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| Exhibit Number | : ____________ |
| Commissioner: | : Susan Kennedy |
| Adm. Law Judge | : James McVicar |
| Witness | : Diana S. Brooks |

# CALIFORNIA PUBLIC UTILITIES COMMISSION

**ORA**

**Office of Ratepayer Advocates**

# Report on the Application of California American Water Company for Consolidation of Rates in its Felton and Monterey Districts

Application No. 04-08-012

*San Francisco, California*
*December 8, 2004*

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By Diana S. Brooks

## I. Summary

This Application requests the Commission to authorize the combining into one ratesetting district California-American Water Company's (Cal Am) present districts of Felton and Monterey. At present, the Commission determines the rates for the two areas based on providing a reasonable return on investment and recovering reasonable expenses for each district separately.

The Office of Ratepayer Advocates (ORA) has evaluated this plan in light of the guidelines for district consolidation developed by the water industry and ORA's predecessor, the Division of Ratepayer Advocates or "DRA", (herein after referred to as the "DRA guidelines"), prior CPUC cases, the need for rate relief, viable alternatives, impacts on ratepayers in both the Monterey and Felton districts as well as their wishes, and the impact on regulatory workload. Cal Am's application is insufficient to show that this water district consolidation is in the public interest. ORA unequivocally recommends that the Commission reject this unjustified proposal.

Cal Am's proposal fails to meet the DRA Guideline four-part test for prima facie reasonableness – the districts are 45 miles apart, the rates are not comparable, the sources of water supply are completely different, and the districts are operationally different. Given this, Cal Am has the burden to show that the benefits of rate consolidation outweigh the harms. It has failed to do so. There is no evidence to show Felton is an impoverished community in need of being subsidized by Monterey District ratepayers.

ORA is very concerned that many ratepayers in Felton do not realize that a rate increase of 44.2% has already been authorized and is essentially being charged to their (collective) account. By June 2005 when a Commission decision is expected on this matter, Cal Am estimates that the ratepayers of Felton will owe around $258,000 in deferred rate increases, or about $196 per Felton customer. Cal Am requests the Commission authorize it to collect the balance accrued in this account over a five year period via a separate surcharge.

ORA distinguishes between rate shock and the need for rate relief. ORA recommends phasing in the previously approved 44.2% rate increase[1] over a period of 24 months to attenuate any accompanying rate shock that may otherwise occur in Felton. ORA also recommends implementing a low-income water assistance program which can target rate relief to those on fixed or low-incomes to whom the new rates would impose undue economic hardship.

In addition to the proposal not meeting the DRA Guidelines, Cal Am's rate consolidation proposal has no merit, and is not in the public interest. ORA recommends the Application be denied because:

- It is patently unfair to the ratepayers of Monterey.
- It eliminates existing Felton conservation discounts and instead rewards those who consume the most water with the greatest subsidies -- more than triple what the average ratepayer would get.
- The proposal also serves to obfuscate the true cost of service of each district, resulting in a loss of local control and accountability. Particularly in the smaller district of Felton, the connection between what's being done and what it costs Felton ratepayers would be broken.
- Cal Am's proposal could hinder public acquisition and municipalization of the Felton water system – a matter which will be considered by the voters of Felton shortly. Felton residents should not be foreclosed from exploring that option which they believe offers lower rates and other benefits.
- The Monterey District is rife with conflict, complexity and challenges. Combining Felton and Monterey into one ratemaking district would create considerable additional risk exposure for Felton ratepayers who could end up subsidizing Monterey in the future.

[1] Decision (D.)04-05-023 (May 6, 2004) authorized Cal Am a $254,700 (34.6%) rate increase for 2003 and a $70,800 (7.1%) rate increase for 2004. The combined effect of these increases is 44.2%.

- This is a no-win proposal. As of this writing, the Commission has received 89 letters from ratepayers of both districts – all of them opposing this rate consolidation plan. In addition, there was overwhelming opposition to the plan at both the Monterey and Felton Public Participation Hearings.

Contrary to reducing regulatory burdens on the Commission, this proposal would add to them by requiring careful scrutiny of which costs are separate and which are combined. While a portion of the rates would be consolidated, Cal Am also proposes district specific rate components, requiring more work when reviewing in future rate cases.

ORA urges the Commission to adopt its alternate proposal to address the issues of rate shock in the Felton area as a result of the not yet implemented, 44.2% rate increase approved in the last General Rate Case (GRC). [2]

## II. Background

Cal Am filed its Application (A.)04-08-012 to restructure and consolidate rates for its Felton and Monterey districts on August 11, 2004. Cal Am also requested authority to combine these two districts[3] in the last general rate case (GRC)[4], but the decision in that case, D.04-05-023 issued on May 6, 2004, denied the request, noting that the record did not support a finding that the advantages of district consolidation outweigh the disadvantages. In denying the request, the decision stated on page 42 :

> In this proceeding, no such clear picture has been presented for either Cal Am's proposed consolidations or that of the intervenors. There has been no examination of the customer effects in coming years of the very significant capital projects that Cal Am anticipates in Sacramento District or Monterey district. What has been presented is now out of date in that it still includes the effects of the divested Montara district. The record is further complicated by the recent Citizens and RWE acquisitions, the costs and benefits of which will continue to be sorted out and reflected in district rate proceedings over the next several years. We're troubled by Cal Am's proposal to shunt very large amounts of current revenue requirements into a proposed WRAM to accumulate as an interest-bearing obligation against Felton and Monterey customers in future years.

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[2] D. 04-05-023.

[3] Cal Am's original proposal was to consolidate the Montara and Felton districts with the Monterey District, for ratemaking purposes. However, this became a moot issue as a result of the then pending divestiture of the Montara District to the Montara Sanitary District (MSD). (D.04-05-023, pg. 3, Footnote 1.)

[4] Application 02-09-030.

For these reasons, the record in this proceeding does not allow us to find that the advantages of district consolidation outweigh the disadvantages. However, because the size of the rate increases that our authorized revenue requirements would likely produce for Felton (which are discussed below), the public interest would be better served by a timely consideration by this Commission of rate consolidation proposals within an evidentiary showing that fully addresses the issues identified above. We will therefore order that Cal Am make such an application within ninety days of the adoption of this order.

In that same GRC decision, the Commission approved a 34.6% rate increase for the Felton district for 2003, and a 7.1% increase for 2004.[5] Since the decision was not issued until May 2004, the immediate rate increase would have been 44.2%[6]. However, the Commission noted in Finding of Fact 12, that "[t]he rate increases and rate levels that our adopted revenue requirements would produce for the Felton District may lead to rate shock for Felton ratepayers." Cal Am was not authorized to implement the rate changes set forth in that order but instead the Commission required that Felton District rates be deferred into a balancing account until after a decision consistent with the GRC decision on the consolidation of districts for ratemaking purposes was issued. (Conclusions Of Law, 6, page 70.)

D.04-05-023 further ordered Cal Am to establish a balancing account to track the difference between revenues produced by current rates and those that would arise from the difference between revenues generated by current rates and those approved in that decision. The balancing account has been in effect since May, 2004. As of the end of November 2004, this account had a balance of $125,000 dollars, or approximately $95/Felton customer. (See Appendix B.) The Commission also ordered Cal Am to propose how to amortize the balances accrued in the balancing account set up for the Felton district in this current application.

## III. Cal Am Proposal

To address the potential rate shock problem that implementation of the approved 44.2% rate increase could cause, Cal Am's filed this application proposing the following[7]:

a) that the revenue requirement for its Felton District be combined for ratemaking purposes with the revenue requirements for its Monterey district;

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[5] D.04-05-023, pg. 5.
[6] The compounded effect of a 34.6% increase, followed by a 7.1% increase is a 44.2% increase.3
[7] A. 04-08-012, at page 2.

b) the consolidated rates be developed based on the combined revenue requirement of the districts;

c) that the consolidated rates be implemented immediately;

d) that the development of the combined revenue requirement will not include consolidation of the source of supply, water production and water treatment costs;

e) that Felton District rates will not be affected either by the Monterey districts current inverted rate design or by any of the past or future costs associated with the efforts to develop one or more water supply projects in the Monterey district designed to comply with the orders of the California Water Resources Control Board ("SWRCB"), including SWRCB orders WR 95-10 and WR 98-04;

f) that the Felton District will not be affected by the Monterey District past, present and future costs associated with the efforts to either strengthen or decommission any of the current dams in the Monterey district;

g) that Cal Am be authorized to recover the balance in the balancing account from Felton District customers via a separate five-year surcharge, beginning on the effective date of the final decision in this proceeding; and

h) that a water revenue adjustment mechanism (WRAM) account be instituted to track all revenue variations between the rates approved but not implemented in the Felton District in D.04-05-023 and the rates that will be charged in the Felton District should the Commission approve this rate plan.

Cal Am states that the effect of consolidated rates on the Monterey district ratepayers is negligible – around 1% a year for most customer classes.[8] Cal Am further states that Felton ratepayers will benefit greatly from consolidated rates. The company concludes that adoption of consolidated rates in the Felton District would result in an overall rate increase for Felton District customers ranging from 20% in 2005 to a projected 27% in 2019.

## IV. Evaluation

In evaluating whether the proposed rate consolidation serves the public interest, ORA considered:

- reason for proposed rate consolidation;
- the need for rate relief in Felton;

[8] Application 04-08-012, Exhibit D, page 2.

- whether other viable and more equitable alternatives to solving the Felton rate shock problem exist;
- whether the consolidation proposal meets the criteria set forth in the DRA guidelines for district consolidation;[9]
- whether the Applicants made a sufficient showing;
- the impacts on ratepayers of both Felton and Monterey of the proposed consolidation;
- impacts on the allocation of the Citizens – Cal Am merger costs and benefits;
- congruity with past Commission decisions approving consolidated rates;
- the effect of the proposal on the regulatory caseload for both Commission staff and Cal Am; and
- other impacts this consolidation may have on ratepayers' bills and service quality.

