STATE OF CALIFORNIA ARNOLD SCHWARZENEGGER, *Governor*

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

May 4, 2004

Agenda ID #3213
Quasi-Legislative

TO: PARTIES OF RECORD IN RULEMAKING 03-09-005

Enclosed is the revised draft decision of Administrative Law Judge (ALJ) Bushey. The parties may file and serve written comments on the revised draft decision as set out below:

Comments Filed and Served May 17, 2004

The decision is currently scheduled to be placed on the Commission's agenda for the May 27, 2004 meeting. The Commission may act then, or it may postpone action until later. When the Commission acts on the revised draft decision, it may adopt all or part of it as written, amend or modify it, or set it aside and prepare its own decision. Only when the Commission acts does the decision become binding on the parties.

Parties' comments on the revised draft decision shall comply with Article 19 of the Commission's Rules of Practice and Procedure. These rules are accessible on the Commission's Website at http://www.cpuc.ca.gov. Finally, comments must be served separately on the ALJ and the Assigned Commissioner, and for that purpose I suggest hand delivery, overnight mail, or other expeditious method of service.

/s/ STEVEN KOTZ for ANGELA K. MINKIN
Angela K. Minkin, Chief
Administrative Law Judge

ANG:hkr

Attachment

172019

Decision **REVISED DRAFT DECISION OF ALJ BUSHEY** **(Mailed 5/4/2004)**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking on the Commission's Own Motion to Evaluate Existing Practices and Policies for Processing General Rate Cases and to Revise the General Rate Case Plan for Class A Water Companies.	Rulemaking 03-09-005 (Filed September 4, 2003)

INTERIM ORDER ADOPTING RATE CASE PLAN

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INTERIM ORDER ADOPTING RATE CASE PLAN

I. Summary

This decision adopts a revised Rate Case Plan (RCP) that requires Class A water utilities (i.e., those with more than 10,000 service connections) to submit general rate case (GRC) applications on a three-year cycle as required by § 455.2.[1] To accommodate this cycle, we must timely complete our review. We adopt two major process changes designed to ensure that we complete the process within the designated review period. First, we require water utilities to provide all necessary information at the initial stage of the proceeding, rather than over a several month period. Second, we adopt a simplified, inflation-based escalation methodology for two years of the three-year cycle. With these changes, and others reflected in the RCP, the three-year GRC cycle is feasible.

II. Background

The Commission opened this proceeding to update the RCP adopted in 1990. The purpose of the RCP is to provide Class A water utilities with (1) rate case application content guidance, (2) a filing schedule for all Class A water utilities, and (3) a Commission review and evaluation timeline. The impetus for this updating process is § 455.2, which states, in part, that the Commission "shall establish a schedule to require every [Class A] water corporation . . . to file an application . . . every three years."[2] The current RCP does not provide for a mandatory rate case filing schedule.

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[1] All citations are to the Public Utilities Code unless otherwise indicated.

[2] Section 455.2 states: (a) The Commission shall issue its final decision on a general rate case application of a water company with greater than 10,000 service connections in

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The Commission attached a draft revised RCP to its September 4, 2003, order instituting this rulemaking (OIR). That draft contained revised timelines for filing and changes in the content of rate case applications necessary to meet the requirements of § 455.2. The Commission's Water Division held workshops before and after issuance of the OIR, and the parties filed written comments and reply comments on the draft RCP.

On January 27, 2004, the assigned Administrative Law Judge (ALJ) issued her draft decision. The parties held additional workshops,[3] filed written

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a manner that ensures that the Commission's decision becomes effective on the first test year in the general rate increase application.

(b) If the Commission's decision is not effective in accordance with subdivision (a), the applicant may file a tariff implementing interim rates that may be increased by an amount equal to the rate of inflation as compared to existing rates. The interim rates shall be effective on the first test day of the first test year in the general rate case application. These interim rates shall be subject to refund and shall be adjusted upward or downward back to the interim rate effective date, consistent with the final rates adopted by the Commission. The Commission may authorize a lesser increase in interim rates if the Commission finds the rates to be in the public interest. If the presiding officer in the case determines that the Commission's decision cannot be effective on the first day of the first test year due to actions by the water corporation, the presiding officer or Commission may require a different effective date for the interim rates or final rates.

(c) The Commission shall establish a schedule to require every water corporation subject to the rate case plan for water corporations to file an application pursuant to the plan every three years. The plan shall include a provision to allow the filing requirements to be waived upon mutual agreement of the Commission and water corporation.

(d) The requirements of subdivisions (a) and (b) may be waived at any time by mutual consent of the Executive Director of the Commission and water corporation."

[3] The draft decision required that certain demographic information be included in the GRC application. The parties have agreed that such information shall instead be included in each utility's annual report.

comments and reply comments, and presented oral argument before the ALJ and assigned Commission.

III. Discussion

A. Changes Necessary to Implement the Three-Year Rate Case Cycle Created by § 455.2

Fundamental changes are needed to enable the Commission to comply with the three-year GRC cycle required by § 455.2. The cycle drastically diminishes the Commission's flexibility in conducting its review of GRC applications. We no longer have the option of rescheduling an application to a future date, because all future dates and available staff are fully booked pursuant to the three-year cycle. Similarly, we cannot stretch out a procedural schedule for a particular GRC because other GRC applications (involving the same staff and sometimes other districts[4] of the same utility) will be filed before the GRC is resolved. In the workshops and comments, this interdependence is referred to as the "domino effect."

To avoid the domino effect, each GRC must be filed and processed in accord with the RCP. When the Legislature enacted § 455.2, the Commission explained that it required additional resources to process a GRC for each Class A water utility in the three-year cycle. These additional resource needs are detailed in the Senate Appropriations Committee's analysis of Assembly Bill 2838. Due to budget limitations, these additional resources have not been forthcoming. Consequently, to comply with the three-year requirement with existing resources, we must accelerate our review of GRC applications. Our new RCP

[4] In today's decision, we use "district" to refer to ratemaking districts and not operation districts.

accomplishes this goal by making more productive use of the early stages of the proceeding by requiring that utility file all necessary information with the application, and replacing the second test year, with its account-by-account revenue requirement review, with an inflation-based escalation formula. As stated by the Office of Ratepayer Advocates (ORA): "The revised Proposed RCP makes certain essential changes to current practice that offer the only practical means for the Commission and ORA to meet this increased workload."

One benefit of the mandatory three-year cycle is that it should nearly obviate the need to rely on interim rates for delayed GRC decisions. The unrelenting cycle will require that each GRC is timely processed.

In the draft RCP attached to the OIR, our staff identified several opportunities for simplification and made proposals. These proposals, and alternatives proposed by the utilities, were discussed in the workshops and comments, and some issues were resolved. Several major issues, however, remain, and we address most of these issues below. Certain issues require additional time for development and consideration. These specific issues will be deferred to a second phase of this proceeding.

B. Components of The New Three-Year Rate Case Cycle

The current RCP provides for two consecutive test years, followed by one attrition year for January filers and two attrition years for July filers. A "test year" is a 12-month period over which projected costs and revenue are evaluated to determine if a rate change is required. This evaluation includes specific review of all projected costs and forecasts of consumer use. In contrast, an "attrition year" provides for rate increases based on an adopted formula.

In the draft RCP that accompanied the OIR, staff proposed eliminating the second test year and attrition year(s) and replacing them with two

"escalation" years. Staff's ultimate proposal for the two escalation years provided for escalating labor and non-labor costs based on indices published by ORA,[5] and for routine capital investment to be projected based on a five-year average; major capital projects would require specific approval outside the escalation process.

Eliminating the second test year is the cornerstone of staff's simplification proposal. Going from two test years to one significantly diminishes the staff review needed for a GRC. By building off the test year data, the rates for the final two years in the three-year cycle can be determined within the time constraints of the RCP.

Many of the components of the new three-year rate case cycle were addressed and resolved in the workshops. The definition of "test year" in § 455.2, with its implications for interim rates, the escalation process, particularly for capital additions, and general office allocations, however, require further work. We resolve these issues in the next sections.

1. "Test Year" as Used in § 455.2

Standard ratemaking practice uses "test year" to refer to the period over which the cost of service and proposed rates will be evaluated. Two types of test years are used: historical and forecasted (or future) test years. The Commission's current practice for water utilities is to use two forecasted test years. Using a forecast allows the utility to project expected costs and determine the revenue required to recover those costs, and the Commission to tailor the rate changes to match anticipated cost changes.

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[5] No party objected to the use of these indices.

