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 913 E) for Authority to Increase Rates for Electric Service by its Bear Valley Electric Service Division | A. 08-06-034<br>Filed June 27, 2008 |

# PROTEST OF THE DIVISION OF RATEPAYER ADVOCATES

## I. INTRODUCTION

Pursuant to Rule 2.6 of the Commission's Rules of Practices and Procedure, the Division of Ratepayer Advocates (DRA) submits this Protest to the Application (A.08-06-034) of the Golden State Water Company (GSWC) for authority to increase rates for electric service by its Bear Valley Electric Service Division (BVES).[1]

In its Application, GSWC requests authorization to increase 2009 revenues by $6,756,300. This represents a 22.7% increase over present rates. GSWC requests a rate of return on rate base of 9.80% for 2009-2012 and an 11.70% return on common equity. GSWC's rate increase would have the effect of increasing the average residential bill by approximately $16 per month.

Additionally, GSWC requests the following in its Application: (1) Rate Implementation Plan (RIMP), (2) Energy Efficiency Program for non-low-income customers, (3) Base Revenue Requirement Adjustment Mechanism (BRRAM), (4) Monthly Billing Plan, (5) Acceleration of Automatic Meter Reading (AMR), (6) General

[1] DRA uses BVES to represent GSWC's application for BVES. Thus wherever mentioned in this application, BVES shall also mean GSWC.

Office Cost Allocation Process, (7) Continuous Emissions Monitoring System (CEMS), (8) Changes to Miscellaneous Charges, and (9) Two-Way Balancing Account for the Bear Valley Power Plant.

GSWC filed the Application on June 27, 2008, and it was calendared on July 16, 2008. Therefore, DRA's protest is timely.

## II. BACKGROUND

BVES filed its last general rate case (GRC) in 1995, for Test Years 1996 and 1997 (A.95-09-016). There have been four major increases in BVES' rates since the implementation of the rates approved in the last GRC (D.96-05-033). However, those increases have not been to the base rate component. BVES' rate requests in this Application are limited to the base rate component of BVES' rates. BVES' forecast for Test Year 2009 in this proceeding is based on recorded 2007 results adjusted for known changes. The adjusted recorded 2007 results, at current rates, are used to forecast the Results of Operations for the year 2008 which then forms the basis for the forecasted Test Year 2009.

The items that contribute to the major increases are Operations and Maintenance (O&M) Expenses, Plant Additions, and Administrative and General Expenses. BVES also includes in this Application certain Special Requests beginning in 2009 that will increase both capital expenditures and O&M expenses.

Additionally, BVES requests a higher authorized rate of return (ROR) and a higher return on common equity (ROE) compared to what it was authorized in the last GRC. In this Application, BVES requests an ROR of 9.80% and an ROE of 11.70% for Test Year 2009. In the last GRC, BVES was authorized an ROR of 9.32% and an ROE of 10.40%.

## III. ISSUES

The rate increases sought by GSWC in this case are substantial. DRA identifies the following issues as relevant to the Commission's review of the GSWC's Application for BVES. The list is not exhaustive and DRA reserves the right to raise other issues in

its testimony after DRA has had the opportunity to conduct discovery. Over the four-year rate case cycle, GSWC is proposing to increase base rates for BVES by over $6.8 million. For the test year alone, GSWC is proposing a 22.7 % increase present rates[2]. DRA is conducting extensive discovery on the issues raised by the Application and will make recommendations to the Commission as appropriate. The following is a non-exhaustive list of the issues DRA intends to explore at the present time. Discovery and analysis may eliminate some of these issues areas and yet others may arise.

At present, DRA identifies the following issues for its protest:

1. **Operation and Maintenance Expenses**

   BVES is requesting an increase of approximately $663,000 in O&M expenses for Test Year 2009 compared to the 2007 recorded expenses. BVES' 2009 request of $3.1 million represents a 28% increase from the 2007 recorded expenses of $2.4 million. The overall O&M increase is comprised of increased costs for Production, Transmission, Distribution, and Customer Accounting. DRA will conduct discovery and investigate the reasonableness of the requested increase.

2. **Plant Additions**

   BVES is requesting an increase of more than $700,000 for 2008 and more than $1.4 million in capital additions for 2009, compared to 2007 recorded additions. In 2007, BVES added $1.4 million in fixed capital costs to rate base. For 2008 and 2009, BVES proposes $2.1 million and $2.5 million in capital additions to rate base, respectively. DRA will conduct discovery and investigate the reasonableness of BVES' proposed increases.

[2] BVES' rates include three major components: the Base Rates, the PPAC Rate, and the Amortization Rate. (Application, p.5.) Since the PPAC Rate and the Amortization rate are not part of this Application, the proposed increase of 22.7% over the present rates is an increase on only the Base Rates. "[BVES] PPAC rate are tracked in a Commission-authorized balancing account (the PPAC Account) on a dollar-for-dollar basis" and the Commission approved the Amortization Rate for collection in the PPAC Account. (Application, p.5.)

### 3. Administrative and General Expenses

BVES is requesting more than $1.1 million in increases for Administrative and General (A&G) expenses for Test Year 2009. In 2007, BVES recorded $2.3 million, excluding the allocated A&G costs, in A&G expenses. BVES requests $3.4 million in A&G expenses for 2009. BVES' forecast includes a significant increase in Internal Staff expenses, from $638,000 in 2007 to $1.2 million in 2009. Documentation provided in the Application does not sufficiently justify the increase. Also, BVES needs to provide a breakdown of all costs allocated to each of the A&G Federal Energy Regulatory Commission (FERC) Accounts. DRA will conduct thorough discovery, evaluate the request, and develop its own independent analysis and forecasts of these expenses.