### A. Cal Am's justification for this rate consolidation proposal.

Cal Am argues that "even though its proposal does not exactly fit the [DRA] Guidelines," the public interest justifies approval of the proposal because there is a need for rate relief in the Felton District and consolidated rates would have a minimal impact on the Monterey District. (Application, pg. 14, lines 15 – 18.) Cal Am says that the motivation behind this consolidation request is to improve rate and revenue stability. The company states that, '… rate consolidation improves affordability for customers of small systems and protects against rate shock because changes in costs are spread across a larger customer base." (Reply to Protests, pg. 13, lines 15 – 20.) ORA disagrees.

### B. ORA believes the need for long term rate relief in Felton does not justify consolidation of rates with Monterey.

Cal Am's proposal, while offering short-term rate reductions for Felton, does nothing to address the long-term need for affordable water service. Cal Am's rate consolidation proposal merely shifts some of Felton's costs to Monterey. As will be explained in this report, Monterey is a complex district facing critical water supply problems and already high water rates. Requiring Monterey to subsidize Felton is unfair. And Felton is at risk for funding a proportionate share of future Monterey district costs. Cal Am's proposal is not a satisfactory solution to the immediate problem in Felton.

[9] See Section E for a full discussion of the DRA Guidelines.

As stated above, in the last GRC for the Felton District, the Commission authorized a total 44.2% rate increase for Felton.[10] The Commission was concerned that this large rate increase would lead to rate shock for Felton ratepayers. The Commission ordered Cal Am not to implement the new rates then, but instead to defer the approved rate increases and accrue them in a balancing account to be paid later, by Felton ratepayers, after a decision on this consolidation application is made.

ORA is very concerned that (1) many ratepayers in Felton do not realize that a rate increase of 44.2% has already been authorized[11], and is essentially being charged to their account[12] and will eventually need to be paid; and (2) since last June the amounts accruing in this balancing account are increasing by close to $20,000 per month on average.[13] (This is approximately $15 per customer per month.) Many Felton ratepayers will be shocked to learn they are already on the hook for this increase.

In the Southern California Water Company (SCWC) application for single tariff pricing for eight Southern California water districts[14] the Commission concluded that, "[B]ased on the *compelling need for rate relief* in some of the smaller districts in the company's Region III, and on the demonstrated minimal impact of single tariff pricing on the other districts of Region III, as well as on the record as a whole, our order today grants the application with modifications." [Emphasis added.] Some of those districts were in impoverished areas.

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[10] D.04-05-023.

[11] Part of this confusion stems from a phone call made to each Felton ratepayer after D.04-05-023 was issued last May, in which a recording made by Steve Leonard, Monterey District General Manager, told customers, "Today the California Public Utilities Commission approved plans to keep Felton water rates at their current level. They will consider a plan to consolidate our Felton rates in the coming months. This good news means water rates won't go up at this time. You'll receive more information about this issue by mail. If you have any questions about any water issues, please visit our site at www.feltonwaterfacts.com or call us at 359-1915." While perhaps technically correct, ORA finds this message highly obfuscatory and misleading.

[12] The revenue shortfall between so-called current rates, and the authorized, but not yet implemented rates that are 44.2% higher, is being accumulated in a balancing account that all ratepayers of Felton are obligated to pay, unless they move out of the Felton district prior to payment arrangements being made. This is like those offers to buy a mattress today, and make no payments until next April. It may seem free, but the price of that mattress is still charged to the customer's credit card and he/she is fully obligated to pay those charges (plus interest incurred during the so-called "free" period, eventually. Likewise, the customers of Felton are obligated to pay the full amount of the new authorized rates up until the point some other arrangement is worked out.

[13] See Appendix C for a table of actual and estimated amounts in this balancing account through June 2005.

[14] Application Of Southern California Water Company(U 133 W) For Authority Pursuant Public Utilities Code Section 454 To Restructure The Water Rates Of Its Barstow, Calipatria-Niland, Claremont, Desert, Orange County, San Dimas, San Gabriel And Wrightwood Districts Into Region-Wide Tariffs, D.00-06-075, page 2.

Felton is not the same type of community. In response to an ORA data request, Cal Am provided data on the median and average incomes of households in the Felton and Monterey Districts as shown in Table 1.[15]

**Table 1: Median and Average Income in Felton and Monterey Districts**

| | Median Household Income | Average Household Income |
|---|---|---|
| Felton | $67,562 | $84,124 |
| Monterey | $52,805 | $74,372 |

* based on most recent census data available

These statistics show that Felton is not an impoverished area. It also shows that Felton district has somewhat higher median and average household income than the Monterey district. Further data supplied to ORA by Cal Am show that the average water bill for the year October 2003 through September 2004 was $46.44 in Felton (for 9.16 units of water) and $30.37 in Monterey (for 7.64 units of water). However, this snapshot does not give a complete picture.

Looking forward, Cal Am estimates steep increases in Monterey rates. A water bill in Monterey, for 10 units of water consumption, is estimated to be $56.50 in 2005, $61.70 in 2006, $76.09 in 2007, $98.82 in 2008 and $136.38 in 2009 without district consolidation.[16] In this Application, Cal Am also estimates increases in Felton of $65.58 in 2005, $68.69 in 2006, $72.66 in 2007, $76.53 in 2008 and $80.38 in 2009. This data underscores the need for more focused long term attention on issues of water affordability in both districts.

ORA believes it is unfair to require Monterey ratepayers to subsidize the Felton district. Nevertheless, Felton currently is faced with an already approved 44% rate increase. The Missouri Public Service Commission once reasoned, "rate shock is the result of rate *changes* not rate *levels*". [17] The Commission was understandably concerned about the potential for rate shock in Felton, as a 44.2% jump in rates all at once is a huge change from existing rates.

[15] Cal Am Response to ORA Data Request #2, Question 11.
[16] Application, Exhibit F, page 1.
[17] *Consolidated Water Rates: Issues And Practices In Single Tariff Pricing*, September 1999. A Joint Publication Of The US Environmental Protection Agency and The National Association Of Regulatory Utility Commissioners, page 65.

### C. ORA believes that consolidating the Felton and Monterey Districts for is an inappropriate response to rate shock in Felton.

ORA believes something needs to be done to mitigate any rate shock for Felton ratepayers, but rate consolidation with Monterey is not the solution. Cal Am's proposal is unfair and only serves to obfuscate the cost-of-service ratemaking process. In exchange for short term rate reductions, it exposes Felton customers to significant rate risks in the long term.

Felton is a community with a viable small water system on a stand-alone basis. It is not an impoverished district or one that is economically at risk. The water system itself is straightforward and self-contained. There is sufficient high-quality water to meet the demand. Its relatively new water treatment plant was financed with Safe Drinking Water Act Loan funds and has excess capacity. Customer growth is minimal to nonexistent. There is no industry or agriculture in the area. In its workpapers, Cal Am projects ordinary increases in operating revenues -- 4% to 6% a year -- through 2019.[18]

Consolidated rates in this case are unnecessary, and offer no protection from rate hikes as a result of Monterey's unique needs in the future. There are no grounds for causing Monterey district ratepayers to incur additional rate burdens to subsidize the Felton district when other methods to mitigate the potential rate shock in Felton exist.

Instead of rate consolidation, **ORA recommends an 18 month phased-in approach to implementing the 44.2% Felton rate increase that was previously authorized** in D.04-05-023, but deferred pending a solution to the rate shock problem. (See Section K, Part 1 for a description of ORA rate phase-in proposal.) ORA believes this approach is both fair and equitable to both districts.

In addition, ORA is concerned about the portion of the Felton District consisting of low and fixed-income households for whom the new rate levels could impose undue economic hardship. These customers do need rate relief. In addition to the ORA alternative of a phased-in approach to the rate increase, **ORA recommends the Commission consider a more targeted solution that would provide increased assistance to these low-income water ratepayers in Felton, rather than a solution that subsidizes all Felton customers -- many of whom can surely afford the new Felton water rates – at the expense of Monterey customers.** Cal Am has not made a convincing case that the ratepayers of

[18] Workpapers, pages 35 & 36.

Monterey, who have lower average and median incomes, should be subsidizing Felton ratepayers. (See Section K, Part 2 for ORA's recommendation on this.)

### D. Rate consolidation doesn't necessarily lower the risk for water customers.

ORA acknowledges that, in some cases, there may be merit in single tariff pricing or consolidated water rates on a larger regional basis where there are enough different participating water systems with similar characteristics that they all mutually benefit from equalizing the rates .

However, asking a complex district like Monterey to subsidize Felton -- a non-contiguous, non-interconnected simple district with a higher median income -- makes no sense whatsoever. Monterey has its own water supply issues and in all likelihood will be facing its own huge water rate increases in the coming decade for the retrofitting of San Clemente Dam, the construction of the proposed Coastal Water Project (a desalination plant on Monterey Bay and the Seaside aquifer storage and recovery project). Cal Am's proposal does nothing to lower the risk of future rate spikes for Monterey ratepayers.

Further, rate consolidation exposes Felton ratepayers to the risk of future extraordinary costs in Monterey. While the Application specifically excludes the costs of water supply, water production and water treatment as well as some other costs from the combined revenue requirement, the wording is vague and unclear. For example, Cal Am proposes to exclude "any of the past or future costs associated *with the efforts to develop* one or more water supply projects in the Monterey district designed to comply with the orders of the SWRCB". [Emphasis added.] This is entirely too vague. It is not clear if the phrase 'efforts to develop' includes construction costs, or operations and maintenance costs or not. Cal Am, in response to ORA's data request states that it will keep operations and maintenance costs separate for these projects, but ORA recommends that Cal Am be required to be very specific as to what is included in the combined revenue requirement and what is not. In response to a question about how the Endangered Species Act (ESA) compliance costs would be handled, Cal Am said it all depends on how the costs are booked:

> If the costs are booked as plant in service, then they will be allocated to the combined entity. If the costs are tracked in memo accounts and recovered as surcharges, they will not be charged to the combined entity, but will be recovered from customers in each district individually, depending on where the cost was incurred. If the charges are to a water production expense account, they will not be allocated to the combined district. If the charges are to a distribution expense account, they will be allocated to the combined district. If the charges

> are for a fine -- they will not be allocated to the combined district. (Response to ORA Data Request #2, Question 17.)

