BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SAN GABRIEL VALLEY WATER COMPANY (U337W) for Authority to Increase Rates Charged for Water Service in its Fontana Water Company Division by $12,859,900 or 26.5% in July 2009, $1,726,300 or 2.8% in July 2010, and $1,679,400 or 2.7% in July 2011.	Application No. 08-07-009 (Filed July 1, 2009)

SETTLEMENT AGREEMENT BETWEEN THE DIVISION OF RATEPAYER ADVOCATES AND SAN GABRIEL VALLEY WATER COMPANY ON ISSUES PRESENTED IN THE PRESENT GENERAL RATE CASE

I. GENERAL PROVISIONS

1. Pursuant to Article 12 of the Rules of Practice and Procedure ("Rules") of the California Public Utilities Commission ("Commission"), the Division of Ratepayer Advocates ("DRA") and San Gabriel Valley Water Company ("San Gabriel"), referred to collectively as "the Parties," have agreed on the terms of this Settlement Agreement which they now submit for review, consideration, and approval by Administrative Law Judge Jeffrey O'Donnell and the Commission. This Settlement Agreement addresses all of the differences presented by the testimony and exhibits submitted into evidence by San Gabriel and DRA, respectively.

2. Specific issues that the Parties agree to resolve through this Settlement Agreement are set forth in Section II below. For each issue, Section II describes the positions of the Parties, the difference between San Gabriel's rebuttal position and DRA's position, the resolution provided by the Settlement Agreement, and provides references to the evidence of record relevant to each settled issue. Tables presenting the Parties' positions in dollar amounts are expressed in thousands of dollars.

3. Because this Settlement Agreement represents a compromise of the Parties' positions with respect to each issue addressed herein, the Parties have agreed upon the resolution of each issue addressed in the Settlement Agreement on the basis that its approval by the Commission should not be construed as an admission or concession by any Party regarding any fact or matter of law that may be in dispute in this proceeding. Furthermore, consistent with Rule 12.5 of the Commission's Rules, the Parties intend that the approval of this Settlement Agreement by the Commission should not be construed as a precedent or statement of policy of any kind for or against any Party in any current or future proceeding with respect to any issue addressed in the Settlement Agreement.

4. This Settlement Agreement is the product of a process of mediation conducted with the assistance of Administrative Law Judge Carol Brown, who served ably as mediator in this matter. The public agency participants in this proceeding, the City of Fontana and the Fontana Unified School District, chose not to participate actively in the mediation and settlement process and are not parties to the Settlement Agreement. Accordingly, the Settlement Agreement is not presented as an all-party settlement.

5. The Parties agree that no signatory to the Settlement Agreement assumes any personal liability as a result of his or her execution of this document. All rights and remedies of the Parties are limited to those available before the Commission.

6. This Settlement Agreement may be executed in counterparts, each of which shall be deemed an original, and the counterparts together shall constitute one and the same instrument.

II. TOPICS RESOLVED BY SETTLEMENT AGREEMENT

A. COST OF CAPITAL

ISSUES: San Gabriel forecast its capital structure for Test Year 2009-2010 as including an equity to debt ratio of approximately 65%/35% and San Gabriel's expert calculated the cost of equity capital as 12.2%. However, in light of the impending generic cost of capital proceeding to be filed in May 2009, with a decision planned to be effective in January 2010, San Gabriel proposed simply to maintain its most recently authorized return on equity ("ROE") of 10.5% for the 6-month period pending the generic cost of capital decision. San Gabriel proposed the 10.5% ROE because it was the rate found reasonable in D.08-06-022, dated June 12, 2008, San Gabriel's most recent general rate case ("GRC") for the Los Angeles County Division, in which ROE was a contested issue. In this case, DRA proposed to maintain the 9.9% ROE and 60%/40% equity to debt ratio that were adopted pursuant to a settlement in D.07-04-046 in the most recent GRC for the Fontana Water Company division. The 12.2% ROE calculated as reasonable by San Gabriel's expert, when applied to San Gabriel's proposed capital structure, produced an overall 10.58% return on rate base, while the Company's proposed 10.5% ROE produced a 9.48% return on rate base. DRA's proposed ROE and equity/debt ratio produced an 8.95% return on rate base.

RESOLUTION: In consideration of the impending cost of capital proceeding, the Parties elected not to adopt a specific ROE or capital structure, but agreed instead on a return on rate base of 9.32%, slightly lower than the 9.35% overall return that was adopted in D.07-04-046, the most recent GRC for San Gabriel's Fontana Water Company division.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Overall Rate of Return	9.48%	9.48%	8.95%	53 basis pts.	9.32%
Net Operating Revenue (on rate base per Settlement)	$14,738.2	$14,738.2	$13,914.2	$824.0	$14,202.1

REFERENCES: Exhibit SG-2 (Batt), pp. 1-1 to 1-8; Exhibit SG-5 (Batt), pp. 23-24; Exhibit SG-12 (Zepp), p. 10; Exhibit DRA-1 (Hoglund), pp. 12-1, 12-2; Exhibit SG-14 (Batt), pp. 5-7; Exhibit SG-21 (Zepp), pp. 12-13.

B. NUMBER OF CUSTOMERS

ISSUE: Due to the current severe economic conditions, including a decline in new home construction and numerous foreclosure filings in the Fontana area, San Gabriel experienced a reduction in active customers during the past two years and anticipates no growth in the number of customers. San Gabriel therefore adopted the number of active customers in each customer class (except private fire services) at year end 2007 as its projected number of customers for the Test Year and Escalation Years. DRA accepted these estimates.

RESOLUTION: The Parties agreed to San Gabriel's estimates.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Metered Connections	43,162	43,162	43,162	none	43,162
Private Fire Services	908	908	908	none	908
Public Fire Hydrants	5,135	5,135	5,135	none	5,135

REFERENCES: Exhibit SG-1 (LoGuidice), p. 4-2; Exhibit SG-7 (LoGuidice) pp. 6-7; Exhibit SG-15 (Dell'Osa) p. 4; Exhibit DRA-1 (Hoglund) pp. 2-1, 2-3, 2-7, 2-8; Exhibit SG-16 (LoGuidice), at 2-6.

C. SALES AND SUPPLY

ISSUE: San Gabriel estimated average water usage by each customer category as follows: (i) for Residential customers, using the New Committee Method; (ii) for Commercial customers, using a three-year average of annual sales, because the standard five-year average does not reflect expected sales in this rate case cycle; (iii) for Public Authority-Small customers, using a five-year average; (iv) for Public Authority-Large customers, using a five-year average; (v) for Industrial-Small customers, using a five-year average; (vi) for Industrial-Large customers, using a five year average; except that for California Steel Industries ("CSI") and CEMEX (sand and gravel mining). San Gabriel developed customer-specific estimates reflecting CSI's increased reliance on its own source of water and CEMEX's lower demand as a result of the slowing economy. San Gabriel forecasted Unaccounted for Water losses using the five year recorded average and used all these estimates to produce its estimates for Total Metered Sales and Total Production/Deliveries. Consistent with its assumption of no growth in customers during this rate cycle, San Gabriel's sales and supply estimates were identical for Test Year 2009-2010 and Escalation Year 2010-2011. DRA adopted these estimates.

