BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

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In the matter of the Application of Golden State Water Company (U 13 W) for an order authorizing it to increase rates for water service by $20,327,339 or 20.12% in 2010; by $2,646,748 or 2.18% in 2011; and by $4,189,596 or 3.37% in 2012 in its Region II Service Area and to increase rates for water service by $30,035,914 or 32.67% in 2010; by $1,714,524 or 1.39% in 2011; and by $3,664,223 or 2.92% in 2012 in its Region III Service Area.	Application 08-07-010 (Filed July 1, 2008)
And Related Matters.	A.07-01-014

NOTICE OF EX PARTE COMMUNICATION OF THE DIVISION OF RATEPAYER ADVOCATES

Pursuant to 8.2 and 8.3 of the California Public Utilities Commission's Rules of Practice and Procedure, the Division of Ratepayer Advocates ("DRA"), files this notice of ex parte communications.

On Tuesday, November 10, 2009, Danilo Sanchez, DRA Water Branch Manager, hand delivered to Administrative Law Judge Linda Rochester a copy of DRA's response letter to an October 30, 2009 letter from Golden State Water Company ("GSWC"). On the same day, DRA also emailed a copy of the document provided to the service list in this proceeding. A copy of the document provided to ALJ Rochester is attached to this notice.

The subject matter of the written ex parte communication was GSWC's inappropriate desire to extend its contractual relationship with the City of Torrance and how that extension would harm GSWC ratepayers.

Respectfully submitted,

/s/ JASON REIGER

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November 13, 2009

DRA

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November 10, 2009

ALJ Linda Rochester
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Re: A.08-07-010 - Golden State Water Company's October 30, 2009 Correspondence regarding Extension of Utility Billing Agreement with the City of Torrance

Dear ALJ Rochester:

Golden State Water Company (GSWC) submitted a letter addressed to your honor, dated October 30, 2009, in which it stated its intentions with regards to the extension of a Utility Billing Agreement with the City of Torrance ("Torrance Agreement"). Within that letter, GSWC advised you of its intent to file an application with the Commission requesting appropriate rate handling of the "revenues and expenses related to the Torrance Agreement" and its hope "...to ensure that the continuation of the Torrance Agreement will not interfere with a timely decision A.08-07-010..."

As background information, it is important to address how the Torrance Agreement was handled by GSWC in A.08-07-010, along with assertions made by GSWC during the course of the Division of Ratepayer Advocate's (DRA) analysis of GSWC's application. At page 38 of the Prepared Testimony of John Garon, dated July 2008, (Exhibit 11) when addressing why the eight non-regulated operating contracts for the provision of services to eight cities or agencies in California were not included in the allocation study in its application, Mr. Garon indicated that one of the contracts expired in March 2008 and was not renewed, and that "the other seven contracts are still active but will expire prior to January 1, 2010..." Mr. Garon indicated that the "...allocation adopted in the last GRC necessitated our policy to not pursue these contracts. Therefore, GSWC will allow these contracts to expire prior to 2010." In a footnote at the bottom of page 38 of Exhibit 11, the Company indicated as follows:

> GSWC's attorneys are reviewing each contract to verify they are cancelable and will be working with the individual cities to assure the contracts are canceled within the guidelines of the contracts. If GSWC cannot successfully cancel one or more of these contracts, GSWC will file a separate application requesting appropriate rate handling of the revenues from any remaining contracts.

Due to these assertions, along with other assertions regarding the intent to discontinue these contracts prior to the new rates from the current GRC becoming effective, DRA took GSWC at its word and did not factor the City contracts into the General Office cost allocations. The City

contracts, including the City of Torrance contract, were not factored into either GSWC's cost allocations or DRA's recommended 4-factor allocations in allocating costs to the non-regulated operations. In addressing this issue, DRA specifically recommended as follows:

> ...DRA recommends that the Commission explicitly require that GSWC discontinue providing service under the contracts prior to the January 1, 2010 date. In the proposed cost allocation calculations presented by the Company and those recommended by the DRA in this report, there has been no allocation of General Office or COPS costs to the City contracts. If GSWC continues providing non-regulated services under the city contracts after January 1, 2010, then the contracts should be transferred back to ASUS in compliance with D.98-06-068 and the GO portion of this GRC should be reopened for purposes of determining the additional costs that should be allocated to ASUS for GSWC's provision of services under the contracts and the use of GSWC's assets and facilities in fulfilling the obligations in the contracts...
> (Ex. 107(C) at 2-6 to 2-7)