Obviously, separating all these costs will add complexity and require extra scrutiny by CPUC staff. Even with more specificity, there are no assurances of keeping costs separate in perpetuity or even over the next thirty years. As time goes by, it will become increasingly difficult to say with certainty what is or is not within the boundaries of these projects. The capital needs of Monterey and Felton are so dissimilar that tiny Felton will be at a huge risk for subsidizing Monterey's costly projects in years to come. While Felton's proportionate share of the combined customer base is only around three percent[19], three percent of a large capital project like the Coastal Water Project -- estimated to cost $170 million – would be over $5 million, a disproportionately large cost for a small area like Felton. (ORA notes that this project is excluded from the combined revenue requirement but similar projects in the future may not be.)

Cal Am attempts to sugar coat its rate consolidation proposal, painting it as one big golden opportunity for Felton. ORA, on the other hand, sees red flags. Cal Am has not shown that water district consolidation in this case is in the public interest. Rate consolidation should offer mutual benefits, not increased cost burdens or increased risk.

### E. DRA Guidelines

In 1992, in an attempt to reduce the workload of processing rate cases, DRA and the large water utilities jointly developed guidelines to judge the feasibility of proposals to combine districts.[20] That agreement established guidelines consisting of four characteristics or criteria to be considered in evaluating proposed consolidations: proximity, rate comparability, similar water supply and operation.

The agreement also provides that no districts would be combined for the express purpose of having one district subsidize another. Further, it states on page 3 that the "intent of this combining of districts is to reduce the regulatory caseload for both the Public Utilities Commission Staff and the individual water utilities without adverse effect on the utilities' customers."

In considering the weight to give these guidelines, ORA acknowledges that should a proposal not meet the Guideline criteria, it may still be in the public

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[19] There are approximately 1300 customers in Felton and 39,000 in Monterey. The combined district would therefore have 40,300 customers. 1300 is 3.23% of that.

[20] "Guidelines for Combining of Water Utility Districts for Ratemaking and Public Utilities Commission Reporting Purposes", August 20, 1992, by ORA and representatives of the Class A water utilities.

interest. Other factors would then need to be weighed and considered. As stated in D.00-06-075 on page 27, the "[DRA] Guidelines were intended to set criteria for single tariff pricing that, when met, establish prima facie reasonableness of the proposed consolidation." However, the "[G]uidelines implicitly permit proposals for broader rate consolidations, with the understanding that such proposals are likely to be protested by the advocacy staff in order that a full record can be developed for the commission consideration."

Applying these guidelines to the districts in question, ORA finds the following:

1. Proximity

*The districts must be within close proximity to each other. It would not be a requirement that the districts be contiguous as it is recognized that present ratemaking districts consist of separate systems that are not connected. It was suggested that districts within 10 miles of each other would meet the location criteria.*

The proposed consolidation fails the proximity standard. Felton and Monterey are approximately 45 miles apart. They are in different counties, in different watersheds : Felton is in Santa Cruz County in the San Lorenzo Valley watershed, and Monterey is in Monterey County in part of the Carmel River Valley watershed and the Pajaro River watershed. The two systems are not contiguous nor are their water systems physically connected.

2. Rate Comparability

*Present and projected future rates should be relatively close with rates of one district no more than 25% greater than rates in the other district or districts. To lessen the rate impact of combining districts it may be necessary to phase-in the new rates over several years.*

Cal Am claims that the projected Monterey district quantity rates developed according to the Commission standard rate design and the projected quantity rates for Felton districts shown in Exhibit F and Exhibit G are within 25% of each other. Cal Am does not mention the service charge rates.

According to ORA analysis, the consolidated rate for the monthly service charge is 49% less than the approved, but not yet implemented, rate for Felton. Even when the Felton conservation discount is applied to the service charge, the decreases (from Felton to Monterey) are still in excess of 36%. This indicates a significant ongoing subsidy of Felton users by Monterey users

Table 2: Rate Comparison – Impact of Felton Conservation Discount

| **Residential Customer with 5/8" meter, using 8 units (CCFs) water** | Current Felton Rates | D.04-05-023 Approved Felton Rates | Consolidated Monterey Rates (not including WRAM) | Difference between Approved and Consolidated Rates | Change from Approved Rates |
|---|---|---|---|---|---|
| | **$16.40** | **$24.86** | **$12.63** | | -49.2% |
| *Conservation Discounted Service Charge* | | | | | |
| First 5 units | 20% | 20% | 0% | | |
| | **$13.12** | **$19.89** | **$12.63** | -$7.26 | -36.5% |
| 6 - 10 units | 15% | 15% | 0% | | |
| | **$13.94** | **$21.13** | **$12.63** | -$8.50 | -40.2% |
| 11 - 20 units | 10% | 10% | 0% | | |
| | **$14.76** | **$22.37** | **$12.63** | -$9.74 | -43.6% |
| 21 and up | 0% | 0% | 0% | | |
| | **$16.40** | **$24.86** | **$12.63** | -$12.23 | -49.2% |
| **Usage Charge, per CCF** | $2.925 | **$3.617** | **$3.0528** | | |
| *Conservation Discounted Usage Rate* | | | | | |
| First 5 units | 20% | 20% | 0% | | |
| | $2.34 | **$2.89** | **$3.05** | $0.16 | 5.5% |
| 6 - 10 units | 15% | 15% | 0% | | |
| | $2.49 | **$3.07** | **$3.05** | -$0.02 | -0.7% |
| 11 - 20 units | 10% | 10% | 0% | | |
| | $2.63 | **$3.26** | **$3.05** | -$0.20 | -6.2% |
| 21 and up | 0% | 0% | 0% | | |
| | $2.925 | **$3.617** | **$3.0528** | -$0.56 | -15.6% |

* Data from rate information in Appendices A, B & C of A.04-08-012.

ORA acknowledges that the usage rates are presently within 25% of each other.

It is interesting to note that for very low quantity users, the consolidated rates are higher than the approved Felton rates. The average quantity of water consumed in Felton is approximately 9 units (CCFs), and for these customers, the quantity rate under a stand-alone scenario is $3.07/unit and under the consolidated scenario, is $3.05 – hardly any savings. For these users, the savings gained from the consolidated rate proposal come from the reduced service charge – a savings of $8.50/month for the average water consumer.

3. Water Supply

*Sources of supply should be similar. If one district is virtually dependent upon purchased water, while another district has its own source of supply, future costs could change by a greater percent for one district versus the other. This could result in significantly different rates in the future even if present rates were quite similar.*

The proposed consolidation fails the water supply guideline as well. The sources of water supply at present are not at all the same and there is no indication that they ever will be.

Felton is a small self-sufficient water district of around 1300 customers located in the redwood rainforest. Annual rainfall in 2003 was a little over 40”. All water for the district is surface water taken from three springs. The district has no industrial or agricultural influence and water is of high quality. Felton has one relatively-new treatment plant which was paid for by ratepayers with Safe Drinking Water Loan and brought on-line in 1997 to meet the requirements of the Surface Water Treatment Rule. The plant capacity is sufficient to meet demand. There is little to no growth in the Felton area, so no new sources of water are needed. Felton has five storage tanks with a total storage capacity of close to 1 million gallons. There are six pumping stations. Upgrades to the district include replacing seventy year old 2” mains with 8” mains.

The Monterey district is quite different. Cal Am serves approximately 39,000 customers in the cities of Monterey, Carmel-by-the-Sea, Pacific Grove, Carmel Valley, Sand City, Del Rey Oaks and part of Seaside, much of Carmel Valley and the Highway 68 corridor, and several other unincorporated areas of Monterey county. The area is semi-arid with only 18” of annual rainfall in 2003. The principal sources of water supply are limited surface water withdrawals from the reservoirs behind the San Clemente and Los Padres dams on the Carmel River, multiple wells along the Carmel River and another eight wells in Seaside drawing from the Seaside aquifer. There are five storage tanks with a capacity of 23.5 million gallons. There are 80 pumping stations. There are eight water treatment plants, some doing filtration and chlorination, some doing iron and manganese removal, and others removing hydrogen sulfide. Numerous upgrades are being proposed, but ORA was unable to obtain cost estimates of these upgrades prior to the GRC filing.

The area has had longstanding critical water supply problems. The State Water Resources Control Board (SWRCB) ruled in Order 95-10 that Cal Am was illegally diverting 10,730 acre feet from its Carmel Valley wells and ordered Cal Am to develop and implement a plan to replace this water, which represented almost 70% of the district's water supply. Cal Am must also meet in stream flow requirements to protect wildlife and riparian habitat and provide adequate drought protection for existing water customers. Cal Am's attempt to build another dam on the Carmel River was thwarted and it is now moving forward with Plan B, the Coastal Water Project – a 10 million gallon per day (MGD) desalination plant on Monterey Bay combined with an aquifer storage and recovery project in Seaside. Preliminary estimates for this project run $170 million.

The San Clemente Dam is silted up and seismically unsafe. Estimates to retrofit or remove the dam run from $30 million to $50 million. There are substantial compliance issues with the ESA on the Carmel River and substantial fines for violations. Most district customers pay a 7.125% surcharge to the MPWMD for Carmel River environmental mitigation expenses. Cal Am carries out additional activities to comply with the ESA.

The Monterey Peninsula is prone to drought as well. Cal Am must comply with MPWMD Ordinance 92 which defines a seven stage program for mandatory water conservation leading up to water rationing in times of critical drought.

To manage the water supply constraints, Cal Am implemented per capita rates based on lot size, number of residents, and number of large animals and an adjustment for winter and summer months. In addition, last summer to avoid fines from over drafting the Carmel River, Cal Am instituted an inverted rate structure. [21]

The Monterey Peninsula Water Management District (MPWMD) has limited pumping of the Seaside Aquifer as well. In addition, Cal Am is currently suing MPWMD to determine who has authority over the aquifer.