RESOLUTION: The Parties agreed to San Gabriel's estimates.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Total Metered Sales	19,090.9 kccf	19,090.9 kccf	19,090.9 kccf	none	19,090.9 kccf
Unaccounted for Water	1,446.6 kccf	1,446.6 kccf	1,446.6 kccf	none	1,446.6 kccf
Total Production and Deliveries	20,537.5 kccf	20,537.5 kccf	20,537.5 kccf	none	20,537.5 kccf

REFERENCES: Exhibit SG-1 (LoGuidice), pp. 4-3 to 4-13; Exhibit SG-7 (LoGuidice) pp. 2-6; Exhibit SG-15 (Dell'Osa) pp. 4-5; Exhibit DRA-1 (Hoglund) pp. 2-3, 2-4, 2-6, 2-9, 2-10; Exhibit SG-16 (LoGuidice), at 7-10 and Att. 1.

D. EXPENSE ESCALATION FACTORS

ISSUE: Both the utility and DRA customarily apply expense escalation factors developed by the Commission's Energy Cost of Service Branch ("ECSB") Branch to convert recorded year expenses to expense estimates for the Test Year. San Gabriel used escalation factors based on the May 31, 2008 memorandum issued by the ECSB Branch ("May ECSB Factors"). DRA applied the ECSB Branch's July 31, 2008 memorandum, which generally featured higher escalation factors ("July ECSB Factors") than the May version. In rebuttal testimony, San Gabriel also applied the July ECSB Factors, but recommended that the latest edition of escalation factors available be applied in the Commission's decision.

RESOLUTION: The Parties agreed to apply the lower May ECSB Factors that San Gabriel used in its Application and in the direct testimony of its witnesses. This resolution limits projected cost escalation and provides more certain results.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Escalation Factors	May ECSB Factors	July or Latest	July ECSB Factors	Reported in sections below	May ECSB Factors

REFERENCES: Exhibit SG-6 (Dell'Osa), pp. 4-5; Exhibit DRA-1 (Hoglund), pp. 3-1 to 3-2; Exhibit SG-15 (Dell'Osa), p. 5.

E. OPERATION EXPENSES

1. Purchased Water

ISSUE: San Gabriel developed its forecast of purchased water costs based on its forecast of total water supply needs and a determination of the availability of water from each of the available supply sources and the most economical choice among those sources consistent with prevailing conditions, water rights, and adjudication allowances.

RESOLUTION: The Parties agreed to the Test Year estimate proposed by San Gabriel.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Purchased Water	$8,980.2	$8,980.2	$8,980.2	none	$8,980.2

REFERENCES: Exhibit SG-1 (Dell'Osa), pp. 5-2 to 5-6, 5-10; Exhibit SG-6 (Dell'Osa), p. 7; Exhibit DRA-1 (Hoglund), p. 3-2.

2. Purchased Power

ISSUE: San Gabriel forecasted its purchased power expense by applying Edison's current electric rates to recorded 2007 billing information with adjustments for anticipated energy requirements by plant site. DRA's estimate was almost identical to San Gabriel's.

RESOLUTION: The Parties agreed to the Test Year estimate proposed by San Gabriel.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Purchased Power	$5,070.2	$5,070.2	$5,070.1	$0.1	$5,070.2

REFERENCES: Exhibit SG-1 (Dell'Osa), pp. 5-7 to 5-8, 5-10; Exhibit SG-6 (Dell'Osa), pp. 7-8; Exhibit DRA-1 (Hoglund), p. 3-2.

3. Chemicals

ISSUE: Chemicals expense is driven by the Company's current and forecasted treatment plant operations, and so the forecast of this expense is based on the most current recorded year's expense (2007). DRA concluded that the Company's request was reasonable. In rebuttal testimony, San Gabriel increased its estimate slightly due to the application of the May ECSB Factors.

RESOLUTION: The Parties agreed to the Test Year estimate proposed by San Gabriel.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Chemicals	$906.9	$932.0	$906.9	$25.1	$906.9

REFERENCES: Exhibit SG-1 (Dell'Osa), pp. 5-9, 5-10; Exhibit SG-6 (Dell'Osa), p. 8; Exhibit DRA-1 (Hoglund), p. 3-2.

4. Payroll Expense

ISSUE: San Gabriel forecasted payroll expense by escalating June 2008 salaries of current personnel into the forecast years 2009 and 2010, applying the May ECSB Factors. The Company allocated total company payroll among the Los Angeles County, Fontana Water Company, and General divisions and among the various expense and capital accounts using ratios developed from the latest recorded year (2007). Consistent with guidance from D.08-06-022 in San Gabriel's most recent GRC, San Gabriel did not include salaries for vacant positions nor anticipated employee step increases in its payroll calculations. DRA's estimates of payroll expense exceeded San Gabriel's original estimates due to DRA's application of the July ECSB Factors, which generally were higher than the May ECSB Factors on which San Gabriel had relied. San Gabriel's rebuttal testimony applied the July ECSB Factors more consistently, resulting in a higher estimate.

RESOLUTION: The Parties agreed to the lower Test Year estimate originally proposed by San Gabriel.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Payroll Expense	$3,402.8	$3,476.0	$3,429.2	$46.8	$3,402.8

REFERENCES: Exhibit SG-1 (Dell'Osa), pp. 5-2, 5-9, 5-10; Exhibit SG-6 (Dell'Osa), pp. 8-9; Exhibit SG-10 (Nicholson). pp. 13-15; Exhibit SG-19 (Nicholson), p. 6; Exhibit DRA-1 (Hoglund), pp. 4-1 to 4-4; Exhibit SG-15 (Dell'Osa), pp. 6-7.

5. Materials & Supplies (including Postage)

ISSUE: San Gabriel forecasted Materials & Supplies expense based on a five-year average of recorded amounts, escalating this amount by the forecasted increase in average plant and by the May ECSB factors. DRA found the Company's request to be reasonable. San Gabriel's rebuttal testimony applied the July ECSB Factors, resulting in a slightly higher estimate.

RESOLUTION: The Parties agreed to the lower Test Year estimate originally proposed by San Gabriel.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Materials & Supplies	\$178.3	\$183.1	\$178.3	\$4.8	\$178.3

REFERENCES: Exhibit SG-1 (Dell'Osa), pp. 5-9, 5-10; Exhibit SG-5 (Batt), pp. 15-16 and Atts. H and I; Exhibit SG-6 (Dell'Osa), pp. 9-10, 12; Exhibit DRA-1 (Hoglund), pp. 3-2 to 3-3; Exhibit SG-15 (Dell'Osa), p. 7.

6. Conservation Programs

ISSUE: San Gabriel proposed an array of water conservation programs generally consistent with those proposed in a settlement with DRA that was authorized in D.08-08-018, which approved implementation of a Water Action Plan pursuant to San Gabriel's A.07-08-017. San Gabriel's proposed budget for these conservation programs was \$650,000. Consistent with the settlement approved by D.08-08-018, DRA recommended that the budget be capped at \$300,000 per year and be made subject to a one-way balancing account. DRA also recommended performance verification and annual reporting requirements and a number of restrictions on program funding.

