094 (March 31, 1992) 43 Cal. P.U.C. 2d600:

23 It is a well established tenet of the Commission that ratemaking is
24 done on a prospective basis. The Commission's practice is not to
25 authorize increased utility rates to account for previously incurred
26 expenses, unless before the utility incurs those expenses, the
27 Commission has authorized the utility to book those expenses into a
28 memorandum account or balancing account for possible future
29 recovery in rates. This practice is consistent with the rule against
30 retroactive ratemaking. (Emphasis in original.)

31 Therefore, we will only allow the tracking of those expenses
32 incurred after the establishment of the account. (emphasis added.)

33 Cal Water filed A. 09-07-011 for an order authorizing the allocation of net proceeds from
34 MTBE groundwater contamination litigation. The Commission split the proceeding into two
35 phases. The Commission issued D. 10-04-037 for Phase 1, which adopted the settlement
36 agreement reached by the parties which allowed the existing MTBE Litigation memo account to

1 be amended to track and utilize all funds available for investment or other purposes to construct
2 or purchase MTBE treatment and replacement facilities. The available funds from the MTBE
3 litigation settlement, determined to be \$34,254,417.07 subject to adjustment based on specified
4 contingencies, were ordered to be used for the construction or purchase of MTBE treatment and
5 replacement facilities.

6 On May 3, 2010, Cal Water filed AL No. 1985 to revise Preliminary Statement F for the
7 MTBEMA to also track the use of funds to construct treatment and replacement facilities.

8 **B. REVIEW SCOPE AND OBJECTIVES**

9 DRA's objectives were to verify the balance of the MTBEMA and to evaluate the
10 appropriateness of the continuation of the account. The Company stated its response to MSD-
11 007-13a that it was not aware of any review of this account by DRA or DWA.

12 **C. REVIEW PROCEDURES AND RESULTS**

13 DRA requested the Company to provide the balance in this account in MSD-002-11.
14 DRA reviewed the workpapers and discovery responses submitted by the Company pertaining to
15 this account.

16 MSD-002 Attachment 6-1 (10-19-12) indicates that the balance in this account was
17 \$16,668,000 and \$16,265,000 as of December 2011 and August 31, 2012, respectively. The
18 supporting detail shows the balance to be (\$16,264,851). DRA requested the Company provide
19 copies of documentation supporting the balances in this account in MSD-007-13. The Company
20 recorded six entries in this account for MTBE related capital expenditures. The Company's
21 response to MSD-16-36 indicated the MTBE related projects in the memo account were
22 transferred to Contributions in Aid of Construction, which are a deduction from rate base. The
23 Company also stated during a conference call that the 2011 MTBE related projects recorded in
24 the MTBE account were excluded from rate base. DRA asked for project descriptions for the
25 capital projects booked to the MTBEMA describing how they relate the MTBE The Company
26 stated in an email dated January 29, 2013, that:

27 Unfortunately these projects are created before it was decided to use MTBE
28 funds. I am working on a spreadsheet to show what wells/stations had been
29 replaced with these projects.

1 The Company provided an excel file containing cost and depreciation data related to the
2 projects.

3 Upon review of the documentation supporting the balance in this account, DRA noted a
4 duplicate invoice recorded in the amount of \$248,000 which should be removed. An entry dated
5 11/10/11 in the amount of \$248,000 and an entry date 1/9/12 in the amount of \$248,561.64
6 appeared to be for the same invoice.

7 ***BEGIN CONFIDENTIAL***

8 [REDACTED]

9

10 [REDACTED]
11 [REDACTED]
12 [REDACTED]

13 [REDACTED]
14 [REDACTED]
15 [REDACTED]

16 ***END CONFIDENTIAL***

17 DRA also notes that three invoices provided by Cal Water from Ernst & Young,
18 supporting amounts in this account, contain the description "research, consultations and advice
19 in connection with the private letter ruling," but do not specify they relate to the MTBE issue.

20 DRA also notes that two plant additions from the 2009 GRC settlement were recorded
21 differently in this account. The NEBKTP plant addition recorded the net book value (plant
22 minus accumulated depreciation) while the entry for Project IDs 10502 and 11437 used the
23 gross plant amounts. DRA inquired as to the difference and the Company stated the NBV
24 should be used and will have the accounting department correct this entry.⁶² Applying the NBV
25 would increase the account balance by approximately \$12,500.

26 **D. FINDINGS AND RECOMMENDATIONS**

⁶² Emailed dated January 24, 2013.

1 DRA reviewed the balance in this account as of August 31, 2012 which the company
2 reported was (\$16,264,851). DRA recommends that the duplicate invoice of \$248,000 be
3 removed and the entry for PIDs 10502 and 11437 be corrected to reflected the NBV, which
4 would bring the balance as of 8/31/12 to approximately \$(16,525,341). Since there is still a
5 balance in the account which is to be applied to MTBE-related plant investment, DRA does not
6 oppose the MTBEMA remaining open but recommends a thorough review of the balance be
7 conducted when amortization is sought. According to the Preliminary Statement, the MTBEMA
8 is applicable to all districts that pump groundwater that was contaminated with MTBE:
9 Bakersfield, Chico, Dixon, Hermosa-Redondo, Kern River, King City, Livermore, Los Altos
10 Suburban, Marysville, Oroville, Salinas, South San Francisco, Stockton, Visalia, Willows and
11 Dominguez. These funds should continue to be applied to projects to remediate MTBE
12 contamination in these districts.