The Legislature's use of "test year" in § 455.2 requires interpretation because it does not define "test year" and has no clear relation to the Commission's current practice. In adopting § 455.2, the Legislature directed the Commission to "issue its final decision on a general rate case application . . . in a manner that ensures that the commission's decision becomes effective on the first day of the first test year . . . ." The first day of the first test year, however, does not always coincide with the expected effective date of rates sought in the GRC application. Test years are selected based on data availability and utility budgeting schedules, and often, but not always, correspond to calendar years. Under the Commission's current RCP, utilities that file in January use the next calendar year as the test year. Since rates are expected to be effective on January 1 of that next year, the expected effective date corresponds to the first day of the first test year. In contrast, however, utilities that file in July also use the next calendar year as the first test year but the expected effective date is not January 1, the first day of the first test year. The expected effective date is July 1. Thus, as used in § 455.2, "the first day of the first test year" seemingly requires different treatment of January and July filers, but no such intent appears in the statute; indeed, for one utility to have a faster GRC than another utility merely on the basis of the filing date seems inconsistent with the legislative intent. We, therefore, will interpret "test year" so as to enable us to even-handedly apply this statute.

One solution would be to schedule all GRC filings for January, using the following year as the test year. That "solution" would create insuperable workflow and workload issues, and, again, there is nothing in § 455.2 to suggest the Legislature intended to make the RCP harder to implement. Another solution that is easily manageable for both the Commission

and the utilities would be to interpret "first day of the first test year" in § 455.2 to mean the expected effective date of new rates, as provided in the RCP. This interpretation accords the same treatment to January and July filers. It is also consistent with § 455.2 taken as a whole, and with the clear statutory objective of getting rates in place in accordance with the RCP schedule. We, therefore, will adopt it.

2. Test Year for Forecasting

Defining the test year for forecasting purposes also plays a role in the effective date. We adopt calendar year test years, which will be simpler for the utilities to prepare and ORA to review than non-calendar year test years.

Some Workshop participants proposed delaying filing of the application until March to allow the utilities to gather a full calendar year of historical data to use as a base for test year forecasting. While the March application filing date allowed the utilities to collect the calendar full year of historical data, it resulted in a three-month delay in the effective date of revised rates, i.e., the following March. A non-calendar test year (March 1 to February 28) was proposed to synchronize the application filing date with the effective date for rates. In this way, the first day of the test year would correspond to the expected effective date of rates.

ORA opposes the non-calendar test year due to the additional workload created by analyzing test year estimates that span two calendar years. Park Water Company (Park) also believes that the use of a calendar test year will be much simpler for the utilities to prepare and for ORA to review, than a non-calendar test year. Park and ORA are persuasive in their opposition to a non-calendar year test year. We will, therefore, retain the calendar year test year.

Retaining the calendar year test year, however, creates a data availability problem for January filers. The January filing date precludes a full calendar year of data to use as the base from which test year forecasts are made.[6] Park wants to use actual end-of-year amounts for rate base and for expense forecasts. Park contends that this information can be conveniently supplied in a February update to its January applications. Park, however, fails to address the inconsistencies caused by such updates. Changing any component of revenue requirement, no matter how slightly, necessarily results in changes to all ultimate revenue requirement amounts. Such changes substantially impede analysis of the overall request because ultimate and subsidiary revenue requirement amounts no longer reconcile. In essence, an update starts the numerical analysis of a GRC anew. Moreover, the changes imbedded in the updates must be identified and reviewed. Similarly, ORA seeks the right to use updated amounts in its reports, which follow the utility's application by a few months. Such updates, like that sought by Park, make reconciling the utility's position to ORA unnecessarily difficult. For example, it is difficult to understand the impact of ORA's proposed changes to the revenue requirement on an issue-by-issue basis when all amounts change simply due to using more recent data. While some items can be expected to have increased, there may be offsetting decreases in others.

While a full calendar year of data is beneficial, the three-month delay necessary to incorporate the data into the application prohibits

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[6] The calendar year prior to filing is typically used as a base from which utilities escalate expenses and revenue for the test year. January filers will not have a full

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synchronizing the effective date of rates with the first day of the test year. Aligning the expected effective date of rates and the first day of the test year is a key component of both our ratemaking precedents and § 455.2. Moreover, the utility can use simple techniques to estimate the missing two months of yearend data. Using January 1 as the filing date for the final application will require that the utility rely on an estimating technique to develop estimates for the not-yet-available two or three months. Two simple techniques are: (1) use the available months as a proportion to estimate a full year, and (2) use the final months of the previous year, escalated by inflation, to estimate the final months. For rate base, budgeted capital additions, rather than actual additions, could be used for the final months. The gain from waiting to have end-of-year totals for the base year is more than offset by the delay in effective date.[7]

Therefore, we will adopt calendar year test years with January and July effective dates as set out in the Appendix, Part II.

3. Updates

For similar reasons, we will also limit updates to the data in applications.

The temptation to wait for additional historical data, i.e., updates, upon which to base a forecasted test year cannot be indulged when we face a

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calendar year of data because the last few months of the previous year will not be available in time to be incorporated into the application.

[7] Utilities perceive that delaying the planned effective date beyond the first day of the test year results in "lost revenue." Forecasted test years, however, are simply a convenient theoretical means to evaluate proposed rates and are not readily translated to actual day-to-day operations. For example, the customer usage upon which rates are based may or may not be the actual usage on the first day of the test year, or any day of the test year for that matter, thus undermining any claim of "lost revenues".

statutory requirement for getting rates in place by a specific date. Any rate case plan requires a data collection termination date; otherwise, no rate case with a forecasted test year would ever be completed. For this reason, our Rate Case Plans have always included a limitation on updates. In this RCP, we have set the update limitation date as the filing of the application for all parties. This limitation will simplify the record for the entire case by setting one date on which the forecasted ratemaking "snapshot" will be based.

Accommodating updates, as advocated by Park, essentially require redoing every number in the application. Thus, as a practical matter, ORA staff does not receive the final application until the update is done, effectively decreasing ORA's review time. The practice under our 1990 Water RCP of allowing for updates may have contributed to the delays water utilities have experienced.

ORA contends that it is "entitled to receive and use updated information." ORA is correct that it is entitled to receive the information, as discussed in section C of today's decision. As for using updated information in a GRC report, ORA states that its reports are due three to four months after the utility files its application, and that it "makes no sense" to ignore the more current information. ORA's theory, however, can be logically extended to allow the utility to use updated information in its rebuttal testimony as well, and for the Commission and its advisory staff to use further updates when considering the proposed decision. As discussed above, a series of updates results in an incomprehensible record with many different amounts for each line item. Limiting all parties to the same vintage data will simplify and streamline the GRC process.

4. Escalation of Labor and Non-Labor Expenses, Rate Base Additions

The utilities generally did not oppose eliminating the second test year but objected to some aspects of the proposed escalation methodology. Staff's initial proposal for escalation years only provided for wage escalation. At the conclusion of the workshops, staff accepted the utilities' recommendation to escalate non-labor costs as well. We approve escalation year rate adjustments for both wage and non-labor costs, using an advice letter process to do so. We will also grant the utilities' request to include customer growth in the escalation calculation. We deny, however, the utilities' request to derive item-specific escalation rates in each GRC. Adding the derivation of escalation rates to each GRC is contrary to our goal of simplifying and streamlining the GRC process.

Cal Water Association proposes to include customer growth, i.e., increases in the number of customers, in the escalation calculation but provides no specific methodology to do so. The Commission has found that customer growth plus inflation is a reasonable means to estimate administrative and general costs. (See D.03-09-021.) ORA opposes including customer growth because increased expenses are not necessarily directly proportional to increased numbers of customers, and determining a customer growth factor for the escalation years will be a contentious issue in the rate case. ORA also contends that estimating customer growth will be a contentious issue.

Cal Water Association argues that many costs, such as postage, water treatment chemicals, additional customer service clerks to process bills, increase with an increase in the number of customers, and, consequently, the escalation methodology should include increases in customers. Cal Water Association also points out that the escalation methodology provides for

additional revenue from the additional customers, so the additional costs should also be reflected.

We agree with ORA that utility work requirements and expenses do not necessarily increase in direct and exact proportion to customer growth, and that productivity improvements should be able to address many increases. Cal Water Association, however, makes an equally valid point that the cost increases caused by additional customers will almost certainly not be zero. On balance, we find it reasonable to allow the utilities to include customer growth in the escalation methodology. A simple, five-year average percentage change in number of customers should minimize contentiousness. We grant this request with the understanding that including customer growth in the escalation methodology will tend to overcompensate the utility for increased costs. We believe that this outcome will offset any issues where we make simplifying assumptions for escalation purposes that may not fully encompass all possible future cost increases. For example, our treatment of General Office allocations, discussed below, may tend to undercompensate multi-district utilities under certain circumstances.

