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October 11, 2006

Mr. Kevin Coughlan
Director, Water Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Re: Post-Workshop Comments of California Water Association on Issues for Class A Water Utilities Rate Case Plan OIR (Phase 2)

Dear Kevin:

California Water Association (CWA) again expresses its appreciation to the Water Division for hosting the Workshop on Water Action Plan Implementation and Rate Case Plan Improvement on September 27th. Please convey our special thanks to Sean Wilson, Steven Haine and Jonathan Tom for facilitating the workshop.

As discussed at the workshop, participants have been directed to clarify and make final comments on issues related to the implementation of the Water Action Plan and improvements to the Rate Case Plan for Class A water utilities, as set forth in the issues matrix discussed at the workshop. The following represents CWA's final pre-OIR comments on these matters:

1. New Rulemaking to Be Focused on Improvements to Rate Case Plan.

During the course of refining the issues matrix at the workshop, it became clear to CWA and the Class A water companies present (as well as to DRA, we believe) that the new OIR should be focused on reviewing the existing Rate Case Plan and on adopting improvements to the plan that will streamline and improve the process by which just and reasonable rates for water utility service are established. Thus, the new OIR should focus on Rate Case Plan processes, with established Commission policy (such as the Water Action Plan) providing the blueprint for GRC procedures. The Commission's adoption in D.04-06-018 of a new Rate Case Plan for Class A water utilities represented a significant step forward in achieving a number of objectives that the Commission further articulated in the Water Action Plan (streamlining regulatory decision making and setting rates that balance investment, conservation and affordability, for example). The new OIR should be focused on refining the new Rate Case Plan to further achieve these objectives.

2. Water Action Plan Implementation.

As stated in my opening comments at the workshop, CWA considers the Water Action Plan to represent broad, fundamental Commission policy and, as such, does not require further refinement in a generic proceeding. As also was

discussed at the workshop, many (if not all) of the Water Action Plan items currently are being implemented in individual water utility general rate cases. Given the diversity of Class A water utilities – in terms of size, geography, and water resources, among other factors – the individual general rate case proceedings are the appropriate venue for determining how to implement the various Water Action Plan items. CWA does not wish to see the progress utilities are making on the various Water Action Plan items delayed or impeded, as it could be, if the Commission institutes a generic proceeding on implementation of the Water Action Plan. As stated above, the new OIR should focus on adopting procedural improvements to the Rate Case Plan for Class A water utilities.

3. Institutionalizing the Commission's Exercise of Its Water Quality Jurisdiction in the Rate Case Plan.

As it did at the workshop, CWA emphasizes that the Commission's exercise of its jurisdiction over water quality matters must be further institutionalized and that the appropriate vehicle for doing so is the Rate Case Plan. In 2002, in *Hartwell Corp. v. Superior Court*, the California Supreme Court reviewed the Commission's assertion of jurisdiction over water quality matters for investor-owned water utilities and confirmed the Commission's actions and its jurisdiction in this area – so long as the Commission exercised "continuing jurisdiction" over such water quality matters.

The Commission should continue the exercise of its water quality jurisdiction by mandating that all aspects of water quality – including the monitoring and reporting of water quality, the costs involved in testing water, and the capital investments necessary to ensure adequate water quality – be incorporated into the GRC process. Institutionalizing the Commission's exercise of its continuing jurisdiction over water quality matters through individual company GRCs is consistent with one of the major objectives of the Water Action Plan: to maintain the highest standards of water quality. The precise procedures for incorporating all aspects of water quality into the GRC process should be discussed and determined in the new OIR for the Rate Case Plan.

4. Confirmation of CWA Rankings for Issues Matrix.

During the workshop, many changes were made by many participants to their rankings of the issues set forth in the Issues Matrix. These changes resulted from clarification during the workshop of exactly what the rankings were supposed to represent. CWA's understanding of the rankings is that an "A" represents its recommendation that an issue be included in the new OIR for the Rate Case Plan, and that a "C" indicates its position that an issue not be included in the new OIR. A "B" indicates that CWA does not feel strongly one way or the other that an issue be included in the new OIR. Consistent with this

understanding, CWA emphasizes that its assignment of a "B" or a "C" to an issue on the matrix does not indicate its position that the issue is not an important issue, or that the "A" issues are necessarily more important issues. The individual designations simply reflect CWA's position that the issues should or should not be addressed in the forthcoming OIR on improvements to the Rate Case Plan for Class A water utilities.