It is also relevant to consider the level of services provided to the City of Torrance under the Agreement. In response to DRA Data Request DMD-02, Question 24.1, the Company provided a listing of services and functions performed by GSWC personnel under the City Contracts. Under the description for the services provided by GSWC to the City of Torrance, the response listed as follows:

1. The Company Facilities – the San Dimas corporate office will provide all necessary computer software and communication necessary for City to submit meter reading data, regional customer service center will operate a 7 days a week including holidays, 24 hrs a day for City customers, maintain a customer service office within the service boundaries of the Torrance Municipal Water Department.

2. Customer Billing – provide full billing services for City customers.

3. Customer Service – provide full customer service for City customers including 24 hr access to a live customer service representative.

4. Reporting – provide monthly report, 3-year history report of customer accounting info, customize report as requested by City, and etc.

5. Cash Processing – receive and process all of the City's customer payments

6. Other Services – coordinate with city to facilitate the provision of this utility billing service agreement, create meter reading data file, and provide city with a copy of its disaster preparedness plan relating to billing and customer service.

The level of services provided by GSWC personnel, along with the use of GSWC general office assets, is not at a level to be considered immaterial or insignificant. Based on information provided by GSWC in response to DRA Data Request DMD-05, Question 14, during 2007 GSWC's Customer Service Center fielded 261,592 calls on behalf of GSWC customers and 19,581 on behalf of the City of Torrance. Thus, calls taken on behalf of the City of Torrance equated to approximately 7% of the combined calls for GSWC and the City of Torrance during 2007. Based on information provided by GSWC in response to DRA Data Request DMD-05, Question 15, during 2007 GSWC's sent out a total of 1,874,190 bills to GSWC customers and 211,770 bills on

behalf of the City of Torrance. Thus, total bills sent behalf of the City of Torrance equated to over 10% of the combined bills for GSWC customers and the City of Torrance during 2007. As noted in the above quoted response to DRA DMD-02, Question 24.1, GSWC also provides use of the customer service offices to the City of Torrance customers, cash processing services, use of computer software and various reporting to the City of Torrance. Again, none of these services were taken into account in allocating general office costs or assets to the unregulated affiliates in A.08-07-010.

An additional item of important background information in evaluating GSWC's October 30, 2009 letter is the degree to which determination of the appropriate amount of costs to allocate to the City contracts was disputed between the parties in GSWC's prior General Office GRC, A.06-02-023. This was a highly controversial issue in that docket and was addressed extensively in Commission Decision 07-11-037. Without restating the Decision, the ultimate outcome was that the Commission did not accept GSWC's nor DRA's proposed allocation methodology as it pertained to the City Contracts. In the final decision, beginning at page 34, the Commission allocated costs using a methodology identified as "an interim expedient". By identifying the allocation methodology as an "interim expedient," its use was not intended to be a permanent methodology for use in future cases. In the current docket, DRA did not address this highly contested issue to the extend it pertained to the City Contracts as it trusted GSWC's statements regarding its intentions regarding the City Contracts. Much, but not all, of the controversy regarding the cost allocations in A.06-02-023 pertained to how the services provided under the City Contracts should be weighed in deriving appropriate cost allocation factors to ensure that the regulated operations were not subsidizing the service provided under the non-regulated City Contracts. Again, this was not addressed by the parties in the current case due to GSWC's assertions.