ORA also recommends that test year estimates should be adjusted to remove any "highly unusual or significant one time expenses" prior to applying the escalation methodology. Park opposes ORA recommendation because ORA does not define "highly unusual or significant one time expense" and Park believes that ORA will impose too stringent of a standard. Park is concerned that GRCs will be overrun with "minutiae" as parties debate whether minor expenses meet ORA's standard. Park also states that ORA's proposal reflects an unreasonable assumption that no highly unusual or significant one-time expenses will occur in the escalation years.

In escalating recorded amounts for forecasting purposes, the Commission has a practice of excluding nonrecurring items. (See, e.g., Southern California Edison, 64 CPUC 2d 241, 316 (D.96-01-011).) Thus, ORA's proposal to exclude nonrecurring items, a term we prefer to ORA's "unusual," is consistent with our practice and we will adopt it. Park's request, however, for a minimum level of expense is reasonable and furthers our goal of streamlining the GRC process. We will therefore adopt a requirement that the nonrecurring items also represent a significant portion of the test year revenue requirement increase. As a general guideline, we will define "significant" as representing more than 10% of the proposed rate increase. The particular facts of a GRC may support a different definition. Thus, we will require that test year items that are nonrecurring and significant be excluded from the revenue requirement amount used to calculate the escalation year revenue requirement. This two-pronged requirement will have the effect of providing the utilities with a reasonable level of non-recurring expenses in the escalation years.

To implement the escalation increase, no less than 45 days before the start of the escalation year, the utility may file an advice letter setting out its calculations and supporting analysis for the escalation year rates. The most recent "Estimates of Non-labor and Wage Escalation Rates" as published by ORA, Energy Cost of Service Branch (ECSB) shall be used as the escalation rates. Items not covered by the ECSB rates shall be escalated by the most recently available 12-month-ending change in the U.S. Cities CPI-U published by the U.S. Bureau of Labor Statistics. The test year adopted quantity for the following Summary of Earnings line items shall be increased by the applicable rate as follows:

LINE ITEM	ESCALATION RATE
Purchased Chemicals	Non-Labor
Payroll	Wage
Pensions and Benefits	Wage
Other O&M and A&G	Non-Labor
Payroll Taxes	Wage
Other Taxes (excluding income)	Non-Labor
Loans, Insurance, Contracted Services, Rents	CPI-U (previous 12 months)

For utilities organized with a general office structure, the prorated comparable general office items may also be escalated by the applicable escalation rate. No other amounts may be escalated.

The utility shall also include with its advice letter all data and calculations necessary to show the Weather Normalized Pro-Forma Rate of Return on Recorded Operations, as specified in Guidelines for Normal Ratemaking Adjustments in Connection with the Calculation of Weather Normalized Pro-Forma Rate of Return on Recorded Operations for Water Utilities (10/30/85). The escalation year increase shall be proportionally decreased to the extent the pro-forma rate of return exceeds the authorized rate of return for the 12 months ending in September for January filers and in April for July filers prior to the escalation year.

Escalating rate base and providing for capital additions was a major issue in the comments and oral argument. All proposals garnered significant criticism, and San Gabriel states that "the current system of two Test years and one attrition year has worked well . . . and should not be hastily discarded." In

reply comments, ORA recommended retaining the current system of two test years and one attrition year. We will adopt ORA's recommendation.

The utilities need to provide for rate base additions in the escalation adjustments for years two and three of the GRC cycle. The parties raised serious issues with the various proposals, and the responses, in some instances, led to further questions. The primary issues were distinguishing between major and routine plant additions, developing a water plant escalation index, and filing additional advice letters. ORA, in its reply comments, surveyed the existing proposals and determined that the Commission's current approach to capital additions, two test years and an attrition year, was simpler and, thus, preferable to all currently proposed options.

We now agree with ORA. As the utilities and our staff gain experience with the new RCP, perhaps additional simplifying procedures can be proposed and implemented for capital additions. At this point, however, we agree with ORA that the current methodology for capital additions should be retained.

We remind the parties that GRC proposals for major capital projects presented in the application[8] must include need analysis, cost comparison and evaluation, conceptual designs, and overall budget. Subsequent GRC applications shall be based on actual plant in service, and shall include a report comparing actual capital additions to the authorized amounts included in each of the three years of the previous GRC cycle. The Commission may use this

[8] The utility alternatively may seek Commission approval for a major capital addition through the application process.

comparison as the basis for adjusting future capital addition estimates for the escalation years.

5. General Office Allocations

Some water utilities are organized into districts, with certain services and management provided by a centralized administrative department. We refer to the department as "General Office" and it often includes such services as engineering and senior management. Allocating the costs of this department, which serves no customers directly, among the other districts of the company is known as "General Office Allocation." Our schedule set out in the Appendix treats General Office as a district; that is, a GRC is scheduled once every three years. Approximately one third of the water utility's other districts will simultaneously file GRCs. The new General Office amounts can be immediately allocated to and incorporated in the rates of these districts. The issue for this RCP, however, is when to implement the General Office rate changes in districts not included with the General Office GRC filing.

Some utilities propose to implement General Office rate change immediately in all districts at once. ORA opposes this proposal because it changes rates to accommodate changes in only one item, "single-issue ratemaking." ORA also states that the proposed General Office rate change for the districts not filing a concurrent GRC will require notices to customers. These customers, having just gone through a GRC, may be confused by the multiple rate increases.

The utilities' proposal does not further our interests in streamlining processing of GRC applications because it requires additional filings to implement, and would increase the frequency of rate changes, with the untoward results listed by ORA. We will, therefore, require multi-district

utilities to file their General Office on the three-year cycle. Changes in General Office allocations will be implemented immediately with the districts then pending, and implemented in turn when the other districts file GRCs. We note that in the subsequent years, those other districts will implement the escalation year General Office amounts, not the amount adopted for test year (the "stale" amounts). Thus, in the first General Office escalation year, two thirds of the districts will be charging the same General Office amounts, the districts that filed that year and the previous year. In the second escalation year, all of the districts will be using the same second escalation year amounts. In this way, the utilities will implement the new General Office allocations on a schedule that provides for updated or at least escalated amounts in all districts for every year, minimizing the effect of sequential implementation of the new allocations.

C. Access to Utility Information

Making the new RCP process work requires that the Commission and its staff have early access to complete information supporting the requested rate increase. In the following sections, we discuss obligations of utilities and other parties to respond to requests for information. We have divided our discussion into three sections based on the stage of the GRC cycle.

1. While No Application or Proposed Application Is Pending

Pursuant to the Public Utilities Code, the Commission has virtually unlimited access to public utility information at any time. For example, § 314 authorizes the Commission to inspect the "accounts, books, papers, and documents of any public utility." The Commission is <u>required</u> to audit each public utility with more than 1,000 customers at least once every three years by § 314.5.

ORA has similarly far-reaching authority. As provided in § 309.5(e), ORA "may compel the production or disclosure of any information it deems necessary to perform its duties from entities regulated by the commission . . . ." Thus, ORA may at any time compel a public water utility to produce any information ORA deems necessary.[9]

Unlike Commission and ORA staffs, prospective intervenors have little basis under the Public Utilities Code for requiring a water utility to disclose information outside of a formal proceeding. However, we encourage utilities to comply with prospective intervenors' reasonable requests for information.[10]

2. While ORA Is Reviewing the Proposed Application

The purpose of ORA's review of the proposed application (PA) is to ensure that all information and analysis needed by the Commission to evaluate the rate request is fully presented in the application. To the extent ORA determines that the information in the PA does not meet the applicable standards, ORA will issue a deficiency letter and allow the utility to cure the defects within 15 days.

Thus, during this stage of the process, the utility has the affirmative burden of providing information to ORA. To the extent the utility fails to meet this burden, ORA can issue a deficiency letter. Should the utility disagree with

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[9] While neither § 309(e) nor § 314 is self-executing, the Commission can enforce these statutes through its own processes or by resort to the state courts.

[10] Of course, anyone is entitled to inspect a utility's tariffs (see § 489(a)), and applications and advice letters submitted to the Commission are public records. Utilities increasingly are providing Internet access to this information, a practice we encourage and, in many cases, require. (See, e.g., D.01-07-026.)

the deficiency letter, the utility may appeal the letter through to the Executive Director.[11]

3. After the Application Is Filed

The formal process begins with the utility filing its application. During the pendency of the GRC application itself, information access is generally subject to the usual rules and procedures governing discovery in Commission proceedings.

Keeping the rate case process on track requires a well-explained and supported GRC application that includes complete workpapers with tables, analysis, calculations, and back-up detail.[12] This information is necessary for the parties to begin their evaluation of the rate request, and inclusion of this information will limit the need for discovery.

