

August 11, 2006

Via E-Mail

Jonathan P. Tom
Water Division
California Public Utilities Commission
505 Van Ness Ave.
San Francisco, CA 94102

Re: Reply Comments on Water Action Plan and Rate Case Plan

Dear Mr. Tom:

As provided in the July 7, 2006 letter from Kevin Coughlan, Director of the California Public Utilities Commission Water Division, California-American Water Company (“California American Water”) hereby provides its reply comments on methods to implement the Water Action Plan and improve the Rate Case Plan. California American Water reviewed the comments of the Division of Ratepayer Advocates (“DRA”), California Water Association, Park Water Company and Suburban Water Systems. These comments include many helpful suggestions and provide fertile ground for further discussion in workshops or as part of a rulemaking on the Rate Case Plan.

California American Water does object, however, to DRA’s proposal to wait to open rulemaking proceedings to address implementation of each Water Action Plan objective, and therefore will comment on that proposal in this letter. California American Water believes that waiting for rulemaking proceedings to address the Water Action Plan objectives will unnecessarily delay review and authorization of programs designed to: 1) maintain highest standards of water quality, 2) strengthen water conservation programs to a level comparable to those of energy utilities, 3) promote water infrastructure investment, 4) assist low income ratepayers, 5) streamline Commission regulatory decision-making, and 6) set rates that balance investment, conservation, and affordability. As discussed in more detail below, individual general rate cases provide the best opportunity to address the Water Action Plan objectives.

DRA argues that rulemaking proceedings to “establish rules, regulations or guidelines” for all Class A water companies is the best way to implement the Water Action Plan objectives. (DRA Comments, p. 2; see CPUC Rule 14.2(a).) Implementation of the Water Action Plan objectives, however, is not necessarily best achieved through “one size fits all” rules. The Water Action Plan provides the overriding policy objectives. Now it is up to the companies to propose implementation plans that best meet the different needs of the customers of each particular company or district. Different methods may be necessary to implement the Water Action Plan objectives based on the size or specific requirements of a water company or district. The best place to make and evaluate these proposals is in the individual general rate cases.

DRA also claims that “[i]ntroducing additional issues such as the six [Water Action Plan] objectives in the general rate case cycle without a prior Commission proceeding, has the potential to delay the schedule to approve rate increases within the restricted time schedule for making those decisions.” (DRA Comments, p. 2.) The Water Action Plan objectives are not, however, “additional issues.” Water quality, water conservation, infrastructure investment, rate design, and balancing investment and affordability are all issues that the Commission traditionally addresses in general rate cases. As DRA itself admits, many Water Action Plan proposals are related and should be considered together. If these proposals are considered as part of a general rate case the Commission will be able to evaluate their combined impact, rather than addressing them piecemeal through individual rulemakings. Additionally, most, if not all, of the Water Action Plan objectives have a rate component, which means that they should be addressed as part of the general rate cases, not as separate applications as DRA suggests as an alternative to rulemakings.

As California American Water has noted in its own general rate case, the time is now to implement the Water Action Plan objectives. DRA’s suggestions would unnecessarily delay the adoption of innovative proposals that would benefit the Commission, customers and water companies.

California American Water appreciates this opportunity provide input on ways to improve the Rate Case Plan while advancing the objectives of the Water Action Plan. California American Water looks forward to further addressing these issues in workshops or as part of a Rulemaking on the Rate Case Plan.

Very truly yours,

/S/ David P. Stephenson

David P. Stephenson

California-American Water Company

cc: Kevin Coughlan
Recipients of July 7, 2006 Letter