

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.	Application 11-05-001 (Filed May 2, 2011)
In the Matter of the Application of San Jose Water Company (U168W) for Authority to Adjust Its Cost of Capital and to Reflect That Cost of Capital in Its Rates for the Period from January 1, 2012 through December 31, 2014.	Application 11-05-002 (Filed May 2, 2011)
Application of California-American Water Company (U210W) for an Authorized Cost of Capital for Utility Operations for 2012 - 2014.	Application 11-05-003 (Filed May 2, 2011)
Application of Golden State Water Company (U133W) for Authority to Establish Its Authorized Cost of Capital and Rate of Return for Utility Operations for 2012 - 2014.	Application 11-05-004 (Filed May 2, 2011)

**RESPONSE OF CALIFORNIA WATER SERVICE COMPANY (U-60-W)
TO MOTION OF THE DIVISION OF RATEPAYER ADVOCATES
FOR INTERIM RATES**

NATALIE D. WALES
1720 North First Street
San Jose, California 95112
(408) 367-8566
nwales@calwater.com

Attorney for
CALIFORNIA WATER SERVICE COMPANY

Dated: December 13, 2011

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I. INTRODUCTION

Pursuant to Rule 12.1 of the Commission's Rules of Practice and Procedure ("Rules"), California Water Service Company ("Cal Water") submit this Response to the motion of the Division of Ratepayer Advocates ("DRA") for interim rates ("Motion") filed on December 9, 2011. Specifically, DRA requests authorization for a memorandum account for Cal Water to track and recover the difference between current rates, and the final rates that will result from a final decision in this proceeding, with interim rates beginning on January 1, 2012.¹

¹ DRA makes the same request for San Jose Water Company and Golden State Water Company, along the lines of the October 31, 2011 motion of California American Water Company requesting a memorandum account to track the difference between current and final rates.

Cal Water does not oppose DRA's Motion, but requests that the Commission also authorize Cal Water to close its Temporary Interest Rate Balancing Account ("TIRBA") to new entries as of December 31, 2011. However, Cal Water proposes that the TIRBA continue to earn interest at the standard 90-day commercial paper rate until it can be amortized consistent with a final Commission decision in this case.²

II. DISCUSSION

The Commission adopted the TIRBA for Cal Water and other applicants in D.09-05-019 on its own motion in order to "remove the uncertainty of debt financing costs during the current financial market and credit dislocation."³ The TIRBA tracks the difference between actual debt interest costs and the interest costs included in the cost of capital adopted for Cal Water in D.09-05-019.⁴ The Commission identified the duration of the TIRBA as follows:

[The TIRBA] account shall include interest costs from the effective date of this decision forward and remain in effect until the next cost of capital proceeding for each company, in an appropriate venue, to end the balancing account. Any recovery shall be subject to a standard reasonableness review of the interest costs actually incurred. D.09-05-019, *mimeo*, at 42.

In its Application, Cal Water requested that its TIRBA be discontinued with the adoption of a new cost of capital.⁵ DRA did not oppose this request.⁶ Furthermore, in the proposed Settlement Agreement submitted on November 2, 2011, DRA and Cal Water agreed that the TIRBA should be closed upon the effective date of a final decision in this case.⁷

² Because DRA and Cal Water agree that there is a positive balance in the TIRBA that must be returned to ratepayers, albeit with early disagreements on the specific balance, additional interest on the TIRBA balance as proposed by Cal Water will inure to the benefit of ratepayers.

³ D.09-05-019, *mimeo*, at 47 (Finding of Fact 29).

⁴ *Id.* at 41.

⁵ CWS Exhibit 7 (CWS/Kropelnicki Direct) at 31 (lines 8-9).

⁶ DRA Exhibit 3 (DRA/Kotyrla) at 20 (lines 14-16).

⁷ Settlement Agreement at 3-4 (Section 3.1).

If the Commission now grants DRA's Motion and authorizes a memorandum account to track the difference between current and final rates beginning January 1, 2012, Cal Water also requests that the TIRBA be closed to new journal entries as of December 31, 2011. This would mean that, after December 31, 2011, Cal Water would no longer track in the account any differences between the cost of debt authorized for Cal Water in D.09-05-019, and its actual cost of debt.

It is reasonable to close the TIRBA to new entries when a new cost of capital goes into effect because the debt cost authorized in D.09-05-019, the baseline against which actual debt costs are compared in the TIRBA, will be replaced with a new authorized cost of debt. This would also be consistent with the Commission's stated intent for the TIRBA when the account was originally adopted, which was that it "should terminate with the next cost of capital proceeding."⁸ In addition, Cal Water's proposal is not inconsistent with the proposed Settlement Agreement in which DRA and Cal Water agreed that the company's TIRBA should be discontinued "effective with a final decision in A.11-05-001 et al." Cal Water is merely proposing here that, if the effective date of the final decision is applied retroactively to January 1, 2012, so should closure of the TIRBA to new entries.

Finally, while DRA and Cal Water also stipulated in the proposed Settlement Agreement that a balance of \$1,141,919 in the TIRBA that should be amortized over twelve months via a customer surcredit, Cal Water nevertheless agrees that the TIRBA balance should continue to accrue interest pending the Commission's consideration of the proposed Settlement Agreement. Therefore, Cal Water proposes that, until the TIRBA is amortized per Commission decision, the account should continue to accrue interest at the standard 90-day commercial interest rate.

⁸ D.09-05-019, *mimeo*, at 48 (Conclusion of Law 11).

III. CONCLUSION

Cal Water respectfully requests that the Commission close Cal Water's Temporary Interest Rate Balancing Account to new entries upon the effective date of a new cost of capital in this proceeding. Accordingly, if the Commission grants DRA's request for interim rates beginning January 1, 2012, additional entries to Cal Water's TIRBA should cease on December 31, 2011, and interest at the 90-day commercial paper rate should be applied until final disposition of the account.

Dated: December 13, 2011

Respectfully Submitted,

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Attorney for
CALIFORNIA WATER SERVICE COMPANY