RESOLUTION: The Parties agreed to set the annual conservation programs budget at \$400,000 per year, subject to a one-way balancing account, with the authorized budget to be collected through rates subject to refund to the extent that any portion of the annual budget is not spent. The applicable terms are set forth in Attachment 2 to this Settlement Agreement, which also specifies certain caps on program spending as well as applicable principles and reporting requirements.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Conservation Programs	$650.9	$650.9	$300.0	$350.9	$400.0

REFERENCES: Exhibit SG-10 (Arrighi), pp. 3-13; Exhibit SG-19 (Arrighi), pp. 3-5; Exhibit DRA-1 (Hoglund), pp. 14-1 to 14-32.

7. Transportation

ISSUE: San Gabriel forecasted Transportation expense based on the amounts recorded in 2007, escalating these amounts using May ECSB Factors. DRA determined the Company's request to be reasonable. San Gabriel's rebuttal testimony applied the July ECSB Factors, resulting in a slightly higher estimate.

RESOLUTION: The Parties agreed to the lower Test Year estimate originally proposed by San Gabriel.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Transportation	$497.7	$511.5	$497.7	$13.8	$497.7

REFERENCES: Exhibit SG-1 (Dell'Osa), pp. 5-8 to 5-10; Exhibit SG-6 (Dell'Osa), p. 10; Exhibit DRA-1 (Hoglund), pp. 3-3; Exhibit SG-15 (Dell'Osa), pp. 7-8.

8. Utilities & Rents

ISSUE: Utilities & Rents expense consists primarily of purchased power expense for lighting, cooling, and heating of Company facilities. Because Edison's rates have fluctuated in recent years, San Gabriel used recorded 2007 expense as the basis to forecast this expense. DRA accepted the Company's estimate as reasonable. (In this and several other areas, DRA's estimate appears to differ from San Gabriel's only due to rounding.) San Gabriel's rebuttal testimony applied the July ECSB Factors, resulting in a slightly higher estimate.

RESOLUTION: The Parties agreed to the lower Test Year estimate originally proposed by San Gabriel.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Utilities & Rents	$69.6	$71.5	$69.5	$2.0	$69.6

REFERENCES: Exhibit SG-1 (Dell'Osa), pp. 5-8 to 5-10; Exhibit SG-6 (Dell'Osa), p. 11; Exhibit DRA-1 (Hoglund), pp. 3-4; Exhibit SG-15 (Dell'Osa), p. 8.

9. Outside Services

ISSUE: San Gabriel forecasted Outside Services expense based on a five-year average of recorded amounts, escalating these amount by May ECSB Factors. DRA found the Company's request to be reasonable. San Gabriel's rebuttal testimony applied the July ECSB Factors, resulting in a slightly higher estimate.

RESOLUTION: The Parties agreed to the lower Test Year estimate originally proposed by San Gabriel.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Outside Services	$237.7	$240.3	$237.7	$2.6	$237.7

REFERENCES: Exhibit SG-1 (Dell'Osa), pp. 5-9, 5-10; Exhibit SG-6 (Dell'Osa), p. 10; Exhibit DRA-1 (Hoglund), p. 4; Exhibit SG-15 (Dell'Osa), p. 8.

10. Miscellaneous

ISSUE: San Gabriel forecasted Miscellaneous expense based on five-year averages, escalating these amounts by the May ECSB factors. DRA accepted the Company's estimate as reasonable. San Gabriel's rebuttal testimony applied the July ECSB Factors, resulting in a slightly higher estimate.

RESOLUTION: The Parties agreed to the lower Test Year estimate originally proposed by San Gabriel.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Miscellaneous	$80.2	$82.5	$80.1	$2.4	$80.2

REFERENCES: Exhibit SG-1 (Dell'Osa), p. 5-9, 5-10; Exhibit SG-6 (Dell'Osa), p. 13; Exhibit DRA-1 (Hoglund), pp. 3-4 to 3-5; Exhibit SG-15 (Dell'Osa), p. 9.

11. Uncollectibles

ISSUE: San Gabriel applied the five-year average (0.2648%) to forecasted revenues at both present and proposed rates. DRA recommended the same rate.

RESOLUTION: The Parties agreed to apply the rate proposed by San Gabriel.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Uncollectibles (at present rates)	$128.5	$128.5	$128.4	none	$128.5

REFERENCES: Exhibit SG-1 (Dell'Osa), p. 11-5; Exhibit SG-6 (Dell'Osa), p. 13; Exhibit DRA-1 (Hoglund), pp. 3-4.

F. MAINTENANCE EXPENSES

1. Payroll Expense

ISSUE: San Gabriel forecasted payroll expense by escalating June 2008 salaries of current personnel into the forecast years 2009 and 2010, applying inflation factors recommended by DRA's Energy Cost of Service Branch in a memorandum dated May 2008 ("May ECSB Factors"). The Company allocated total company payroll among the Los Angeles County, Fontana Water Company, and General divisions and among the various expense and capital accounts using ratios developed from the latest recorded year (2007). Consistent with guidance from D.08-06-022 in San Gabriel's most recent GRC, San Gabriel did not include salaries for vacant positions nor anticipated employee step increases in its payroll calculations. DRA's estimates of payroll expense exceeded San Gabriel's original estimates due to DRA's application of inflation factors recommended by ECSB Branch in a memorandum dated July 31, 2008 ("July ECSB Factors"), which generally were higher than the May ECSB Factors on which San Gabriel had relied. San Gabriel's rebuttal testimony applied the July ECSB Factors more consistently, resulting in a still higher estimate.

RESOLUTION: The Parties agreed to the lower Test Year estimate originally proposed by San Gabriel.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Payroll Expense	$890.5	$909.8	$897.4	$12.4	$890.5

REFERENCES: Exhibit SG-1 (Dell'Osa), pp. 5-2, 5-9, 5-10; Exhibit SG-6 (Dell'Osa), pp. 8-9; p. 6; Exhibit DRA-1 (Hoglund), pp. 4-1 to 4-4; Exhibit SG-15 (Dell'Osa), pp. 6-7.

2. Materials & Supplies

ISSUE: San Gabriel forecasted Materials & Supplies expense based on a five-year average of recorded amounts, escalating this amount by the forecasted increase in average plant and by the May ECSB factors. DRA found the Company's request to be reasonable. San Gabriel's rebuttal testimony applied the July ECSB Factors, resulting in a slightly higher estimate.

RESOLUTION: The Parties agreed to the lower Test Year estimate originally proposed by San Gabriel.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Materials & Supplies	$483.4	$497.1	$483.4	$13.7	$483.4

REFERENCES: Exhibit SG-1 (Dell'Osa), pp. 5-9, 5-10; Exhibit SG-6 (Dell'Osa), pp. 9-10; Exhibit DRA-1 (Hoglund), pp. 3-2 to 3-3; Exhibit SG-15 (Dell'Osa), p. 7.