13 **Item 9g: Tort Litigation Memorandum Account (“TLMA”) Preliminary**

14 **Statement U**

15 **A. BACKGROUND**

16 On October 14, 2009 Victor Guerrero and Hortencia Guerrero (Guerreros) filed a
17 Complaint in Solano County Superior Court, Case No. FCS034481 which alleges that at no time
18 between November 30, 2008 and December 19, 2008 were they notified that the water supplied
19 to their property had tested positive for E. coli. The Guerreros contend that their son Samuel
20 Guerrero was exposed to and ingested contaminated water and died as a result. As stated in the
21 Company's September 30, 2009 Form 10-Q, the Company does not believe it has any liability in
22 this matter and tendered the lawsuit to its insurance carrier.

23 On December 23, 2009, Cal Water filed AL No. 1968 pursuant to Resolution W-4094
24 (which authorizes all water utilities to establish memorandum accounts for litigation expenses)
25 requesting authority to establish a TLMA to record (i) legal fees and costs; (ii) insurance
26 proceeds; (iii) monetary judgment or settlement in favor of Cal Water; and/or (iv) a monetary
27 judgment against Cal Water. Any judgment or settlement monies received by Cal Water would
28 offset the costs in the TLMA to the extent that ratepayers bore the costs of all litigation. The AL
29 requested an immediate effective date of December 23, 2009.

1 The DWA's initial review of AL No. 1968 determined that the Company's reliance on
2 Resolution W-4094 was misplaced given the nature of the litigation at issue. On January 28,
3 2010, the DWA informed Cal Water that Advice Letter No. 1968 was rejected on the basis that
4 the Company did not include justification that the TLMA met the criteria of establishing a
5 memorandum account as outlined in Resolution W-4276. Resolution W-4276 authorized all
6 water and sewer system utilities to book incremental fuel and maintenance expenses for
7 providing power during rolling blackouts to a generator costs memo account. Resolution W-
8 4276 identified criteria for implementing memo accounts.

9 On April 8, 2010, the Commission issued Resolution W-4824 which provided further
10 guidance on how it applies the criteria in determining whether to authorize a memorandum
11 account.

12 On February 8, 2010, Cal Water filed a request for a Commission review of the DWA's
13 disposition of AL No. 1968.

14 On August 12, 2010, the Commission issued Resolution W-4835 which agreed with
15 DWA that the Company's request for the TLMA was not within the scope of Resolution W-4089
16 (and W-4094). However, the Commission did find that the Company's request met the
17 Commission's criteria for establishing a memorandum accounts pursuant to W-4824.

18 On August 27, 2010 the Company filed AL No. 2003 to add Preliminary Statement U -
19 Tort Litigation Memorandum Account to its tariff sheets pursuant to Resolution W-4835 which
20 authorizes Cal Water to establish the TLMA. The AL "requests an earlier effective date for this
21 advice letter of January 22, 2010, thirty days after the filing of Advice Letter 1968, should AL
22 1968 have been approved."

23 Preliminary Statement U states:

24 The purpose of the TLMA is to track the costs incurred with litigation
25 initiated by Victor Guerrero and Hortencia Guerrero (Guerreros) against
26 Cal Water. The litigation involves allegations that Cal Water failed to use
27 reasonable care in maintaining its system and in notifying the Guerreros of
28 certain water quality sampling results. Cal Water will incur internal and
29 external costs to support its Guerrero litigation efforts. Cal Water has
30 tendered a claim with its insurance carrier for the Guerrero litigation. The
31 TLMA will track actual costs incurred, including but not limited to

1 settlements, damage awards and any amounts recovered from its insurance
2 carrier. The balance of the TLMA will be recovered in rates after CPUC
3 review and audit of the recorded TLMA balance.
4

5 The Company included this account on page 43, Section 9 of Mr. Smegal's testimony,
6 accounts that the Company requests the Commission take no action with as the need for the
7 accounts continues.

8 **B. REVIEW SCOPE AND OBJECTIVES**

9 DRA's objectives were to verify the balance of the TLMA and to evaluate the
10 appropriateness of the continuation of the account. The Company's response to MSD-008-4(a)
11 states that "To Cal Water's knowledge, this account has not been reviewed by DRA or DWA."

12 **C. REVIEW PROCEDURES AND RESULTS**

13 DRA requested the Company to provide the balance in this account in MSD-002-11.
14 DRA reviewed the workpapers and discovery responses submitted by the Company pertaining to
15 this account.

16 MSD-002 Attachment 6-1 (10-8-12 and 10-19-12) indicates that the balance in this
17 account was \$(100,000) and \$0 as of December 2011 and August 31, 2012, respectively. DRA
18 requested the Company provide copies of documentation supporting the balances in this account
19 in MSD-008-4(e). The account detail showed four entries dated March 25, 2010 totaling
20 (\$104,478). Transactions dated MSD-016-40e states:

21 Cal Water received on 10/31/2011 *** BEGIN CONFIDENTIAL [REDACTED] END
22 CONFIDENTIAL*** in proceeds in an insurance settlement on the Guerrero case. The funds
23 were applied to department 390 (legal account 798100 legal expense. This was offset by around
24 \$4K legal expenses by the end of Dec 31st 2011.

25 Preliminary Statement U states in part:

26 Entries will be made into the TLMA at the end of each month as follows:

- 27 **a.** A credit or debit entry equal to the amounts recorded in Cal Water's Operation
28 and Maintenance, and Administrative and General Expense Accounts for costs
29 to support the Guerrero litigation action.
- 30 **b.** A debit or credit entry equal to any recovery of costs recorded in the TLMA and
31 Cal Water's Operations and Maintenance and Administrative and General

1 Expense Accounts as determined by settlement approved or deferred or ordered
2 by the court in connection with the TLMA litigation action.

3 c. A credit entry equal to any payments Cal Water receives from the claim it filed
4 with its insurance carrier for litigation costs.

5 d. A debit or credit entry equal to the average balance in the account times the 90-
6 day commercial paper rate calculated on a monthly basis.