To the extent additional information is required, parties can continue to rely on the current system for making discovery requests and resolving discovery disputes through the Commission's Rules of Practice and Procedure (Rules) and our Law and Motion process. We will, however, require a meet and confer process. Specifically, to the extent a utility contends that information sought by a data request is not subject to discovery, the utility must:

(a) Meet and confer with the requesting party <u>within five days</u> of receiving the request.

(b) Explain the basis for the objection and offer other means to provide the requested information.

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[11] The deficiency letter appeal process is set out in the Appendix at Part IV.3.

[12] Any information upon which the utility relies but which is not readily available to other parties must be included in the workpapers. A table of contents and cross-references are also essential to comprehensible workpapers.

(c) If the utility asserts that information is privileged, the utility shall maintain a privilege log showing exactly which documents exist, what portions of documents are alleged to be privileged, and the specific basis for each claim of privilege.

(d) If the parties are unable to resolve the matter, the requesting party may file a motion to compel, and any response to the motion shall be filed and served no later than five days after the motion is filed.

D. Common Forecasting Methodology

ORA proposed that the final RCP adopt a common forecasting methodology for the number of customers and per customer usage for residential and small commercial customer classes. In its reply comments, ORA proposed modifications to its proposal as a result of continuing discussions with the utilities. We adopt these proposals, as modified.

California American Water Company (Cal-Am) did not oppose adopting common forecasting methodologies, so long as the utility may also propose alternatives. Cal-Am did, however, propose a refinement for treating drought years. Cal-Am noted that ORA proposed to exclude all drought years from the forecast of average consumption per customer. Cal-Am stated that excluding all drought years would tend to result in lower consumption. Cal-Am recommended that the RCP only exclude drought years where the Commission had authorized the utility to recover the lost revenues due to lower consumption though a memorandum account.

Suburban Water Systems (Suburban) opposed ORA's initial proposal to use a simple five-year average for sales forecasting. Suburban stated that such a forecasting methodology would be major departure from current practice and would result in significant revenue changes for many utilities. Suburban

explained that a statistically-sound forecasting methodology based on annual amounts, as ORA proposed, would require 45 to 74 years of annual data to provide sufficient data for a reliable regression analysis. As such data are not available, Suburban concluded that the two methods based on annual data "fall far short." Suburban recommended using a particular forecasting methodology with 20 years of monthly data (240 periods) and limiting independent variables to rainfall and temperature.

In reply comments, ORA changed its proposal to the "New Committee Method," which relies on a multiple regression methodology based on Standard Practice No. U-2 and Supplement to Standard Practice No. U-25. ORA also included several improvements, including using a five-year average for customer growth, basing temperature and rain on a 30-year average, and removing recognized drought periods, but supplementing with additional historical data to obtain 10 years of monthly data.

ORA's proposal limited rate case participants to using this forecasting method for the first two years of the first three-year rate case cycle. ORA would then require that the Water Division conduct workshops and report to the Commission (no later than June 2005) on whether to change or retain this forecasting methodology.

ORA stated that the modified proposal resulted from its "continuing discussions with the utilities." The modified proposal addresses Suburban's and Cal-Am's most significant concerns. We will, therefore, adopt ORA's proposal, including the two-year experimental period followed by a recommendation from the Water Division.

E. Interim Rate Relief

Section 455.2 permits a utility that is subject to the RCP to request interim rate relief if the Commission has not resolved the utility's GRC by the "first day of the first test year." Here, we discuss the implementation issues raised by interim rate relief.

Before turning to § 455.2, we note that § 454 requires that all rate increases be "justified" through a showing to the Commission. Consequently, any request for interim rate relief must demonstrate that the utility has made a substantial showing in the application supporting a rate increase at least equal to the rate of inflation.

Earlier in today's decision, we interpreted the statutory deadline to refer to the expected effective date of new rates for that filer, as set in the RCP. Another predicate to the award of interim rate relief is that the Commission determine whether interim relief is "in the public interest." A further consideration is the cause for the delay in issuing the final decision. That delay should not be "due to actions by the water corporation."

To request that the Commission make these determinations and award interim relief as appropriate, the utility may file a motion in the proceeding. As provided in our Rules, other parties will have an opportunity to respond to the request. The Presiding Officer will then prepare a decision for the Commission's consideration.

The presiding officer's decision shall address whether the delay in completing the GRC proceeding is "due to actions by the water corporation." Section 455.2(b) authorizes the presiding officer or the Commission to set a different effective date for interim or final rates where the water utility caused the delay. The presiding officer's decision shall specify the utility's actions that

caused the delay and shall include a proposed effective date for interim or final rates.

The assigned Administrative Law Judge and the assigned Commissioner set the GRC procedural schedule. The adopted schedule should be consistent with the timeline adopted in today's decision but may be tailored to the particular facts of a GRC. The assigned ALJ and Commissioner will be working closely with the parties in all stages of the proceeding, and it will become apparent well in advance of the expected effective date that the decision may not be timely. Consequently, the ALJ or Commissioner could set a date for filing a motion for interim rates, or the utility could file such a motion pursuant to Rule 45(c).

Finally, we note that implementing a rate increase that has not met the requirements of the Public Utilities Code, e.g., without the "just and reasonable" showing required by § 451 and prior to hearings required by § 454, is not normal rate case procedure. Section 455.2 requires that this Commission make a finding of the "public interest." The Commission has a long history of considering requests for interim rates, and has established standards for granting such increases. Moreover, the surcharge (credit) necessary to implement Cal Water Association's asserted right to adjust interim rates "either upward or downward" based on the final decision, creates practical problems as well as conceptual issues. The purpose of the surcharge is to recover revenue requirement associated with service provided after the effective date of interim rates and before the final rate increase decision. Such temporal shifts in revenue requirement are disfavored because current customers are paying costs associated with past service. Such shifts are also contrary to cost-based water ratemaking policy adopted by the Legislature in § 701.10. Therefore, we expect

any requests for interim rate increases to demonstrate that an immediate rate increase is needed to retain just and reasonable rates and that the record justifies the increase. The passage of time and generalized assertions of inflation do not justify a utility rate increase.

Where we decide that interim rate relief is appropriate, § 455.2 directs the use of the rate of inflation as a cap in increasing the existing rate. To implement this directive, the parties agree that the rate of inflation should be the most recent 12-month-ending change in the U.S. Cities CPI-U published by the U.S. Bureau of Labor Statistics. This percentage should be applied to all revenue requirement components except those items included in balancing accounts.

F. "Companion" Order Instituting Investigation

ORA requests that the Commission issue an Order Instituting Investigation (OII) for each GRC application to enable the Commission to "hear proposals other than the applicants', and to enable the Commission to enter orders on matters regarding revenue requirements, rates, service, practices, maintenance and facilities." Cal-Am opposes this request. It contends that an OII would only confuse and fragment the rate case process.

We conclude that an OII need not be routinely issued for all GRC applications. The Commission has extensive authority to make appropriate orders in furtherance of the public interest. As provided in Rule 6.3, the Assigned Commissioner determines the scope of a particular GRC proceeding. The Assigned Commissioner will determine, based on the pleadings and specific facts of the proceeding, which issues will be addressed. All the issues listed by ORA, among other parties, are among the issues the Assigned Commissioner may consider for inclusion in a particular proceeding. Thus, a routine OII is unnecessary.

In extraordinary circumstances, such as the circumstances discussed in the next section, however, an OII may be appropriate. In those circumstances, we will issue an OII, and take other procedural actions as, in our discretion, seem useful or necessary in the exercise of our duties.

G. Penalties

As discussed above, complying with each RCP filing date is essential to maintaining the three-year GRC cycle. Each Class A water utility is responsible for timely filings. In most cases, the possibility of a needed rate increase should ensure timely filings, and penalties will be unnecessary to deter noncompliance.

We can foresee two very different scenarios that could lead to a failure to comply with the schedule, one caused by inadvertent tardiness and the other by recalcitrance. The tardiness scenario could result from poor planning or unanticipated problems in preparing the application. While our current RCP allows us some flexibility to accommodate tardy filings, we are confident that our Class A water utilities will take heed of our insistence on the absolute requirement for timely filings and understand the firmness of the filing dates in this RCP. Utilities that require a short period, i.e., less than 10 days, to complete an application may be able to reach an agreement with ORA for slight schedule modification. Absent such an agreement, however, utilities must adhere to the schedule.

The recalcitrant utility scenario is more troublesome. A utility may wish to avoid Commission rate review where it is currently or anticipates earning above its authorized rate of return. Extraordinary revenue from unexpected sources may also provide an incentive for avoiding GRC review.