Both systems employ the system wide distribution and monitoring equipment, SCADA.

Clearly these two districts have radically different sources of water supply. They fail to meet the similarity test for water supply criteria.

[21] D.04-07-035.

4. Operations

*The district should be operated in a similar manner. For example, if a single district manager presently operates two or more districts and the billing system is common to the same district; such an operation would support the combination of the districts.*

Other than having a single district manager who presently operates both of these districts, and a common billing system and equipment monitoring system (both of which are probably company wide), these districts appear to have little in common operationally speaking other than both being in the water business and being part of the same company.

5. Cross Subsidization

*No districts should be combined for the express purpose of having one district subsidize another.*

The proposed consolidation violates this condition as well. Cal Am's proposal would have Monterey ratepayers subsidize Felton district ratepayers, especially the high use customers in the Felton district.

As noted above in Table 2, for low quantity users, the consolidated rates are higher than or close to the approved Felton rates resulting in only miniscule savings on usage. For these users, the savings gained from the Cal Am's proposal come from the reduced service charge – a savings of $8.50/month for the average water consumer.

*Under Cal Am's consolidated rate proposal, those customers who use greater than 20 units of water per month would see the most savings. Not only would they save more on their service charge ($12.23/month off), they would also save 15.6% on the quantity portion of their bill compared to the authorized Felton rates.*[22] For a customer who uses 25 units of water, this amounts to a savings of $26.23 a month, more than three times as much as the average water use consumer. This is just the opposite of the situation now, where customers are rewarded with discounts for conserving water, not consuming large quantities. Even in a district like Felton where water supply is ample, water conservation is still a prudent. Cal Am's proposal results in excessive savings for those who use the most water.

This analysis shows that the ratepayers of Monterey would be primarily subsidizing the high water use customers of Felton. The average customer in Monterey uses a little less than 8 units of water a month. Why should these low use, water conscious consumers be subsidizing customers in Felton who use

[22] See Table 2 . The new Felton quantity rate is $3.617 for those who are not eligible for a conservation discount versus a $3.0528 quantity rate under Cal Am's proposal.

greater than 20 units of water? This type of cross-subsidy is inequitable and should be rejected. Such a policy is clearly not in the public interest.

Cal Am's proposal requires Monterey ratepayers to pay an additional $412,910 beginning in 2005. That subsidy would grow each year until 2019, when the subsidy would reach $810,761.[23] Cal Am's estimated operating revenues for Felton for 2005 are $1.125 million. Under Cal Am's proposal, Monterey would be contributing $412,910 or 37% of the operating revenues.[24] This is clearly a case of one district subsidizing another. There is no justification for the Monterey ratepayers to pick up over a third the Felton district's operating expenses with no corresponding benefit to them.

### F. Ratepayer Impacts

Cal Am's proposal does not result in improved efficiencies, better service or cost savings, and should be rejected. The proposal just allocates costs differently. The so-called consolidated rate is nothing more than a generic version of Monterey's current rate that no one uses. It is based on standard Commission rate design but is not an actual tariff.

#### 1. <u>Cal Am's Application is insufficient to fully evaluate rate impacts in the Monterey District and long term impacts on Felton</u>

- By not using the inverted rate tariffs and the per capita rates, **Applicants did not show actual bill impacts of the consolidated rates on Monterey ratepayers.** It is impossible to determine which ratepayers will bear the brunt of subsidizing Felton without this information.

- **Cal Am has failed to both adequately explain specifically what its proposal is and to provide adequate justification for including or excluding various costs.** The Application states that the combined revenue requirement will not include consolidation of the source of supply, water production and water treatment costs. Yet the application provides very little information as to which specific expenses will be combined, and which will be excluded, or the percentage of each district's expenses that will be excluded. Based on Cal Am's response to ORA's second data request, ORA understands that most of the fixed costs will be combined and some of the variable costs. It appears that it is only the *operating costs* for the source of supply, water production and water treatment that will be kept separate along with all costs related to the

[23] Application, Appendix D, page 2.
[24] See Cal Am's workpapers to this Application, page 34. Cal Am estimates operating revenues of $1,125,000 for 2005 on page 35.

Coastal Water Project and retrofitting any dams on the Carmel River. Expenses for transmission, distribution, maintenance, administrative and general, depreciation, return on investment, and the acquisition premium will all be combined. The Application is entirely too vague on this important matter.

- **The Application does not show the effect of the variable rate component on rates.** Rate and bill comparisons are made between Felton's existing rates and the approved, but not yet implemented, Felton rates, and the proposed consolidated rates, but the Application provides no examples that show what a base consolidated rate would be, and what each district specific water supply variable rate would be.

- The percentages shown in the **monthly bill comparison charts overstate the benefits of consolidation for Felton** by making it appear as though the Felton ratepayers would only have to pay the current Monterey rates, when in fact implementation of those rates for Felton <u>still results in a revenue shortfall</u>. Cal Am presents generic Monterey rates[25] in Exhibit C for use in making all the comparisons, but it does not show what the full consolidated rate would be based on a combined Felton and Monterey revenue requirement as described in the application. Cal Am proposes to track the revenue shortfall in a WRAM account, but provides no information on the amount of the shortfall.

- **Cal Am's neglects to present information on the impact of the accumulated revenue shortfall that has been tracked in the balancing account since May as a result of the deferred 44.2% rate increase.** In response to an ORA data request, Cal Am provided monthly balances in this account through November 2004 and estimated future monthly balances through June 2005. This data shows the current revenue shortfall to be around $20,000 per month, or $15 per customer per month. The estimated balance in the account in June 2005 will be a little over $258,000, or $196 per customer. Cal Am requests authority to recover this balance from Felton District customers via a separate five year surcharge, beginning on the effective date of this decision. Based on the above figures, this surcharge would be in approximately $3.40 per customer per month. While the amounts in this balancing account have to be recovered

[25] The Monterey District rates used for this application and consolidation proposal are attached as Exhibit C. These rates are based on the revenue requirements approved in the most recent GRC from the Monterey District and were developed using the standard commission rate design that allocates fifty percent of fixed costs to the monthly service (meter) charge and the remaining fifty percent of the fixed costs and all of the variable cost to a single block flat-rate quantity charge. Application, page 4.

from customers even if Cal Am's rate consolidation proposal is denied, to correctly evaluate the alternatives, everything should be considered together. Cal Am has not included the bill impact of this surcharge in its Application.

- **The Application has an unexplained asymmetry – Monterey ratepayers would pay significantly more per year than Felton ratepayers would save under consolidated rates.** For example, in 2005, Monterey ratepayers would pay an extra $412,910 in rates while Felton ratepayers would pay $257,187 less.[26] The Application lacks any explanation as to the reason for the difference between these two amounts, i.e. $155,723 in unaccounted for revenues in 2005. This amount increases in subsequent years.

[26] Application, Exhibits D and E. See Cal Am's public notice as well in Appendix C to this report.

2. Bill Impacts

The bill impacts for an average use customer in Felton are shown in Table 3. Notice how, for the average customer, most of the savings are coming from the lower service charge. Table 4 shows the increased savings from a customer that in not eligible to receive a conservation discount.

**Table 3: Average Residential Monthly Bill Impacts**

| **Residential Customer with 5/8" meter, using 9 units (CCFs) water** | Current Felton Rates | D.04-05-023 Approved Felton Rates | Consolidated Monterey Rates (not including WRAM) | Difference between Approved and Consolidated Rates | Change from Approved Rates to Consolidated Rates |
|---|---|---|---|---|---|
| Monthly Rates | | | | | |
| Base Service Charge/Month | $16.40 | $24.86 | $12.63 | -$12.23 | -49.20% |
| Usage Charge, per HCF | $2.925 | $3.617 | $3.0528 | -$0.56 | -15.60% |
| Conservation Discount | | | | | |
| First 5 units | 20% | 20% | 0% | | |
| 6 - 10 units | 15% | 15% | 0% | | |
| 11 - 20 units | 10% | 10% | 0% | | |
| **Monthly Charges** | | | | | |
| Service Charge | $16.40 | $24.86 | $12.63 | | |
| less 15% discount | -$2.46 | -$3.73 | $0.00 | | |
| **Net service charge** | **$13.94** | **$21.13** | **$12.63** | **-$8.50** | **-40.23%** |
| Usage Charge (9 units) | $26.33 | $32.55 | $27.48 | | |
| (less 15% discount) | -$3.95 | -$4.88 | $0.00 | | |
| **Net usage charge** | **$22.38** | **$27.67** | **$27.48** | **-$0.19** | **-0.70%** |
| **Monthly water bill** | **$36.32** | **$48.80** | **$40.11** | -$8.70 | -17.82% |
| SDWBA Surcharge | $11.50 | $11.50 | $11.50 | | |
| **Total bill** | **$47.82** | **$60.30** | **$51.61** | **-$8.70** | **-14.42%** |

* Data from rate information in Appendices A, B & C of A.04-08-012.

**Table 4: Residential Monthly Bill Impacts for Felton Customers who do not receive a conservation discount**

| **Residential Customer with 5/8" meter, using 25 units (CCFs) water** | Current Felton Rates | D.04-05-023 Approved Felton Rates | Consolidated Monterey Rates (not including WRAM) | Difference between Approved and Consolidated Rates | Change from Approved Rates to Consolidated Rates |
|---|---|---|---|---|---|
| Monthly Rates | | | | | |
| Base Service Charge/Month | $16.40 | $24.86 | $12.63 | -$12.23 | -49.20% |
| Usage Charge, per HCF | $2.925 | $3.617 | $3.0528 | -$0.56 | -15.60% |
| Conservation Discount | | | | | |
| First 5 units | 20% | 20% | 0% | | |
| 6 - 10 units | 15% | 15% | 0% | | |
| 11 - 20 units | 10% | 10% | 0% | | |
| **Monthly Charges** | | | | | |
| Service Charge | $16.40 | $24.86 | $12.63 | | |
| less 0% discount | $0.00 | $0.00 | $0.00 | | |
| **Net service charge** | **$16.40** | **$24.86** | **$12.63** | **-$12.23** | **-49.20%** |
| Usage Charge (9 units) | $73.13 | $90.43 | $76.32 | | |
| (less 0% discount) | $0.00 | $0.00 | $0.00 | | |
| **Net usage charge** | **$73.13** | **$90.43** | **$76.32** | **-$14.11** | **-15.60%** |
| **Monthly water bill** | **$89.53** | **$115.29** | **$88.95** | -$26.34 | -22.84% |
| SDWBA Surcharge | $11.50 | $11.50 | $11.50 | | |
| **Total bill** | **$101.03** | **$126.79** | **-$100.45** | **-$26.34** | **-20.77%** |

* Data from rate information in Appendices A, B & C of A.04-08-012.

