

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of California-American Water Company (U 210 W) to Increase Revenues for Water Service in its Larkfield District by \$1,272,000 or 61.91% in 2008, \$134,300 or 3.94% in 2009 and \$129,900 or 3.67% in 2010 Under the Current Rate Design or Decrease Revenues by (\$742,200) or (36.12%) in 2008 and Increase Revenues by \$50,000 or 3.72% in 2009 and \$63,500 or 4.55% in 2010 Under the Proposed Rate Design

A. **07-01-037**

TEND 2006

APPLICATION OF CALIFORNIA-AMERICAN WATER COMPANY TO INCREASE
REVENUES IN ITS LARKFIELD DISTRICT

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Attorneys for Applicant
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Date: January 22, 2007

**BEFORE THE PUBLIC UTILITIES COMMISSION
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Application of California-American Water Company (U 210 W) to Increase Revenues for Water Service in its Larkfield District by \$1,272,000 or 61.91% in 2008, \$134,300 or 3.94% in 2009 and \$129,900 or 3.67% in 2010 Under the Current Rate Design or Decrease Revenues by (\$742,200) or (36.12%) in 2008 and Increase Revenues by \$50,000 or 3.72% in 2009 and \$63,500 or 4.55% in 2010 Under the Proposed Rate Design

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APPLICATION OF CALIFORNIA-AMERICAN WATER COMPANY TO INCREASE REVENUES IN ITS LARKFIELD DISTRICT

As directed by the California Public Utilities Commission (“Commission”) in Decision (“D.”) 04-06-018 (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 Utilities, D.04-06-018, 2004 Cal. PUC I.LEXIS 276 (“Rate Case Plan”)), California-American Water Company (“California American Water” or “Applicant”) hereby submits its application to increase rates for water service in its Larkfield District. By email on January 16, 2006, Chief Administrative Law Judge Minkin granted California American Water’s request for a one-week extension of time to file its application, changing the required date of filing from January 16, 2007 to January 22, 2007.

In accordance with the Rate Case Plan, California American Water filed its Proposed Application to Increase Rates for Water Service in Its Larkfield District (“Proposed Application”) on November 16, 2006¹. This application and supporting exhibits and workpapers

¹ California American Water and the Division of Ratepayer Advocates (“DRA”) agreed to a ten-day extension of time for California American Water to file its proposed application.

contain changes to the Proposed Application and its supporting exhibits and workpapers that reflect (1) adjustments to Plant Investment amounts and corresponding adjustments to calculations for rate base, expenses, depreciation, and rate design, (2) corrections to file linking and calculation errors for rate base and expenses, and (3) updates to expenses, rate design, and exhibit referencing. These changes are summarized in Exhibit A, Chapter 15, Section 1 of this application.

1. STATEMENT OF RELIEF SOUGHT

By this application, California American Water seeks a general increase in rates for water service in its Larkfield District in order to realize the following increased revenues:

Year	Revenue Increase	Percentage Increase
Current Rate Design		
2008	\$1,272,000	61.91
2009	\$134,300	3.94%
2010	\$129,900	3.67%
Proposed Rate Design		
2008	\$(742,200)	36.12%
2009	\$50,000	3.72%
2010	\$63,500	4.55%

2. SB 960 SCOPING MEMORANDUM

2.1 Category: Ratesetting

2.2 Are Evidentiary Hearings Necessary? Yes.

Potentially, there may be factual disputes on material issues, which will necessitate hearings on such topics as water sales and operating revenue, operation and maintenance expenses, utility plant, depreciation, rate base, taxes, revenue requirements and rate of return, rate design, and conservation.

In addition, as required by the Rate Case Plan, California American Water has included with Exhibit A to this application a description of issues previously addressed by the Commission for California American Water or another water utility for which a different outcome is requested. California American Water describes the significant issues, shows the estimated revenue requirement impact of each issue, and includes testimony that provides additional support and/or information about the issue. The list of contentious issues includes: 1) the requested 11.6% rate of return on common equity, 2) the proposed tiered rate design – including the request for assured 100% fixed-cost recovery and consolidation with the Larkfield District, 3) the request for a conservation memorandum account, 4) implementation of an Infrastructure System Replacement Surcharge (“ISRS”), and 5) implantation of a full-cost purchased water memorandum account.