3. Transportation

ISSUE: San Gabriel forecasted Transportation expense based on the amounts recorded in 2007, escalating these amounts using May ECSB Factors. DRA determined the Company's request to be reasonable. San Gabriel's rebuttal testimony applied the July ECSB Factors, resulting in a slightly higher estimate.

RESOLUTION: The Parties agreed to the lower Test Year estimate originally proposed by San Gabriel.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Transportation	$267.1	$274.5	$267.0	$7.5	$267.1

REFERENCES: Exhibit SG-1 (Dell'Osa), pp. 5-8 to 5-10; Exhibit SG-6 (Dell'Osa), p. 10; Exhibit DRA-1 (Hoglund), pp. 3-3; Exhibit SG-15 (Dell'Osa), pp. 7-8.

4. Utilities & Rents

ISSUE: Utilities & Rents expense consists primarily of purchased power expense for lighting, cooling, and heating of Company facilities. Because Edison's rates have fluctuated in recent years, San Gabriel used recorded 2007 expense as the basis to forecast this expense.

DRA accepted the Company's estimate as reasonable. San Gabriel's rebuttal testimony applied the July ECSB Factors, resulting in a very slightly higher estimate.

RESOLUTION: The Parties agreed to the lower Test Year estimate originally proposed by San Gabriel.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Utilities & Rents	$4.9	$5.0	$4.8	$0.2	$4.9

REFERENCES: Exhibit SG-1 (Dell'Osa), pp. 5-8 to 5-10; Exhibit SG-6 (Dell'Osa), p. 11; Exhibit DRA-1 (Hoglund), pp. 3-4; Exhibit SG-15 (Dell'Osa), p. 8.

5. Outside Services

ISSUE: San Gabriel forecasted Outside Services expense based on a five-year average of recorded amounts adjusted in some accounts based on increases in physical units and escalated by May ECSB Factors. DRA found the Company's request to be reasonable.

RESOLUTION: The Parties agreed to the Test Year estimate originally proposed by San Gabriel.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Outside Services	$222.1	$222.1	$222.0	$0.1	$222.1

REFERENCES: Exhibit SG-1 (Dell'Osa), pp. 5-9, 5-10; Exhibit SG-6 (Dell'Osa), p. 10; Exhibit DRA-1 (Hoglund), p. 4; Exhibit SG-15 (Dell'Osa), p. 8.

6. Miscellaneous

ISSUE: San Gabriel forecasted Miscellaneous expense based on five-year averages, escalating these amounts by the May ECSB factors. DRA accepted the Company's estimate as reasonable. San Gabriel's rebuttal testimony applied the July ECSB Factors, resulting in a slightly higher estimate.

RESOLUTION: The Parties agreed to the lower Test Year estimate originally proposed by San Gabriel.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Miscellaneous	$228.4	$234.9	$228.4	$6.5	$228.4

REFERENCES: Exhibit SG-1 (Dell'Osa), p. 5-9, 5-10; Exhibit SG-6 (Dell'Osa), p. 13; Exhibit DRA-1 (Hoglund), pp. 3-4 to 3-5; Exhibit SG-15 (Dell'Osa), p. 9.

G. ADMINISTRATIVE & GENERAL EXPENSES

1. Payroll Expense

ISSUE: San Gabriel forecasted payroll expense by escalating June 2008 salaries of current personnel into the forecast years 2009 and 2010, applying the May ECSB Factors. The Company allocated total company payroll among the Los Angeles County, Fontana Water Company, and General divisions and among the various expense and capital accounts using ratios developed from the latest recorded year (2007). Consistent with guidance from D.08-06-022 in San Gabriel's most recent GRC, San Gabriel did not include salaries for vacant positions nor anticipated employee step increases in its payroll calculations. DRA's estimates of payroll expense exceeded San Gabriel's original estimates due to DRA's application of the July ECSB Factors, which generally were higher than the May ECSB Factors on which San Gabriel had relied. San Gabriel's rebuttal testimony applied the July ECSB Factors more consistently, resulting in a still higher estimate.

RESOLUTION: The Parties agreed to the lower Test Year estimate originally proposed by San Gabriel.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Payroll Expense	$355.3	$363.0	$358.1	$4.9	$355.3

REFERENCES: Exhibit SG-1 (Dell'Osa), pp. 6-3, 6-4; Exhibit SG-6 (Dell'Osa), pp. 8-9; p. 6; Exhibit DRA-1 (Hoglund), pp. 4-1 to 4-4; Exhibit SG-15 (Dell'Osa), pp. 6-7.

2. Materials & Supplies (including Postage)

ISSUE: San Gabriel forecasted Materials & Supplies expense based on a five-year average of recorded amounts, escalating this amount by the forecasted increase in average plant and by May ECSB factors. Postage expense was adjusted to reflect the increased number of cutomers in 2007 as compared to the five-year average. DRA applied a different escalation procedure, including the July ECSB factors and producing a higher estimate. San Gabriel's rebuttal testimony also applied the July ECSB Factors, but produced an estimate lower than DRA's.

RESOLUTION: The Parties agreed to the lower Test Year estimate San Gabriel originally proposed.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Materials & Supplies	$55.2	$56.7	$63.8	($7.1)	$55.2

REFERENCES: Exhibit SG-1 (Dell'Osa), pp. 6-3, 6-4; Exhibit SG-5 (Batt), pp. 15-16 and Atts. H and I; Exhibit SG-6 (Dell'Osa), pp. 9-10, 12; Exhibit DRA-1 (Hoglund), pp. 4-5 to 4-6; Exhibit SG-15 (Dell'Osa), p. 7.

3. Transportation

ISSUE: San Gabriel forecasted Transportation expense based on the amounts recorded in 2007, escalating these amounts using the May ECSB Factors. DRA applied a different escalation procedure, including the July ECSB factors and producing a higher estimate. San Gabriel's rebuttal testimony also applied the July ECSB Factors, but produced an estimate lower than DRA's.

RESOLUTION: The Parties agreed to the lower Test Year estimate originally proposed by San Gabriel.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Transportation	$15.7	$16.1	$18.2	($2.1)	$15.7

REFERENCES: Exhibit SG-1 (Dell'Osa), pp. 5-8, 6-3, 6-4; Exhibit SG-6 (Dell'Osa), p. 10; Exhibit DRA-1 (Hoglund), pp. 4-4 to 4-5; Exhibit SG-15 (Dell'Osa), pp. 7-8.

4. Utilities & Rents

ISSUE: Utilities & Rents expense consists primarily of purchased power expense for lighting, cooling, and heating of Company facilities. Because Edison's rates have fluctuated in recent years, San Gabriel used recorded 2007 expense as the basis to forecast this expense. DRA applied a different escalation procedure, including the July ECSB factors and producing a higher estimate. San Gabriel's rebuttal testimony also applied the July ECSB Factors, but produced an estimate lower than DRA's.