Pursuant to § 702, "every public utility shall obey and comply with every order, decision, direction, or rule made or prescribed by the commission . . . ." The Commission has determined that because such compliance is necessary to the proper functioning of the regulatory process, disregarding a statutory or Commission directive is a severe offense. (See Decision 98-12-075, 84 CPUC 2d 155, 188.) The Commission considers severity of the offense and conduct of the utility as its two general factors in setting fines for violations. The Public Utilities Code gives the Commission discretion in setting fines between $500 and $20,000 per offense (§ 2107), and each day of a continuing offense is a separate offense (§ 2108). Thus, any utility that fails to timely file a PA or application is subject to the provisions of these statutes.[13]

While the statutory penalty provisions discussed above will apply in considering a belated GRC from a recalcitrant utility, the Commission may also need to resort to other remedies. For example, the Commission may issue an OII to review the utility's operations and order any actions found necessary. The Commission could also issue an Order To Show Cause (OSC) and direct the utility to justify its failure to timely file its GRC application.

H. Changes to GRC Filing Schedule

A specific schedule setting out the filing date for each utility, and each district of the multi-district utilities, is included in the RCP (see Appendix, Part V). Section 455.2(c) allows the GRC filing requirement to be waived by

[13] Defects listed in a deficiency letter, and not removed on appeal, must be corrected on or before the due date for the application. The statutory provisions discussed above apply to utility filings that fail to comply with the content requirements or the due date for the application.

mutual agreement of the Commission and the utility. Thus, where the Commission staff and the water utility agree that a GRC filing as provided in the RCP is not needed, the agreement should be presented to the Commission for approval via the advice letter process. The advice letter request for approval must be made on or before the date for filing the PA, and must contain a thorough analysis of current and projected revenue requirements and earnings. Any waiver agreement must also address rescheduling the GRC filing.

Due to the delay in implementing the revised RCP schedule, some utilities' rates may fall below just and reasonable levels absent action. For example, Southern California Water Company (SoCal Water) states that its Region I GRC will be delayed for several years under the new RCP, and it requests permission to immediately file a GRC for that region. ORA states that it cannot process a GRC now without seriously impacting the proposed schedule, but that it is willing to work with SoCal Water to escalate rates based on the consumer price index.[14] We direct ORA and SoCal Water to devise and implement a mutually agreeable proposal to transition Region I to the new RCP schedule within 60 days of the effective date of this decision.

I. Memorandum Accounts

Park and other utilities sought Commission authorization to file advice letters, rather than applications, to create memorandum accounts for unforeseen water quality capital investments, as well as to make the advice letter effective upon filing. ORA opposed these changes and advocated for retaining the current

[14] ORA also indicated that additional attrition years would be acceptable for another utility, which might be another option for SoCal Water.

system. We agree that the utilities have not provided a persuasive rationale for changing our current system.

In D.02-08-054, the Commission stated that memorandum accounts are appropriate when the following conditions exist:

> (1) The expense is caused by an event of an exceptional nature that is not under the utility's control;
>
> (2) The expense cannot have been reasonably foreseen in the utility's last GRC and will occur before the utility's next scheduled rate case;
>
> (3) The expense is of a substantial nature in the amount of money involved; and
>
> (4) The ratepayers will benefit by the memorandum account treatment.

Determining whether to create a memorandum account under these standards may well require complex factual findings and legal conclusions. The advice letter process is not well suited for such issues. The advice letter process is for ministerial actions implementing previously approved Commission policy.

Moreover, nothing in § 455.2 requires that we review and revise our current process for considering memorandum account requests.

Cal Water Association also seeks to establish memorandum accounts for water quality and new supply projects "even before an advice letter has been approved." We reject this proposal, as we have rejected similar proposals in the past. For example, in the Southern California Water Co. Headquarters case, Decision 92-03-094 (March 31, 1992) 43 Cal. P.U.C. 2d 600, we stated that memorandum account tracking could only occur prospectively:

> "It is a well established tenet of the Commission that ratemaking is done on a prospective basis. The Commission's practice is not

> to authorize increased utility rates to account for previously incurred expenses, unless, before the utility incurs those expenses, the Commission has authorized the utility to book those expenses into a memorandum account or balancing account for possible future recovery in rates. This practice is consistent with the rule against retroactive ratemaking."

We see no reason to change this "well-established tenet."

J. Phase II Issues

The workshop report included a list of issues that the parties recommended should be addressed in a subsequent phase of this proceeding. We note that during the next phase, some utilities will be filing GRCs under this new RCP. To the extent additional RCP implementation issues arise, Phase II will provide a ready means to resolve the issues. We will address each issue listed in the workshop report in turn below.

Two issues, revision of the earnings test and review of ORA's master data request, are matters related to this proceeding, and many other proceedings and Commission filings. These issues relate to Commission practices that have been adopted with varying levels of formality. Consequently, a Commission decision is not necessary, or perhaps even desirable, to memorialize a change. Should facts arise indicating that a particular practice is inappropriate, modifying a less formal practice is far simpler than seeking a modification to a Commission decision. For this reason, we encourage the parties and the Water Division to work cooperatively to resolve these issues in a mutually agreeable manner, and use carefully selected means to memorialize the agreement.

The timing issue for filing requests for interim rates is addressed in the section on interim rates. The parties, however, have not devised a specific methodology for calculating the interim rate increase. Park Water recommends

applying the inflation rate to existing commodity rates and service charges. Such a proposal, however, would have the effect of escalating costs to be recovered via balancing accounts. As these amounts are recovered on a dollar-for-dollar basis, plus interest, there is no need to include these costs in any interim rate increase. In Phase II, the parties should develop a specific methodology for applying the inflation rate selected above to the remaining revenue requirement items for an interim rate increase.

Cost of capital is a complex and often contentious issue. ORA proposed a number of changes to simplify and streamline the issue. At oral argument, the parties indicated that they are hopeful that they can develop a simple approach to cost of capital in the next phase of this proceeding, and that they have a workable interim plan for the GRC filings due soon.

The parties are also discussing a consistent table for determining and displaying summary of earnings. The parties state that they would like our Water Division to take the lead on this issue. Until a new table is adopted, the utilities will retain their utility-specific methods of determining and displaying this summary.

Other issues related to escalating rate base also were listed as requiring further resolution: treatment of advances and contributions to rate base, and depreciation. To the extent these issues are not resolved by retaining the existing capital additions method, they will be addressed in Phase II.

The effective date for escalation year advice letters is also an issue for later resolution. Generally, the parties agreed that escalation year advice letters should be effective one year later than the expected effective date of the initial rate increase. The Commission's decision on a particular GRC, however, may set different dates for this and other events for a specific utility.

The parties are also willing to discuss further issues related to penalties and the deficiency review process. To the extent such discussions require memorializing in a Commission decision, we can do so in the Phase II decision.

To ensure the timely completion of this Phase II, the parties shall file and serve a status report, including recommended next procedural steps, no later than 120 days after the effective date of this order.

IV. Need for a Hearing

The parties participated in workshops with the Commission staff, filed several rounds of written comments, and presented oral argument to the Assigned Commissioner and ALJ. An evidentiary hearing was not anticipated in the OIR and is not required.

V. Comments on Draft Decision

The draft decision of the ALJ in this matter was mailed to the parties in accordance with Pub. Util. Code § 311(g)(1) and Rule 77.7. Comments and reply comments were filed on the first draft decision. A revised draft decision was mailed on _____ and the parties filed comments on _____.

VI. Assignment of Proceeding

Geoffrey F. Brown is the Assigned Commissioner and Maribeth A. Bushey is the assigned ALJ in this proceeding.

Findings of Fact

1. The Commission staff held workshops on the issues raised by the OIR. The parties filed several rounds of written comment and presented oral argument.

2. To implement the three-year GRC cycle required by § 455.2, especially while limited to existing staff resources, the Commission must revise the existing RCP and methodologies.

3. Reducing the number of test years from two to one substantially reduces the review necessary for the GRC filing.

4. Staff's proposal to escalate both labor and non-labor revenue requirement components from the test year to the two escalation years is a reasonable means for forecasting costs.

5. The current means of including capital additions in the rate case cycle, two test years and one attrition year, is preferable to the proposals received.

6. Timely and efficient discovery is essential to processing rate cases as provided in this schedule.

7. Common forecasting methodologies for number of customers and per customer usage are feasible and useful.

Conclusions of Law

1. Pursuant to § 455.2, the Commission must establish a cycle whereby every Class A water utility files a GRC every three years.

2. The term "test year" as used in § 455.2 should be interpreted to mean "expected effective date of revised rates."

3. Capital projects may be proposed and evaluated in either a GRC or other formal application.

4. The Commission and ORA have statutory rights to virtually all utility information.

5. The utility bears the burden of proving that its Proposed Application meets the requirements of today's decision.

6. To ensure that discovery is handled in a timely and efficient manner, the rules set out in the Opinion for a meet and confer process and maintenance of a privilege log should be adopted.

