

Docket: : A.13-07-002
Exhibit Number : _____
Commissioner : C.J. Peterman
Admin. Law Judge : W.A. Colbert
ORA Witness(es) : T. Shia
: R.L. Rauschmeier



OFFICE OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

EXECUTIVE SUMMARY
of
ORA's Analysis and Recommendations
on
California American Water Company
Application 13-07-002

San Francisco, California
March 28, 2014

MEMORANDUM

1 Application (“A.”) 13-07-002 was filed by California American Water Company
2 (“Cal Am”) on July 1, 2013. In its application, Cal Am requests authorization to increase
3 revenues for water service by \$18,473,900 or 9.55% in the year 2015, by \$8,264,700 or
4 3.90% in the year 2016, and by \$6,654,700 or 3.02% in the year 2017. In addition to the
5 requested revenue increases, Cal Am’s application contained thirty-three separate special
6 requests.¹

7 A team of engineers, auditors, and regulatory analysts from the California Public
8 Utilities Commission’s Office of Ratepayer Advocates (“ORA”) examined the requests
9 and data contained in A.13-07-002 in order to provide the Commission with
10 recommendations that represent the interests of ratepayers for safe, reliable, and
11 affordable service. Mr. Terence Shia is ORA’s project coordinator for the proceeding.
12 Mr. Richard Rauschmeier is ORA’s oversight supervisor. ORA’s legal counsels are Mr.
13 John Reynolds and Ms. Shanna Foley.

14 As a result of its examination, ORA recommends a companywide decrease in rates
15 of \$9,852,700 or -5.09% in year 2015, followed by increases of \$3,406,600 or 1.61% in
16 2016, and \$2,887,000 in 2017. Although ORA made every effort to comprehensively
17 review, analyze, and provide the Commission with recommendations on each ratemaking
18 and policy aspect presented in Cal Am’s application, the absence from ORA’s reports of
19 any particular issue does not necessarily constitute ORA’s endorsement or acceptance of
20 the underlying request, methodology, or policy position related to that issue.

21 The following table identifies the various ORA reports and witnesses that provide
22 analysis and recommendations relevant to the requests made by Cal Am in the current
23 proceeding.

¹ On November 22, 2013, the Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge determined four of Cal Am’s Special Requests (#2, 14, 15, and 28) to be outside of the scope of the proceeding.

ORA REPORTS AND WITNESSES

Report Name / Description	Witness(es)
Administrative and General Expense, Payroll, and Special Request #17	Josefina Montero and Jeffrey Roberts
Operations and Maintenance Expense, and Special Requests #18, 23, 27, 30, 31	Terence Shia
Utility Plant in Service	Alex Lau & Justin Menda
Ratebase and Special Requests #3, 10, 12, 13, 16, 19, 20, 26	Richard Rauschmeier
General Office, Income Taxes, and Taxes Other than Income	Michael Conklin
Revenues, Rate Design, and Special Requests #5, 6, 8, 9, 21, 24, 25.	Daphne Korthamar
Special Requests #7, 22, 32, 33	Alex Lau
Utility Plant Audit and Special Requests #1, 2, 4, 29	Praneet Row
Non-Tariffed Products & Services, and Special Request #11	Josefina Montero
Customer Service	Dale Piiru
Escalation and Attrition	Suzie Rose
Results of Operations Tables	Terence Shia

REVENUE INCREASES AND DECREASES

1 In A.13-07-002, Cal Am’s rate proposals result in a cumulative three-year increase
2 of 17.26% over estimated revenues at current rates. Cal Am’s proposed increase is the
3 result of the company forecasting lower consumption and higher revenue requirements in
4 comparison to current levels.²

5 Revenue requirements are the estimated costs of providing service to customers.
6 However, revenue requirements impact only a portion of customer’s bills. For the
7 average residential customer served by Cal Am, approximately 20% of the current
8 monthly bill is comprised of surcharges that are separate from revenue requirements and
9 not included in the aforementioned proposed revenue increases.³ In the current
10 proceeding, Cal Am is requesting amortization in surcharges of accounts totaling an
11 additional \$56.8 million or 30% of current annual revenue requirements.⁴ Cal Am’s
12 requests for new or expanded memorandum and balancing accounts to track amounts for
13 recovery in future surcharges are separately addressed by ORA.⁵

14 ORA analyzed Cal Am’s recorded, forecasted, and previously adopted⁶
15 consumption and revenue requirements. ORA’s analysis of the actual revenues necessary
16 for providing safe and reliable service results in its recommendation for an overall three-
17 year decrease of 2.30% from estimated revenues at current rates. The following table
18 compares the individual increase or decrease for each district in each year of the current
19 rate case cycle as recommended by ORA or Cal Am.