RESOLUTION: The Parties agreed to the lower Test Year estimate San Gabriel originally proposed.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Utilities & Rents	$3.6	$3.7	$4.1	($0.4)	$3.6

REFERENCES: Exhibit SG-1 (Dell'Osa), pp. 5-8, 6-3, 6-4; Exhibit SG-6 (Dell'Osa), p. 11; Exhibit DRA-1 (Hoglund), pp. 3-4; Exhibit SG-15 (Dell'Osa), p. 8.

5. Outside Services

ISSUE: San Gabriel forecasted Outside Services expense based on a five-year average of recorded amounts, escalating these amount by May ECSB Factors. DRA applied a different escalation procedure, including the July ECSB factors and producing a higher estimate. San Gabriel's rebuttal testimony also applied the July ECSB Factors, but produced an estimate lower than DRA's.

RESOLUTION: The Parties agreed to the lower Test Year estimate San Gabriel originally proposed.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Outside Services	$40.5	$40.9	$44.6	($3.7)	$40.5

REFERENCES: Exhibit SG-1 (Dell'Osa), pp. 6-3, 6-4; Exhibit SG-6 (Dell'Osa), p. 10; Exhibit DRA-1 (Hoglund), p. 4-10 to 4-11; Exhibit SG-15 (Dell'Osa), p. 8.

6. Miscellaneous

ISSUE: San Gabriel forecasted Miscellaneous expense based on five-year averages, escalating these amounts by the May ECSB factors. A major element of Miscellaneous A&G expense is outside legal expenses (other than for perchlorate groundwater contamination litigation), which were addressed in the testimony of San Gabriel's President, Michael Whitehead. DRA took no issue with San Gabriel's outside legal expenses, but applied the July ECSB factors in a way that produced a significantly lower estimate, a difference inconsistent with the results of DRA's other adjustments and which DRA's report did not explain. San Gabriel's rebuttal testimony also applied the July ECSB Factors, but produced an estimate higher than DRA's.

RESOLUTION: The Parties agreed to the Test Year estimate San Gabriel originally proposed.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Miscellaneous	$469.4	$469.7	$407.4	$62.3	$469.4

REFERENCES: Exhibit SG-1 (Dell'Osa), pp. 6-3, 6-4; Exhibit SG-5 (Batt), p. 23 and Att. N; Exhibit SG-6 (Dell'Osa), p. 13; Exhibit SG-9 (Whitehead), at 20-22; Exhibit DRA-1 (Hoglund), pp. 4-10; Exhibit SG-15 (Dell'Osa), p. 9; Exhibit SG-18 (Whitehead), pp. 8-11.

7. Property Insurance

ISSUE: San Gabriel's umbrella liability insurance costs recorded in 2007 totaled $617,520 for all three divisions of the Company. With guidance from its insurance broker, the Company estimated its Test Year insurance costs based on forecasted 5% increases in 2009 and 2010. For property insurance, averaging the 2009 and 2010 forecasts produced the Company's Test Year estimate of $13,700 for the Fontana Water Company division. DRA applied a 4% escalation factor for 2010, producing a slightly lower estimate.

RESOLUTION: The Parties agreed to the Test Year estimate originally proposed by San Gabriel.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Property Insurance	$13.7	$13.7	$13.6	$0.1	$13.7

REFERENCES: Exhibit SG-1 (Dell'Osa), pp. 6-3, 6-4; Exhibit SG-6 (Dell'Osa), pp. 11-12; Exhibit SG-8 (Nicholson), pp. 1-2 and Att. A; Exhibit DRA-1 (Hoglund), p. 4-6; Exhibit SG-17 (Nicholson), pp. 2-3.

8. Injuries & Damages

ISSUE: For the umbrella liability portion of injuries & damages expense, San Gabriel's forecast was based on its 2007 costs escalated by forecasted 5% increases in 2009 and 2010. For the worker's compensation insurance portion of this expense, the Company based its forecast on a five-year average, escalated by applying the May ECSB Factors. For the umbrella insurance portion, DRA applied a 4% escalation factor for 2010, but for its calculation of the worker's compensation portion, it applied the July ECSB factors, producing a higher estimate. San Gabriel's rebuttal testimony also applied the July ECSB Factors, but produced an estimate lower than DRA's.

RESOLUTION: The Parties agreed to the lower Test Year estimate originally proposed by San Gabriel.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Injuries & Damages	$421.0	$430.0	$457.5	($27.5)	$421.0

REFERENCES: Exhibit SG-1 (Dell'Osa), pp. 6-3, 6-4; Exhibit SG-6 (Dell'Osa), pp. 11-12; Exhibit SG-8 (Nicholson), pp. 1-2 and Att. A; Exhibit DRA-1 (Hoglund), pp. 4-6 to 4-7; Exhibit SG-17 (Nicholson), pp. 2-3.

9. Employee Pensions & Benefits

ISSUE: Employee Pensions & Benefits expense includes a number of components including vacation, holiday and sick leave, pension, health and dental insurance, life insurance, long term disability and uniforms expense. San Gabriel's estimates of Test Year expense for several of these components were based on the payroll forecast. For other components, the forecasts were based on 2007 recorded costs escalated by specified factors. DRA's higher estimates of payroll expense resulted in a slightly higher estimate for vacation, holiday, and sick leave expense as well, but applied lower escalation factors than did the Company in forecasting pension, health insurance, dental insurance, and life insurance expense. DRA's estimate for long-term disability expense was marginally higher than the Company's and DRA agreed to San Gabriel's forecast of uniforms expense. San Gabriel's rebuttal testimony modified the Company's original showing only by applying the July ECSB Factors in instances where the May ECSB Factors had been applied before.

RESOLUTION: The Parties agreed to the Test Year estimate originally proposed by San Gabriel.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Employee Pensions & Benefits	$1,948.2	$1,963.8	$1,817.4	$146.4	$1,948.2

REFERENCES: Exhibit SG-1 (Dell'Osa), pp. 6-1, 6-3, 6-4; Exhibit SG-6 (Dell'Osa), p. 11; Exhibit SG-8 (Nicholson), pp. 3-6 and Atts. B-G; Exhibit DRA-1 (Hoglund), pp. 4-7 to 4-9; Exhibit SG-17 (Nicholson), pp. 3-6.

10. Regulatory Commission Expense

ISSUE: Regulatory Commission expense includes expert witnesses' fees, outside attorneys' fees, and other expenses associated with this GRC and other regulatory proceedings before the Commission, with all except a small portion amortized over the three-year GRC cycle. With respect to the estimated expense of $1.5 million, DRA recommended disallowing 50% of outside legal fees and $4,000 of expert witness fees. In rebuttal testimony, San Gabriel opposed these adjustments, but recognized an error identified by City witness Donna Ramas (neé DeRonne), concerning the inclusion in San Gabriel's five-year average of a 2007 amount already recovered through rates set in the prior GRC. San Gabriel adjusted its calculation by an amount slightly greater than proposed by Ms. Ramas, but less than DRA's unrelated adjustments.

