BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

In the matter of the application of: Alco Water Service, (U-206), (Alco) a California Corporation, for an order 1) authorizing it to increase rates for water service by $3,709,633 or 62.6% in test year 2010; 2) authorizing it to increase rates on July 1, 2011 by $1,752,844 or 18.2% and July 1, 2012 by $1,016,639 or 8.9% in accordance with Decision 08-11-035, and 3) adopting other related rulings and relief necessary to implement the Commission's ratemaking policies.	Application 10-02-006 (Filed February 1, 2010)

NOTICE OF EX PARTE COMMUNICATION BY ALISAL WATER CORPORATION dba ALCO WATER SERVICE

In accordance with California Public Utilities Commission ("Commission") Rule of Practice and Procedure 8.3, Alisal Water Corporation dba Alco Water Service ("Alco") respectfully submits this Notice of *ex parte* communication.

On Wednesday, January 26, 2011, representatives of Alco met with Kenneth L. Koss, Water Advisor to Commissioner Timothy Simon, at approximately 1:30 p.m. for approximately 1 hour and 10 minutes. Seven handouts were distributed and are attached hereto as Appendix A, B, C, D, E, F & G. This meeting was initiated by Alco and took place at the Commission offices at 505 Van Ness Avenue in San Francisco. Present at the meeting were Thomas R. Adcock, President of Alco and Joseph M. Karp, outside counsel to Alco. Representatives of Alco explained Alco's primary concerns regarding the Administrative Law Judge's Proposed Decision ("PD") in this proceeding, specifically: the ban on ownership family transactions, and issues associated with the cost of debt, the return on equity, and the rate of return set forth in the PD. Also discussed were the number of water well sources that the PD authorized Alco to construct, the need for these wells for water system reliability and water production redundancy, and the reasonableness of Alco's forecasted costs of these wells, which were originally provided in its GRC Application. Additionally, Alco representatives explained Alco's concerns that the CWIP and Water Plant in Service as of December 31, 2009 in the tables that accompanied the PD were incorrect and that these incorrect amounts were used to calculate the rates. Alco representatives also explained that the PD is incorrect in its conclusions that (i) Alco does not currently use an independent auditor and (ii) that the record in this proceeding does not reflect Alco's use of an independent auditor.

In accordance with Commission Rule of Practice and Procedure 1.10, Alco is electronically serving this Notice on all parties.

Respectfully submitted,

/s/ Thomas R. Adcock

Alisal Water Corporation
dba Alco Water Service
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Applicant

January 31, 2011

APPENDIX A

APPENDIX A

COMPARISON OF CAPPED COSTS FOR ALCO WELL PROJECTS AND THOSE APPROVED IN RECENT COMMISSION DECISIONS

Alco's Six Requested Well Projects and Costs in This GRC Proceeding:

Project / Plant Account	**Capped Project Cost**
New Well – Verona	$ 953,505
New Well – Bardin	$ 1,689,130
New Well – Laurel Heights	$ 1,802,235
New Well – Hibino	$ 1,790,732
New Well – Monte Bella	$ 1,910,139
New Well – Surrey Way	$ 1,817,300

Recent Decisions' Approved Well Projects and Costs:

Decision No.	**Date of Decision**	**Capped Project Costs for Each Well Project**	**Location in Decision**
D.10-12-059	December 16, 2010	1) $2,207,000; 2) $2,743,100; 3) $2,080,800; 4) $2,817,800	Ordering Paragraphs: 2.a, 2.c, 2.d, & 2.e
D.10-12-017	December 9, 2010	1) $2,375,500; 2) $2,422,000; 3) $1,911,200; 4) $3,833,000; 5) $4,626,000; 6) $2,473,000; 7) $1,761,400; 8) $2,121,100	Pgs. 16, 17, 24 & 26
D.10-12-029	December 16, 2010	1) $2,400,000	Finding of Fact: 14

Note: The costs above may include well lot acquisition, well construction, equipping of well and well site improvements.