² Application of California-American Water Company to Increase Revenues in each of its Districts Statewide (A.13-07-002) pages 9-15.

³ See ORA’s Report on Revenues and Rate Design (Ms. Korthamar).

⁴ See ORA’s Report on Special Request #29 (Mr. Row).

⁵ See ORA’s Reports on Cal Am Special Requests #1, 4, 7, 11, 18, 19, 23, 29, 30, 31, 32, 33.

⁶ Adopted amounts are those previously used by the Commission in authorizing past and present rates.

RECOMMENDED INCREASE/DECREASE IN REVENUES						
CAL AM				ORA		
YEAR	\$ Change (000's)	% Change		YEAR	\$ Change (000's)	% Change
Sacramento						
2015	\$5,359	10.33%		2015	(\$4,711)	-8.55%
2016	\$2,295	4.04%		2016	\$1,001	1.99%
2017	\$1,887	3.22%		2017	\$910	1.78%
Larkfield						
2015	\$135	4.22%		2015	(\$412)	-12.09%
2016	\$151	4.51%		2016	\$15	0.51%
2017	\$112	3.18%		2017	\$0	0.00%
Monterey Water						
2015	\$4,811	9.21%		2015	(\$4,041)	-7.49%
2016	\$1,928	3.37%		2016	\$493	0.98%
2017	\$1,330	2.24%		2017	\$349	0.69%
Monterey WasteWater						
2015	\$250	7.17%		2015	(\$162)	-4.70%
2016	\$101	2.71%		2016	\$79	2.40%
2017	\$77	2.01%		2017	\$79	2.38%
Los Angeles						
2015	\$2,483	8.67%		2015	(\$1,064)	-3.57%
2016	\$1,840	5.89%		2016	\$1,003	3.47%
2017	\$1,622	4.89%		2017	\$929	3.09%
San Diego						
2015	\$1,977	9.49%		2015	(\$69)	-0.31%
2016	\$672	2.94%		2016	\$153	0.69%
2017	\$494	2.10%		2017	\$119	0.53%
Ventura						
2015	\$3,384	10.40%		2015	\$581	1.64%
2016	\$1,237	3.43%		2016	\$649	1.78%
2017	\$1,093	2.92%		2017	\$486	1.30%
Toro						
2015	\$67	9.70%		2015	\$28	3.71%
2016	\$38	5.02%		2016	\$13	1.64%
2017	\$39	4.90%		2017	\$13	1.71%
Garrapata						
2015	\$8	9.95%		2015	(\$2)	-2.38%
2016	\$1	1.77%		2016	\$2	2.62%
2017	\$2	2.11%		2017	\$2	2.33%
TOTAL COMPANY						
2015	\$18,474	9.55%		2015	(\$9,852)	-5.09%
2016	\$8,263	3.90%		2016	\$3,406	1.61%
2017	\$6,656	3.02%		2017	\$2,887	1.31%
3-YEAR TOTAL*		17.26%		3-YEAR TOTAL*		-2.30%

* cumulative total

SUMMARY OF MAJOR ADJUSTMENTS TO REVENUES AND REVENUE REQUIREMENTS

1 A detailed comparison of Cal Am’s and ORA’s forecasts of revenues and revenue
2 requirements by district and year can be found in ORA’s Results of Operations Tables.
3 The following is a summary of the more significant adjustments made by ORA.

1) REVENUES

4 The necessity of rate increases is directly proportional to forecasted revenues
5 being insufficient to meet forecasted revenue requirements. In A.13-07-002, Cal Am
6 proposes multiple new fees and tariffs for ancillary services.⁷ The forecasted revenues
7 associated with Cal Am’s proposed fees were omitted from the original application’s
8 workpapers. ORA has forecasted and included these revenues in its recommended rate
9 calculations.⁸

10 Forecasted changes in customer consumption will also have a direct impact upon
11 customers’ base rates. ORA has forecasted consumption based upon a five-year average
12 of recorded consumption while Cal Am forecasts rely upon three-year averages. The
13 combination of increased revenues from proposed fees and higher consumption results in
14 ORA’s forecast of total company revenues being 5% greater than Cal Am’s estimate.