## G. Allocation of Citizen's Acquisition Premium and Synergies

In addition to the DRA guidelines and other criteria considered above, ORA believes it is important to consider the ratemaking impacts of Cal Am's acquisition of Citizens' water utility assets. D. 01-09-057 authorized Cal Am to acquire Citizens water utility operating districts in California -- Sacramento, Larkfield, Felton and Montara. Authorization for this merger was predicated on there being acquisition-related synergies, benefits that would be shared with ratepayers in each acquired district.[27] ORA recommends that the Commission

[27] Cal Am noted the consolidation of Cal Am citizens California would generate both quantifiable and non quantifiable benefits for Citizens' ratepayers such as greater economies of scale, lower rates than there

consider the equity issues regarding allocation of the acquisition premium costs and acquisition synergies to ratepayers in both districts, and its ability to monitor these.

### H. Incongruity with Southern California Water Company rate consolidation decision.

Cal Am claims its proposal is in keeping with commission precedent, and cites Southern California Water Company's (SCWCs) application to introduce consolidated rates for eight of its water districts in Southern California. (Application Of Southern California Water Company(U 133 W) For Authority Pursuant Public Utilities Code Section 454 To Restructure The Water Rates Of Its Barstow, Calipatria-Niland, Claremont, Desert, Orange County, San Dimas, San Gabriel And Wrightwood Districts Into Region-Wide Tariffs, D.00-06-075.) In approving that application, the Commission reiterated that it was not establishing a generic policy and that in the future it would continue to consider proposals for cost averaging on a case-by-case basis, with the burden on proponents of such plans to show substantial benefits in the public interest.

Cal Am's application to consolidate the Felton and Monterey districts is different in many respects from what the Commission adopted for SCWC in D.00-06-075. These differences undermine many of the potential advantages consolidated rates might offer. These differences are as follows:

- ***The consolidated regional rates approved in the SCWC case did not exclude the source of supply, water production and water treatment costs from the combined revenue requirement or any major capital projects.*** As noted above, one of the main advantages of single tariff pricing is that since every water system eventually requires an infusion of the capital for infrastructure renovations and improvements, consolidating rates smoothes the effect of discrete cost spikes across systems and over time. The Commission noted that a region-wide tariff would benefit existing and future customers by stabilizing rates, making rates more affordable in the smaller rate districts, and facilitating the investment in water supply infrastructure and water treatment facilities.

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would been absent consolidation, enhanced ability to respond to emergencies in natural disasters: access to in-house laboratory and research capabilities in California and nationally; annual customer satisfaction surveys and incentive compensation tied to customer service; specialized in-house design and engineering capabilities; enhanced employee career growth and training opportunities; participation in Environmental Protection Agency partnership program designed to enhance water quality; greater ability to acquire and upgrade small, troubled water companies in California; and Cal Am's single industry focus in contrast to Citizens will fight industry diversification. (D.01-09-057, pg. 5 & 6)

Cal Am's rate consolidation proposal for Felton and Monterey districts does not offer the same advantages. Two very large capital projects in the Monterey District – the Coastal Water Project and the retrofitting of the San Clemente Dam – appear to be excluded from the combined revenue requirement as are the operating costs for water supply, production and treatment. This undercuts the rationale for moving to single-tariff pricing. Yet, because the capital needs of Monterey and Felton are so dissimilar, if these costs were consolidated, it could easily result in Felton ratepayers paying higher than stand-alone rates in the future to subsidize the desalination plant in Monterey and other Monterey specific issues. This would create an outcome contrary to the goal of the current application. The intent is to lower risk and smooth rate spikes. While it may lower rates for Felton in the short term, this comes with added long term risk.

- ***Under the SCWC proposal, it was argued that in time, every district would benefit from the consolidated rate design*** – even districts that faced immediate rate increases such as Barstow and Orange County – stating that, "they are next in line for major infrastructure improvements and will not have to bear these costs alone."[28] SCWC's testimony projected capital expenditures of $20.7 million in Orange County (most of it for water treatment and well replacement) and $14.5 million in Barstow (most of it for arsenic and radon removal). The smaller high-cost districts would have to pay a share of these costs as well. Because many costs in the present proposal are excluded from the combined revenue requirement, the subsidy is intended to go one way – Monterey ratepayers subsidizing Felton ratepayers. This is not fair to Monterey ratepayers. And if it were to go the other way, it would be disproportionately burdensome to Felton ratepayers.
- ***SCWC was directed to continue to calculate its revenue requirements separately for each of the eight districts subject to the same regulatory and community review that now occurs in general rate cases that involve multiple stand-alone districts.***
- In this application, Cal Am proposes that consolidated rates be based on a *combined* revenue requirement for the two districts. Combining the revenue requirement will make it harder to evaluate whether cost-averaging has actually produced the benefits promised in this application.

[28] D.00-06-075, pg. 11.

- ***The rate shock and affordability problems in SCWC were more severe than in the Felton district.*** "Before it agreed to defer a new treatment plant in Calipatria-Niland, the company in its GRC application was forecasting average rates for the 1200 customers in that district of $134.49 per month in the year 2000, $233.30 in 2001, and $322 per month in the year 2002." (D.00-06-075, pg. 24) Even without the addition of this new treatment plant, stand-alone rates for an average annual water bill in Calipatria-Niland were estimated to be $1,943 in 2002, for example. In contrast, the regional rate was shown as $529, a savings of $1040 annually.

- ***Some of SCWC's smaller districts were impoverished.*** Commissioner Bilas, in his dissent[29], says that it appears that SCWC's application and its presentation are driven in part by the impoverished people in the districts of Calipatria-Niland and Desert. He acknowledged that many, if not most, of the customers in those districts need relief from high water rates so they can continue to consume water in an amount adequate to ensure their well-being. But he added that this "*does not mean that all customers in those districts require relief from existing or projected rates or that low-income ratepayers of subsidizing districts should be disregarded because their current rates are comparatively low*." [Emphasis added.]

  Cal Am has made no showing that the people of Felton are impoverished, or that the authorized, but not yet implemented, Felton rates are not affordable to the majority of Felton ratepayers

- ***In the SCWC application, many ratepayers supported the consolidation proposal***. The Commission received hundreds of letters – most of them *supporting* the regional rate consolidation plan from ratepayers in the smaller, high-rate districts. (D.00-06-075)

  In this case, the Commission has received dozens of letters from ratepayers – all of them *opposing* the proposed consolidation. The vast majority of the letters are from the Felton, the smaller, presently higher-rate district. Issues raised in the Felton letters include the community's desire for local control, their wish to retain the option to purchase their water system and have San Lorenzo Valley Water District run it, examples of deteriorating customer service and service quality since Cal Am took over, Cal Am's lack of credibility and forthrightness, confusion over what rates are in effect, noting that Monterey has numerous problems which

[29] See Appendix A for full text of Commissioner Bilas dissent to D.00-06-075 dated June 22, 2000.

Felton doesn't want to pay for, and the company's offensive advertising against the community condemnation efforts.

Issues raised in the Monterey letters included the inappropriateness of requiring Monterey to subsidize bad investment decisions by Cal Am in purchasing the unprofitable Felton system), the already extremely high water bills in Monterey and the expectation of steep rate increases over the next decade, and the fact Felton and Monterey have nothing in common.

- ***D.00-06-075 indicates the Commission would consider alternate means of relief for ratepayers, if any were available.***

In D.00-06-075, the Commission stated on page 26:

> Branch argues that approval of single tariff pricing in this case represents a significant change in policy from traditional cost of service ratemaking. Primarily for that reason, the Commission rejected a similar proposal for regional rates in 1983. (Re Southern California water Company, supra.) However, in that decision, we were careful to note that a consolidation of the type proposed by the utility "may ultimately prove necessary" *if alternate means of relief for ratepayers could not be found.* (Id., 12 CPUC2d at 80.) [Emphasis added.]
>
> By the same token, Branch's suggestion that SCWC sell its high rate districts to others would be more compelling if there were the slightest evidence that some willing buyer existed. There is no evidence that suggests the cost of operating the systems (and, hence, the rates paid by customers) would be significantly less under another operator.

In the present application, there is evidence that the citizens of Felton are taking steps towards buying their own water system which is another possible alternative to the proposed consolidation.

### I. Public Acquisition of Felton Water System

ORA believes the Commission should allow time for the democratic process to work, whereby a vote of the Felton ratepayers will determine whether the Felton district wishes to finance the public acquisition of their water system. Moving forward with this rate consolidation as proposed by Cal Am could hinder public acquisition and municipalization of the Felton water system – a matter which will be addressed by the voters shortly. Cal Am's proposal would do this by combining the revenue requirements for the two districts, thus obfuscating the accounting of costs and revenues for Felton.

ORA believes that before saddling the ratepayers of Monterey with extra payments from $412,000 next year to $810,000 in 2019 that are totally unrelated to their cost of service, the PUC should allow enough time for the citizens of Felton to fully explore this alternative. At a minimum, the Commission should not do anything in this proceeding that would foreclose that option from being fully exercised if it is the will of the local residents of that district.

