DIVISION OF RATEPAYER AD[illegible]S

Contact: Cheryl Cox, DRA Policy Advisor - (415) 703-2495 - cxc@cpuc.ca[illegible]

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Valencia Water Company GRC
- Contamination Rules for Net Proceeds -

DRA Position: The Commission should adopt the PD with modifications of ratemaking treatment of Perchlorate proceeds so that they are consistent with contamination rules adopted in D.10-10-018, and other minor modifications.

Background: CPUC Contamination Rules for Net Proceeds in D.10-10-018

- **Sharing before the completion of remediation or replacement:** *"run the risk of future shortfalls that the IOU would seek to recover through rates."* (P. 47)
- **Reasonable costs and expenses:** "*are the result and would not have to be incurred in the absence of such contamination…" (P. 46)*
- **Allocations to made before remediation and replacement is complete***: "would shift the risk of incomplete, unfunded or unnecessarily deferred remediation and replacement to the ratepayer." (P. 47)*

PD is inconsistent with D.10-10-018

- The PD adopts a $1 million figure based solely on the final settlement amount, but it is not the actual cost for the replacement of Well V-157.
- The actual total cost of replacement is in fact $2.4 millions ($1.4 million for Well-206 and $1.0 million for the pipeline), which should be used for determining the Net Proceeds.
- There should be no settlement proceeds left for the purpose of allocation, and ratepayers may actually face an under-funded amount of approximately $0.3 million to cover the actual replacement costs.

Net proceeds: ($300,000) = $3.65 million gross settlement proceeds - $1.56 litigation expenses - $2.4 actual remediation costs

- The PD cites D.10-10-018 that the replacement plant should be valued at its ***actual*** cost when placed in rate base, yet it adopts an estimated figure of $1 million as the replacement cost. (PD, Page 14)
- Commission is not bound by third-party settlement allocation since the utility can dictate for tax and other reasons how payment should reflected in settlement.
- The PD asserts that while ratepayers contributed to litigation costs, "Valencia bore some risk that its additional litigation costs might not be fully recovered." (PD, P. 15) This is not supported by past Commission practice that **reasonably** incurred litigation costs have always been allowed to be ***fully*** recovered.
- Appendix D of D.10-10-018 outlines requirements to be considered in the net proceeds allocation, yet the PD neither explains nor elaborates upon the factors considered in arriving at the 50/50 allocation.
    - For example, Valencia's ratepayers have borne the financial risk associated with the litigation and will pay the $300,000 of costs not covered by the gross settlement proceeds including the remaining un-depreciated expenses of the destroyed Well V-157.