ALCO WATER SERVICE
Calculation of Actual Interest Rate for Years 2010-2012 From Schedule C of Workpapers
Excluding New Long-Term Debt That Was Expected to be Added in Years 2010-2012

Long Term Debt	Year 2009	Test Year 2010	Test Year 2011	Test Year 2012
4M Development (Capital Lease)	991,853	906,556	815,151	717,246
Enterprise (Ford F-550 Capital Lease)	8,620	0		
Enterprise (09 Water Truck Capital Lease)	50,507	38,225	24,876	10,367
Enterprise (09 Potable Wtr Truck Cap Lease)	60,409	45,694	29,720	12,378
Enterprise (09 Dump Truck Capital Lease)	50,647	37,337	22,947	7,391
RaboBank	102,224	78,385	53,054	26,147
Allstate	8,025,000	7,790,000	7,535,000	7,260,000
New Long-Term Debt (Note)	0	0	0	0
Balance End of Year	9,289,260	8,896,197	8,480,748	8,033,529
New Loan 2011 (Note)			0	0
New Loan 2012 (Note)				0
Total Revised LTD at Year End	9,289,260	8,896,197	8,480,748	8,033,529
Average LTD Years 2010-2012				8,470,158

Interest Payments	2009	2010	2011	2012
4M Development (Main Line Capital Lease)	100,124	94,703	88,595	82,095
4M Development Add'l Interest per Contract	19,195	25,251	23,750	22,058
Enterprise (Ford F-550 Capital Lease)	1,354	290		
Enterprise (09 Water Truck Capital Lease)	4,745	3,763	2,695	1,534
Enterprise (09 Potable Wtr Truck Cap Lease)	5,590	4,430	3,171	1,804
Enterprise (09 Dump Truck Capital Lease)	4,447	3,448	2,368	1,202
RaboBank	6,695	5,560	4,068	2,493
Allstate	636,831	619,266	600,231	579,624
Allstate Cost of Issuance Amortization	29,387	29,387	29,387	29,387
New Long-Term Debt	0	0	0	0
New Long-Term Debt Cost of Issue Amort	0	0	0	0
Subtotal	808,368	786,098	754,265	720,197
New Loan - 2011			0	0
New Loan - 2012				0
Total Revised Interest Payments	808,368	786,098	754,265	720,197
Actual Interest Year Per Year		8.84%	8.89%	8.96%
Average Interest Expense Years 2010-2012				753,520
Average Actual Interest Rate Years 2010-2012				**8.90%**

Class A Water Utilities
Rate of Return, Cost of Long Term Debt and Rate of Return
Compared to ALJ Long's Proposed Decision Dated 12/28/10
and Compared to the Modifications Requested per Alisal Water Corporation's Comments Dated 1/18/11

Utility	Decision	Date	ROE	LTD	ROR	# of Customers*
Class A Water Utilities:						
Valencia Water	D.10-10-035	10/28/2010	10.20%	7.37%	9.54%	30,000
Apple Valley Ranchos	D.10-10-035	10/28/2010	10.20%	8.38%	9.42%	19,500
Park Water	D.10-10-035	10/28/2010	10.20%	8.38%	9.42%	28,000
Great Oaks Water	D.10-12-057	12/16/2010	10.20%	7.50%	9.26%	20,700
San Gabriel Water	D.10-10-035	10/28/2010	10.20%	7.56%	9.25%	92,500
Golden State Water	D.09-05-019	5/7/2009	10.20%	7.49%	8.90%	254,500
Suburban Water	D.10-10-035	10/28/2010	10.20%	7.05%	8.83%	75,500
San Jose Water	D.10-10-035	10/28/2010	10.20%	7.03%	8.68%	220,000
California Water Service	D.09-05-019	5/7/2009	10.20%	6.72%	8.58%	463,500
California American Water	D.09-05-019	5/7/2009	10.20%	6.48%	8.04%	172,000
Average			10.20%	7.40%	8.99%	
High			10.20%	8.38%	9.54%	
Alisal Water Corporation	Proposed Decision	12/28/2010	10.70%	8.00%	8.81%	8,800
Alisal Water Corporation	**Modifications Requested per Alco's comments**	**1/18/2011**	**11.35%**	**8.90%**	**9.64%**	**8,800**

* Approximate number of customers is based on the most recent General Rate Case filings for each company.