ORA recommends this application be denied, but if the Commission decides to grant it, ORA recommends that it require Cal Am to continue to calculate the revenue requirements of both the Monterey and Felton districts separately, and be subject to the same regulatory and community review that now occurs in GRCs.  This is consistent with what the Commission authorized for SCWC in D.00-06-075.[30]  In addition, as in the SCWC case, the utility should file an analysis along with the annual reports for these districts, identifying the benefits and costs of consolidated rates.  This will enable the Water District two analyze whether this proposal has produced the results promised and recommend changes if necessary.

### J. Regulatory workload impacts

*Will the proposed district consolidation reduce the regulatory caseload for both the Public Utilities Commission Staff and the individual water utilities without adverse effect on the utility customers?*

Contrary to reducing regulatory burdens on the Commission, this proposal would add to them by requiring a careful scrutiny of which costs are separate and which are combined.  While a portion of the rates would be consolidated, Cal Am also proposes district specific rate components, requiring more work when reviewing in future rate cases.

### K. ORA alternative proposal to mitigate the rate shock in Felton.

ORA recommends the Commission consider ORA's alternative proposal for attenuating the rate shock that would be caused by the 44.2% rate increase authorized in the last Felton GRC. (D.04-05-023)

[30] D.00-06-075, Ordering Paragraph 3, pg. 35.

### 1. Phase in the previously adopted 44.2% rate increase

ORA proposes a phased-in approach to implementing the already adopted rates. Under this approach, the approved quantity rates for Felton would be implemented immediately, and the new service charge would then be phased-in over a period of 24 months. See Table 5 for an example of how this would work if the approved, but not yet implemented rates, went into effect on July 1, 2005.

**Table 5: Example of Phase-In of Felton Service Charge**

| | Service Charge | Usage /Quantity Charge[31] | Revenue Shortfall per Customer |
|---|---|---|---|
| Present | **$16.40** | **$2.925** | **($8.46) and ($0.692/unit)** |
| July 1,2005 | $ 16.40 | $3.617 | ($8.46) |
| Jan 1, 2006 | $ 19.22 | $3.617 | ($5.64) |
| July 1, 2006 | $ 22.04 | $3.617 | ($2.82) |
| Jan 1, 2007 | $ 24.86 | $3.617 | $0.0 |
| July 1, 2007 – July 1, 2012 And | $24.86 ~ $2.00 surcharge | $3.617 | |

This proposal would initially result in almost identical bills for the average residential customers as under Cal Am's rate consolidation proposal. (See Table 6) It would then gradually phase-in the remaining authorized rate increase in a way that avoids rate shock. (After six months, customers would receive another $2.82 increase to the service charge. This would be repeated twice again.) The revenue shortfall would be recorded in the revenue shortfall balancing account over the next 18 months and later recovered via a separate surcharge over a multi-year period after rates reach authorized levels. ORA estimates the

[31] Since the average customer in Felton uses approximately 9 units (CCFs) of water per month, and Felton has a conservation discount place, the above quantity rates would be discounted by 15% on average.

additional surcharge as a result of this phase-in of rates would be under $2 per month per residential customers with 5/8" meter if amortized over five years.[32]

Since the average customer in Felton uses approximately 9 units (CCFs) of water per month, and Felton has the conservation discount place, the above rates would be discounted by 15%. In contrast, *Cal Am's consolidated rate proposal unwisely eliminates the Felton conservation discount* taking away this important water conservation and cost management tool.

**Table 6: Average Bill Comparison with ORA Phased-In Rates**

| **Residential Customer with 5/8" meter, using 9 units (CCFs) water** | Current Felton Rates | 1-Jul-05 | D.04-05-023 Approved Felton Rates | Initial Phased In Rates 1-Jul-05 | Consolidated Monterey Rates (not including WRAM) | Difference between Phased-In and Consolidated Rates | Change from Phased-in Rates to consolidated rates |
|---|---|---|---|---|---|---|---|
| Monthly Rates | | | | | | | |
| Base Service Charge/Month | $16.40 | $16.40 | $24.86 | $16.40 | $12.63 | | |
| Usage Charge, per HCF | $2.925 | $3.617 | $3.617 | $3.617 | $3.0528 | | |
| Conservation Discount | | | | | | | |
| First 5 units | 20% | | 20% | 20% | 0% | | |
| 6 - 10 units | 15% | | 15% | 15% | 0% | | |
| 11 - 20 units | 10% | | 10% | 10% | 0% | | |
| **Monthly Charges** | | | | | | | |
| Service Charge | $16.40 | | $24.86 | $16.40 | $12.63 | | |
| Usage Charge (9 units) | $26.33 | | $32.55 | $32.55 | $27.48 | | |
| Monthly water bill | $42.73 | | $57.41 | $48.95 | $40.11 | | |
| Less 15% bill discount | -$6.41 | | -$8.61 | -$7.34 | $0.0 | | |
| Net monthly water charges | $36.32 | | **$48.80** | **$41.61** | **$40.11** | -$1.50 | -3.6% |
| SDWBA Surcharge | $11.50 | | $11.50 | $11.50 | $11.50 | | |
| **Total bill** | $47.82 | | **$60.30** | **$53.11** | **$51.61** | -$1.50 | -2.8% |

Cal Am will be filing another GRC for Felton in December 2004. The timing of any further rate increases approved as a result of that GRC would need to be considered and coordinated with an existing phase-in schedule. If future additional rate increases are in the 4% to 6% range as suggested by Cal Am's

[32] Revenue shortfall per customer = 6 months @$8.46 + 6 months@ $5.64 + 6 months @ $2.82 = $101.52/customer. This amount amortized over 5 years with interest at the 90 day commercial paper rate results in a payment of under $2/customer.

workpapers[33], this should be workable. That being said, ORA is reluctant to have Felton ratepayers accruing too much in deferred charges and prefers, when at all possible, to have rate increases go into effect at the time they are authorized.

2. <u>Establish a low-income water assistance program to provide rate relief to those who really need it.</u>

ORA recommends the Commission require Cal Am to institute a low-income water assistance program in Felton such as the one that is currently in place in Monterey where eligible low-income customers receive 50% off the monthly service charge.[34] This type of program creates a more targeted solution to the rate shock dilemma by providing increased assistance to those on fixed or low-incomes who may experience economic hardship as a result of the new rate levels.

Other utilities, such as Pennsylvania American Water have additional programs such as the utility hardship fund which provides cash assistance in the form of grants for low-income customers to assist with their water bills. This program is funded through shareholder match (up to $60,000) of customer and employee donations. (There is a dollar check off option on the bill for customers to donate.) This company also has a conservation complement to help low income customers reduce consumption through the installation of conservation devices and assistance with repairing minor plumbing problems to stop leaks.[35]

Cal Am has not provided any data on the number of customers who would qualify under the PAR income guidelines in Felton. However, ORA estimates eligible customers would be roughly 20%, and the percentage of those who would enroll in the program at around 33%[36] or approximately 75 customers. Giving each of these customers a 50% discount off the monthly service charge ($12.43/month subsidy) would cost around $11,200/year total.[37]

ORA recommends the Commission require Cal Am to submit a low income rate assistance plan for Felton to the Commission within 90 days for Commission

[33] Workpapers, page 34. See annual estimated operating revenues.

[34] See Appendix F Appendix G for copy of Cal Am's flyer on their "Program for Alternate Rates (PAR)" Application with program description and eligibility guidelines.

[35] From :LIHEAP" for Water Customers, Chairman Wendell F. Holland, Pennsylvania Public Utility Commission, 107th NAWC Annual Conference, La Quinta, CA, October 13, 2004.

[36] Ballpark estimate based on California Alternate Rates for Energy (CARE) data from PG&E Ninth Annual Report and Outreach Program Cost Estimates. PG&E showed 18% of their customer base as eligible for the CARE program, with approximately one third of those eligible enrolled in the program.

authorization. ORA recommends the plan be modeled after their Monterey district program and that it take effect January 1, 2006.

## V. Conclusion

ORA strongly recommends the Commission **not** authorize Cal Am to implement new Felton and Monterey district consolidated rates based on the combined revenue requirements of those districts. The Commission should instead authorize Cal Am to implement the Felton District rates authorized and deferred by D.04-05-023 in a phased-in manner as described above. Further, the Commission should also require Cal Am to submit an application to implement a low income water assistance program in Felton similar to its PAR program in Monterey within ninety days of the effective date of a decision in this case.

The Commission should not authorize Cal Am to collect from Felton District ratepayers over a five-year period the amount accrued in the balancing account established in D.04-05-023, Ordering Paragraph#6 to track revenue shortfalls resulting from the deferral of the 44.2% rate increase ordered. Instead, this balancing account should continue to accrue the remaining revenue shortfall while the previously authorized rates are phased-in over a period of eighteen months. At that time, the total revenue shortfall should be collected from ratepayers via a surcharge. ORA recommends the details of that recovery be included in the upcoming GRC so that all future rate increases will be coordinated.

If the Commission does decide to approve this application, ORA recommends that Cal Am be required to continue to calculate the revenue requirements of both the Monterey and Felton districts separately, and be subject to the same regulatory and community review that now occurs in GRCs, consistent with what the Commission authorized for SCWC in D.00-06-075. In addition, as in the SCWC case, the utility should file an analysis along with the annual reports for these districts, identifying the benefits and costs of consolidated rates. This will enable the Water District two analyze whether this proposal has produced the results promised and recommend changes if necessary.

ORA urges the Commission to reject this Application for the reasons stated herein, but recommends the issue of affordability of water service and the need for rate relief for customers of small water districts be considered in a rulemaking on water service affordability – and not patched together on a piecemeal basis -- so that all the policy implications can be fully vetted. All ratepayers need insurance against rate shock and those with a large water burden, such as low-income ratepayers and those in impoverished areas with large infrastructure costs, will need further assistance.

There are many small water utilities that are truly impoverished and struggling economically to replace aging infrastructure and build new water treatment facilities to meet drinking water standards. Subsidies should go to systems that truly need rate relief through a statewide program. Ratepayers or the subsidizing public should be assured that if they are not paying cost-based rates, the extra they pay today will benefit them tomorrow in avoided rate spikes, or that it provides a subsidy to those water systems and customers that are truly in need of rate relief.