7 e. A debit or credit entry to capture any revenue rate recovery as authorized by the
8 CPUC.

9 f. A debit or credit entry to transfer all or a portion of the balance in the TLMA for
10 rate recovery as may be approved by the CPUC.

11 The Company's response to MSD-008-4 (dated 12-2-12) states:

12 Please note that a confidential settlement has been reached in this case. Cal
13 Water will file an advice letter requesting amortization of this account in
14 the near future, and will provide all relevant details for amortization at that
15 time.

16 Cal Water requests that further questions that DRA may have about this
17 account be raised through the advice letter process at that time, after Cal
18 Water has been able to verify transactions in this account. (Cal Water
19 generally tries to alert DRA prior to the filing of advice letters with
20 ratepayer bill impacts such as this.)

21 As such, DRA was not able to verify the complete balance in this account. DRA
22 inquired as to whether any legal costs have been incurred for this litigation and if so, have
23 they been included in the revenue requirement in legal expense in this GRC (MSD-16-
24 40). The Company's response was still outstanding as of the writing of this report.

25 **D. FINDINGS AND RECOMMENDATIONS**

26 DRA was not able to verify the total balance in this account as of August 31, 2012.
27 According to the Preliminary Statement, the TLMA is applicable to all customers.

28 DRA does not object to the account remaining open until the settlement is finalized and
29 all relevant transactions are posted to the account. DRA recommends that this account be
30 reviewed once the Company has recorded all the expenses and any recoveries in this account.

1 **Item 9h: Perchloroethylene Litigation Memorandum Account (“PCELMA”)**

2 **Preliminary Statement V**

3 **A. BACKGROUND**

4 On January 21, 1998, the Commission issued Resolution No. W-4089 authorizing
5 Southern California Water Company to establish a memorandum account for water
6 contamination litigation expenses for its San Gabriel District. On March 26, 1998, the
7 Commission issued Resolution W-4094 which authorizes establishment of a memorandum
8 account for water contamination litigation expenses for all water utilities. Resolution W-4094
9 states that all provisions of Resolution No. W-4089 (which was discussed previously in Section
10 9F of this report) apply.

11 On December 29, 2009, the Company filed AL No. 1970 requesting authority to
12 establish PCELMA to record (i) legal fees and costs; (ii) monetary judgment or
13 settlement in favor of Cal Water; (iii) a monetary judgment against Cal Water and/or (iv)
14 expenditures, expenses or use of proceeds, related to PCE. The Company requested it be
15 made effective retroactively to the date of the filing upon approval by Water Division
16 Staff. The AL requested an immediate effective date of December 29, 2010. On January
17 26, 2010, DWA sent a letter to CalWater acknowledging receipt of Advice Letter 1970.

18 Preliminary Statement V which was stamped effective as of December 29, 2009
19 states:

20 The purpose of the PCELMA is to track costs incurred with litigation
21 against manufacturers, refineries, and service station operators referred to as
22 potentially responsible parties (PRPs), that produced and/or distributed
23 products, which contained perchloroethylene, also known as
24 tetrachloroethylene (PCE) in California. Cal Water will incur incremental
25 and external costs to support its litigation effort. The PCELMA will track
26 actual costs. The balance in the PCELMA will be recovered in rates after
27 CPUC review and audit of the recorded PCELMA balance.
28

29 The Company's testimony in this GRC states that as the need for this account
30 continues, it requests the Commission take no action in this GRC.

1 **B. REVIEW SCOPE AND OBJECTIVES**

2 DRA's objectives were to verify the balance of the PCELMA and to evaluate the
3 appropriateness of the continuation of the account. The Company's response to MSD-
4 008-3a stated that "To Cal Water's knowledge, this account has not been reviewed by
5 DRA or DWA."

6 **C. REVIEW PROCEDURES AND RESULTS**

7 DRA requested the Company to identify the balance in this account in MSD-002-
8 11. DRA reviewed the workpapers and discovery responses submitted by the Company
9 pertaining to this account.

10 An excel spreadsheet provided by the Company did not identify a balance for this
11 account as of December 2011 and identified a balance of \$127,000 as of August 31,
12 2012.⁶³ Detail provided for this account shows a balance of *** BEGIN
13 CONFIDENTIAL [REDACTED] END CONFIDENTIAL *** as of August 31, 2012,
14 which represents a refund to customers. Below is an itemization of the balance in this
15 account:

16 *****BEGIN CONFIDENTIAL*****



17
18 *****END CONFIDENTIAL*****

⁶³ MSD-002 Attachment 6-1 (10-8-12 and 10-19-12).

1 The Company indicated that account 798100, Legal Expenses was used for this
2 memo account.

3 In addition, the detail provided for this account did not show any interest entries.
4 The Preliminary Statement states monthly interest is to be calculated on the average
5 balance.

6 The Company stated that Cal Water's complaint against all the defendants was
7 filed on May 22, 2008.⁶⁴ As stated above, the requested effective date of AL 1970 was
8 December 29, 2010. There were numerous charges prior to this date in this account
9 totaling \$161,798 (excluding employee travel) which precede the effective date of AL
10 1970. MSD-013-12f (which is discussed in the introduction section of this report)
11 inquired as to why charges preceding the date of AL 1970 were in the account.

12 As shown above, the Company has included ***BEGIN CONFIDENTIAL
13 [REDACTED] END

14 CONFIDENTIAL***. The Company has stated that the venue of the case for all
15 defendants is San Mateo Superior Court in Redwood City and the trial is not in close
16 proximity to its [law] firm's offices or Cal Water's headquarters.⁶⁵ According to
17 Mapquest, the address of the court is approximately 20 miles from Cal Water's offices. It
18 is not clear why the employee travel recorded in this account is much higher than the
19 client travel. The Company was requested to provide copies of invoices supporting a
20 sample of the transactions related to employee travel which was recorded in this account
21 in MSD-013-12 (due December 14, 2012), which was still outstanding as of the writing
22 of this report.