7. ORA's proposal for common forecasting methodologies is reasonable.

8. Pursuant to § 455.2, the Commission may authorize interim rates under certain conditions for GRCs included in the RCP. Interim rate increases may not exceed the rate of inflation.

9. Requests for interim rate relief should be made by motion of the utility applicant. The Presiding Officer will then prepare a decision for the Commission's consideration.

10. It is not necessary to routinely issue companion OIIs for each GRC, but the Commission may issue an investigation or show cause order whenever, in its discretion, such an order is appropriate.

11. Pursuant to § 702, utilities must comply with the requirements of all Commission orders, including the filing requirements established in today's decision. Failure to comply with a Commission decision is grounds for fines and other sanctions.

12. Waivers pursuant to § 455.2(c) may be approved by the Commission via the advice letter process.

13. The Rate Case Plan for Class A Water Utilities set out in the appendix to today's decision is consistent with § 455.2, is reasonable, and should be adopted.

IT IS ORDERED that:

1. The General Rate Case Plan for Class A Water Utilities set out in the appendix to today's decision is adopted.

2. All Class A water utilities shall comply with the schedule and rate case application content requirements set out in the appendix and discussed in today's decision.

3. No later than 60 days after the effective date of this order, the Office of Ratepayer Advocates and Southern California Water Company shall devise and

implement a mutually agreeable rate adjustment plan to transition Region I to the schedule adopted in today's order.

4. The parties shall file and serve a status report on Phase II issues no later than 120 days after the effective date of this order.

5. This proceeding shall remain open.

This order is effective today.

Dated _____, at San Francisco, California.

APPENDIX

Rate Case Plan for Class A Water Utilities

General Rate Applications

I. Introduction

The following rate case plan (RCP) supercedes the RCP adopted in D.90-08-045 on August 8, 1990. The intention of this RCP, like the 1990 RCP, is "to promote timely processing of such cases, to enable the balancing of the workload of the Commission and its staff over time, and to enable a comprehensive Commission review of the rates and operations of all Class A water utilities" by providing for the acceptance of rate case filings on a specified schedule. In addition, Public Utilities Code Section 455.2 now requires all Class A water utilities, and districts thereof, to file a general rate case (GRC) every three years, and that the Commission process the applications consistent with the RCP.

II. General Rate Case Structure and Process

Each utility or each district of a multi-district utility is scheduled to file its GRC once every three years,[1] as specified in Section V. The RCP review period for each filing will be 14 months, beginning with the proposed application filing date and ending with the expected effective date of rates. The deadline for the utility to file its proposed application is either January 5th or July 5th with the requisite application being filed on the following March 1 and September 1, respectively, as provided below:

[1] The schedule also includes general office filing dates for the utilities that are organized in that way.

	JANUARY FILERS	JULY FILERS
Proposed Application Filed and Served	November 5	May 1
Application Filed and Served, workpapers to staff	January 5	July 1
Test Year	Calendar year after application is filed (1/1 to 12/31)	Fiscal year after application is filed (7/1 to 6/30)
Effective Date of New Rates	January 1, year following filing	July 1, year following filing
Escalation Year 1	Calendar Year after test year (1/1 to 12/31)	Fiscal Year after test year (7/1 to 6/30)
Escalation Year 2	Second Calendar Year after test year (1/1 to 12/31)	Second Fiscal Year after test year (7/1 to 6/30)

Example using 2005:

	January Filers	July Filers
Proposed Application Filed and Served	November 5, 2005	May 5, 2005
Application Filed and Served, workpapers to staff	January 5, 2005	July 1, 2005
Test Year	1/1/06 to 12/31/06	7/1/06 to 6/30/07
Effective Date of New Rates	January 1, 2006	July 1, 2006
Escalation Year 1	1/1/07 to 12/31/07	7/1/07 to 6/30/08
Escalation Year 2	1/1/08 to 12/31/08	7/1/08 to 6/30/09

The "Estimates of Non-labor and Wage Escalation Rates" shall also be used for Escalation Years 1 and 2 rate increase requests. Such requests shall cover the period specified above, and shall be sought by advice letter filed no later than 60 days prior to first day of the escalation year. The advice letter filing shall include all calculations and documentation necessary to support the requested rate increase. The requested rate increase shall be subject to the pro forma earnings test, as specified in the decision. Revenue requirement amounts otherwise subject to rate recovery, e.g., through balancing or memorandum accounts, shall not be subject to escalation.

The Water Division shall review the Advice Letter and prepare a resolution for the Commission taking appropriate action. Absent extraordinary circumstances, the resolution shall be issued prior to the first day of the escalation year. The resolution may

approve the increase, implement the increase subject to refund, in whole or in part, or reject the increase, in whole or in part.

Informal communications between applicant and ORA are encouraged at all stages of the proceedings, including the PA review period, in order to facilitate understanding by the parties of their respective positions, to avoid or resolve discovery disputes, and to avoid unnecessary litigation. All information, however, necessary for the Commission to make its decision must be included in the record. While the Commission supports alternative forms of dispute resolution for GRC filings, any resulting agreement, and the record on which it is based, must meet all applicable Commission rules as well as the standards for settlements. A complete comparison exhibit, with supporting rationale, is essential to supporting any settlement agreement.

III. Schedule Summary

The target scheduling dates for timely processing of GRC filings, based on number of districts, are set out below. By mutual agreement, ORA and the utility may modify the date for filing the proposed application by no more than 10 days, with all subsequent dates being moved an equal number of days. The assigned ALJ and/or Commissioner shall set the final schedule for each proceeding at or after the PHC.

		Day Schedule			
		Number of Districts			
EVENT		**1**	**2-4**	**5-6**	**7-8**
1	Proposed Application Tendered	-60	-60	-60	-60
2	Deficiency Letter Mailed	-30	-30	-30	-30
3	Appeal to Executive Director	-25	-25	-25	-25
4	Executive Director Acts	-15	-15	-15	-15
5	**Application Filed**	**0**	**0**	**0**	**0**
6	PHC & PPH, if any, Held	5 - 75	6 - 75	7 - 75	8 - 75
7	ORA & Intervenor(s) distribute Reports	97	102	112	122
8	Utility Distributes Rebuttal to ORA and Intervenor Reports	112	117	127	142
9	Formal Settlement Negotiations	116	121	131	146
10	Hearings	126-130	131-135	141-145	162-166
11	Initial Briefs Filed and Served	150	155	170	191
12	Reply Briefs Filed and Served[2]	157	162	177	201
13	ALJ Memo to Water Division	170	177	195	221
14	Water Division provides Tables	228	233	248	269
15	ALJ's Proposed Decision Mailed	240	245	260	281
16	Comments on Proposed Decision	265	265	280	301
17	Reply Comments	280	270	285	306
18	Commission Meeting	277	285	300	321

[2] The detailed and complete comparison exhibit supporting any settlement agreement shall also be filed at this time.

IV. Detailed Schedule

1. Proposed Application (PA) Filed

Day –60 (All Applications)

A. Filing Dates of PA

No later than January 5 for water utilities scheduled to file the final application on March 1, and no later than July 5 for water utilities scheduled to file on September 1.

B. Number of Copies of PA

Seven copies shall be tendered to the Commission's docket office. In addition, four copies to ORA for single district filings, five copies for multi-district filings, and a copy to the Commission's Legal Division. All ORA and Legal copies shall include a full set of workpapers.

Applicant shall furnish copies of the PA and workpapers to interested parties on written request.

C. Required Content of PA

A utility's application for a rate increase must identify, explain, and justify the proposed increase. The PA shall include, but not be limited to, the following:

Summary of the Requested Increase

Compare the proposed amounts to the last adopted and last recorded amounts to determine the difference in dollars and percentages. Show the difference, i.e., the proposed increase, in a table as set out below.

Comparison of Proposed Increase to Last Adopted and Recorded Actual Amounts		
	Last Adopted	Last Recorded Year
Total Rev Req $		
Total Rev Req %		
Rate Base $		
Rate Base %		
Operating Expenses $		
Operating Expenses %		
Rate of Return		

List of Primary Cost Increases

The five most significant issues, in terms of dollars, that the utility believes require the rate increase. Identify the cause of the cost increase and include cross-references to explanatory testimony.

List of Contentious Issues

List all issues on which a different outcome is sought on an issue previously addressed by the Commission, either for this utility or another utility, and all significant issues not previously addressed by the Commission. Include the dollar impact of these issues, and a brief summary of the utility's rationale with cross-references to supporting testimony.

