



## Cal Am Rate Design and WRAM Recovery Application

The CPUC should reduce Cal Am's \$40.6 million WRAM balance by \$17.4 million due to the company's mismanagement of the Monterey District's allotment-based rate design. The recoverable WRAM balance should be collected without interest.

### Cal Am Permitted Obvious Abuses that Inflated WRAM Balances

- According to Cal Am, it is "obvious that some customers are allocated more water at lower rates than intended under the rate design. [Cal Am Ex. 1, p. 19]
- Cal Am acknowledges "that the allotment process has encouraged an over-reporting of the number of individuals residing in Monterey." [Cal Am Ex. 9, p. 11]
- Cal Am reported survey responses indicating 178,103 full-time residents while separately reporting census data for 102,000 full-time residents. [ORA Ex. 104, p. 1-13]
- Misrepresentation of the number of residents in a household improperly lowered certain customer bills and **inappropriately inflated WRAM balances**. [EH Vol. 6, pp. 950-951]
- Cal Am attained corporate goodwill by providing allotments that lowered customer bills and attempted to recover the cost of this goodwill through WRAM. [ORA Ex. 104, p. 1-11]

### Cal Am Provided Inadequate Management of Allotments & Surveys

- Monterey Ordinance 92 requires Cal Am's allotment-based rate design to utilize an **accurate** survey of water users. [Cal Am Exhibit 13, Attachment 1, p. 4]
- Approved settlements require Cal Am to "take reasonable measures to identify miscategorizations" in its documentation of allotments. [D.09-07-021, Appendix A]
- Cal Am's consultant indicated that for allotment rate designs "property and household characteristics must be verified not just once, but indefinitely." [EH Vol. 4, p. 494]
- Cal Am **never** performed nor requested an audit or verification of a residential customer's property or household characteristics. [Cal Am Ex. 1, p.18; EH Vol. 3, p. 356]
- Situations in Monterey would have prompted Cal Am's own consultant to verify property information "as a matter of best practice." [EH Vol. 3, p. 496]

(over)

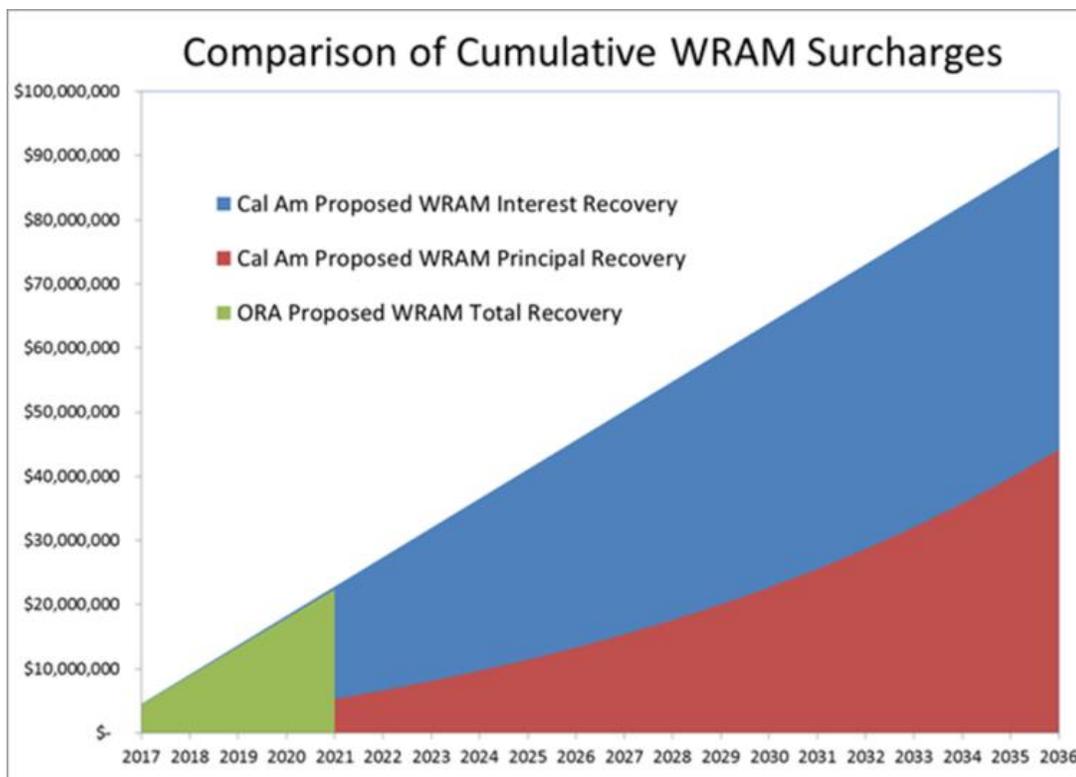


## The CPUC Should Disallow Recovery of \$17.4 Million

- Based upon known problems with allotments and surveys, Cal Am should have taken steps to verify data and correct misrepresentations. [ORA Ex. 104, Attachment 1A]
- ORA's recommended disallowance is based upon the difference between reported U.S. Census Data and the per-person allotments provided by Cal Am. [EH Vol. 6, p. 936]
- \$17.4 million is a conservative disallowance since it is calculated using average rates and does not correct for inaccurate lot size or animal allotments [ORA Ex. 104, p. 1-12]

## Recovery of the WRAM Balance Should be Without Interest

- WRAM is not "debt" that is entitled interest. Instead, based upon Cal Am's financial performance, the WRAM represents additional profit. [ORA Ex. 104, p. 2-15]
- The WRAM calculation already includes Cal Am's authorized rate of return, and allowing interest at the same rate of return would be **double recovery**. [EH Vol. 6, p. 905]
- The difference between ORA's recommended recovery and Cal Am's proposed recovery equates to about **\$1,700 in additional charges** per customer.



Source: ORA Exhibit 104, page 2-16

See ORA's Testimony at: <http://ora.ca.gov/general.aspx?id=3365>