

July 31, 2006

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

Subject: Your Letter to Class A Water Companies dated July 7, 2006

Dear Mr. Coughlan,

Park Water Company (Park) fully supports the objectives of the Water Action Plan (WAP) especially the CPUC efforts to increase water conservation and assistance to low income ratepayers. In order to facilitate the implementation of WAP objectives, Park recommends that these objectives be addressed in individual water company GRCs.

Park further recommends that the advice letter process be used to the extent possible to implement WAP objectives. For example, should the CPUC grant all Class A water companies a water revenue adjustment mechanism (WRAM), the advice letter process would be the most effective and immediate means to implement a WRAM.

Water Action Plan

For January 2006 filers such as Park, the proposed application in the current GRC was filed prior to the issuance of the WAP and the final application was filed shortly thereafter. It was therefore too late for Park to incorporate some of the WAP objectives into its GRC application. Park recommends that the Class A water companies, where applicable, incorporate the objectives of the WAP in the prepared testimony included in GRC applications and include an appendix to the application that contains cross references to the WAP. This would enable the CPUC staff to readily evaluate whether or not a GRC application has addressed the WAP objectives. Not all of the WAP objectives are applicable, however, to the Class A water companies. Some of the recommended actions described in the WAP cannot be taken by the utility. For example, "Strengthen inter-agency relations with Department of Health Services" (page 5 of the WAP) is an action that is not applicable to the utility but rather is a recommended policy for the CPUC. It would be helpful for Water Division to provide an outline of the WAP objectives that are specifically applicable to the Class A water companies and that should be addressed in all subsequent GRC filings.

In addition, Park offers these general comments on how to implement the specific WAP Objectives:

1. Maintain Highest Standards of Water Quality

Internally Park views water quality as a crucial priority. Park fully supports the CPUC's concepts of strengthening the Inter-Agency relationship with DHS and the CPUC's role in setting Water Quality Regulations and Monitoring Procedures.

As it pertains to "Increasing Water Quality Reporting" we suggest that all Water Quality Reporting be coordinated with DHS. As a general concept Park would like to assume that the CPUC will set the reporting requirements such that the information being provided is germane to its water quality role and to the extent possible "piggy-back" off DHS requirements to avoid unnecessary additional costs to the utility's customers.

Park recommends that "Phase II" of the Water Quality OII be activated and that it incorporate a streamlined methodology for establishment of a Water Quality Memorandum Account for significant/emergency infrastructure needs associated with water quality and a determination of the reporting requirements. Further that the responsibilities associated with the reporting be assigned to a specific individual(s) at the Commission; the benefit being that the water utilities know whom to contact at the Commission. But more importantly, that individual would become the Commission's expert and liaison with DHS.

2. Strengthen Water Conservation Programs - Level Comparable to Electric Utilities

Park supports the need to strengthen water conservation programs.

During Public Participation Hearings (PPH) customers express bewilderment that one of the reasons their rates can increase is because they have conserved water. We understand this is due to the Commission's rate design policy of excluding a large portion of fixed cost from service charges. However, the line of sight to the "savings" generated by conservation is lacking for a typical customer. The result being that the customers feel as if they are being penalized by conserving, rather than benefiting. This perception problem can best be addressed by the CPUC as they are viewed more impartially than the individual utility. One possible solution is for the Public Advisors Office to prepare a brochure explaining the benefits of its rate design policy and its relation to water conservation and the resulting benefits. When this situation is applicable to a general rate case the ALJ could use this information at a PPH and have handouts available.

From the utilities perspective, eliminating financial disincentives associated with conservation is an important element and we appreciate the CPUC's recognition of this problem. Having a method for water utilities similar to electric utilities' ERAM would eliminate a significant portion of the disincentive. Park suggests that the Commission authorize all Class A water utilities to implement a WRAM by advice letter. Also, Park

assumes that utilities will be able to recover costs of administering and implementing conservation programs and that mandatory programs not estimated in a general rate case would be covered by a memorandum account.

3. Promote Water Infrastructure Investment

Park supports the concept of improving the investment in infrastructure both in terms of supply reliability and removing financial disincentives or administrative impediments to a utility's improving their infrastructure.

Park recommends that the CPUC open an OIR on a Distribution System Improvement Charge (DSIC).

4. Assist Low Income Ratepayers

While the Commission has been implementing low income ratepayer assistance programs in individual GRCs, the issues associated with a low income assistance program remain complex with broad policy implications. Park therefore recommends that a generic proceeding be opened to review these complex issues such as master meters and the possibility of state-wide assistance program similar to the CARE program.

5. Streamline the CPUC Regulatory Decision-making

Streamlining the decision-making process is a laudable goal.

Park is especially interested in participating in discussion on the areas of incentive regulation and streamlining review of cost of service. The complexity of the issues impacting rates are so interrelated that issues can not be resolved in a piecemeal fashion. For example, how parties will respond to incentive regulation proposals will depend greatly on other (e.g., DSIC, balancing accounts, WRAM.) ratemaking policies.

Staff development for CPUC staff should be given a high priority by the Commission. This should include internal/external training on every aspect of an individual's responsibilities and the tools that would enhance their efficiency. Park would gladly participate in training for the CPUC staff in areas such as water utility operations, maintenance and new technologies, preferably at times other than in conjunction with a GRC proceeding.

6. Set Rates that Balance Investment, Conservation, and Affordability

One might call this concept the charter of the California Public Utilities Commission. Park recognizes the need and appreciates the difficulty that the Commission undertakes in balancing the needs of ratepayers and of utilities.

Rate Case Plan

As with any new process, there is a transition period where mistakes are made due to unfamiliarity with the new process. Park believes that its future GRC applications, as well as that of the other Class A water companies, will be improved due to increased knowledge and experience with the new Rate Case Plan (RCP) processes. As an example, in its current GRC application Park did not request a PPH assuming that a PPH would automatically be scheduled by the CPUC. Due to low ratepayer interest, a PPH was not scheduled in the proceeding. In future GRC applications, PWC will request that a PPH be scheduled. The permissive aspect of the PPH is one of several new wrinkles to the RCP.

While the RCP contains a discussion of interim rates (see pages 20 – 23 of Decision 04-06-018), it does not contain a process or schedule for Class A water companies to request interim rate relief. Park recommends that the CPUC develop and issue a standard procedure and timetable for Class A water company's interim rate relief requests. The procedures should designate the mechanism and timing for interim rate relief requests to ensure that a utility's CPUC authorized revenue requirement is effective on the first day of the test year.

Workshops

Park supports the use of Workshops, which provide sufficient notice to all parties to allow for planned participation, to facilitate the implementation of the WAP objectives and improvements to the RCP. Park believes that the necessity for hearings can best be determined after review of the comments of all parties.

Sincerely,

/S/ Edward N. Jackson

PARK WATER COMPANY
Edward N. Jackson
Director of Revenue Requirements

CC: Service Lists for R.03-09-005, R.06-04-010