DRA questions the degree to which GSWC pursued the discontinuation of the contract with the City of Torrance. Again, GSWC asserted that all of the City contracts would expire prior to January 1, 2010. Copies of these contracts were provided to the DRA in response to discovery. The copy of the contract with the City of Torrance that was provided by GSWC in response to DRA Data Request DMD-02, Question 24.2, was dated March 8, 2005. While the contract did have extension provisions within the contract, it also included specific requirements regarding the timing by which the City must give the Company notice of its intention to exercise the extension options, as well as specific provision for how notices under the contract are to be given. In a footnote to GSWC's October 30, 2009 letter, GSWC indicates that the City of Torrance extension letter was sent "after the date specified in the contract for the letter had passed." The footnote also indicates that apparently despite the tardiness, "...GSWC intends to honor the City of Torrance's election to extend the contract." This statement puts into question the integrity of GSWC's statements both in its application and throughout the review of its application that it intended to discontinue providing services under the contracts. A footnote contained on page 38 of Mr. Garon's Prepared Testimony (Exhibit 11) states that "GSWC's attorneys are reviewing each contract to verity they are cancelable and will be working with the individual cities to assure the contracts are canceled within the guidelines of the contracts." DRA must question if these assertions were made in an attempt to circumvent the review of what had been a highly contentious issue between the DRA and GSWC in the prior General Office GRC. Did GSWC work with the City of Torrance to "...assure the contracts are canceled..." as it asserted it would do? Given GSWC acknowledges in its October 30, 2008 letter that the City of Torrance apparently did not follow the specific contract requirements for extension, did GSWC make any attempt to deny the contract extension request? Did GSWC or its attorneys attempt to deny the extension request as a result of the City of Torrance's failure to meet the full contract requirements for extension? Have any actions whatsoever been taken by GSWC to attempt to discontinue the contract?

GSWC's October 30, 2009 letter also greatly simplifies its proposal regarding how to reflect the impacts of its current intention to extend the contract with the City of Torrance. At page 2 of its letter, GSWC states that it will file an application in the near future in which it "...will propose that the cost allocation methodology for the Torrance Agreement hold GSWC customers harmless from any impacts associated with the fact that the costs associated with the Torrance Agreement were not addressed in A.08-070-010." This is not a simple matter. Again, as indicated previously, the issue of how costs the General Office costs and assets should be allocated to the unregulated operations, particularly to the city contracts, was a hotly contested issue in the prior GRC. Since that time, the operations of GSWC's unregulated affiliate, ASUS, has changed significantly with significant growth in the non-regulated services provided to military bases throughout the country through military contracts. While the Commission did develop an "interim expedient" for addressing cost allocations in the prior GO GRC, it was an interim approach and would not have factored in the degree of expansion of the non-regulated operations provided by ASUS. In the current GRC, the impact of the City Contract costs allocations has not been factored in with the review of the allocations to ASUS for services provided under the military contracts. The Company has indicated that it will transfer the Torrance Agreement back to ASUS and will request a memorandum account to record an interim GO allocation beginning January 1, 2020. The letter states that "Because cost allocation between GSWC and ASUS regarding the Torrance Agreement was not addressed in A.08-070-010, GSWC will determine the interim General Office Allocation to record in the memorandum accounting using the cost allocation factors (i.e., number of customers, total labor expense, total expense) adopted by the Commission for the Torrance Agreement in D.07-11-037 and the methodology for applying these cost allocation factors to General Office costs that will be adopted in A.08-07-010, which is expected to occur by January 1, 2010." This is not, in DRA's opinion, a reasonable solution and not a simple a matter as the Company's letter would lead one to conclude.

In conclusion, DRA recommends that the Company be required to take the actions it asserted it would take in attempting to discontinue the City Contracts. DRA has not altered its recommendation in A.08-070-010 that the Commission explicitly require that GSWC discontinue providing service under the contracts prior to the January 1, 2010 date.

As an alternative solution, if GSWC goes forward with the extension of the Torrance Agreement, GSWC's assets and employees should not be used for providing services under the contract. The contract should be transferred by to ASUS and ASUS employees and assets should be used to meet the provisions of the contract, not the employees and assets that fall under GSWC and its regulated operations. GSWC should be barred from providing any services under the agreement and responsibility should fall to the unregulated subsidiary, ASUS. This would ensure that customers are not harmed by the unregulated operations and are not subsidizing the unregulated operations.

Sincerely,

Danilo Sanchez
Program Manager

Division of Ratepayer Advocates

Cc: Service List of A.08-07-010

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of **"NOTICE OF EX PARTE COMMUNICATION OF THE DIVISION OF RATEPAYER ADVOCATES"** in **A.08-07-010, et al.** by using the following service:

[x] **E-Mail Service:** sending the entire document as an attachment to all known parties of record who provided electronic mail addresses.

[ ] **U.S. Mail Service:** mailing by first-class mail with postage prepaid to all known parties of record who did not provide electronic mail addresses.

Executed on November 13, 2009, at San Francisco, California.

/s/ NELLY SARMIENTO
Nelly Sarmiento

N O T I C E

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address and/or e-mail address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.

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