23 The Company indicated that the PCE litigation is still ongoing.⁶⁶

24 **D. FINDINGS AND RECOMMENDATIONS**

25 DRA reviewed the balance in this account as of August 31, 2012 was ***BEGIN
26 CONFIDENTIAL [REDACTED] END CONFIDENTIAL***. DRA recommends removing

⁶⁴ MSD-013-12g.

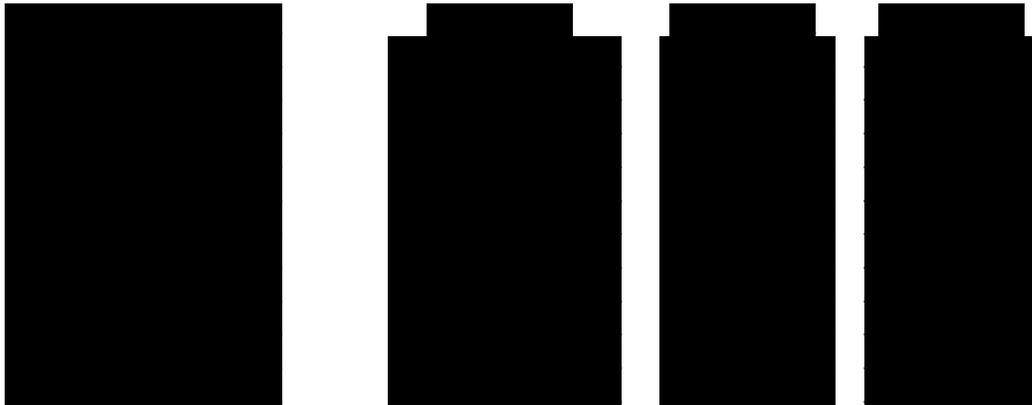
⁶⁵ MSD-013-12j.

⁶⁶ MSD-002-Attachment 6-1.

1 the unsupported employee travel costs and transactions in the account preceding the
2 effective date of AL 1970 totaling ***BEGIN CONFIDENTIAL [REDACTED]
3 [REDACTED] END CONFIDENTIAL***which would be a refund to
4 ratepayers. A similar breakdown by cost category, as provided in MSD-002 Attachment
5 6-1 is shown in the chart below:
6

1

BEGIN CONFIDENTIAL



2



3

4

END CONFIDENTIAL

5 DRA also recommends the account be kept up-to-date going forward. Since
 6 litigation is still ongoing regarding the PCE lawsuits, DRA does not oppose the
 7 Company's request to continue this account but recommends a review of transactions in
 8 the account subsequent to August 31, 2012 when amortization is sought. According to
 9 the Preliminary Statement, the PCELMA is applicable to the districts which pump water
 10 was potentially contaminated with PCE: Bakersfield, Chico, East Los Angeles,
 11 Livermore, Marysville, Oroville, Salinas, South San Francisco, Stockton and Visalia.

12 **Item 9i: Trichloropropone Litigation Memorandum Account (“TCPLMA”)**

13 **Preliminary Statement W**

14 **A. BACKGROUND**

15 The TCPMA was implemented pursuant to Resolution W-4094 (that has been
 16 described in prior sections of this report), which allows all water utilities to establish a
 17 memorandum account for water contamination litigation expenses.

18 Preliminary Statement V states:

1 The purpose of the TCPLMA is to track costs incurred and proceeds
2 received and applied with respect to litigation against manufacturers and
3 distributors referred to as potentially responsible parties (PRPs), that
4 manufactured and distributed products, which contained 1, 2, 3
5 trichloropropane (TCP) in California. Cal water will incur incremental and
6 external costs to support its litigation effort. The TCPLMA will track
7 actual costs. The TCPLMA will also track application of funds received
8 towards investments in replacement and treatment property. The
9 Commission will determine disposition of the TCPLMA in connection with
10 CalWater's general rate case or a separate proceeding.

11
12 On December 29, 2009, the Company filed AL No. 1971 requesting authority to
13 establish TCPLMA to record (i) legal fees and costs; (ii) monetary judgment or
14 settlement in favor of CalWater; (iii) a monetary judgment against CalWater and/or (iv)
15 expenditures, expenses or use of proceeds, related to TCP. The AL requested an
16 immediate effective date of December 29, 2009. On January 26, 2010, DWA sent a letter
17 to CalWater acknowledging receipt of Advice Letter 1971.

18 The Company's testimony in this GRC states that as the need for this account
19 continues, it requests the Commission take no action in this GRC.

20 **B. REVIEW SCOPE AND OBJECTIVES**

21 DRA's objectives were to verify the balance of the TCPLMA and to evaluate the
22 appropriateness of the continuation of the account. The Company stated in response to
23 MSD-008 5a that "To Cal Water's knowledge, this account has not been reviewed by
24 DRA or DWA."

25 **C. REVIEW PROCEDURES AND RESULTS**

26 DRA requested the Company to identify the balance in this account in MSD-002-
27 11. The excel spreadsheet provided in response to MSD-002 Attachment 6-1 (10-8-12
28 and 10-19-12) did not contain an amount in the balance column as of December 2011 but
29 indicated there was balance of ***BEGIN CONFIDENTIAL ██████████ END
30 CONFIDENTIAL *** as of August 31, 2012. The Company indicated the costs were
31 charged to account 798100, Legal Expenses.

1 The Company was requested to provide an itemization of all transactions in the
2 account since its inception in MSD-008-5b and copies of invoices and contracts
3 supporting specific fees in MSD-008-5f and g. The Company's response to MSD-008-5b
4 (and subparts f and g) stated:

5 Cal Water has determined that it is inaccurate to reflect any of the "charges"
6 provided on the TCP tab (in the spreadsheet provided for MSD-002) as part
7 of any "balance" for this account.