With the foregoing explanation, CWA submits the attached table confirming its final rankings of the issues on the Matrix.

One final item to be addressed is the request made at the workshop that parties comment on whether the "Water Action Plan Checklist" you issued in July should be included as a subject in the new OIR as well as what items should or should not be on the checklist. CWA believes that the Water Action Plan Checklist should not be a subject in the new OIR. It is our understanding that the checklist items are intended for addressing implementation of the WAP in each company's GRC, pursuant to each case's specific facts. This practice is consistent with our earlier statement regarding individual general rate cases as being the appropriate venue for implementing Water Action Plan items. The individual company general rate case approach also will allow the Commission to determine how best to implement its Water Action Plan policy based on the particular circumstances for each water utility. Since the checklist is already being applied in individual company general rate cases, including it in the new OIR would be redundant. Thus, CWA respectfully recommends that the Water Action Plan Checklist not be included as a subject in the new OIR.

CWA looks forward to participating further in the new rulemaking proceeding to adopt improvements to the Rate Case Plan for Class A water utilities. Should you or your staff have any questions concerning CWA's final, pre-OIR comments please do not hesitate to contact me.

Sincerely,

John K. Hawks
Executive Director

Enclosure

cc w/ enc: Jonathan Tom, Water Division (by electronic mail)
Steven K. Haine, Water Division (by electronic mail)
Service Lists in R.03-09-005 and R.06-04-010 (by electronic mail)

CPUC WORKSHOP: RATE CASE PLAN ISSUES

GENERAL RATE CASE

	ISSUES	CWA RANKING *	CWA COMMENTS **
1	Streamline and standardize	A	Reply to DRA: Against DRA's one-size-fits-all approach of standardizing GRC applications, but supports a non-mandatory Results of Operations template. (p.2)
2	Consolidated filings	A	Permit multidistrict companies (3 or more districts) to file consolidated GRCs (p.4) Reduce total number of GRCs – consolidate GRC filing for some multi-district companies to reduce total number of cases. (p.5)
3	Rate of return and cost of capital	A	For companies with 3 or more districts: Cost of Capital - only one cost of capital filing every three years, and one uniform cost of capital for all districts. (pp.3-4)
4	Schedule	C	
5	Number of filings	A	Suggest making formal filing of proposed application informal to be submitted to staff only. (p.1)
6	Deficiency	A	More objective criteria to determine whether filing is complete. (p.2) "Deficiency" needs to be more objectively applied per RCP footnote 4. Neutral party such as Water Div. or docket office instead of an adverse party (DRA) should determine completeness, with ALJ as judge to resolve disputes. (p.2)
7	Interim rates	A	Interim Rates – if delayed due to Commission action, water company should be allowed to file for interim rates based on current rates and inflation. When settlement reached should get full interim rate increase immediately and not just rate based on inflation. (pp.4-5)
8	Master Data Request (MDR)	B	Replace Master Data request with more targeted data requests. (p.3)
9	Report and application format	A	DRA should also cross-reference their reports and testimonies as utility is required to do. (p.3)
10	Cost recovery	A	Escalation year increase in insurance costs – RCP should allow for tracking and recovery of health care and other insurance costs more often than every 3 years. (p.6)

* CWA's priority rankings do not reflect its views of the importance of any items *per se*. Rather, the rankings address whether the new Rate Case OIR is the appropriate venue for consideration of these items.

** Reproduced from the Workshop Issues Matrix.

CPUC WORKSHOP: RATE CASE PLAN ISSUES

	ISSUES	CWA RANKING	CWA COMMENTS
11	Update rules	C	Reply to DRA: Existing RCP is already sufficiently restrictive regarding the types of updates and changes a water utility may submit in the course of a GRC. (p.3)
12	Discovery process	C	Reply to DRA: Objects to DRA proposal of "negative presumption" whenever there is a delay in response to discovery. Focused, targeted discovery will ensure timely response. (p.3)
13	Limiting rebuttal	C	Reply to DRA: Existing RCP is already sufficiently restrictive in the limited time permitted for preparation of rebuttal testimony. (p.3).
14	Staff training	C	
15	PPH	C	
16	Stipulations	A	Allow more time and opportunity for settlement negotiations and informal discussion of disputed issues. (p.7)
17	Scoping memo	C	Scoping Memo should set forth all issues relating to the utility and compatibility with the Utility's DWR Water Management Plan, among other issues addressed in WAP. (p.3)
18	Water quality report	A	Include report on Water Quality with application (p.4)
19	Staff report	A	Public preview of staff report - wants draft copy of staff report and then meet-and-confer session with WD staff before issuance of final staff report. (p.7) so can meet & confer, within existing schedule.
20	Alternative dispute resolution (ADR)	A	Supports Alternative Dispute Resolution ("ADR"). (p.7)
21	WAP checklist	C	Being implemented in individual company GRCs.

