

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Application of California Water Service
Company (U60W) for Authority to
Establish its Authorized Cost of Capital for
the period from January 1, 2012 through
December 31, 2014.

And Related Matters.

A.11-05-001
(Filed May 2, 2011)

A.11-05-002
A.11-05-003
A.11-05-004

**MOTION OF CALIFORNIA-AMERICAN WATER COMPANY FOR
AUTHORIZATION FOR A MEMORANDUM ACCOUNT TO TRACK AND RECOVER
THE DIFFERENCE BETWEEN CURRENT AND FINAL RATES**

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I. INTRODUCTION

In accordance with Rule 11.1 of the California Public Utilities Commission's ("Commission") Rules of Practice and Procedure, Public Utilities Code Section 455.2, and the Commission's Rate Case Plan (D.07-05-062),¹ California-American Water Company ("California American Water") hereby files this request for authorization to file a Tier 1 advice letter to establish a memorandum account to track, beginning January 1, 2012 the difference between the then-authorized rates based on the most recent cost of capital authorized for California American Water in D.09-05-019, and the final rates reflecting the new cost of capital adopted in this proceeding.²

¹ D.07-05-062, *Order Instituting Rulemaking to Consider Revisions to the General Rate Case Plan For Class A Water Companies*, 2007 Cal. PUC LEXIS 226.

² The "final rates" should reflect the rate base adopted in California American Water's general rate case, A.10-07-007. The rate base adopted in that proceeding will be effective January 1, 2012.

II. BACKGROUND

On May 1, 2011, California American Water filed Application 11-05-003, in which it requested that the Commission authorize its proposed cost of capital for utility operations for the period from January 1, 2012 to December 31, 2014.³ California American Water's application was consolidated with the applications for California Water Service, Golden State Water Company, and San Jose Water Company. Under the Rate Case Plan, the goal for the consolidated cost of capital proceedings is for the Commission to issue a decision that will allow the utility to implement new rates including the new cost of cost of capital on the first day of the test year, in this case, January 1, 2012.⁴ The current procedural schedule, however, indicates that the Commission will not issue a decision until January 26, 2012.⁵

Since California American Water will not be able to implement rates reflecting the new cost of capital on the first day of the test year, it seeks to establish the memorandum account to track, beginning on January 1, 2012 the difference between the then-authorized rates⁶, which reflect the cost of capital adopted in D.09-05-019,⁷ and the rates including the new cost of capital adopted in this proceeding, that should have been effective on January 1, 2012. The final rates as a result of this proceeding should be calculated using the rate base to be adopted in A.10-07-007. California American Water will file a second Tier 1 advice letter for recovery of the interim rate true-up balance in the memorandum account after final decisions have been issued in this

³ A.11-05-003, p. 1.

⁴ "The Commission will process these cost of capital proceedings in a timely fashion and promptly incorporate the results into pending or existing rates. The schedule will be set with the goal of having a final decision within six months." D.07-05-062, 2007 Cal. PUC LEXIS 226, **24-25.

⁵ Assigned Commissioner and Administrative Law Judge's Ruling and Scoping Memo, A.11-05-00 (September 13, 2011), p. 6

⁶ The "then-authorized" rates for the purposes of this request will be the rates retro-actively effective as of January 1, 2012 as a result of the final decision in A.10-07-007. See A.10-07-007, Revised Administrative Law Judge's Ruling Granting Interim Rates, dated October 25, 2011.

⁷ D.09-05-019, Application of California Water Service Company (U60W) for Authority to Establish its authorized Cost of Capital for the period from January 1, 2009 through December 31, 2011, and Related Matters, 2009 Cal. PUC LEXIS 233.

proceeding and in the general rate case.

As demonstrated below, the requested memorandum account is in keeping with the Public Utilities Code and Commission precedent and the requested relief is in the public interest.

III. JUSTIFICATION FOR RELIEF

A. The Public Utilities Code Supports California American Water's Request

Section 455.2 of the California Public Utilities Code directs the Commission to issue its decision in a water utility general rate case "in a manner that ensures that the commission's decision becomes effective on the first day of the first test year" and provides for interim relief if the Commission is unable to do so.⁸ When Section 455.2 was enacted in 2002, cost of capital was reviewed as part of each utility's general rate case, and the statute provided protection against any delays in adopting a new cost of capital. Although the Commission in the 2007 Rate Case Plan decision established triennial cost of capital proceedings separate from the general rate cases,⁹ Section 455.2 applies to these proceedings. Although Section 455.2 provides for interim rates, implementation of interim rates in this proceeding would be administratively burdensome and potentially confusing to customers because of their likely short duration (the expected decision date is January 26, 2012) and because interim rates are being implemented in the general rate case proceeding. Tracking the difference between current and final rates in this proceeding in the requested memorandum account is more efficient.

B. Commission Precedent Supports Authorizing the Memorandum Account

The Commission has previously authorized water utilities to track the difference between current and final cost of capital rates in memorandum accounts. In D.09-12-019 the Commission found that it was "reasonable to authorize a memorandum account...[to] allow the applicants to recover the difference between current rates based on the most recent cost of capital authorized

⁸ Pub. Util. Code § 455.2(a)-(b).

⁹ D.07-05-062, 2007 Cal. PUC LEXIS 226, *22-25.

for each company, and a new cost of capital.”¹⁰ Similarly here, where the procedural schedule established in the Scoping Ruling specifically states that a final decision will not issue until January 26, 2012, California American Water’s request for a similar memorandum account is reasonable and should be granted.

C. Interim Rate Relief is in the Public Interest

Granting the relief requested in this motion is in the public interest and consistent with prior Commission decisions in which the Commission determined that interim rate relief was reasonable to ensure that water utilities experiencing delays in their rate cases were not financially harmed. Most notably, in D.03-12-007, the Commission held that “[i]t is reasonable to ensure, to the extent possible, that the company is not financially harmed for [procedural delays in general rate case proceedings].”¹¹ The Commission should similarly ensure that California American Water is not penalized for procedural delays that may prevent California American Water from implementing new rates that reflect its actual cost of capital.

The Commission has also recognized that procedural delays “should not result in either the utility foregoing revenues necessary for just and reasonable rates or the ratepayers less (or more) than reasonable rates.”¹² As these cases recognize, the public interest is served by granting interim rate relief in situations similar to that of California American Water here.

IV. CONCLUSION

For the foregoing reasons, California American Water requests that, should the Commission be unable to issue final decision on this Application by the end of 2011, the

¹⁰ D.09-12-019, Application of San Jose Water Company (U168W) for Authority to Determine its Cost of Capital and to Apply that Cost of Capital in Rates for the Period From January 1, 2010 through December 31, 2012, and Related Matters, 2009 Cal. PUC LEXIS 608, **3-4.

¹¹ D.03-12-007, Application of California Water Service Company (U 60 W), a Corporation, for an Order Authorizing It to Increase Rates Charged for Water Service at Each of Its Operating Districts to Recover Increased Operating Expenditures at Its General Office, and Related Matters, 2003 Cal. PUC LEXIS 582, **3-4 (finding that procedural delays were made to accommodate DRA and as such the water utility should not be punished for cooperating with DRA).

¹² D.03-04-033, 2003 Cal. PUC LEXIS 235, *5.

Commission should authorize California American Water to file a Tier 1 advice letter for a memorandum account to track, beginning January 1, 2012 the difference between the then-authorized rates and the final rates adopted in this proceeding. The final rates in this proceeding should be based on the rate base adopted in California American Water's general rate case, A.10-07-007.

Dated: October 31, 2011

Respectfully submitted,

By: /s/ Lori Anne Dolqueist
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