RESOLUTION: The Parties agreed to adopt the corrected Test Year estimate as calculated by San Gabriel, adjusted by applying the May ECSB Factors.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Regulatory Commission Expense	$502.9	$398.5	$388.6	$9.9	$398.2

REFERENCES: Exhibit SG-1 (Dell'Osa), pp. 6-3, 6-4; Exhibit SG-5 (Batt), p. 14 and Att. E; Exhibit SG-6 (Dell'Osa), p. 12; Exhibit DRA-1 (Hoglund), pp. 4-9 to 4-10; Exhibit SG-14 (Batt) pp. 1-3 and Atts. A-C; Exhibit SG-15 (Dell'Osa) p. 9; see also, Exhibit COF-2 (Ramas), pp. 48-51.

11. Franchise Fees

ISSUE: San Gabriel applied the five-year average (0.7655%) to forecasted revenues at both present and proposed rates. DRA found the Company's estimate to be reasonable. A slight difference in DRA's estimate appears to have been due to a typographical error.

RESOLUTION: The Parties agreed to apply the rate proposed by San Gabriel.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Franchise Fees (at present rates)	$371.3	$371.3	$370.3	$1.0	$371.3

REFERENCES: Exhibit SG-1 (Dell'Osa), pp. 6-2 to 6-4; Exhibit SG-6 (Dell'Osa), pp. 13-14; Exhibit DRA-1 (Hoglund), pp. 3-4, 5-2.

12. Administrative Expense Transferred

ISSUE: Administrative Expense Transferred consists of salaries and office supplies that are transferred to construction project accounts or to non-utility operations accounts. Responding to DRA's report in the last GRC, San Gabriel revised its procedure for assigning such costs to capital project accounts. DRA followed a similar procedure. The amount DRA calculated to be transferred out of current A&G expense was significantly smaller due primarily to DRA's proposed disallowance of several capital projects, but also due to the use of different inflation factors. San Gabriel's rebuttal testimony showed a slight increase in the expense to be transferred.

RESOLUTION: The Parties agreed to apply the calculational procedure employed by San Gabriel, based on the settled capital budget.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Administrative Expense Transferred	($717.5)	($719.0)	($556.3)	($162.7)	($584.6)

REFERENCES: Exhibit SG-1 (Dell'Osa), pp. 6-2 to 6-4; Exhibit SG-5 (Batt), pp. 19-21 and Att. L; Exhibit SG-6 (Dell'Osa), p. 13; Exhibit DRA-1 (Hoglund), pp. 4-5; Exhibit SG-15 (Dell'Osa), pp. 9-10.

I. ALLOCATED COMMON EXPENSE

ISSUE: Common Expenses are those expenses (General Office functions) that are not directly assignable to an operating division and are therefore allocated between the two operating divisions by use of a long-established four-factor formula. San Gabriel included an allocation of common expenses adopted in D.08-06-022 as well as an allocation of costs associated with the new Fontana headquarters building complex that will be reviewed in a later phase of this proceeding. DRA also based its allocation of General Office expenses on D.08-06-022, but without an allocation of new Fontana headquarters building costs. The Company's rebuttal testimony identified errors in both San Gabriel's original estimate and that of DRA, and calculated a corrected allocation including $35,800 of new headquarters building costs.

RESOLUTION: In consideration of the calculations presented in San Gabriel's rebuttal testimony, the Parties agreed to adopt San Gabriel's original, slightly lower estimate of $3,018,500 as a compromise amount, subject to further consideration of the allocation of costs associated with the new Fontana headquarters building complex in a later phase of this proceeding.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Allocated Common Expense	$3,018.5	$3,133.5	$2,830.4	$303.1	$3,018.5

REFERENCES: Exhibit SG-1 (Dell'Osa), p. 11-5; Exhibit SG-6 (Dell'Osa), pp. 14-15; Exhibit DRA-1 (Hoglund, etc.) pp. 1-3, 4-11; Exhibit SG-15 (Dell'Osa), pp. 10-11.

H. BANK CHARGES

ISSUE: Bank charges consist of routine bank fees and charges associated with the Company's bank accounts. Bank charges are a special category of General Office expense that were adopted in D.08-06-022 and are allocated between the two operating divisions. .

RESOLUTION: The Parties agreed to the estimate proposed by San Gabriel.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Bank Charges	$60.2	$59.7	$60.2	($0.5)	$60.2

REFERENCES: Exhibit SG-1, pp. 11A, 11B; Exhibit DRA-1 (Hoglund, etc.) p. 1-3; Exhibit SG-15 (Dell'Osa), Att. 11-6 (Table 11C)..

J. UTILITY PLANT ADDITIONS

Amounts shown in the tables below, relating to particular capital projects or accounts, represent dollars of capital investment rather than the Test Year revenue requirement. In this context, $1,000 of capital investment included in rate base for an entire year equates to approximately $200 of revenue requirement.

San Gabriel's capital budgets for the years 2008 through 2011 also included minor investment amounts relating to projects and accounts not specifically addressed below, to which no party objected. The parties agree that those minor investments should be approved for inclusion in Utility Plant.

1. Plant F10 (2008-11)

ISSUE: San Gabriel planned to install a new flow meter, pressure regulating valves, and emergency generator at Plant F10. DRA noted that San Gabriel already had installed the $160,000 emergency generator in 2008, and agreed that the planned facilities were needed.

RESOLUTION: The Parties agreed to add the planned facilities on the schedule proposed.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Plant F10 (2008-11)	$217.0	$217.0	$217.0	none	$217.0

REFERENCES: Exhibit SG-7 (LoGuidice) p. 13 and Att. 11; Exhibit FUSD-3 (Counsel), pp. 141, 147, 161; Exhibit DRA-1 (Hoglund), p. 7-5; Exhibit SG-16 (LoGuidice), pp. 10-11.

2. Plant F13 (2008-11)

ISSUE: San Gabriel planned to re-equip existing Wells F13A and F13B and to construct a pressure-sustaining valve, a booster pump station and telemetry control system, security fencing and landscaping at Plant F13. DRA noted that San Gabriel already had invested $215,000 in 2008 to refurbish Well F13A and to install the pressure-sustaining valve. DRA proposed to defer consideration of the $945,000 planned investment in a new booster pump station until the reasonableness of Sandhill facility costs are determined later in this proceeding, but recommended allowing the other proposed costs. In rebuttal testimony, San Gabriel stated that the planned booster station would improve system reliability apart from its use in conjunction with the Sandhill plant, and justified refurbishing the Plant F13 wells.

RESOLUTION: The Parties agreed to add all the planned facilities on the schedule proposed.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Plant F13 (2008-11)	$1,500.0	$1,500.0	$555.0	$945.0 deferred	$1,500.0

REFERENCES: Exhibit SG-3 (Johnson), pp. 227-28; Exhibit SG-7 (LoGuidice) p. 14 and Att. 11; Exhibit FUSD-3 (Counsel), pp. 141, 146-47, 154, 161; Exhibit DRA-1 (Hoglund), p. 7-5; Exhibit SG-16 (LoGuidice), pp. 10-11.

3. Plant F14 (2008-11)

ISSUE: San Gabriel proposed to construct a new Diatomaceous Earth storage building, to replace the obsolete and worn traveling screens, and to install new controls and water quality monitoring equipment at Plant F14. DRA did not address these proposals.