8 Two law firms are pursuing potentially responsible parties for TCP
9 contamination in multiple litigations representing multiple plaintiffs, of
10 which Cal Water is one. This benefits all plaintiffs because costs for
11 activities that support multiple cases can be shared among many plaintiffs.
12 Accordingly, the first set of expenses on the spreadsheet, designated as
13 Outstanding Case-Specific Expenses," are expenses associated with Cal
14 Water's specific case. The second set of expenses, designated as
15 "Outstanding TCP General Expenses," are expenses that have been incurred
16 on behalf of multiple plaintiffs.

17 None of the expenses on the spreadsheet have been invoiced to Cal Water:
18 first, because legal costs will come out of any award proceeds, and; second,
19 because allocation of the general TCP expenses among plaintiffs has not
20 been finalized. Based on a preliminary analysis, the working assumption is
21 that 50% of the general TCP expenses will be CalWater's share. Upon Cal
22 Water's request, outside counsel has provided a brief written summary of the
23 expenses identified in the TCP spreadsheet. See CONFIDENTIAL
24 Attachment 5b.

25 With regard to disseminating specific transactions and documentary support
26 for line items indicated on the spreadsheet, Cal Water's outside counsel
27 indicates that such detailed expense information is treated as confidential
28 during the pendency of these litigations because legal strategy has the
29 potential to be gleaned from specific expense information and expense
30 patterns. Cal Water requests that DRA respect this concern as it not only
31 has potential impacts on successful recovery for CalWater's ratepayer's, but
32 also has potential impacts on similarly situated plaintiffs (unrelated to Cal
33 Water) who are part of the group being represented by our outside counsel.
34 Further, when litigation has concluded and Cal Water seeks amortization of
35 this account, DRA will have the opportunity to fully analyze these expenses
36 without any confidentiality limitations related to pending litigation.

37 As such, DRA was not able to review the transactions supporting the balance in
38 this account.

1 The Company's response to MSD-008-5d states:

2 Technically, there is no trial date. The case is part of a coordinated
3 proceeding with numerous other similar lawsuits. The court has been
4 moving selected cases towards trial in the order that the cases were filed. In
5 light of this case management, the trial is likely to occur within two to three
6 years.

7 MSD-013-18 inquired as to whether any related capital projects were included in
8 the revenue requirement in the current case. The Company's response stated that: Cal
9 Water is not seeking amortization of this account at this time. When it does, Cal Water
10 will exclude any capital project costs or expenses included in rates, and will only request
11 recovery of incremental costs.

12 **D. FINDINGS AND RECOMMENDATIONS**

13 DRA reviewed the balance in this account as of August 31, 2012 was \$0 as the
14 company has not yet been invoiced for the litigation costs. DRA does not object to the
15 account remaining open as litigation is still ongoing. DRA recommends that all the
16 transactions in this account be reviewed once the Company has recorded all the expenses,
17 any recoveries and related capital projects in this account. According to the Preliminary
18 Statement, the TCPLMA is applicable to the Bakersfield, Marysville, Salinas, South San
19 Francisco, Stockton and Visalia districts.

20 **Item 9j: Caltrans Litigation Memorandum (“CTLMA”) Preliminary Statement AF**

21 **A. BACKGROUND**

22 On August 25, 2011, Cal Water submitted AL No. 2048 to the CPUC requesting
23 authority to record costs associated with litigation related to the relocation of water
24 facilities in a state highway, and to record costs for the relocation of the facilities.

25 The costs for relocation of the facilities would normally be included in rates. Cal Water
26 requested the CLMA to record:

- 27 i) legal fees and costs associated with the litigation that are incremental to those
28 included in rates;

1 ii) any monetary judgment or settlement in favor of or against Cal Water
2 associated with the relocation of the facilities; and

3 iii) payments for the relocation of the facilities.

4 Any judgment or settlement monies received by Cal Water will offset costs
5 recorded in the CLMA to the extent that ratepayers bore the costs of litigation and
6 relocation. In seeking recovery, Cal Water shall make a showing that the
7 requested amounts were not included in rates.

8 The AL requested an immediate effective date as Cal Trans requested a deposit of \$1.5
9 million of Cal Water's share of the relocation costs within 30 days of the Liability Agreement in
10 order to allow the project to proceed, despite ongoing litigation between the parties. The
11 account detail provided by the Company did not show an advance to Cal Trans.⁶⁷

12 On September 21, 2011, the Commission acknowledged receipt of the Company's
13 request. Cal Water estimated that the cost of the relocation alone will be approximately \$3
14 million, with Cal Trans and Cal Water each contributing \$1.5 million to relocate the facilities.

15 Preliminary Statement AF was stamped with an effective date of September 24,
16 2011 and states:

17 The purpose of the CLMA is to record costs associated with litigation
18 related to the request of Caltrans to relocate water facilities in a state
19 highway in the Maryville District, and to record costs associated with the
20 relocation of the facilities.

21 The Company did not include a discussion of this account in its direct testimony. An
22 email dated December 2, 2012 stated: "This account should have been included in the list of
23 accounts identified in Section D(9) that CalWater is requesting remain open."

24 **B. REVIEW SCOPE AND OBJECTIVES**

25 DRA's objectives were to verify the balance of the CLMA and to evaluate the
26 appropriateness of the continuation of the account. The Company's response to MSD-009-28(a)
27 stated it was "unknown" when this account was last reviewed by DRA or DWA.