## VI. Appendices

Appendix A - Dissent of Commissioner Richard A. Bilas to D.00-06-075

Appendix B – Revenue Shortfall Balancing Account: Balances

Appendix C – Cal Am's Customer Notice

Appendix D - Background on Affordability of Water Service

Appendix E – Ratemaking differences between district and consolidated rates

Appendix F – Cal Am's Water Low Income Rate Assistance

Appendix G – Diana S. Brooks, Qualifications

## Appendix A: Dissent of Commissioner Richard A. Bilas to D.00-06-075

This decision approves single tariff pricing for eight water districts that comprise Southern California Water Company' s (SCWC's) Region III, located in Southern California. These water systems are not contiguous and none are physically interconnected. All districts have diverse water sources. Under this pricing mechanism current district rates will be equalized. Numerous customers will subsidize or pay a portion of the cost-of-services provided to customers residing in more sparsely populated districts where some of the current rates are high. I cannot support this rate subsidization because I believe that the decision provides insufficient evidence to justify departing from cost-based rates at this time. I find that this pricing mechanism imposes substantial risks on certain customers with no opportunity for those customers to see a reward.

It is true that the water industry is a rising cost industry. But the solution provided here does not attempt to reduce the costs of complying with new water quality regulations or replacing aging infrastructure. SCWC has made it clear that if this proposal is adopted there will be no reduction in costs. Instead, this solution simply shifts those costs to other customers.

The primary arguments in support of this proposal are rate stability and affordability. But in this case, affordability for a few is provided at a significant cost to many. This average pricing method requires that all customers in SCWC's larger, lower-cost districts subsidize all customers in the smaller, high-costs districts. Indeed, poorer customers in lower cost districts will subsidize wealthier customers in high cost districts. I find this economically inefficient and highly discriminatory.

In addition, this pricing mechanism will reduce efficiency. Consumption would be encouraged in the more expensive districts, and conservation would be undermined exactly where it is needed most. There may be customers from whom we would like to see consumption increase, but a lifeline rate would achieve a similar result for those customers without eliminating the necessary price signals for all other customers.

SCWC's application and its presentation appear driven in part by the dilemma of the impoverished people in the districts of Calipatria-Niland and Desert. No doubt many, perhaps most of the customers in those districts need relief from high water rates so that they can continue to consume water in an amount adequate to insure their well being. However, that does not mean that all customers in those districts require relief from existing or projected rates or that the low-income ratepayers of subsidizing districts should be disregarded because their current rates are comparatively low.

If SCWC's application were confined to providing assistance to the poor people of Calipatria-Niland, the Desert and other districts, then I would enthusiastically support it. The one aspect of the decision that I support is the requirement that SCWC file an application for a lifeline rate. However, I am concerned that if this Commission adopts a surcharge to fund lifeline rates, combined with the single-tariff pricing subsidy adopted in this decision, may create a new affordability problem for many customers.

In theory, this pricing mechanism is supposed to provide each district with its "turn" at being subsidized. For example, under current rates, customers from Orange district will be overcharged to subsidize customers in the Desert districts, and one day in the future customers from the Desert Valley districts will be overcharged to subsidize customers from Orange. However, in the chart located at pages 8-9 of the PD, SCWC projects a comparison of regional rates and stand-alone district rates during the 17 year period beginning in 1999 and ending in 2015. With regional rates, the 52,000 customers residing in the districts of Orange (40,000 customers) and San Gabriel (12,000 customers) will pay each and every year more than the cost of their district-based water service to support the cost-of-service of customers in other districts. The 6700 customers of the Desert (3000 customers), Wrightwood (2500 customers) and Calipatria-Niland (1200 customers) Districts will financially benefit each of the 17 years by paying less than their district's cost of water service. I find it difficult to see how a small district in an arid region with significant water quality problems will ever be in a position to subsidize another district. It is far more likely that Orange or a similar district will continue to subsidize the smaller districts into perpetuity.

In summary, it is clear to me that this decision does not strike an appropriate balance between the interests of SCWC and the majority of its ratepayers. SCWC will benefit, as the rate stabilization will allow it to better earn its rate of return. SCWC will also benefit by gaining an advantage over other utilities in its ability to acquire other systems and protection against competition or the attempts of other purveyors to acquire its system. But the majority of Southern California Water Company's ratepayers will not benefit. The proposal will produce no economies of scale, no management, administrative, financing or operational efficiencies. There will be no affect on the cost or the manner of running the systems. Subsidizing ratepayers will get no benefit.

<u>/s/ RICHARD A. BILAS</u>
RICHARD A. BILAS
Commissioner

San Francisco, California
June 22, 2000

## Appendix B: Actual and Estimated amounts in revenue shortfall balancing account

**CALIFORNIA AMERICAN WATER COMPANY**
**MONTEREY-FELTON CONSOLIDATION APPLICATION**
**A. 04-08-012**
**RESPONSE TO DATA REQUEST NO. 2**
**QUESTION 1**

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Q. (*Felton*) Please provide amounts in the balancing account established to track difference between revenues generated by current rates for the Felton District and the revenues generated by the approved but not implemented rates in D.04-05-023 by month since its inception. Also, please provide estimated amounts for the months December 2004 through June 2005. (ORA also requested this information via email on October 12, 2004. Please respond to this question immediately. Thank you.)

A. Felton:

| Deferred Revenue | Water Customers | Fire Customers |
|---|---|---|
| May '04 | $5.16 | $50.43 |
| Jun '04 | $8,029.28 | $87.92 |
| Jul '04 | $26,234.56 | $51.26 |
| Aug '04 | $16,187.40 | $87.92 |
| Sep '04 | $28,951.93 | $51.26 |
| Oct '04 | $21,211.30 | $87.92 |
| Nov '04 | $24,791.96 | $51.26 |
| Est Dec '04 | $21,329.09 | $87.92 |
| Est Jan '05 | $24,815.70 | $51.26 |
| Est Feb '05 | $18,451.29 | $71.44 |
| Est Mar '05 | $18,091.19 | $32.06 |
| Est Apr '05 | $15,573.48 | $54.96 |
| Est May '05 | $18,091.19 | $32.06 |
| Est Jun '05 | $15,573.48 | $54.96 |

ORA calculated the total revenues are estimated to be in the balancing account as of June 2005 by totaling the above table.

**Total: $258,134.05**

## Appendix C:  Copy of Cal Am's Public Notice

### NOTICE OF CALIFORNIA AMERICAN WATER COMPANY APPLICATION TO CHANGE WATER RATES IN MONTEREY AND FELTON DISTRICTS

On August 11, 2004, California American Water Company asked the California Public Utilities Commission to approve a change in the way it determines future rates in its Monterey and Felton Districts.  In Application No. 04-08-012, California American Water is proposing the rates charged in each district be made the same, with some exceptions.  Costs for water production and treatment, the costs related to the water treatment plant in Felton, the proposed Coastal Water Project in Monterey (or any other long-term water source replacement project), and repairs or removal of San Clemente Dam, would be charged only to the district receiving the benefits.

Combining rates as California American Water proposes would increase the amount collected from Monterey District customers by $412,000 annually (about 0.8%) beginning in 2005, and that difference would grow to about $810,000 annually (about 0.7%) by 2019.  Felton District customers would see corresponding drops in their billings in future years; by $257,000 (about 20%) in 2005 and by $636,000 (about 27%) in 2019.

California American Water believes that combining Felton and Monterey district rates as it proposes will improve long-term rate stability by spreading the costs of operation and water plant improvements over a large customer base.

#### PUBLIC PARTICIPATION

The Commission welcomes the public's participation.  Before acting on these applications, the Commission will hold evidentiary hearings where California American Water, the Commission's independent Office of Ratepayer Advocates, and other interested parties will present their testimony. An evidentiary hearing is a formal hearing where parties to the proceeding present their testimony and are subject to cross-examination before the assigned Administrative Law Judge.

**In addition, a Public Participation Hearing on A. 04-08-012 has been scheduled as follows:**

**Tuesday, December 7, 2004 at 7 p.m.**
**Felton Community Hall**
**Main Auditorium**
**6191 Highway 9**
**Felton, CA 95018**

**A public participation hearing is one opportunity to express your views regarding this application.  You are also encouraged to write or email your opinions, concerns and comments to the Public Advisor's office (see below).  These comments will be circulated to the Commissioners, the assigned Administrative Law Judge and appropriate staff and will become part of the formal correspondence record for this proceeding.**

After considering all proposals and evidence presented during the formal hearing process, the assigned Administrative Law Judge will issue a proposed decision.  When the commission issues a final decision on A. 04-08-012 it may adopt all or part of the Administrative Law Judge proposed decision as written, amend or modify it or deny the Application.  The Commission's final decision may be different from California American Water's proposal.

If you are interested in participating in this proceeding and need advice or more information, or if you wish to comment on the Application, please call or write to:

The Public Advisor
California Public Utilities Commission
505 Van Ness Avenue, Room 2103
San Francisco, CA 94102
866-849-8390 (toll free)
415-703-2074
public.advisor@cpuc.ca.gov

18516:6406308.1

## Appendix D: Background on Affordability of Water Service

For many small water districts, affordability of water service is a growing concern. The water industry is a rising cost industry, one faced with increasing costs over the next several decades as it attempts to comply with new water quality regulations and replace aging drinking water infrastructure. As the Commission noted in D.00-06-075, "In terms of capital investment for revenue dollar, the provision of water service is the most capital intensive public utility service."[38] There's no question that affordability of water service is a growing concern for customers of small water systems. These systems have limited opportunity to distribute the cost burden of the required new investments in infrastructure, since smaller systems must recover revenue requirements over a smaller customer base. Required new investment could more than double a household water bill in a small district. Household bills are often high already, and in many districts, a majority of the customers are low-income, leaving few other households to shoulder the burden.