Appendix D

Class B Water Utilities
Rate of Return
Compared with ALJ Long's Proposed Decision Dated 12/28/10
and Compared to the Modifications Requested per Alisal Water Corporation's Comments Dated 1/18/11

Utility	Resolution	Date	ROR	# of Customers
Class B Water Utilities:				
Del Oro Water Company	W-4797	10/29/2009	10.80%	7,955
East Pasadena Water	W-4764	6/18/2009	10.80%	2,945
Fruitridge Vista Water	W-4858	12/16/2010	9.98%	4,530
Average			10.53%	
Alisal Water Corporation	Proposed Decision	12/28/2010	8.81%	8,800
Alisal Water Corporation	**Modifications Requested per Alco's comments**	**1/18/2011**	**9.64%**	**8,800**

ALCO WATER SERVICE
Schedule of Water Plant and Construction Work In Progress (CWIP)
As Requested by Alco and Modified to Incorporate Findings of Proposed Decision (PD)

Water Plant:	
Water Plant as of 1/1/09 (See Note 1)	$28,427,500
Alco Plant Additions (Per 3/17/10 Updated Workpapers Sch 26A, page 9)	1,486,390
Alco Plant Retirements (Per 3/17/10 Updated Workpapers Sch 26A, page 9)	(205,839)
Water Plant as of December 31, 2009	$29,708,051
Adjustments to Water Plant:	
G&L Leasing and Thomas R. Adcock Equipment Adjustments (See Note 2 and Page 2)	(148,250)
Pre 2009 Verona Well in Water Plant as of 1/1/09 to be Transferred to CWIP (See Page 2)	(222,971)
Verona Well Water Plant added in 2009 to be Transferred to CWIP (See Page 2)	(555,934)
Adjusted Water Plant 12/31/2009	$28,780,896
DRA Water Plant at 12/31/09-Per PD Tables	28,573,147
Difference (See Note 3)	$207,749

Note 1: Schedule 26A, page 1 of Exhibit A-3 shows that Alco reported Water Plant as of January 1, 2009 of $28,427,497. The Settlement Agreement, approved by the PD, states under page 17 item 13, that Alco and DRA agreed that the Plant in Service (Acct. 101) at year-end 2008 should be $28,427,500.

Note 2: Page 29 of the PD states that ratepayers should only pay the net book value of $32,350. However, Table 14-B on page 14-8 of DRA's report shows a FMV of $17,130 instead of $32,350, a difference of $15,220. This results in a G&L Leasing water plant disallowance of $56,260, which when added to the equipment disallowance of Thomas R. Adcock of $91,990 (Table 14-A of DRA Report), amounts to a total disallowance of $148,250.

Note 3: The difference of $207,749 consists of $222,971, which is the difference between the 2009 DRA's beginning balance of $28,204,526 and Alco's beginning balance of $28,427,497 (see Note 1), plus the difference of ($15,220) regarding the G&L Leasing's fair market value difference of $32,350 and $17,130 (see Note 2), and a rounding of ($2).

Construction Work In Progress (CWIP)	
CWIP as of 12/31/09 per DRA - Settlement Agreement, Page 24 ($2,110,909 + $89,359)	$2,200,268
Plus:	
2009 CWIP related to wells authorized by PD and disallwed by DRA (See Page 2)	924,363
Subtotal	$3,124,631
Plus: CWIP Related to Verona Well Approved by PD and Disallowed by DRA	
Verona Well Transferred from Water Plant Pre 2009 (See Page 2)	222,971
Verona Well Transferred from Water Plant Added in 2009 (See Page 2)	555,934
Adjusted CWIP as of 12/31/09	$3,903,536

ALCO WATER SERVICE
Schedule of Water Plant and Construction Work In Progress (CWIP)
As Requested by Alco and Modified to Incorporate Findings of Proposed Decision (PD)