Results of Operation

Include draft testimony, with supporting analysis and documentation, describing the utility's overall results of operations. All significant changes from last adopted and recorded shall be explained. Forecasted amounts shall include an explanation of the forecasting method.

The utility and ORA shall use the "New Committee Method" to forecast per customer usage for the residential and small commercial customer classes in general rate cases. The number of customers shall be calculated by using a five-year average of the change in the number of customers by customer class, adjusted for any unusual events. The customer consumption shall be calculated by using a multiple regression based on the material in the "Standard Practice No. U-2" and the "Supplement to Standard Practice No. U-25" with the following improvements:

- Use monthly data for 10 years, if available. If 10 years data is not available, use all available data, but not less than five years of data. If less than five years of data is available, the utility and ORA will have to jointly decide on an appropriate method to forecast the projected level of average consumption.
- Use 30-year average for forecast values for temperature and rain.
- Remove recognized drought periods from the historical data, but replace with additional historical data to obtain 10 years of monthly data, if available.

All operational and maintenance expenses with the exception of off-settable expenses and management salaries should be computed by using inflation adjusted simple five year average escalated for test and subsequent years.

Water sales for all classes of customers for utilities that are under government-mandated production limitations will be determined based on that limitation and consideration of unaccounted for water and historical production reserves while under the imposed limitation.

Water sales for customer classes other than residential, multifamily, and business (such as industrial, irrigation, public authority, reclaimed, and other) will be forecasted on total consumption by class using the best available data.

Test year revenues will be based on the test year forecasted sales and customer estimates. Other revenues will be estimated using the best available data.

For the first escalation year customers will be estimated by adding the five-year average change in customers by customer class to the test year customers. For the second escalation year customers will be estimated by adding the five-year average change in customers by customer class to the first escalation year customers.

Sales for the escalation years will be estimated for the residential, multifamily, and business classes by multiplying the number of customers for each escalation year by the test year sales per customer. The test year sales for all other customer classes will be used for both escalation years.

Revenues for the escalation years will be based on each year's forecast of sales and customers. Other revenues will be estimated using a five-year average of recorded other revenue.

Expenses

For test year district and general office expenses, excluding water production related expenses, the utilities and ORA may forecast using traditional estimating methodologies (historical averages, trends, and specific test year estimates).

Escalation year labor expenses will be estimated by escalating test year labor expenses by the most recent labor inflation factors as published by the Office of Ratepayer Advocates. Non-labor escalation year expenses, excluding water production related expenses, will be estimated by escalating test year non-labor expenses by the most recent composite labor/non-labor inflation factors published by ORA. In each water utility's escalation year advice letter filing the most recent ORA inflation factors will be used. Escalation year water production related expenses will be based on escalation year sales.

Escalation year expenses specifically not addressed in the ORA's published inflation factors, (such as insurance) will be escalated based on CPI-U for most recently available 12 months, as provided in the decision.

Show results of operation in summary table as specified by the Water Division.

Regulated Plant In Service

Include draft testimony, with supporting analysis and documentation, describing the utility's regulated plant in service. All significant changes from lasted adopted and recorded shall be explained. Forecasted amounts shall include an explanation of the forecasting method. All significant capital additions shall be identified and justified, and must include need analysis, cost comparison and evaluation, conceptual designs, and overall budget. Also include a comparison of the forecasted capital additions adopted in the last GRC and actual capital additions.

In addition to any other methodology the utility may wish to use, the utility shall derive the test year and projected years' estimates by taking the year-end properly recorded plant balance of the latest recorded year and adding to it the average plant additions of the last five years divided by two.

Revenue Requirement

Include draft testimony, with supporting analysis and documentation, describing the utility's revenue requirement. All significant changes from last adopted and recorded shall be explained. Forecasted amounts shall include an explanation of the forecasting method.

Cost of Capital

Include draft testimony, with supporting analysis and documentation, describing the utility's proposed capital structure and rate of return. All significant changes from last adopted capital structure and cost of capital shall be identified and explained. Present cost of capital information in summary table as set out below:

Cost of Capital

	Test Year ____ Escalation Years ____ and ____		
	Capital Structure	Cost	Weighted Cost
Debt			
Preferred Stock			
Common Equity			
Total	100.00 %		

Transactions with Corporate Affiliates

Identify and explain all transactions with corporate affiliates involving utility employees or assets, or resulting in costs to be included in revenue requirement. Include all documentation, including a list of all such contracts, and accounting detail necessary to demonstrate that any services provided by utility officers or employees to corporate affiliates are reimbursed at fully allocated costs.

Unregulated Transactions

To the extent the utility uses assets or employees included in revenue requirement for unregulated activities, the utility shall identify, document, and account for all such activities, including all costs and resulting revenue, and provide a list of all contracts.

Proposed Schedule

Include a proposed schedule for the case, which shall be consistent with this RCP.

Test Period

The test year shall be consistent with this RCP.

Water Supply and Quality

Include a thorough discussion of all water supply and quality issues, including whether, since the last district's GRC, the utility has complied with Department of Health Services (DHS) safe drinking water standards. Explain in detail each maximum contaminant level (MCL) exceedence and deviation from accepted water quality procedures. Include a copy of the annual consumer confidence

report for each year not covered by the last GRC shall be included. Include a copy of DHS citations, if any, last annual inspection report, and information on all responsive actions taken by the utility.

The utility shall also include a concise list of all major water sources, including the permit number or contract, remaining duration of the entitlement, source of supply, and any pending proceedings or litigation concerning any major source.

Real Property Subject to Water Infrastructure Improvement Act of 1996

Include a detailed, complete description accounting for all real property that, since January 1, 1996, was at any time, but is no longer, necessary or useful in the performance of the water corporation's duties to the public and explain what, if any, disposition or use has been made of said property since it was determined to no longer by used or useful in the performance of utility duties. The disposition of any proceeds shall also be explained.

Rate Increase History Since Last GRC Decision

Include a list of all rate increases since the last GRC decision, and show the date, percentage of typical residential customer's bill, as well as percentage of revenue requirement, and total dollars, of each increase. Also include citations to Commission authorization for each increase. All increases shall be added to show the total increase since the last GRC.

Proposed Notice to Customers

Include a proposed notice to customers that has been approved by the Commission's Public Advisor and which spells out the reasons for the requested increase and estimates average bill increase for a typical customer in each customer class.

ORA Master Data Request

Include complete responses to all requests in ORA's master data request.

Workpapers

Include in workpapers all supporting analysis, documentation, calculations, back-up detail, and any other information relied on but not readily available to other parties. Workpapers shall also include copies of all electronic spreadsheets or other analytical methods necessary to fully calculate the effect of any revenue

requirement change on final rates. All workpapers must include a table of contents, page numbering, and cross-references to issues discussed in testimony, and must be arranged in a logical fashion.

Any Other Information Necessary to Meet Utility's Burden of Proof

The utility bears the burden of proving that its proposed rate increase is justified and must include in the PA all information and analysis necessary to meet this burden.

D. ORA Evaluation of PA

ORA will review and evaluate the PA to determine whether the PA complies with these requirements. No later than 30 days after the PA is tendered, ORA will inform the utility in writing whether the PA complies. If ORA determines that the PA complies with these rules, then ORA will notify the Commission's docket office that the docket office should accept for filing a GRC application from that utility at any time within the following 30 days. If ORA determines that the PA does not comply with these rules, then ORA will issue a deficiency letter.

2. Deficiency Letter Issued

No later than 30 days after the PA is tendered, ORA shall issue any deficiency letter, and shall also transmit a courtesy electronic copy of the letter to the utility's representative on the day of issuance. The deficiency letter shall include a list of the topics on which the PA is deficient.[3] To the extent known, ORA shall describe the

[3] A deficiency is a material omission of a required component from the Proposed Application, supporting exhibits and workpapers, or Master Data Request response. A deficiency is not a subjective determination that the Proposed Application or submitted documents, including workpapers, do not adequately support the utility's request or are non-responsive to the Rate Case Plan filing requirements. Additionally, a failure to respond to a data request for information that is not a requirement of the Rate Case Plan is not a deficiency.

For example, the following would be deficiencies: 1) failure by the utility to file prepared testimony with its Proposed Application, 2) cross-referencing its submitted workpapers, and 3) address its need for a proposed capital project or a requested new staff position. In contrast the following would not be deficiencies: 1) a request for clarification of the utility's submitted prepared testimony or supporting calculations (unless the submitted materials overall were disorganized or unclear), 2) recorded or estimated data that is not required under the Rate Case Plan, and 3) a subjective

Footnote continued on next page

information and analysis needed to cure the deficiencies. Upon request, ORA shall promptly meet and confer with the utility. Unless and until the defects listed in the deficiency letter are altered pursuant to the appeals process or cured, the GRC application will not be accepted for filing.