### 4. Cost of Capital

BVES requests a higher authorized rate of return (ROR) and a higher return on common equity (ROE) compared to what it was authorized the last GRC. In this Application, BVES requests an ROR of 9.80% and an ROE of 11.70% for Test Year 2009. In the last GRC, BVES was authorized an ROR of 9.32% and an ROE of 10.40%. DRA will evaluate the request and develop its own independent analyses and proposals of the ROR and ROE.

### 5. Special Requests

BVES is requesting approximately $444,000 in O&M expenses and $822,000 in capital expenditures for four programs beginning in 2009. Specifically, BVES requests: (1) $60,000 in O&M expenses and $203,000 in capital expenditures for Carbon Monoxide Continuous Emissions Monitoring System (CEMS), (2) $149,000 in O&M expenses and $155,000 in capital expenditures for Monthly Billing, (3) $1,000 in O&M expenses and $464,000 in capital expenditures to accelerate its Automated Meter Reading (AMR) Program, and (4) $234,000 in O&M expenses for an Energy Efficiency Program for non-

low-income customers. DRA needs to conduct discovery to determine the reasonableness of each of BVES' Special Requests.

Additionally, BVES is requesting an increase for "After Hours Turn-On Service Fee" from $30 to $80; an increase for "After Hours Clean and Show Fee" from $30 to $80; and to establish a Returned Check Fee of $10. DRA will conduct discovery, evaluate the request, and develop its own independent analysis, and, if necessary, recommend alternate fee levels.

**6. Other Issues**

BVES requests that the Commission adopt a Rate Impact Mitigation Plan (RIMP) to implement the increase in base rates over the 2009-2012 time frame. With this Plan, BVES requests full recovery of required revenues over the four year test periods including interest. BVES also requests a Base Revenue Requirement Adjustment Mechanism (BRRAM) to normalize base rate revenues for fluctuations in sales due primarily to making snow and energy efficiency impacts. DRA is evaluating the reasonableness of BVES' requests and may propose alternative plans for revenue recovery.

BVES requests authorization to establish an Advice Letter process to recognize changes in GSWC's general office A&G allocation for BVES adopted by the Commission. DRA is evaluating this proposal and may offer an alternative recommendation.

BVES requests a Two-Way Balancing Account (OMBA) to track O&M expenses for its Bear Valley Power Plant (BVPP). BVES states that it is impossible for the company to accurately predict the optimum number of hours to operate the plant in the future due to weather, the price of purchased power and capacity, unpredictable customer demand, and any new regulatory requirements. DRA needs to conduct discovery to determine the reasonableness of BVES' request.

BVES requests that the Commission make a finding that the $12,486,754 of costs incurred to build the BVPP, as contained in the one-way memorandum account

(CAPMA) are reasonable, and that the $444,000 of costs incurred to operate and maintain the BVPP, as contained in the one-way memorandum account (OMMA) are reasonable. DRA will review BVES' showing and will further investigate BVPP costs tracked by the CAPMA and OMMA as needed.

DRA agreed that BVES may file its Rate Design and Cost Allocation testimony subsequent to the filing of its GRC Application. As of August 14, 2008, BVES has not yet filed its Rate Design and Cost Allocation testimony. Once this testimony is filed, DRA will conduct discovery and investigate the reasonableness of BVES' proposals.

DRA is still reviewing the supporting documents for the application and will conduct discovery to better understand the requests made in the application, as well as to develop independent analyses and counter proposals to the requests in the Applications. Therefore, the issues identified in this protest are not exhaustive of the issues that DRA may ultimately litigate in the proceeding. DRA may also eliminate some issues when informed by discovery and further analysis.

## II. CATEGORIZATION OF PROCEEDING

GSWC proposes that this proceeding be categorized as "ratesetting" within the meaning of Rule 1.3 of the Commission's Rules of Practice and Procedure. DRA agrees with this designation.

## III. PROCEDURAL ISSUES

GSWC proposes a procedural schedule that includes evidentiary hearings. DRA agrees that hearings will likely be needed to resolve the numerous issues raised by this Application. DRA recommends that the Commission hold a prehearing conference (PHC) approximately one month after BVES files its cost allocation and rate design testimony. DRA will be prepared to discuss an appropriate schedule for the application at that time. DRA will require sufficient time to prepare its comprehensive reports on the BVES GRC requests, which will incorporate DRA's independent review, analysis, evaluation of the forecasts and proposals.

## IV. CONCLUSION

DRA respectfully recommends that the proceeding be categorized as ratesetting; that a reasonable schedule that includes adequate time for discovery, the preparation of testimony and evidentiary hearings be ultimately established at a future PHC; and that the scope of the proceeding include, but not be limited to, the issues identified in this Protest.

Respectfully submitted,

/s/ NOEL A. OBIORA

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August 15, 2008

## CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of each document "**PROTEST OF DIVISION OF RATEPAYER ADVOCATES**" in A.08-06-034 by using the following service:

[X] **E-Mail Service:** sending the entire document as an attachment to an e-mail message to all known parties of record to this proceeding 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 August 15, 2008, at San Francisco, California.

/s/ NANCY SALYER
Nancy Salyer

## 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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