CPUC WORKSHOP: RATE CASE PLAN ISSUES

CONSERVATION

	ISSUES	CWA RANKING	CWA COMMENTS
1	WRAM	C	Policy more than procedural and already being addressed in GRCs.
2	Rate design	C	
3	Metering	C	
4	Conservation	C	
5	Efficient use	B	
6	Avoided cost	C	
7	Programs	C	
8	Waste water	C	
9	Demand reduction	C	
10	Rate base treatment	C	
11	CUWCC	B	
12	Energy utilities	B	
13	Company-wide tariff	C	
14	Shortage allocation policy	B	
15	Investment	B	
16	Low income ratepayers	C	
17	Energy use	B	Consensus necessary on criteria/benchmarks. How to measure & achieve goal.
18	Water losses	B	
19	Best management practices	B	
20	Annual report	C	
21	Public education	C	

CPUC WORKSHOP: RATE CASE PLAN ISSUES

WATER QUALITY

	ISSUES	CWA RANKING	CWA COMMENTS
1	Meeting with DHS	A	
2	Memorandum accounts	A	
3	Report in GRC	A	Include water quality report in GRC. (p.4)
4	Designated CPUC contact	A	mportant to lend weight to these aspects of WAP. Looking for venue to discuss.
5	Small companies	B	

CPUC WORKSHOP: RATE CASE PLAN ISSUES

INFRASTRUCTURE IMPROVEMENT

	ISSUES	CWA RANKING	CWA COMMENTS
1	Funding	A	
2	Capital planning	C	
3	Annual allowance	B	
4	AFUDC	C	
5	Memorandum accounts	A	

CPUC WORKSHOP: RATE CASE PLAN ISSUES

LOW INCOME

	ISSUES	CWA RANKING	CWA COMMENTS
1	Statewide pool	B	
2	Sub-metering	C	

CPUC WORKSHOP: RATE CASE PLAN ISSUES

RATEMAKING

	ISSUES	CWA RANKING	CWA COMMENTS
1	Objectives	C	
2	General office expense	A	GO expenses for multidistrict companies should be based on year in which rates are reviewed. (p.4)
3	Escalation year earnings test	A	Earnings test – escalation year rate adjustment earnings test should be eliminated. (p.5)
4A	Escalation year earnings test.	A	If escalation year earnings test is not eliminated, a "rate base test" should be used.
4B	Escalation year earnings test.	A	Rate of return should be based on the district only and not the lower of district's ROR and the overall company's ROR. (p.5)
5	CWIP in rate base	B	
6	Reimbursement of CWIP	B	

CPUC WORKSHOP: RATE CASE PLAN ISSUES

REPORTING REQUIREMENT

	ISSUES	CWA RANKING	CWA COMMENTS
1	Reporting requirement	C	

CPUC WORKSHOP: RATE CASE PLAN ISSUES

WATER ACTION PLAN

	ISSUES	CWA RANKING	CWA COMMENTS
1	Workshops and rulemaking	B	
2	Workshops and rulemaking	B	Reply to DRA: Objects to DRA's rulemaking approach for WAP as too one size fits all. (p.2) ********** Reply to DRA: workshops not necessary in the early stages because OIR will identify issues to be addressed. However workshops may be helpful in the end stages of an OIR. (p.3) ********** Reply to DRA: Rulemaking is proper procedure to consider changes to procedural aspects of RCP.
3	How to implement the WAP	A	Any implementation plan should not stop current GRC proceedings that are in progress and that are addressing the WAP issues.
4	Outlining objectives	C	
5	Power use reduction, Conservation Item 17	B	
6	Drafting an OIR	B	
7	Using an OIR	B	GRC (not OIR) is appropriate venue.