⁶⁷ MSD-013-13

1 **C. REVIEW PROCEDURES AND RESULTS**

2 DRA requested the Company to provide the balance in this account in MSD-002-11.
3 DRA reviewed the workpapers and discovery responses submitted by the Company pertaining to
4 this account. MSD-002 Attachment 6-1 (10-8-12 and 10-19-12) did not show an amount as of
5 December 2011 and identified a balance of (\$2,500,000) as August 31, 2012. The response
6 indicated the amount is recorded in account 798100, Legal Expenses. The account detail
7 provided in response to MSD-009-28(b) indicates the balance was \$94,370 as of December 2011
8 and \$2,061,649 as of August 31, 2012.

9 The account detail provided shows transactions in this account preceding the effective
10 date of AL 2048, totaling \$52,046. Furthermore, DRA noted a transaction dated 11/2011 in the
11 account detail in the amount of \$16,418 but the invoice provided supporting this amount was
12 dated September 9, 2011 for services through August 31, 2011, which also precedes the
13 effective date of AL 2048. MSD-013-13(e) asked why there were costs in this account
14 preceding the effective date of AL 2048. The Company's response referred to its response to
15 MSD-013-12f which was quoted in the introduction section of this report.

16 In addition, the Company's response to MSD-013-13(a) states:

17 Cal Water initially became aware that a project was in the works during the
18 4th quarter of 2010. At that time we only knew a project existed, but did
19 not know the extent to which it was going to impact our water facilities.
20 Because last minute funding became available to Caltrans unexpectedly,
21 and the project was a last-minute add-on to their construction list, Caltrans
22 did not follow its normal utility notification process.

23 Cal Water only became aware of the project's full impact after many
24 meetings with Caltrans, and after performing our own engineering survey.
25 Our first relocation drawing was signed off on November 15, 2011. We
26 still do not have a construction schedule or scope of work for Phase 2.

27 In addition, the Company included \$72,056 for internal payroll and payroll taxes and
28 \$325,422 for overhead included in this account which were not supported as being incremental,
29 which should be removed. Also, the Company did not provide support for a transaction dated
30 5/2012 in the amount of \$305,771. DRA requested the invoice for this amount be provided in
31 MSD-016-44 which was still outstanding (due January 11, 2013) as of the writing of this report.

1 DRA inquired as to whether any related capital projects were included in the revenue
2 requirement in the current case. The Company's response stated that:

3 Cal Water is not seeking amortization of this account at this time. When it
4 does, Cal Water will exclude any capital project costs or expenses already
5 included in rates, and will only request recovery of incremental costs.⁶⁸

6 According to the response to MSD-009-28h, Phase I of the Cal Trans relocation
7 project was completed at a cost of \$2,091,245. Phase II of the project has not yet begun.
8 Cal Water has not yet received any further details from Cal Trans regarding Phase II.

9 On October 23, 2012, the Superior Court of California, County of Yuba entered a
10 judgment in favor of Cal Trans.⁶⁹ The Company stated in response to MSD-009-28(d)
11 that "Cal Water did not prevail at the trial level of the court proceeding, and is currently
12 evaluating whether to file an appeal [sic] the trial court's decision."

13 ***BEGIN CONFIDENTIAL [REDACTED]

14 [REDACTED] END

15 CONFIDENTIAL ***

16 In addition, the detail provided for this account did not show any interest entries.
17 The Preliminary Statement states monthly interest is to be calculated on the balance.

18 **D. FINDINGS AND RECOMMENDATIONS**

19 DRA reviewed the balance in this account as of August 31, 2012 was \$2,061,649. DRA
20 recommends that the account balance be reduced by \$771,713 for the following items: charges
21 totaling \$68,464 preceding the effective date of AL 2048, internal labor and property taxes of
22 \$72,056, overhead costs of \$325,422, and the unsupported transaction of \$305,771. ***BEGIN

23 CONFIDENTIAL *** [REDACTED]

24 [REDACTED] ***END CONFIDENTIAL *** and the Cal Trans

25 relocation project is still ongoing, DRA does not oppose the Company's request to continue this
26 account but recommends a thorough review of the account balance and transactions subsequent

⁶⁸ MSD-013-13i.

⁶⁹ MSD-013-13g.

1 to August 31, 2012 when amortization is sought. According to the Preliminary Statement, the
2 CTLMA is applicable to the Marysville district.

3 DRA Witness Justin Menda recommended that the Company remove the Cal Trans
4 project from rate base as it should be tracked in the CTLMA.

5 **Item 9k: Catastrophic Event Memorandum Account (“CEMA”) Preliminary**
6 **Statement AG**

7 **A. BACKGROUND**

8 Resolution No. E-3238, dated July 24, 1991 authorizes each public utility as defined
9 under Section 216 of the Public Utilities Code, to establish a memorandum account to record
10 costs of: (a) restoring utility service to its customers; (b) repairing, replacing or restoring
11 damaged utility facilities; and (c) complying with government agency orders resulting from
12 declared disasters.

13 Section 454.9 of the CPUC code also authorizes public utilities to establish catastrophic
14 event memorandum accounts.

15 On October 4, 2011, pursuant to Resolution E-3238, the Company filed Advice Letter
16 2050 to establish a CEMA.

17 The Company did not include this account in Special Request 12, but stated in an
18 email dated December 2, 2012, that this account should have been included in the list of
19 accounts identified in Section D(9) that CalWater is requesting remain open.

20 **B. REVIEW SCOPE AND OBJECTIVES**

21 DRA's objectives were to verify the balance of the CEMA and to evaluate the
22 appropriateness of the continuation of the account.

