

October 11, 2006  
VIA Fax Transmission

Mr. Kevin P. Coughlan  
Director  
Water Division  
California Public Utilities Commission  
505 Van Ness Avenue, Room 3102  
San Francisco, CA 94102-3298

Re: Water Action Plan Implementation and Rate Case Improvement:  
Comments for the Record of the Workshop of September 27, 2006  
Regarding Priorities for an OIR

Dear Mr. Coughlan:

The following comments and recommendations are jointly submitted by the signatories ("Joint Signatories") and are directed to Water Action Plan implementation, and more specifically, implementation of the water conservation elements of the Water Action Plan (WAP). Individual signatories may be providing separate and additional views regarding Rate Case Plan improvements and other matters pertaining to the WAP.

As noted in our letter to the Commission on July 25, 2006, we continue to support "prompt and timely actions to implement the Commission's Water Action Plan (WAP) objective to strengthen water conservation programs." With each passing month, the combined effects of population growth, economic expansion, urban development and redevelopment, and climate change make the improvement of water use efficiency all the more critical for the citizens and the economy of California. State-regulated investor-owned water companies have a valuable contribution to make to this important effort.

Even without the initiation of a formal rulemaking, the Water Action Plan (and specifically, the water conservation elements of the WAP) appears to be permeating Commission proceedings for Class A water companies. Shortly before we filed our last joint letter, the Water Division issued a Water Action Plan "Check List" on July 19 that called upon all Class A companies to submit plans and proposals that would support more effective and systematic water conservation activity. These submissions are to be included in all Class A GRC filings or in separate applications.

On September 27, the day of the above-captioned workshop, Judge Walwyn issued a ruling directing California Water Service Company to respond in detail to the Water Division's Check List as part of its pending GRC applications. Thus, the Commission has now embraced the Check List as a means to secure full consideration of salient elements of the WAP in Class A rate cases.

Key water conservation issues are now headed directly toward adjudication by the Commission in pending Cal Am and Cal Water Service rate cases and in a major policy application recently filed by Golden State Water Company. We believe that this regulatory

progress should not be delayed or diverted by sequestering these issues into a new rulemaking that is likely to take 18 to 24 months to complete. As noted in our July 25, 2006 joint letter, implementation of these conservation measures is already long overdue.

As also indicated by our July 25 joint letter, the three signatory companies are committed to the implementation of a range of water conservation measures even beyond those enumerated in the Check List. The three signatory companies represent approximately 50% of the water customer base regulated by the CPUC. Under these circumstances, the most constructive path for the Commission to take to implement the water conservation elements of the WAP is to render timely decisions on the applications that the three companies now have before the Commission. Public notice and comment on the proposed orders in these cases will allow all interested parties to be heard.

With regard to the priorities to attach to water conservation matters for consideration in a forthcoming OIR, we recommend that any such rulemaking dealing with water conservation be directed to issues that will be ripe for consideration and implementation after the 2006-08 GRC cycle has run its course. These include –

- 1) Second generation tiered rate designs for post-2008 implementation (matrix issue 2);
- 2) The determination of the avoided cost of conserved water, and its role in fashioning post-2008 conservation programs (matrix issue 6);
- 3) Financial incentives beyond revenue adjustment mechanisms to encourage water conservation (matrix issue 9);
- 4) Revised procedures for accounting for and reducing water losses (matrix issue 18);
- 5) Approaches for water companies to help facilitate the volumetric pricing of wastewater service throughout their respective water service areas (matrix issue 8);
- 6) Water company energy reductions in the post-2008 period (matrix issue 17).

Joint Signatories have identified each of these issues as important areas to be addressed in a second phase of water conservation program development. As indicated in our July 25 letter, we are committed to begin work on these matters now, as well as through inclusion in an OIR as described above, which could provide a framework for discussion with additional interested stakeholders.

Thank you for your consideration of these views, and for your actions to expedite the implementation of the Commission's policies to advance water conservation in California.

Sincerely,

California American Water Company  
California Water Company  
Golden State Water Company  
Natural Resources Defense Council  
Mono Lake Committee  
[Signatures follow below]

cc: Steve Larson, Executive Director  
Dana Appling, Director of the Division of Ratepayer Advocate

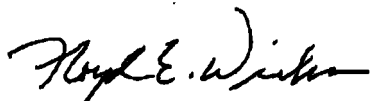
Danilo Sanchez, Manager, DRA Water Branch  
Jonathan P. Tom, Water Division

Signatories:

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Peter Nelson, President  
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Floyd E. Wicks, President  
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Frances Spivy-Weber  
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Edward R. Osann, on behalf of  
Ronnie Cohen, Senior Policy Analyst  
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