Verona Water Plant Added by Alco in 2009 and Disallowed by DRA (See Note 4)	
Well Building	358,412
Well Pumping Eqipment	60,614
Static Mixer	2,231
Pressure Tank	48,059
Mains	86,618
Total Added in 2009	555,934
2009 CWIP Disallowed by DRA and Approved by the PD (See Note 4)	
Bardin Well	750,345
Monte Bella Well	92,839
Laurel Heights Well	57,183
Verona Well	19,596
Miscellaneous	4,400
Total Disputed CWIP	924,363
G&L Leasing and Thomas R.Adcock Equipment Detail:	
G&L Leasing Vehicles and Equipment-Requested by Alco	73,390
Thomas R. Adcock Equipment-Requested by Alco	201,530
Total	274,920
Amounts Authorized by Proposed Decision:	
G&L Leasing Vehicles and Equipment	17,130
TR Adock Equipment	109,540
Total Authorized by Proposed Decision	126,670
Net Amount Disallowed	148,250
Pre 2009 Verona Well Water Plant Disallowed by DRA and Approved by the PD.	
Well	194,674
Pumping Equipment	28,297
Total Pre 2009 Verona Well Water Plant	222,971

Note 4:
The Verona, Bardin and Laurel Heights Wells are water plant facilities previously authorized to be built by Resolution No. W-4577. The PD also authorized the construction of these wells. Additionally, the Montebella Well is one of the two additional wells authorized by the PD.

Date of Issuance 12/17/2010

WATER/RSK/jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS	**RESOLUTION W-4858**
Water and Sewer Advisory Branch	**December 16, 2010**

R E S O L U T I O N

(RES. W-4858), FRUITRIDGE VISTA WATER COMPANY (FVWC). ORDER AUTHORIZING A GENERAL RATE INCREASE, PRODUCING AN INCREASE OF $591,763 OR 30.5% IN TEST YEAR 2010, AMORTIZATION OF THE PURCHASED POWER BALANCING ACCOUNT, AND RECOVERY OF ONE-TIME CHARGE OF $1.92 FOR AMORTIZATION OF CALIFORNIA DEPARTMENT OF PUBLIC HEALTH USER FEES.

SUMMARY

By Advice Letter (AL) No. 91 filed on April 26, 2010, Fruitridge Vista Water Company (FVWC) requests a general rate increase of approximately 43% resulting in an increase in revenues of $840,836 in 2010. FVWC also requests amortization of its Purchased Power Balancing Account net balance of $76,490 as of August 31, 2009. Finally, by AL No. 92 filed on January 20, 2010, FVWC requests amortization through a one-time surcharge of $1.92 per customer to recover the $8,878 balance in its User Fee Balancing Account for California Department of Public Health (DPH) User Fees not included in rates.

This resolution grants an increase of $591,763 or 30.5 % for total test year revenue of $2,530,096 with a resulting in an adjusted rate of return of 9.98%. FVWC is authorized to include a surcharge to amortize the $76,490 in its purchased power balancing account over 12 months. Finally, FVWC is authorized to include a one-time surcharge of $1.92 to each customer's bill to amortize the $8,878 in its User Fee Balancing Account.

BACKGROUND

On July 29, 2009, FVWC filed a draft advice letter requesting a general rate increase. The staff of the Division of Water and Audits (DWA) Water and Sewer Advisory Branch (Staff or Branch) reviewed FVWC's filing and accepted it on August 6, 2009. FVWC requested authority, under Section VI of General Order (G.O.) 96-B and Section 454 of the Public Utilities (PU) Code, to increase rates by $840,836 or 43.38% in 2010. The general rate increase was filed in order to recover increased operating expenses and

Average Plant-in-Service
FVWC's estimate of average plant in service is $18,504,907, while Staff's estimate is $17,924,140. The difference is due to an adjustment of $27,736 for pumping repairs and well costs made by audit findings and exclusion of $1,173,891 for planned construction of Well No. 18 for 2009 that has not yet been constructed. FVWC should be authorized to file a rate base offset Tier 2 advice letter, capped at the $1,173,891, when the well is operational and used and useful. FVWC and Staff do not contest the cost estimate for Well No. 18.