23 **C. REVIEW PROCEDURES AND RESULTS**

24 DRA requested the Company to provide the balance in this account in MSD-002-
25 11. MSD-002 Attachment 6-1 (10-8-12 and 10-19-12) indicates that the balance in this
26 account was zero as of December 2011 and August 31, 2012, respectively. The
27 Company's response to MSD-008-13a also states there is no balance in this account. The
28 Company's response to MSD-007-9b stated, "There is no testimony on the CEMA

1 because it has not been triggered; there has not been a catastrophic event requiring any
2 costs to be tracked. CalWater does not request any action on this account because it
3 continues to be relevant and should continue."

4 DRA reviewed the workpapers and discovery responses submitted by the Company
5 pertaining to this account and did not note any discrepancies.

6 **D. FINDINGS AND RECOMMENDATIONS**

7 DRA reviewed the balance in this account as of August 31, 2012 was \$0. DRA
8 does not oppose continuation of this account. According to the Preliminary Statement,
9 the CEMA is applicable to all customer classes.

10 **Item 10: Water Contamination Litigation Memorandum Account ("WCLMA") No**
11 **Preliminary Statement**

12 **A. BACKGROUND**

13 Resolution W-4094 dated March 26, 1998 authorizes all water utilities to establish
14 a memorandum account for water contamination litigation expenses. This resolution
15 states that the provisions and conditions contained in Resolution W-4089, which granted
16 Southern California Water Company authority to establish a memorandum account for
17 water contamination litigation expenses for its San Gabriel district, apply.

18 **B. REVIEW SCOPE AND OBJECTIVES**

19 DRA's objectives were to verify the balance of the WCLMA and to evaluate the
20 appropriateness of the continuation of the account. In its response to MSD-009 31 c which
21 asked when the last review of this account was conducted by DRA or DWA, the Company
22 stated that there is no balance in this account.

23 **C. REVIEW PROCEDURES AND RESULTS**

24 DRA requested the Company to provide the balance in this account in MSD-002-
25 11. The "Cal Water Memorandum & Balancing Account Tracking Report as of Aug. 31,
26 2012" provided in response to MSD-002 Attachment 6-1 (10-8-12 and 10-19-12) did not
27 list this account or show a balance. Also, as stated above, the Company confirmed in a
28 data request that this account did not have a balance.

1 The Company did not include a discussion of this account in its direct testimony in
2 Special Request 12, as one of the accounts it was requesting remains open. The
3 Company's response to MSD-007-9d state:

4 It is Cal Water's position that the company has the authority to track costs in a
5 Water Contamination Litigation Memorandum Account pursuant to Resolution W-4094
6 and W-4089. However, Cal Water is not requesting to track any costs pursuant to that
7 authority at this time. Therefore, no accounting codes have yet been set up to track costs
8 for this account, and there is no need for testimony to address this account.

9 The Company stated in an email dated December 2, 2012 that this account was not
10 included in the Special Request because "This is a generic memo account authorized for all
11 water companies by Resolution W-4094. At this time Cal Water has separate memo account
12 authorizations for contamination-related litigation that is currently active." The email also stated
13 that if contamination-related litigation like that discussed in Res. W-4094 arises, Cal Water will
14 follow the appropriate Commission-approved procedures to track those costs.

15 DRA reviewed the discovery responses submitted by the Company pertaining to this
16 account and did not note any discrepancies.

17 **D. FINDINGS AND RECOMMENDATIONS**

18 DRA reviewed the balance in this account as of August 31, 2012 was \$0. DRA
19 does not object to the account continuing.

20 **Item 11: Water Cost Of Capital Adjustment Mechanism ("WCOC Adj Mech")**

21 **Preliminary Statement S**

22 **A. BACKGROUND**

23 On July 30, 2009, the Commission issued D. 09-07-051 which authorized an
24 automatic adjustment mechanism (up or down) to a water utility's adopted return on
25 equity for 2009, 2010 and 2011 only if there is a positive or negative difference of more
26 than 100 basis points during a specific period.

1 The Company filed Advice Letter No. 1962 on November 24, 2009 seeking
2 authorization to modify its Preliminary Statement S, which establishes the Water Cost of
3 Capital Mechanism.

4 On July 12, 2012, the Commission issued D. 12-07-009 which approved the
5 settlement allowing Cal Water's request to continue the WCCM with a base year of 2012.

6 Preliminary Statement S states:

7 The purpose of the Water Cost of Capital Adjustment Mechanism is to
8 provide an automatic adjustment, up or down, to Cal Water's adopted return
9 on equity for 2009 (and thus its overall rate of return on rate base for 2009)
10 for calendar years 2010 and 2011 only if there is a positive or negative
11 difference of more than 100 basis points between the then current 12-month
12 October 1 through September 30 average of Moody's utility bond rates and
13 a benchmark.

14 The Company did not discuss this amount in its direct testimony. Its response to
15 MSD-007-9a stated:

16 There is no balance to address with regard to the WCCM, which is not an
17 account that tracks costs or revenues, but instead is a mechanism that if
18 triggered, requires Cal Water to change its return on equity beginning the
19 January following the triggering event. There has been no need to address
20 anything with regard to this mechanism because it was not triggered until
21 this October, for the first time. Consistent with the WCCM, Cal Water
22 filed AL 2088 on October 15, 2012, which contains an adjustment to its
23 ROE that will go into effect on January 1, 2013. A copy of Advice Letter
24 2088 is provided as Attachment 9a.

25
26 The Company filed Advice Letter No. 2088 on October 15, 2012 to adjust its
27 revenue requirement to reflect a rate of return of 7.94%. The current AA utility bond
28 rating changed by more than the 100 basis point of the deadband compared to the
29 benchmark period, triggering the filing.

30 **B. REVIEW SCOPE AND OBJECTIVES**

31 DRA's objectives were to verify the balance of the WCCM and to evaluate the
32 appropriateness of the continuation of the account. When asked when this account was
33 last reviewed by DRA or DWA, the Company's response to MSD-007-9a stated that,
34 "DRA reviewed this mechanism in Cal Water's Cost of Capital proceeding, A. 11-05-001,

1 resulting in a settlement between DRA and the companies adopted by the Commission in
2 D. 12-07-009 in July 2012."

