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Decision 98-04-060 April 23, 1998

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of Application of California-American Water Company (U 210 W) for an order authorizing it to increase its rates for water service in its Monterey Division.	Application 96-03-008 (Filed March 5, 1996)

OPINION ON CALIFORNIA-AMERICAN WATER COMPANY'S PETITION FOR MODIFICATION OF DECISION 96-12-005

Introduction

In today's decision, we approve a solution proposed by our Water Division in response to a petition by California-American Water Company (Cal-Am) to modify Decision (D.) 96-12-005. The latter decision adopted an all-party settlement in Cal-Am's last general rate case (GRC) for its Monterey Division. Cal-Am and a ratepayer group known as C.A.R.P.,[1] which is the other party that participated on the issue raised by Cal-Am's petition, both accept Water Division's solution.

Background

This petition concerns the interaction of two changes that all parties had agreed to and that we approved in D.96-12-005. One change was the consolidation for ratemaking purposes of Cal-Am's Hidden Hills Subdivision with the rest of Cal-Am's Monterey Division. The other change was the creation

[1] "C.A.R.P." stands for Cal-Am Rate Payers. Although several additional parties joined in the original all-party settlement, only Cal-Am, C.A.R.P., and the Water Division chose to join discussions regarding the petition. It is common practice in Commission proceedings for third parties to take positions only on selected issues of concern to them. Thus, Water Division's solution, which is unopposed, should be given weight as an "all-party" settlement although some of the signatories to the original GRC settlement did not take a position on the petition.

for this GRC cycle of an inverted three-block quantity rate structure for single-family residential customers in the Monterey Division. Implementing Stats. 1992, Ch. 549 (AB 2815, Moore), the new rate design encourages conservation by giving residential customers more control over their water bills and by charging more for high consumption. To mitigate revenue volatility for Cal-Am, we also approved a new balancing account, the Water Revenue Adjustment Mechanism (WRAM), for this GRC cycle. (See D.96-12-005, *slip.op.*, at pp. 13-16.)

The Petition

Cal-Am's petition proposed to replace (but only within the Hidden Hills Subdivision) the inverted three-block rate structure with a flat quantity rate, set lower than any of the existing blocks, and to increase the monthly service charge. The petition proposed to retain the WRAM for Hidden Hills as well as the rest of the Monterey Division. Cal-Am argued that Hidden Hills customers had suffered undue rate shock, and that Hidden Hills drew its water independent of Cal-Am's highly constrained principal supply sources (the Carmel River and Seaside aquifers), so the rationale supporting the inverted block rate design was weaker for Hidden Hills than for the rest of the Monterey Division.

C.A.R.P. opposed the petition as drafted. C.A.R.P. asserts that conservative water consumption is important for Hidden Hills because, according to C.A.R.P., wells supplying Hidden Hills draw water that would otherwise recharge the Seaside aquifer, which is a primary source of water for the Monterey Peninsula. C.A.R.P. is also concerned that partial abandonment of the inverted three-block rate structure could result in subsidy of Hidden Hills customers by other Monterey Division customers.

Water Division also opposed the petition as drafted. However, Water Division offered a solution (below) that Cal-Am and C.A.R.P. have both endorsed.

The Solution

In brief, Water Division proposes the following:

- Cal-Am continues the inverted three-block rate structure for Hidden Hills, with monthly rates within each block (expressed as dollars per hundred cubic feet (cu. ft.)) to remain the same;

- Cal-Am modifies the rate structure so that the second block applies to consumption over 800 cu. ft. to and including 3,000 cu. ft., i.e., for the next 2,200 cu. ft. (the current rate blocks are: first block - first 800 cu. ft., second block - next 800 cu. ft., and third-block - over 1,600 cu. ft.);

- Cal-Am modifies the third block to include usage over 3,000 cu. ft.;

- Cal-Am removes the WRAM from Hidden Hills Subdivision; and

- Cal-Am audits the Hidden Hills customers using in excess of 3,000 cu. ft. per month and reminds them of the necessity of conservation.