3. Appeal to Executive Director

If the utility disagrees with any or all defects listed in the deficiency letter, the utility may file and serve an appeal to the Executive Director. Service shall include copies to the Executive Director, the Director of the Water Division, the assigned ALJ, and ORA. The utility shall concisely identify the points in the deficiency letter with which it disagrees and shall provide all necessary citations and references to the record to support its claim.

4. Executive Director Acts

No later than 5 days after the appeal is filed, the Executive Director shall act on the appeal by letter ruling served on all parties. Electronic courtesy copies shall also be provided on the day of issuance.

5. Application Filed

Day 0 (All Applications)

No later than 60 days after the PA is filed and ORA has notified the docket office that the PA has been accepted, the utility may file its complete GRC application. All data included in the PA shall be updated to include information that was not available when the PA was filed, and all such changes shall be quantified and explained in a comparison exhibit. The application shall conform to the content of the PA, as approved by ORA, and shall include all final versions of the exhibits and testimony provided in the PA. The utility shall serve copies of the application as provided above for the PA.

Under extraordinary circumstances, a water utility may seek discretionary post-application updates. Any such request must, at a minimum, show that the update sought: (1) causes material changes in revenue requirement, (2) is the result of unforeseeable events, (3) is not off-set by other cost changes, and (4) can be fairly

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determination by ORA that a proposed position is incorrect or inadequately supported by the submitted prepared testimony and/or workpapers are all examples of data requests. However, these data requests do not qualify as deficiencies for the purpose of ORA's accepting the Proposed Application.

evaluated with proposed schedule changes that have been agreed to by all parties. Any request for an update shall be by made by written motion, with an opportunity for other parties to respond, as provided in the Rules of Practice and Procedure. The assigned Commissioner and/or ALJ shall rule on the motion and, if the motion is granted, shall provide the other parties commensurate additional time to respond and shall set a revised expected effective date for rates.

6. PHC and PPH, if any, Held

Day 5 to 75 (All Applications)

The assigned Commissioner and/or ALJ shall convene a PHC and set the procedural schedule for the proceeding. Such a schedule may include Public Participation Hearings (PPH) if necessary due to public interest. The ALJ and/or Commissioner may also direct the applicant to make information about the rate case available to the public via other communication channels including the Internet and other means of public outreach. The applicant shall provide notice of the hearings in accordance with Rule 52 of the Rules of Practice and Procedure and any supplemental procedures adopted ORA and/or directed by the ALJ pertaining to notice of hearings.

7. Distribution of ORA and Intervener Reports

Day 97 (1 District)
Day 102 (2 – 4 Districts)
Day 112 (5 – 6 Districts)
Day 122 (7 – 8 Districts)

ORA and any intervenors shall serve their exhibits and prepared testimony on all parties listed on the service list to the proceeding. Two sets shall be submitted to the ALJ. Workpapers shall be included with the set for the applicant and all active parties.

8. Utility Distributes Rebuttal to ORA and Intervener Reports

Day 112 (1 District)
Day 117 (2 – 4 Districts)
Day 127 (5 – 6 Districts)
Day 142 (7 – 8 Districts)

The Utility shall distribute any rebuttal testimony to all parties listed on the service list, with workpapers to all active parties, and two copies to the ALJ.

9. Formal Settlement Negotiations

Day 116 (1 District)

Day 121 (2 – 4 Districts)
Day 131 (5 – 6 Districts)
Day 146 (7 – 8 Districts)

In addition to any informal discussions taking place between or among the parties, a formal settlement conference shall be scheduled and noticed as provided in Rule 51.1(b).

10. Hearings

Day 126 - 130 (1 District)
Day 131 – 135 (2 – 4 Districts)
Day 141 – 145 (5 – 6 Districts)
Day 162 – 166 (7 – 8 Districts)

The assigned Commissioner and/or ALJ shall preside over evidentiary hearings and shall take evidence to prepare the formal record. The assigned Commissioner and/or ALJ may require the parties to jointly prepare a late-submitted comparison exhibit identifying differences between the parties' resolution of the issues, the dollar and percentage effect of the differences, and the reasons for them. Other late-submitted exhibits may also be required. At the conclusion of the hearings, the assigned Commissioner and/or ALJ shall set the briefing schedule and set the date for closing the record and submitting the case for decision by the Commission, consistent with the schedule set out above.

11. Initial Briefs Filed and Served

Day 150 (1 District)
Day 155 (2 – 4 Districts)
Day 170 (5 – 6 Districts)
Day 191 (7 – 8 Districts)

The parties may file concurrent initial briefs setting out their recommendations on specific issues, with supporting references to the record. ORA and the applicant shall include a comprehensive discussion of the issues as well as an overall summary of all changes to revenue requirement, in dollars and percentages, with resulting rate changes. ORA and the applicant shall address in detail each issue identified by the applicant as "contentious" in the application. The assigned Commissioner and/or ALJ may adopt a uniform topic outline for use by all parties.

12. Reply Briefs Filed

Day 157 (1 District)
Day 162 (2 – 4 Districts)

Day 177 (5 – 6 Districts)
Day 201 (7 – 8 Districts)

Each party may file a brief responding to the issues raised by the other parties in their initial briefs.

13. ALJ Memo to Advisory Staff of Water Division

Day 170 (1 District)
Day 177 (2 – 4 Districts)
Day 195 (5 – 6 Districts)
Day 221 (7 – 8 Districts)

The ALJ will provide the Advisory Staff of the Water Division with the proposed resolution of issues necessary to prepare appendices and tables for the proposed decision.

14. Water Division provides Tables

Day 228 (1 District)
Day 233 (2 – 4 Districts)
Day 248 (5 – 6 Districts)
Day 269 (7 – 8 Districts)

The Water Division will prepare the necessary appendixes and tables and provide them to the ALJ.

15. ALJ's Proposed Decision Mailed

Day 240 (1 District)
Day 245 (2 – 4 Districts)
Day 260 (5 – 6 Districts)
Day 281 (7 –8 Districts)

The ALJ's proposed decision shall be filed and served consistent with applicable law and regulations.

In addition to relevant issues raised in the proceeding, each decision: (1) shall discuss utility's district-by-district compliance with water quality standards; (2) unless deviation is otherwise expressly justified in the decision, shall include standard

ordering paragraphs providing for escalation year increases subject to an earnings test*; and, (3) shall include a thorough and complete discussion of parameters for any plant additions authorized for Advice Letter rate base offset filing, including but not limited to, detailed design, use and processing descriptions and cost evaluation.

16. Comments on Proposed Decision

Day 260 (1 District)
Day 265 (2 – 4 Districts)
Day 280 (5 – 6 Districts)
Day 301 (7 – 8 Districts)

Comments on the ALJ's proposed decision shall be filed and served on all parties consistent with Commission rules.

17. Replies to Comments

Day 265 (1 District)
Day 270 (2 – 4 Districts)
Day 285 (5 – 6 Districts)
Day 306 (7 – 8 Districts)

As provided in Commission rules, the parties may file and serve replies to comments on the ALJ's proposed decision.

18. Expected Commission Meeting

Day 280 (1 District)
Day 285 (2 – 4 Districts)
Day 300 (5 – 6 Districts)
Day 321 (7 – 8 Districts)

The proposed decision may be on the agenda for the first regularly scheduled meeting of the Commission occurring 30 or more days after the date the proposed decision of the ALJ is filed.

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* Sample ordering paragraph for escalation should be inserted here. The order should be consistent with the escalation provisions of page 3, last complete paragraph.

Rate Case Plan for Class A Water Utility
General Rate Applications
V. Class A Water Company Schedule

CALIFORNIA PUBLIC UTILITIES COMMISSION					
WATER UTILITY GENERAL RATE CASE FILING SCHEDULE					
Filing	Districts	Utility	Filing	Districts	Utility
Date			Date		
			July 04	8	CalWater[4] & GO
				1	San Gabriel:
					GO & LA
Jan 05	8	So Cal: Region III & GO	**July 05**	8	CalWater
	3	CalAm: GO, Monterey		1	Great Oaks
		Felton			
	1	Park: Apple Valley		1	San Gabriel:
					Fontana
				1	Suburban
Jan 06	1	So Cal: Region II	**July 06**	8	CalWater
	1	San Jose		1	Valencia
	3	Cal Am LA Districts			
	1	Park: Central & GO			
Jan 07	7	So Cal: Region I			
	2	Cal Am: Sacramento, Larksfield/Coronado Village			

(END OF APPENDIX)

[4] The specific Cal Water districts to be filed each year were not identified in the workshop process but will need to be listed prior to finalizing the schedule.