3 **C. REVIEW PROCEDURES AND RESULTS**

4 DRA requested the Company to identify the balance in this account in MSD-002-
5 11. MSD-002 Attachment 6-1 (10-8-12 and 10-19-12) showed no balance in the columns
6 for December 2011 and August 31, 2012. The Company's response to MSD-016-43
7 stated this account is reported on the balance sheet. DRA reviewed the workpapers and
8 discovery responses submitted by the Company pertaining to this account and did not
9 note any discrepancies.

10 **D. FINDINGS AND RECOMMENDATIONS**

11 As this mechanism does not track costs or revenues, there was no balance for
12 DRA to review. DRA does not object to the continuation of this mechanism as it was
13 permitted to continue in D. 12-07-009. According to the Preliminary Statement, the
14 WCCAM is applicable to all districts served.

15 **Item 12: D. 08-08-030 Conservation Memorandum Account ("D.08-08-030 MA") No**
16 **Preliminary Statement**

17 **A. BACKGROUND**

18 As discussed in the WCEBA section of this report, the settlement agreement
19 approved in D. 08-08-030 provided that the additional conservation expense be booked
20 into a memo account as a result of the delay in the GRC for these districts, because the
21 revised rate case plan delayed the GRC for Cal Water's Antelope Valley, Bear Gulch,
22 Dominguez-South Bay, Hermosa-Redondo, Kern River Valley, Marysville, Palos Verdes,
23 and Redwood districts. D. 08-08-030 was issued on August 21, 2008 and increased the
24 annual conservation budget from \$538,933 (approved in D. 06-08-011) to \$766,600 for
25 these districts. The Company's response to MSD-015-21 states that D-08-08-030
26 established a memo account for the 1.5 year gap for the 8 districts in that GRC.

27 D. 10-12-017 issued on December 10, 2010 stated that:

1 Within 90 days of the effective date of rates adopted in this decision,
2 California Water Service Company shall file a Tier 2 advice letter to close
3 any existing conservation memorandum accounts and conservation one-
4 way balancing accounts. This advice letter shall provide a comparison of
5 the authorized and actual conservation expenses from the last general rate
6 case for each district. Existing balances in the accounts shall be amortized
7 in accordance with General Order 96-B except that for under-spending in
8 one-way accounts, the advice letter shall include a methodology for
9 refunding to customers the unexpended funds and accrued interest for each
10 district.

11 On March 2, 2011, the Company filed AL No. 2025 pursuant to D.10-12-017,
12 returning unspent conservation funds authorized in D. 06-08-011 of \$682,565 for its
13 Antelope Valley, Bear Gulch, Dominguez, Hermosa-Redondo, Kern River Valley,
14 Marysville, Palos Verdes, and Redwood Valley districts.

15 On March 2, 2011, the Company filed AL 2026 pursuant to D.10-12-017,
16 returning unspent conservation funds authorized in D. 08-07-008 of \$730,266 for its
17 Chico, East Los Angeles, Livermore, Los Altos, Mid-Peninsula, Salinas, Stockton and
18 Visalia districts.

19 This account was not discussed in Mr. Smegal's direct testimony. However, in an
20 email dated December 2, 2012, the Company stated that the Conservation One Way
21 account established by D. 08-08-030 (no preliminary statement) should have been
22 included in the list of accounts identified in Section D (9) that Cal Water is requesting
23 remain open and that amortization has already been authorized (however further
24 amortization could be required.)

25 The Company's response to MSD-015-26 amended the Company's previous
26 position regarding the memo account established by D. 08-08-030 and states:

27 Upon further investigation, it appears that the response to MSD-007,
28 Question 9(f), was erroneous - the conservation memo account authorized
29 by D. 08-08-030 was confused with the conservation memo account of
30 Preliminary Statement I because both memo accounts occurred in relation
31 to the industry-wide investigation into conservation issues, I. 07-01-022.
32 (The conservation settlement approved in D. 08-08-030 was filed in I. 07-
33 01-022; as discussed in AL 1807, the Preliminary Statement I memo
34 account arose as a result of another settlement - the WRAM Settlement

1 that was filed in the same proceeding (the WRAM settlement was approved
2 in D. 08-02-036 and is the genesis of Preliminary Statement M.)

3 MSD-007-9f stated:

4 The Direct Smegal testimony at page 34-35 discusses how the purpose of
5 this account is now moot, and the account should be closed.

6 **B. REVIEW SCOPE AND OBJECTIVES**

7 DRA's objectives were to verify the balance of this memo account and to evaluate
8 the appropriateness of the continuation of the account. When asked when this account
9 was last reviewed by DWA or DRA, the Company stated no review has been conducted
10 of this account.⁷⁰

11 **C. REVIEW PROCEDURES AND RESULTS**

12 MSD-009-33(a) states that there is no balance in this account. DRA reviewed the
13 workpapers and discovery responses submitted by the Company pertaining to this
14 account.

15 **D. FINDINGS AND RECOMMENDATIONS**

16 DRA reviewed the balance in this account as of August 31, 2012 was \$0. As D.
17 10-12-017 ordered the Company to file a Tier 2 advice letter to close any existing
18 conservation memorandum accounts and conservation one-way balancing accounts and
19 the account does not have a balance, DRA recommends the account be closed.
20 According to D. 08-08-030, the conservation memo account is applicable to the Antelope
21 Valley, Bear Gulch, Dominguez-South Bay, Hermosa-Redondo, Kern River Valley,
22 Marysville, Palos Verdes, and Redwood districts.

⁷⁰ MSD-009-33(b).