Water Division believes that these changes to Cal-Am's petition make the requested relief conform to the principles of water conservation and revenue neutrality on which the all-party settlement adopted in D.96-12-005 is based. According to Water Division, removal of Hidden Hills from the WRAM ensures the modification will have no revenue impact on other Monterey Division ratepayers. At the same time, providing water audit information to the customers in the third block will encourage and help them to conserve water.

Discussion

We are pleased that the parties have continued the constructive dialog leading to the all-party settlement approved in D.96-12-005. The solution described above is a reasonable response to the problem of consolidating the Hidden Hills Subdivision with the rest of Cal-Am's Monterey Peninsula

customers. In particular, we emphasize the principle, to which the solution adheres, that all of Cal-Am's Monterey Peninsula customers must be part of the conservation efforts that are vital to any long-term water supply strategy for the Peninsula.

C.A.R.P. expresses concern that the Hidden Hills audit program may not go far enough to encourage conservation. C.A.R.P. points to data indicating that (1) there are proportionally more "heavy water users" in Hidden Hills than in, e.g., Carmel Valley, and (2) while there has been a general rebound in water consumption on the Monterey Peninsula during the recent post-drought years, the increased consumption in Hidden Hills has been particularly dramatic (roughly a 45% increase between reporting years 1994-95 and 1996-97). We think this concern should be addressed in Cal-Am's next GRC for the Monterey Division, where we will also review the results of the new rate design and of Cal-Am's conservation efforts generally.

Findings of Fact

1. In D.96-12-005, the Commission directed the consolidation for ratemaking purposes of Cal-Am's Hidden Hills Subdivision with the rest of Cal-Am's Monterey Division. The Commission also approved a new rate design intended to encourage water conservation by giving residential customers more control over their water bills and by imposing higher volumetric charges for higher increments of water consumption.

2. Cal-Am and the parties responding to Cal-Am's petition (i.e., C.A.R.P. and Water Division) all agree that, as proposed by Water Division, the consolidation of the Hidden Hills Subdivision can be eased by modifying the second and third blocks of the inverted three-block rate structure while keeping unchanged the rates charged for each block. The parties also agree that Cal-Am should remove the Hidden Hills Subdivision from the WRAM, and that Cal-Am should perform

water audits for Hidden Hills customers whose water consumption places them in the third block.

3. The modifications and other actions described in Finding of Fact 2 are consistent with the principle that all of Cal-Am's Monterey Peninsula customers must be part of the conservation efforts that are vital to any long-term water supply strategy for the Peninsula.

Conclusions of Law

1. The inverted three-block quantity rate structure, adopted for single-family residential customers in Cal-Am's Monterey Division for this GRC cycle, implements legislative direction to promote water conservation (among other objectives) through rate design.

2. The solution proposed by Water Division addresses the problem of consolidating the Hidden Hills Subdivision with the rest of Cal-Am's Monterey Peninsula customers while retaining the new rate design and promoting water conservation.

3. This order should take effect immediately so that the changes directed for the Hidden Hills Subdivision can be implemented as soon as possible.

O R D E R

IT IS ORDERED that:

1. As soon as possible after the effective date of this order, California-American Water Company (Cal-Am) shall file an advice letter, in compliance with General Order 96-A, to effect the "Solution" for the Hidden Hills Subdivision as described in Finding of Fact 2, Conclusion of Law 2, and the body of today's decision.

2. To the extent that Cal-Am's petition to modify Decision (D.) 96-12-005 is inconsistent with Ordering Paragraph 1, the petition is denied.

3. Cal-Am shall include, in the study directed in Ordering Paragraph 10 of D.96-12-005, an analysis of the impact of today's decision, and in particular the impact of Cal-Am's water audits of heavy water users in the Hidden Hills Subdivision.

4. This proceeding, which was reopened to consider Cal-Am's petition to modify D.96-12-005, is again closed.

This order is effective today.

Dated April 23, 1998, at Sacramento, California.

RICHARD A. BILAS
President
P. GREGORY CONLON
JESSIE J. KNIGHT, JR.
HENRY M. DUQUE
JOSIAH L. NEEPER
Commissioners