2) GENERAL OFFICE EXPENSE

15 The forecasted costs of Cal Am’s Corporate General Office impact customer rates
16 through allocations into districts’ revenue requirements. ORA’s recommendation for a
17 reasonable amount of General Office expense to include in 2015 customer rates is
18 approximately 19% less than Cal Am’s estimate. In this category of expense, ORA’s
19 most significant adjustment is to Cal Am’s proposed budget for rate case expense, which
20 includes Cal Am’s forecast of the legal and administrative costs of presenting general rate
21
22

⁷ See ORA’s Reports on Special Requests #5, #9, #24. (Ms. Korthamar).

⁸ See ORA’s Report on Revenues and Rate Design (Ms. Korthamar).

1 cases. Cal Am's forecast of rate case expense is more than double the average of other
2 recent water utilities' requests on a dollar-per-customer basis.⁹ As detailed in ORA's
3 General Office Report, Cal Am's request to include 100% of forecasted rate case expense
4 in customer rates incorrectly assumes that ratepayers are the sole beneficiaries of the
5 company's rate case efforts. ORA recommends adjustments to both the forecast
6 methodology and the allocation of rate case expense between company and customers.

7 **3) DISTRICT OPERATING EXPENSE**

8 ORA's total forecast of district operating expenses in 2015 is approximately 1%
9 greater than Cal Am's estimate. ORA's higher forecast of total operating expenses is the
10 result of ORA's higher forecast of production costs associated with increased
11 consumption and belies the significant adjustments made in other categories of expenses.
12 For example, ORA replaced Cal Am's subjective determination of test year tank
13 maintenance expense with a methodology that relies upon the average of actual expenses
14 previously incurred. ORA's methodology reflects in rates the fact that at the end of 2013
15 just seven out of a total forty-three tank maintenance projects forecasted by Cal Am had
16 been completed.¹⁰ As a result, ORA's forecast of total tank maintenance expense in
17 2015 is 35% less than Cal Am's estimate.

18 To develop more reasonable forecasts using the five-year average of actual
19 recorded expenses, ORA removed various multipliers that Cal Am had applied to
20 recorded data. ORA's analysis of these additional multipliers demonstrate their use is
21 either duplicative of the inflation multipliers that are already applied to recorded data or a
22 misinterpretation of what is actually permitted under the Commission's Rate Case Plan
23 for all Class A Water Utilities.¹¹

⁹ See ORA's Report on General Office (Mr. Conklin).

¹⁰ See ORA's Report on Operations and Maintenance Expense (Mr. Shia).

¹¹ *Id.*

1 **4) DISTRICT PLANT AND RATEBASE**

2 Because of the magnitude of Cal Am’s investment in Utility Plant in Service
3 (“UPIS”), the nominal difference between Cal Am’s and ORA’s forecasts of UPIS is the
4 largest contributing factor to the difference between Cal Am’s and ORA’s forecasts of
5 ratebase.¹² However, on a percentage basis, ORA includes 94% of Cal Am’s forecasted
6 UPIS balance in customers’ 2015 rates. For the second ratebase test year of 2016, ORA
7 includes 93% of Cal Am’s proposed UPIS balance.

8 ORA’s adjustments to forecasted UPIS are largely the result of ORA’s different
9 conclusions on the cost and necessity of proposed projects. ORA has also adjusted UPIS
10 balances to reflect the removal of several previously forecasted and funded projects that
11 were uncompleted at the end of 2013.¹³ As with unanticipated projects that may become
12 necessary but have not been pre-approved by the Commission, Cal Am should have the
13 opportunity in future general rate cases to seek recovery of all reasonable and prudent
14 costs for projects that are actually completed and providing service to customers.

15 In its forecast of contributions and advances, ORA has adjusted Cal Am’s
16 discretionary estimates in order to better maintain the historical ratio of contributions as a
17 percentage of total UPIS that is observed in each of the past five years of recorded data.¹⁴
18 For Cal Am’s working cash allowance, ORA corrected multiple calculation errors which
19 included the duplication of certain estimated amounts, the exclusion of actual cash
20 expenses, and the inclusion of non-cash items.¹⁵ ORA’s total forecast of contributions
21 and advances is approximately 8% greater than Cal Am’s estimate. ORA’s calculation of
22 a reasonable working cash allowance is approximately 53% lower than Cal Am’s
23 estimate.

¹² Ratebase is the estimate of the value of property upon which Cal Am is permitted an opportunity to earn its authorized rate of return of 8.41%.