California American Water intends to introduce the following evidentiary items as necessary in support of the application:

- (a) The proposed application, final application, exhibits, work papers, Master Data Request Response, and other data request responses, copies of which have been or will be delivered to DRA and Commission staff.
- (b) Prepared witness qualifications and direct testimony of various employees of California American Water to support the Applicant’s specific requests.
- (c) Prepared direct witness qualifications and testimony of various consultants retained by California American Water to support certain aspects of Applicant’s requests.
- (d) Prepared and oral rebuttal testimony and related exhibits to support California American Water’s specific requests.

2.3 Arc Public Witness Hearings Necessary? Yes.

2.4 Issues. See Section 2.2 above.

2.5 Schedule. This application is governed by the Commission’s Rate Case Plan.

Under the Rate Class Plan, the Commission should issue a final decision in October 2007.

Appended as part of Exhibit A is a tentative schedule prepared under the guidelines of the Rate Case Plan.

3. OTHER FORMAL MATTERS AND PROCEDURAL REQUIREMENTS

3.1 This application is made pursuant to Section 451 *et seq.* of the California Public Utilities Code.

3.2 Applicant's legal name is California-American Water Company. California American Water's corporate office and post office address is 303 "H" Street, Suite 250, Chula Vista, California 91910.

3.3 Applicant California American Water, a California corporation, organized under the laws of the State of California on December 7, 1965, is a Class A regulated water utility organized and operating under the laws of the State of California. California American Water provides water service in various areas in the following California counties: San Diego, Los Angeles, Ventura, Monterey, Santa Cruz, Sonoma, Sacramento, and Placer.

3.4 A certified copy of California American Water's articles of incorporation was filed with the Commission on January 6, 1966 in connection with Application 48170. A certified copy of an amendment to California American Water's articles of incorporation was filed with the Commission on November 30, 1989 in connection with Application 89-11-036. A certified copy of an Amendment to California American Water's Articles of Incorporation dated October 3, 2001 and filed with the office of the California Secretary of State on October 4, 2001, was filed with the Commission on February 28, 2002, in connection with Application 02-02-030. The Articles of Incorporation have not been subsequently amended.

3.5 None of the persons described in Section 2 of General Order No. 104-A has a material financial interest in any transaction involving the purchase of materials or equipment or the contracting, arranging, or paying for construction, maintenance work, or service of any kind to which Applicant has been a party during the period subsequent to the filing of California

American Water's last Annual Report with this Commission or to which California American Water proposed to become a party at the conclusion of the year covered by said Annual Report.

3.6 Applicant anticipates that, subsequent to the filing of the proposed application and final application and prior to the issuance of a decision by the Commission, it may file one or more advice letter requests relating to its Larkfield District to offset unanticipated increases in expenses that may be incurred by that District, or to file one or more advice letters requesting recovery of captured balances in its various memorandum or balancing accounts. Any such offset rate increases requested by advice letter will be in addition to the increases in rates requested in the proposed application and final application.

4. CORRESPONDENCE CONCERNING APPLICATION

Correspondence and communications concerning this application should be addressed to the following person:

David P. Stephenson
Director of Rates & Planning
California-American Water Company
4701 Beloit Drive
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Copies of such correspondence and communications should be sent to:

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Lori Anne Dolqueist, Esq.
Sarah E. Leeper, Esq.
Steefel, Levitt & Weiss, P.C.
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E-Mail: LDolqueist@steefel.com
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Kent Turner
President
California American Water Company
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Chula Vista, CA 91910
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Facsimile: (619) 409-7701
Email: turnerkb@amwater.com

5. EXHIBITS

Appended to this application are the following exhibits filed pursuant to the Commission's Rules of Practice and Procedure,² Rule 3.2(a) and in support of this application:

- Exhibit A Results of Operations Report: Historical Information and Revenue Requirement Calculations
- Exhibit B Cost of Capital
- Exhibit C General Office
- Exhibit D Urban Water Management Plan
- Exhibit E Prepared Direct Testimony³
- Exhibit F Water Action Plan Checklist

6. NOTICE AND SERVICE

6.1 Pursuant to Rule 3.2(b) and the Commission's Rate Case Plan, a copy of this application was served upon the attached service list.