Working Cash
FVWC's revised estimate of Working Cash is $135,297, while Staff's corresponding revised estimate is $5,102. The difference is due to different methodologies used to estimate the working cash requirements. Staff used the methodology based on the updated detailed lead/lag study submitted by FVWC in its last rate case and adopted by the Commission in Resolution W-4252 (June 14, 2001). FVWC used the simplified approach for calculating working cash outlined in Standard Practice U-16-W whereby it took its estimated operating expenses divided by 12. The ALJ Ruling finds it reasonable to adopt FVWC's estimated working cash requirement based on the simplified method. We concur.

Rate of Return
Staff recommends return on equity (ROE) of 11.30% by averaging the Class A authorized ROE (10.10%) in the past several years and the recommended average of range of Class C ROE (12.50%) by the UAFCB. Staff then derived its estimate of rate of return on rate base of 8.44% by calculating a weighted cost of capital consisting of long term debt and FVWC's common on equity. Table 1 show Staff's methodology and calculation used in deriving the estimate of the ROR.

FVWC requested an 11.04% rate of return. FVWC indicates that it deserves the highest possible rate of return. FVWC did not prepare a formal cost of money study to support the requested rate of return.

Table 1
Fruitridge Vista Water Company
Weighted Cost of Capital

Description	Capital Structure	Cost Factor	Weighted Cost
Long-Term Debt	44.6%	4.89%	2.18%
Common Equity	55.4%	11.30%	6.261%
Total	100.0%		**8.44%**

We will adopt 8.44% as an authorized rate of return based on Staff's determination of the capital structure and the cost of debt and equity. The 11.3% ROE is the same as recently authorized for other Class B utilities and consistent with the average returns on equity between what we have authorized for Class A utilities and those set by the UAFCB for Class C utilities. The authorized rate of return of 8.44% is adjusted upward to 9.98% to account for the treatment of two rate base components. First is the10% rate of return floor we established for reinvested funds from recovery of pollution litigation awards of $831,624 authorized in D.06-04-073 and made effective in Res. W-4696 approving a rate base offset. Second is the rate of return applicable on the $1.98 million buy-in fee for the right to purchase water from the City of Sacramento that was afforded rate base treatment in D.06-04-073. The ALJ Ruling determines that the intent of D.06-04-073 is that an 11% rate of return, then in effect, should be applied to the $1.98 million.

Rate Design
FVWC's current rate structure consists of several schedules: 1, Metered Service; 2, Flat-Rate Service; 4, Private Fire Protection; and 9, Metered Construction Service. The percentages of revenues generated by flat-rate, including private fire protection, and metered service, including metered construction services, at present rates are 54.59% and 44.81 %, respectively. In order to implement Commission conservation policy set forth in the 2005 Water Action Plan, we encourage water conservation through changing from flat rate to metered rate. Staff recommends that the percentage allocation of revenue requirement from flat-rate and private fire protection customers be increased to reflect the estimated percentage allocation based on sales for flat-rate and metered customers. Therefore, Staff's recommended revenue requirement allocations of 60.26% for flat-rate customers and 39.74% for metered customers. We will adopt Staff's revenue allocation percentages.

36. The ALJ Ruling finds that Fruitridge Vista Water Company's estimated working cash requirement complies with Standard Practice U-16-W.
37. A working cash estimate of $135,297 should be adopted.
38. A return on equity of 11.3% is the same as what has recently been given to other Class B water utilities.
39. Fruitridge Vista Water Company's weighted average cost of long-term debt is 4.89%.
40. Fruitridge Vista Water Company's capital structure is 44.6% long-term debt and 55.4% equity.
41. The weighted average cost of capital for Fruitridge Vista Water Company is 8.44%.
42. A 10% rate of return floor for reinvested funds from recovery of pollution litigation awards of $831,624 authorized in Decision 06-04-073 and made effective in Resolution W-4696 should be used to adjust the weighted average cost of capital.
43. The ALJ Ruling finds that Decision 06-04-073 adopts a fixed rate of return of 11% for the $1.98 million of buy-in fee paid to the City of Sacramento and should be used to adjust the weighted average cost of capital.
44. The blended rate of return of 9.98% when accounting for the 10% return on funds from recovery of pollution litigation awards and the 11% return for the buy-in fee paid to the City of Sacramento is reasonable and should be adopted.
45. A revenue requirement allocation of 60.29% for flat-rate customers and 39.71% for metered customers is consistent with water conservation policy set forth in the 2005 Water Action Plan and should be adopted.
46. The Division of Water and Audits' rate design is in accord with current rate design policy for Class B water utilities.
47. The rates shown in Appendix B are reasonable and should be adopted.
48. The Division of Water and Audits analyzed historical power consumption, water delivered, and number of service connections in determining adopted quantities shown in Appendix C.
49. The quantities shown in Appendix C to develop recommended rates are reasonable and should be adopted.
50. The summary of earnings shown in Appendix A is reasonable and should be adopted.
51. The Purchased Power Balancing Account is under collected by $81,417 as of August 31, 2009.