RESOLUTION: San Gabriel agreed to defer replacement of the traveling screens, which represented $400,000 of the project cost, removing that investment from this GRC cycle. DRA agreed to this approach.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Plant F14 (2008-11)	$565.0	$565.0	$565.0	none	$165.0

REFERENCES: Exhibit SG-7 (LoGuidice) pp. 14-15 and Att. 11; Exhibit FUSD-3 (Counsel), pp. 147-48, 162.

4. Plant F15 (2009-11 by Advice Letter)

ISSUE: San Gabriel planned to re-equip Well F15A and to construct a 5.0 million gallon ("MG") reservoir, a booster station with related control equipment, security fencing, and landscaping at Plant F15. Due to uncertainty as to the timing of this project, San Gabriel proposed to include the plant investment in rates by Advice Letter once construction was done. Considering indications of static demand during this GRC cycle, DRA recommended deferral of this project to the next GRC. The Company's rebuttal testimony asserted that deferring this project risked service disruption due to the need to supplement a very old, but critically needed, reservoir.

RESOLUTION: The Parties agreed to defer this entire project until the next GRC.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Plant F15 (2009-11)	$3,745.0	$3,745.0	$0.0	$3,745.0	$0.0

REFERENCES: Exhibit SG-3 (Johnson), pp. 218-20, 229; Exhibit SG-6 (Dell'Osa), p. 22; Exhibit SG-7 (LoGuidice), pp. 15-17 and Att. 11; Exhibit FUSD-3 (Counsel), pp. 146-48, 154-55 161; Exhibit DRA-1 (Hoglund), pp. 7-7 to 7-8; Exhibit SG-16 (LoGuidice), pp. 12-13.

5. Plant F16 (2008-09)

ISSUE: San Gabriel planned to replace all facilities at Plant F16 with new facilities, including two at grade steel water storage reservoirs with a total capacity of approximately 1.5 MG, a new booster station and related piping, and an emergency generator, as well as to construct security fencing and landscaping, with most of the work to be completed in 2008. DRA opposed the replacement of an in-use 500,000 gallon reservoir and so recommended disallowing the second reservoir costs of $760,000 ($710,000 to construct the reservoir plus $50,000 for half the related grading and site work). San Gabriel's rebuttal testimony emphasized the importance of the planned facilities for the Company's operations and the difficulty, due to the small site, of constructing a second, new reservoir at a later date.

RESOLUTION: The Parties agreed to add all the planned facilities, but with most of the construction deferred to occur in 2009, rather than in 2008 as proposed. See Attachment 3.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Plant F16 (2008-09)	$2,675.0	$2,675.0	$1,915.0	$760.0	$2,675.0

REFERENCES: Exhibit SG-3 (Johnson), pp. 218-20, 229-30; Exhibit SG-7 (LoGuidice), pp. 17-19 and Att. 11; Exhibit FUSD-3 (Counsel), pp. 141-42, 148; Exhibit DRA-1 (Hoglund), p. 7-8 to 7-10; Exhibit SG-16 (LoGuidice), pp. 10-11.

6. Plant F17 (2009)

ISSUE: The Company planned to construct a nitrate removal facility to treat water produced from two wells and to install an emergency generator at Plant F17, with the work scheduled for 2009. DRA recommended continued reliance on blending to address the nitrate contamination problem at this site, and proposed postponing San Gabriel's project until the next GRC. In rebuttal testimony, the Company explained that it does not blend the water produced at Plant F17 to reduce nitrates and that without treatment the use of these critical wells could be lost at any time.

RESOLUTION: The Parties agreed to add the planned facilities on the schedule proposed.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Plant F17 (2009)	$1,660.0	$1,660.0	$0.0	$1,660.0	$1,660.0

REFERENCES: Exhibit SG-3 (Johnson), p. 178; Exhibit SG-7 (LoGuidice) p. 19 and Att. 11; Exhibit FUSD-3 (Counsel), pp. 147-48; Exhibit DRA-1 (Hoglund), p. 7-10; Exhibit SG-16 (LoGuidice), p. 15.

7. Plant F20 (2010)

ISSUE: The Company planned to paint the reservoir at Plant F20. DRA concurred, recommending that the project be allowed as requested.

RESOLUTION: The Parties agreed that the planned work should be done on the schedule proposed.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Plant F20 (2010)	$100.0	$100.0	$100.0	none	$100.0

REFERENCES: Exhibit SG-7 (LoGuidice) p. 20 and Att. 11; Exhibit FUSD-3 (Counsel), p. 154; Exhibit DRA-1 (Hoglund), p. 7-10.

8. Plant F21 (2008-11 by Advice Letter)

ISSUE: The Company planned to purchase a site and drill two replacement wells, F21B and F21C, at Plant F21. In addition, the Company planned to construct a 1.5 MG reservoir, a booster pump station, disinfection equipment, control equipment and fencing and landscaping. Due to uncertainty as to the timing of this project, San Gabriel proposed to include the plant investment in rates by Advice Letter once construction was done. DRA agreed with the need for all of the proposed work except for the drilling of an additional well (Well F21C) at this time. DRA concurred in the Company's request for Advice Letter recovery of all project costs except for the $605,000 estimated cost of the additional well and with deferral of the $700,000 site purchase to 2009. In rebuttal testimony, San Gabriel supported the additional well for supply reliability for service to customers in the area.

RESOLUTION: The Parties agreed to DRA's position, providing that the additional well should not be constructed and the remainder of the planned work should be done on the schedule proposed, except for deferring the site purchase from 2008 to 2009 and subject to inclusion in rates by Advice Letter once the work has been done.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Plant F21 (2008-11)	$4,190.0	$4,190.0	$3585.0	$605.0	$3585.0

REFERENCES: Exhibit SG-3 (Johnson), pp. 140, 167, 230-31; Exhibit SG-6 (Dell'Osa), p. 22; Exhibit SG-7 (LoGuidice) pp. 21-22 and Att. 11; Exhibit FUSD-3 (Counsel), pp. 140, 154-56, 160-61; Exhibit DRA-1 (Hoglund), pp. 7-11 to 7-12; Exhibit SG-16 (LoGuidice), pp. 15-16.

9. Plant F23 (2009 by Advice Letter)

ISSUE: San Gabriel planned to install an ion-exchange perchlorate contamination treatment facility and to construct a 2.0 MG reservoir and booster pump station at Plant F23, noting that a portion of the funding for the treatment facility had been provided by the Department of Defense. San Gabriel proposed to include the plant investment in rates, net of contributions from outside sources, by Advice Letter once construction was done. DRA recommended that the planned reservoir, and apparently the entire project, be deferred until the next GRC. In rebuttal testimony, the Company urged the need to construct the facilities as planned in order not to lose funding from the Department of Defense

RESOLUTION: The Parties agreed that the planned work should be done on the schedule proposed and that the project cost, net of contributions, should be included in rates by Advice Letter once the project has been completed.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Plant F23 (2009)	$2,600.0	$2,600.0	$0.0	$2,600.0	$2,600.0

REFERENCES: Exhibit SG-3 (Johnson), pp. 179, 231; Exhibit SG-6 (Dell'Osa), p. 22; Exhibit SG-7 (LoGuidice) pp. 22-23 and Att. 11; Exhibit SG-10 (LoGuidice), 15-18; Exhibit FUSD-3 (Counsel), pp. 146-48; Exhibit DRA-1 (Hoglund), pp. 7-12 to 7-13; Exhibit SG-16 (LoGuidice), pp. 16-17.