6.2 Within ten days of the filing of this application, California American Water will cause to be published once, in a newspaper of general circulation in the area served, a notice of the general terms of the proposed increases. Proof of such publication will be submitted to the Commission. A draft customer notice is attached as part of Exhibit A. This notice will be furnished to affected California American Water customers in accordance with Rule 3.2(d).

7. NECESSITY FOR GENERAL RATE RELIEF

7.1 Basic to California American Water's request for authority to raise rates in its Larkfield District is the fact that, at its present rates, any annual increase in revenues resulting from customer growth or increased consumption is more than offset by increases in expenses and in the costs of capital expenditures. The rates heretofore authorized have, with the passage of

² All subsequent references to Rules will refer to the Commission's Rules of Practice and Procedure.

³ Exhibit E is comprised solely of direct testimony, so it will not be filed with the Commission.

time, become unjustly and unreasonably low. The rates requested in this application are just and reasonable, and reflect and pass through to customers only increased costs to California American Water for the services and commodities.

7.2 As required by the Rate Case Plan, California American Water has included a summary of the primary factors behind its request for increased rates in this proposed application. The primary factors are 1) increased costs of capital resulting from increased debt and equity costs, 2) large amounts of capital investment, 3) the need for new and streamlined regulation, 4) increases in some operating expenses, and 5) consolidation of rates with California American Water's Larkfield District. These factors are discussed in more detail in Exhibit A to this proposed application.

7.3 Authorizing the actions and rate increases requested in this proposed application will serve the public interest. In the past rate case cycle, California American Water has met its service obligations both in terms of water supply and water quality and has held operating expenses reasonably under control in comparison to historical information. Consistent with the Commission's recently adopted Water Action Plan, the actions and rate increases requested in this proposed application will assist in streamlining Commission decision-making and are needed to permit California American Water to continue to provide safe, high-quality water to its Larkfield District customers in a reliable manner at reasonable rates, promote conservation and the efficient use of water, and assist low-income ratepayers.

8. OTHER REQUESTS AND RECOMMENDATIONS

The special requests discussed below are also addressed in more detail in Exhibit A to the proposed application.

8.1 Special Request #1: Implementation of an ISRS to recover additional fixed costs associated with capital expenditure investments for replacement or rehabilitation of certain facilities. Projects for which costs will be recovered through the ISRS are integrated in the revenue requirement requested in this proposed application.

8.2 Special Request #2: Implementation of a conservation rate design that will reduce the current monthly service charge and shift more of the recovery of fixed costs to the volumetric charge in order to provide the opportunity for all customers to reduce their bill through conservation efforts.

8.3 Special Request #3: Implementation of rate consolidation of the Sacramento and Larkfield Districts, over time.

8.4 Special Request #4: Continuation of a low income program that would provide a sur-credit on the bills of low income customers.

8.5 Special Request #5: Implementation of full-cost balancing accounts for purchased water so that only the actual purchased water costs are passed on to ratepayers.

8.6 Special Request #6: Implementation of a balancing account that tracks revenues and expenses associated with improvements to current conservation efforts and allow the program to be expanded to further reinforce conservation.

8.7 Special Request #7: Establishment of a memorandum account to track the actual tax effects of the American Jobs Creation Act.

8.8 Special Request #8: Provision of the balances of all California American Water memorandum and balancing accounts.

9. PRAYER

WHEREFORE, California American Water respectfully prays that this Commission issue its findings and an order to the effect that:


- (a) The present rates authorized for California American Water's Larkfield District are unfair, unjust and unreasonable;
- (b) The rates proposed and requested by California American Water are fair, just and reasonable;
- (c) California American Water be granted the relief requested in Section 8;

(d) California American Water be authorized to publish, file and make effective, beginning January 1, 2008, the proposed rates requested or such other rates as will result in the additional gross revenues requested in this application and the final application; and

(e) For such other and further relief as is just.