Re California-American Water Company
Decision **89-07-061**
Application 88-09-040

California Public Utilities Commission
July 19, 1989

APPLICATION by water utility for authority to increase rates in its Baldwin Hills District; granted as modified in the amount of $88,200 for 1989, $65,800 for 1990, and $69,000 for 1991, with an authorized return on equity of 12.25%.

P.U.R. Headnote and Classification

1.
EXPENSES

s95 - Payroll - Employee level - Vacancy rate.
Ca.P.U.C. 1989
In determining a water utility's payroll expense, the commission adopted the utility's recommended employee level, with a 2% reduction to account for vacancies.

Re California-American Water Company

P.U.R. Headnote and Classification

2.
EXPENSES

s60 - Insurance - Employee health insurance.
Ca.P.U.C. 1989
A water utility's projection of a 35% increase in employee health insurance costs was accepted, where the utility was virtually self-insured and based its projections on actual costs per employee rather than on comparisons of rates for others.

Re California-American Water Company

P.U.R. Headnote and Classification

3.
EXPENSES

s81 - General office expense - Multidistrict utility.
Ca.P.U.C. 1989
Where general office expense of a multidistrict water utility had just been litigated in a case affecting one district, the utility was not allowed to relitigate the expense in a case involving another district, as there was no showing that general office expense was that volatile.

Re California-American Water Company

P.U.R. Headnote and Classification

4.
EXPENSES

s144 - Water utility - Testing and treatment - New testing standards.
Ca.P.U.C. 1989
Although new state testing standards for coliform would be in effect by the time the instant decision became effective, the only expense allowed a water utility for the new testing standards was for that of a new employee; laboratory costs could not be recovered until the utility had gained some experience under the new procedures.

Re California-American Water Company

P.U.R. Headnote and Classification

5.
EXPENSES

s114 - Income taxes - Interest deduction - On acquisition adjustments.
Ca.P.U.C. 1989
Interest on an acquisition adjustment should not be included in calculations of income tax expense, as the interest used in calculating total return should be the same as that used to compute tax liability.

should match the interest used in income tax calculation.

b. *Interest on AFUDC*

Since we have decided to allow applicant CWIP in rate base as a result of a Branch comment, this issue is moot.

J. *Plant*

1. *Compensation for Funds Used During Construction*

[6] Traditional ratemaking recognizes that utilities must make expenditures in new plant well before the plant is ready to be placed in service and hence before it is included in rate base. Regulatory agencies normally select one of two methods to compensate the utility for the use of such funds. One form of compensation allows "Construction Work in Progress" (CWIP) as part of rate base; this allows the utility to cover its construction financing costs during the construction period.

AFUDC, in contrast, provides deferred compensation; an allowance for construction financing is added to the other costs of construction and capitalized. The utility does not begin to recover for the use of the funds until the plant is placed in service. Once the plant is in service, the utility will earn a return on the amount allowed for construction financing, and will recover depreciation just as with other costs of construction. The basic law is explained in *Goodman v District of Columbia PSC* (1974) 497 Fed. 2d 661 at 668,"[t]he utility must be compensated, either by including rate base interest during construction or by including in rate base the value of funds invested in the plant during construction."

The Proposed Decision recommended a conclusion that applicant was entitled to some form of compensation for the time value of funds used during construction. We have adopted that conclusion.

The Proposed Decision rejected Branch's theory that rate base included an allowance for contingencies, which would supply the needed compensation. It reasoned that it would be improper to include any contingency allowance in any rate base item, and that therefore, the utility could not look to such an allowance to compensate it for the use of funds. We have also adopted this determination.