¹³ See ORA’s Report on Utility Plant in Service (Mr. Menda and Mr. Lau).

¹⁴ See ORA’s Report on Ratebase (Mr. Rauschmeier).

¹⁵ *Id.*

SPECIAL REQUESTS

1 The following list highlights ORA's recommendations pertaining to Cal Am's
2 Special Requests. ORA's individual reports provide a detailed description of each
3 request and the analysis supporting the following recommendations.

- **Special Request #1:** The Commission should not allow a deviation to the interim rate relief process.
- **Special Request #2:** Determined to be outside of proceeding scope.
- **Special Request #3:** The Commission should not allow settlement proceeds to be divided and disbursed.
- **Special Request #4:** The Commission should allow a low-income assistance balancing account with certain restrictions.
- **Special Request #5:** The Commission should not allow new connection fees until support can be provided to justify proposed amounts.
- **Special Request #6:** The Commission should allow all special fees to be listed together on tariffs.
- **Special Request #7:** Request already granted by Advice Letter.
- **Special Request #8:** The Commission should allow an increase in the after-hours activation charge.
- **Special Request #9:** The Commission should allow a new fee for late-payments
- **Special Request #10:** The Commission should allow private fire rates to converge with modifications to Cal Am's proposed methodology.
- **Special Request #11:** The Commission should not allow the creation of a new balancing account for group insurance expenses.

- **Special Request #12:** The Commission should allow a reasonable forecast of courtesy billing adjustments to be included in revenue requirements.
- **Special Request #13:** The Commission should allow an increase in the purchased water costs for water delivered from the Sand City Desalination facility.
- **Special Request #14:** Determined to be outside of proceeding scope.
- **Special Request #15:** Determined to be outside of proceeding scope.
- **Special Request #16:** The Commission should not allow consumption forecasts to be updated annually.
- **Special Request #17:** The Commission should not allow different periods of amortization for rate case expenses.
- **Special Request #18:** The Commission should allow fines and penalties associated with State Water Resources Control Board's Cease & Desist Order to be tracked as a sub-account within the existing memorandum account rather than creating a new memo account.
- **Special Request #19:** The Commission should allow costs associated with advance stage rationing in Monterey to be tracked in a memo account with certain restrictions.
- **Special Request #20:** The Commission should not allow the proposed changes to tariff language for multiple general services.
- **Special Request #21:** The Commission should allow several of the proposed billing practices for compound meters and not allow certain others.
- **Special Request #22:** The Commission should allow a net salvage factor of negative 25% to accumulate funds for the Los Padres Dam.

- **Special Request #23:** The Commission should not allow the creation of a new memo account to track costs associated with Sacramento/Placer County purchased water supply.
- **Special Request #24:** The Commission should allow a new metered construction tariff for all districts.
- **Special Request #25:** The Commission should allow transfer of Duarte irrigation customers to commercial tariffs.
- **Special Request #26:** The Commission should not allow the “pilot” designation to be removed for Cal Am’s decoupling mechanism.
- **Special Request #27:** The Commission should allow Cal Am to bill Monterey wastewater customers on a monthly basis.
- **Special Request #30:** The Commission should not allow peaking charges to be recorded in the Sacramento purchased water balancing account.
- **Special Request #31:** The Commission should not allow creation of a new memo account to track the costs of capital investment related to modifications of the Placer County purchased water agreement.
- **Special Request #32:** The Commission should not allow tracking of lost revenues due to the City of Pacific Grove’s Local Water Project in existing WRAM accounts.
- **Special Request #33:** The Commission should not allow tracking of costs related to development of the Fulton Processing Plant Well in the Larkfield District.

CONCLUSION

Accordant with its statutory goal to obtain the lowest possible rates consistent with reliable and safe service levels,¹⁶ ORA analyzed the requests and calculations made by Cal Am in A.13-07-002 in order to provide the Commission with recommendations that represent the interests of ratepayers. In addition to correcting errors and discrepancies in Cal Am's application, ORA's recommendations more closely align with the data on prudent levels of actual past investment and reasonable utility expenditure.

ORA's positions on proposed rates, revenue requirements, and Special Requests in A.13-07-002 reflect its best professional judgment in achieving both its statutory goals and the mission of the Commission to protect consumers and ensure the provision of safe, reliable utility service and infrastructure at reasonable rates with a commitment to environmental enhancement and a healthy California economy.

¹⁶ California Public Utilities Code §309.5.