Affordability of water has been defined as monthly water bills that do not impose undue economic hardship on low or fixed-income households in the service area. Water rates should be low enough so that low-income customers will not have to displace other essential services (food, energy, medical care, etc.) to pay their water bills.[39] Affordability is a function of both the price of water service, the quantity of water consumed and the ability of households to pay for that service. There are a number of ways to address the problem of affordability of water service in small systems. Options include the gradual phase-in of rate increases, regionalization, single-tariff pricing, special payment arrangements, and the low-income customer assistance programs. The question is which solution or solutions best serves the public interest in a given case?

[38] D.00-06-075, pg. 27.
[39] Raucher, Bob, Presentation on "Affordability of Water Service" to the NAWC Annual Conference in Palm Springs, California, October 13, 2004.

## Appendix E – Ratemaking differences between district and consolidated rates

***How are rates in California set now?***

Traditionally in California, water rates are set by districts for Class A water utilities. Elevation, climate, physical terrain, the age of the infrastructure, the density of the service population and other factors all affect cost of service. "Differences in the proximity to water sources, the type of source (surface water versus groundwater), the quality of the source water, and implemented treatment methods will tend to produce substantial cost differences."[40] Districts tend to represent geographic clusters of customers with similar cost characteristics.

Unlike other utility industries, each district in a multi-district water utility undergoes the general rate case review every three years.

***How do consolidated rates or singe-tariff pricing differ from district rates?***

Consolidated rates use a unified rate structure for multiple water systems that are owned and operated by a single utility. All customers pay the same rate for service even though individual systems may very in terms of the number of customers served, operating characteristics and stand alone costs. Single tariff pricing aggregates costs and averages than over a broader customer base.

***What are the advantages of rate consolidation?***

Single tariff pricing or consolidated rates has both advantages and disadvantages. When properly structured, advantages of consolidated rates include rate and revenue stability, improved affordability for customers of small systems and protection against rate shock since costs are allocated over broader customer base however these advantages. "A leading argument for single tariff pricing made by multi-system water utilities is that each individual system eventually will require an infusion of capital for renovations and improvements; only the timing varies. Equalizing rates smoothes the effect of discrete cost spikes across systems and over time, much like insurance pooling. Single tariff pricing also achieves equity to the extent that all customers of a given utility pay the same price for comparable service." [41]

[40] Ibid. Page 13.
[41] *Consolidated Water Rates: Issues And Practices In Single Tariff Pricing*, September 1999. A Joint Publication Of The US Environmental Protection Agency and The National Association Of Regulatory Utility Commissioners. Page 4.

*What are the tradeoffs or disadvantages to single-tariff pricing?*

However there's a trade-off between these advantages and other goals such as economic efficiency and cost-based ratemaking. Single tariff pricing undermines economic efficiency and distorts price signals. It conflicts with traditional cost of service principles by breaking the link between cost and rates.

Economic theory argues for setting rates that are based on the true cost of providing service and are equitable in terms of allocating those costs. Cost-based rates send price signals that result in efficient resource use – matching supply with demand. Fair and equitable cost allocation suggests those who impose similar costs should pay the same rate, and those who impose different costs should pay different rates reflective of those cost differences.

While there is some cost averaging in virtually all methods of utility rate design, single tariff pricing may result in an inappropriate level of subsidy or undue price discrimination where high-cost customers are subsidized at the expense of low-cost customers. Once consolidated rates are instituted in an area, it is hard to go back.

## Appendix F – Cal Am's Monterey Low Income Rate Assistance Program

California American Water

www.calamwater.com

**Program for Alternative Rates (PAR) Application**

Mail Completed Application to:
California American Water, P.O. Box 578, Alton, IL 62002-0578
For Questions Call: 1-888-237-1333

**ABOUT THE PROGRAM**

**At California American Water, we believe fresh, clean water is a resource that should be made available to everyone. That is why we have developed the Program for Alternative Rates (PAR) to help provide assistance to low-income families.**

With PAR, eligible members are determined based on a household's gross yearly income. To see if your household qualifies for PAR, please refer to the income guidelines that follow. If your household meets the necessary requirements, assistance will be provided to you in the form of a monthly discount in your water charges.

To apply for PAR, simply fill out the application on the reverse side and mail it along with proof of income to the address listed above. For further information about PAR or your California American Water service, please call us at (888) 237-1333 or visit us on the Web at www.calamwater.com.

**TO QUALIFY FOR PAR**

- The California American Water bill must be in your name.
- You may not be claimed as a dependent on another person's tax return.
- Your total annual income cannot exceed the chart below. Total income means the total income of ALL persons living full-time in your home as reported on Federal Income Tax Form 1040.
- You must present documentation showing approval into PG&E's California Alternate Rate for Energy (CARE) Program or provide verification of your household income* to be considered for PAR.
- California American Water must be notified within 30 days of becoming ineligible for PAR.
- The Program for Alternative Rates (PAR) is available to customers in the Monterey system as well as Hidden Hills and Ryan Ranch. The program does not apply to customers in Amber, Bishop, Chualar or Ralph Lane.

**INCOME GUIDELINES**
***(Effective June 1, 2004 to May 31, 2005)***

| Number of Persons in Household | Total Combined Annual Income |
|---|---|
| 1-2 | $ 23,400 |
| 3 | $ 27,500 |
| 4 | $ 33,100 |
| 5 | $ 38,700 |
| 6 | $ 44,300 |
| Each Additional | $ 5,600 |

**Forms of verification: Federal Income Tax Form 1040 including W-2 Forms. If self-employed, please include Schedule C.*

**For Assistance Call**
**1-888-237-1333**
**or visit www.calamwater.com**

AW-CA-1204-2

RWE GROUP

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**California American Water**

www.calamwater.com

## Program for Alternative Rates (PAR) Application

**Mail Completed Application to:**
California American Water, P.O. Box 578, Alton, IL 62002-0578
For Questions Call: 1-888-237-1333

**Please fill out the form below and attach the following:**
1. PG&E statement showing acceptance into the CARE Program, or Federal Income Tax Form 1040.
2. California American Water bill.

### CALIFORNIA AMERICAN WATER CUSTOMER INFORMATION: *(please type or print)*

**Customer Account Number** ☐☐☐☐☐☐☐☐☐☐☐

**Name** ____________________
*As it appears on your bill*

**Home Address** ____________ **City** ____________ **CA Zip Code** ________
*Do NOT use a P.O. Box*

**Mailing Address** ____________ **City** ____________ **CA Zip Code** ________
*If different from the above address*

**Daytime Telephone Number** ☐☐☐☐☐☐☐☐☐☐☐☐
*Please Include Area Code*

**Number of people living in your household** ☐☐ Adults + ☐☐ Children = ☐☐ Total

### MAXIMUM HOUSEHOLD INCOME: *(effective June 1, 2004 to May 31, 2005)*

Your household's gross annual income may not exceed these CARE income guidelines.

| Number of Persons in Household | 1 or 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|
| Total Combined Annual Income | $23,400 | $27,500 | $33,100 | $38,700 | $44,300 |

*Add $5,600 for each additional household member*

### HOUSEHOLD INCOME WORKSHEET *(please fill in circle next to all sources of your household's annual income)*

- ○ Wages or Salaries
- Interest and/or Dividends from:
  - ○ Savings Accounts,
  - ○ Stocks or Bonds, or
  - ○ Retirement Accounts
- ○ Unemployment Benefits
- ○ Rental or Royalty Income
- ○ School Grants, Scholarships or other aid used for living expenses
- ○ Profit from self-employment (IRS form Schedule C, Line 29)
- ○ Disability payments
- ○ Workers compensation
- ○ Social Security, SSI, SSP
- ○ Pensions
- ○ Insurance settlements
- ○ Legal Settlements
- ○ TANF (AFDC)
- ○ Food Stamps
- ○ Child Support
- ○ Cash and/or other income
- ○ Spousal support

**Total Annual Household Income:** $ ☐☐,☐☐☐

### DECLARATION: *(please read carefully and sign below)*

I state that the information I have provided in this application is true and correct. I agree to provide proof of income. I agree to inform California American Water if I no longer qualify to receive the discount. I understand that if I receive the discount without qualifying for it, I may be required to pay back the discount I received. I understand that California American Water can share my information with other utilities or their agents to enroll me in their assistance programs.

**X** ______________________________ ______________
*California American Water Customer Signature* ○ *fill in circle if guardian or power of attorney* *Date*

AW-CA-1204-2

RWE GROUP

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## Appendix G – Diana S. Brooks, Qualifications

**Q1: Please state your name, business address, and position with the California Public Utilities Commission (CPUC).**

A1: My name is Diana S. Brooks and my business address is 505 Van Ness Avenue, San Francisco, CA. I am a Public Utility Regulatory Analyst V in the Water Branch of the Office of Ratepayer Advocates (ORA).

**Q2: Please summarize your educational background.**

I received my Bachelor of Science degree in Cybernetics from the University of California at Los Angeles (UCLA) in 1977 and a Masters of Business Administration degree from UCLA in 1982.

**Q3: Please summarize your business experience.**

A3: Prior to joining the CPUC in 1989, I taught business mathematics and statistics in the School of Business at San Francisco State University for four years. While at the CPUC, I have worked on projects in energy, telecommunications, transportation and water. I have researched, analyzed and developed reports and testimony on various complex public policy issues. I am the Project Manager for ORA on the new rate case plan for Class A water utilities.

In 1997, I served as the Chair of the Low Income Governing Board (LIGB) during its formative year. I directed Board activities, managed the Board's $2 million annual budget and supervised the work of outside attorneys and consultants to accomplish the CPUC mandate of setting up a new structure for California's $180 million low income energy assistance programs.

For the last four years, in addition to my other responsibilities, I have served as an ORA legislative liaison, lobbying on behalf of ratepayers at the Legislature primarily in the area of telecommunications, and more recently water.

**Q4: What is your responsibility in this proceeding?**

A4: I am responsible for the entire report in this proceeding.

**Q5: Does this conclude your prepared direct testimony?**

A5: Yes, it does.