The Proposed Decision also assumed that the only form of compensation which could be considered under this record was AFUDC. After considering Branch's comments, we now recognize that allowing CWIP in rate base is a possible alternative.

Branch argues that there is a commission policy that water utilities should be allowed CWIP in rate base rather than AFUDC as with energy and telecommunications companies. It asserts that this policy was affirmed by the Commission when it considered Resolution RR-2 on June 2, 1982. Branch is correct. Such a policy exists.

The primary justification for this policy is the short construction period for most such projects, usually less than a year. This means that customers will be asked to pay only small amount over a short period. Even so, customers might object on theoretical grounds to paying even small amounts of finance plant before they receive any benefit from it. However, allowing CWIP in rate base means that, in the long run, they will pay less for the plant than if AFUDC were allowed. Moreover, allowing CWIP has other benefits to consumers; it increases cash flow, thus reducing the need for outside financing. Even when outside financing is needed, the increase in actual cash earnings may allow the utility to bargain for lower interest costs. These advantages are real enough and significant enough to override the theoretical objections.

We see no reason to grant applicant an exemption from an established policy. To the extent that it has committed itself to AFUDC, it has done so unilaterally and with at least constructive knowledge of the Commission policy.

We will not require applicant to correct its books of account in this Order. Nor will we make any adjustment to the rate base used to calculate revenue requirement. However, we will expect this to be done on a district-by-district basis in future rate cases.

2. *Autos - Depreciation and Purchases*

[7] The utility plans to renew its auto fleet and light truck fleet every three years. (In Baldwin Hills only, the light truck estimates are based on a five-year cycle; applicant has not explained the difference.) It proposes that depreciation rates be set accordingly. In addition, it seeks recognition of plant additions to replace cars which are more than three years old. Branch recommends a 10-year life; it also would disallow fleet purchases to replace specific vehicles which are less than 10 years old.

19. The use of a single life for Structures has not been shown to distort depreciation. The only single life available on this record are those proposed by Branch which should be adopted.

20. Applicant's two-life method requires accurate records. It may not be useful for other Class A utilities.

21. Branch's salvage and removal values for Structures, conform to its study of lives.

22. It is not practical to adopt a single life for Structures without also adopting Branch's recommended lives and salvage value for that account.

23. For all other depreciation accounts, applicant's proposed service lives and salvage values are supported by more complete research and analysis.

24. Applicant's projected costs for pump and motor replacement have been justified. Branch has not shown that applicant is performing premature replacements. Applicant's pump and motor replacement program is generally reasonable.

25. Energy efficiency is not necessarily a reliable indicator that a pump is reliable. A prudent management will consider age, usage, and experience with similar equipment in deciding when to replace.

26. The improvement in well reliability is worth the added cost of the well replacement program.

27. The Fifth Avenue Main project is needed to improve flow for better service to existing customers.

28. Applicant's and Branch's M&S estimates are equally unreliable.

29. The rate of return on equity, the projected cost of debt and the capital structure adopted for the Monterey District are recent enough to be adopted here. Adopting the high point of the rate of return on equity recommended by DRA in these proceedings is supported by this record.

30. There is insufficient evidence of record to support an updating of the findings to account for changes in financial markets occurring after submission in the Monterey proceeding.

31. It is reasonable for applicant to earn 12.25% return on equity for each of the test years and the attrition year; rates should be set at a level estimated to earn that rate.

32. None of intervenor's proposals for reduction in allowances or rate of return is adequately supported by evidence.

33. In evaluating a replacement cycle for autos and light trucks, consideration should be given to safety and reliability.

34. The rates set forth in Appendices B-BH, C-BH, and D-BH [omitted herein] are just and reasonable and nondiscriminatory for the periods specified. Applicant's existing rates insofar as they differ from the Appendix rates are unreasonable.

35. The amounts set forth in Appendix E-BH [omitted herein], Adopted Quantities, are reliable and should be used to consider any request for offset relief.

Conclusions of Law

1. The non-labor cost differential between alternative modes of providing additional testing should be considered after applicant has sufficient recorded information on the operation of the new lab.