Dated: January 22, 2007

Respectfully submitted,

By: 
Lori Anne Dolqueist
STEEPTEL, LEVITT & WEISS
A Professional Corporation
One Embarcadero Center, 30th Floor
San Francisco, CA 94111-3719
Telephone: (415) 788-0900

Attorneys for Applicant
California-American Water Company

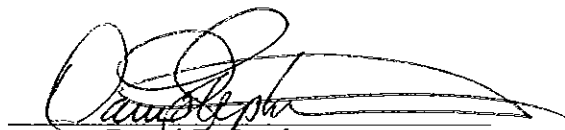
VERIFICATION

I, the undersigned, declare:

I am the Assistant Treasurer of California-American Water Company and the Director of Rates and Planning for the Western Region of American Water Works, Co., Inc., and am authorized to make this Verification for and on its behalf, and I make this Verification for that reason; I have read the above document and know its contents; I am informed and believe and, on that ground, allege that the matters stated in it are true.

Executed on January 22, 2007, at SAN FRANCISCO California.

I declare under penalty of perjury that the foregoing is true and correct.



David P. Stephenson

NOTICE OF AVAILABILITY

The Exhibits to the Application listed below exceed 50 pages in length. Therefore, pursuant to Rule 1.9(c)(1), California American Water hereby provides this Notice of Availability of the Exhibits to the Application. Upon written request, California American Water will provide a copy of the Exhibits to the Application on parties on whom this Notice of Availability is served. Parties that wish to obtain a copy of the Exhibits to the Application should contact:

Cinthia Velez
Steefel, Levitt & Weiss
One Embarcadero Center, 30th Floor
San Francisco, CA 94111
(415) 788-0900
(415) 788-2019 (Facsimile)
cvelez@steefel.com

Exhibits to the Application

Exhibit A	Results of Operations Report: Historical Information and Revenue Requirement Calculations
Exhibit B	Cost of Capital
Exhibit C	General Office
Exhibit D	Urban Water Management Plan
Exhibit E	Prepared Direct Testimony
Exhibit F	Water Action Plan Checklist

PROOF OF SERVICE

I, Cinthia A. Velez, declare as follows:

I am employed in the City and County of San Francisco, California. I am over the age of eighteen years and not a party to this action. My business address is STEEFEL, LEVITT & WEISS, One Embarcadero Center, 30th Floor, San Francisco, California 94111-3719. On January 22, 2007, I served the within:

*Application of California-American Water Company to
Increase Revenues In Its Larkfield District*

on the interested parties in this action addressed as follows:

See attached service list

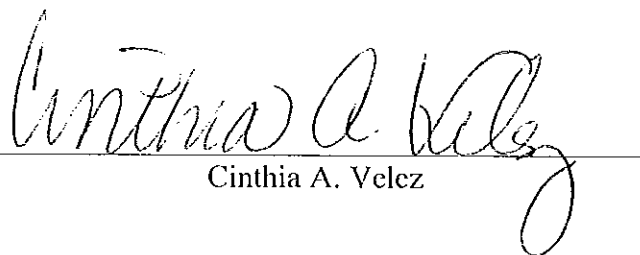


(BY HAND SERVICE) By causing such envelope to be delivered by hand, as addressed by delivering same to SPECIALIZED LEGAL SERVICES with instructions that it be personally served.



(BY PUC E-MAIL SERVICE) By transmitting such document(s) electronically from Steefel, Levitt & Weiss, San Francisco, California, to the electronic mail addresses listed above. I am readily familiar with the practices of Steefel, Levitt & Weiss for transmitting documents by electronic mail, said practice being that in the ordinary course of business, such electronic mail is transmitted immediately after such document has been tendered for filing. Said practice also complies with Rule 1.1 of the Public Utilities Commission of the State of California and all protocols described therein.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct and that this declaration was executed on January 22, 2007, at San Francisco, California.


Cinthia A. Velez

SERVICE LIST
Larkfield District – 2007 General Rate Case
Final Service List

VIA HAND DELIVERY

Jose Cabrera
Division of Ratepayer Advocates
California Public Utilities Commission
505 Van Ness Avenue
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VIA U.S. MAIL

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