2. The RLP now in effect does not determine whether or not a multi-district utility is entitled to relitigate general office expenses with every successive district rate case. However, adopting such a rule for the rare instance where two successive district cases share the same test years is not arbitrary.

3. D.86-03-011 decided not to include acquisition adjustment interest in calculating income tax. That issue should not be relitigated here.

4. Applicant cannot deduct the interest allowed for funds used during construction. Our income tax calculations should not include this interest as a tax deduction.

5. Applicant is entitled to some compensation for investments in capital projects before they are allowed in rate base. The Commission has broad discretion to choose among CWIP, AFUDC, and other modes of compensa-

tion.

6. The Commission has a policy allowing water utilities to be compensated for use of funds during construction by CWIP in rate base. That policy should be applied to applicant.

7. There is no justification for distinguishing between short-term and long-term construction projects in allowing compensation for funds used during construction.

8. In evaluating an automotive replacement cycle, consideration should be given to safety and reliability.

9. The life and the salvage values from automotive equipment from the Monterey Decision are the most recent allowances available.

10. The life and salvage values for light trucks and passenger cars from the Monterey Decision should be adopted here.

11. All Class A water utilities should use the same system for recording and estimating depreciation and salvage for structures.

12. Where applicant's and Branch's estimates are equally unreliable, we should adopt the estimate of the party not having the burden of proof.

13. Applicant has the burden of proof on allowances for Material and Supplies.

14. It is not reasonable to adopt applicant's recommendation for dual lives for Structures.

15. The RLP for water utilities adopted in 1979 prohibits updating of financial market data after the first round of exhibits.

16. Duncan was not denied an opportunity to participate fully.

17. Because of the rate case plan schedule, this order should be effective today.

18. Applicant should be authorized to establish the Appendix rates on the dates specified.

ORDER

IT IS ORDERED that:

1. California-American Water Company is authorized to file on or after the effective date of this order the revised rate schedules for 1989 shown in Appendix B-BH [omitted herein] for its Baldwin Hills Division. This filing shall comply with General Order 96-A. The revised schedules shall apply only to service rendered on and after their effective date.

2. On or after November 5, 1989, California-American Water Company is authorized to file an advice letter, with appropriate supporting workpapers, requesting the step rate increases for 1990 shown in Appendix C-BH attached to this order [omitted herein], or to file a lesser increase in the event that the rate of return on rate base for its Baldwin Hills Division, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the months between the effective date of this order and September 30, 1989, annualized, exceeds the later of (a) the rate of return found reasonable by the Commission for California-American Water Company for the corresponding period in the then most recent rate decision, or (b) 10.82%. This filing shall comply with General Order 96-A. The requested step rates shall be reviewed by the staff to determine their conformity with this order and shall go into effect upon the staff's determination of conformity. Staff shall inform the Commission if it finds that the proposed rates are not in accord with this decision, and the Commission may then modify the increase. The effective date of the revised schedules shall be no earlier than January 1, 1990, or 40 days after filing, whichever is later. The revised schedules shall apply only to service rendered on and after their effective date.

3. On or after November 5, 1990, California-American Water Company is authorized to file an advice letter, with appropriate supporting workpapers, requesting the step rate increases for 1991 shown in Appendix D-BH attached to this order [omitted herein], or to file a lesser increase in the event that the rate of return on rate base for its Baldwin Hills Division, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the months between the effective date of the increase ordered in the previous paragraph and September 30, 1990, annualized, exceeds the later of (a) the rate of return found reasonable by the Commission for California-American Water Company for the corresponding period in the then most recent rate decision, or (b) 10.82%. This filing shall

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of **"NOTICE OF EX PARTE COMMUNICATION BY ALISAL WATER CORPORATION dba ALCO WATER SERVICE"** to the official service list in A.10-02-006 by 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 provided electronic mail addresses.

Executed on January 31, 2011 at Salinas, California.

/s/ Andrea Schmitz

Executive Assistant
Alisal Water Corporation
dba Alco Water Service
Telephone: (831) 424-0441
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SERVICE LIST

A.10-02-006
List Updated January 20, 2011

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