10. Plant F25 (2011 by Advice Letter)

ISSUE: The Company planned to construct an ion-exchange treatment facility at Plant F25 to remove perchlorate and nitrate from water produced from both Well F18A and Well F25A. Due to uncertainty as to the timing of this project, San Gabriel proposed to include the plant investment in rates by Advice Letter once construction was done. DRA recommended disallowing this project in the present GRC on grounds that the costs of the facility should be borne by the parties responsible for the contamination and that San Gabriel's failure to construct this facility previously indicated that it was not an urgent project. In rebuttal testimony, San Gabriel stressed the need to restore production from three contaminated wells and urged that the project be approved with the understanding that any money collected for this project from polluters or public agencies would be treated as contributions.

RESOLUTION: The Parties agreed that this project should not be authorized in the current GRC.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Plant F25 (2011)	$5,000.0	$5,000.0	$0.0	$5,000.0	$0.0

REFERENCES: Exhibit SG-3 (Johnson), pp. 179-80; Exhibit SG-6 (Dell'Osa), p. 22; Exhibit SG-7 (LoGuidice), pp. 23-24 and Att. 11; Exhibit FUSD-3 (Counsel), p. 162; Exhibit DRA-1 (Hoglund), pp. 7-13 to 7-14; Exhibit SG-16 (LoGuidice), pp. 18-19.

11. Plant F44 (2008-11 partially by Advice Letter)

ISSUE: The Company planned to purchase a site and construct a second water storage reservoir at Plant F44 with 2.0 MG capacity. The $1,250,000 estimated site acquisition cost was included in Test Year rate base, with the projected construction costs to be added to rates by Advice Letter once the new reservoir was constructed. DRA supported acquiring additional land to accommodate a larger reservoir, but estimated only $700,000 as the acquisition cost due to the weak real estate market. DRA proposed to allow up to this amount in rates by Advice Letter once the purchase has been made, but urged deferral of the construction project to the next GRC. In rebuttal testimony, San Gabriel explained how the proposed reservoir would help alleviate the storage deficiency in the Company's Alder Zone and urged approval of the entire project in this GRC.

RESOLUTION: The Parties agreed that no portion of this project should be authorized in the current GRC.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Plant F44 (2008-11)	$2,570.0	$2,570.0	$700.0	$1,870.0	$0.0

REFERENCES: Exhibit SG-3 (Johnson), pp. 218-20, 231-32; Exhibit SG-6 (Dell'Osa), p. 22; Exhibit SG-7 (LoGuidice) pp. 24-25 and Att. 11; Exhibit FUSD-3, pp. 154, 160-62; Exhibit DRA-1 (Hoglund), pp. 7-14 to 7-16; Exhibit SG-16 (LoGuidice), pp. 19-20.

12. Plant F53 (2010 by Advice Letter)

ISSUE: The Company planned to construct a new storage reservoir and booster station at Plant F53 and a transmission pipeline from Plant F53 to Plant F19, to receive and store treated water from the Lytle Creek wellfield and the Sandhill surface water treatment plant. Due to uncertainty as to the timing of the reservoir project, San Gabriel proposed to include that investment, projected to be $2.3 million, in rates by Advice Letter once construction was done. The $4.0 million projected cost of constructing the pipeline was included in San Gabriel's budget for mains, discussed below. DRA saw need for a cost-benefit analysis of energy savings claims and concluded that the facilities proposed for Plant F54 are not necessary at this time. DRA recommended that the project cost be denied. In its rebuttal testimony, San Gabriel explained the functions the planned Plant F53 facilities would serve and urged their approval.

RESOLUTION: The Parties agreed that this project should not be authorized in the current GRC.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Plant F53 (2010)	$2,300.0	$2,300.0	$0.0	$2,300.0	$0.0

REFERENCES: Exhibit SG-3 (Johnson), pp. 218-20; Exhibit SG-6 (Dell'Osa), p. 22; Exhibit SG-7 (LoGuidice) p. 25 and Att. 11; Exhibit FUSD-3 (Counsel), pp. 153-56; Exhibit DRA-1 (Hoglund), p. 7-16 to 7-17; Exhibit SG-16 (LoGuidice), p. 20.

13. Plant F54 (2009-11 by Advice Letter)

ISSUE: The Company planned to purchase a site and construct a water production, storage and pumping facility at Plant F54, which would include two water production wells, a 1.5 MG water storage reservoir, and a booster station. Due to uncertainty as to project timing, San Gabriel proposed to include the investment in rates by Advice Letter once construction was done. DRA saw need for a cost-benefit analysis of energy savings claims and concluded that the facilities proposed for Plant F54 are not necessary at this time. DRA recommended that the project cost be denied. In its rebuttal testimony, San Gabriel explained that the planned Plant F54 facilities were needed to stabilize pressures and flows and urged their approval.

RESOLUTION: The Parties agreed that this project should not be authorized in the current GRC.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Plant F54 (2009-11)	$5,015.0	$5,015.0	$0.0	$5,015.0	$0.0

REFERENCES: Exhibit SG-3 (Johnson), pp. 218-20, 232-33; Exhibit SG-6 (Dell'Osa), p. 22; Exhibit SG-7 (LoGuidice), pp. 25-26 and Att. 11; Exhibit FUSD-3 (Counsel), pp. 154-56, 160-61; Exhibit DRA-1 (Hoglund), p. 7-17 to 7-19; Exhibit SG-16 (LoGuidice), pp. 21-22.

14. Mains (Acct 343, 2008-11)

ISSUE: San Gabriel's Water System Master Plan proposes a water main replacement program, targeting replacement of old water mains at a projected capital cost of approximately $3.0 million per year. San Gabriel plans to construct or replace pipelines at various locations over the course of the GRC cycle. DRA found the Company's requested costs to be reasonable. However, San Gabriel's water main construction budget includes $4.0 million for a new water main connecting the proposed Plant F53 with existing Plant F19, a project that DRA opposed.

RESOLUTION: The Parties agreed to reduce San Gabriel's budget for construction and replacement of mains by $4.0 million to reflect deferral of the Plant F53 project, including deferral of constructing the proposed main connecting Plant F53 with Plant F19.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Mains (Acct 343, 2008-11)	$14,070.0	$14,070.0	$10,070.0	$4,000.0	$10,070.0

REFERENCES: Exhibit SG-3 (Johnson), pp. 250-54, 260-63, 277-78; Exhibit SG-7 (LoGuidice), p. 25; Exhibit FUSD-3 (Counsel), pp. 142, 149, 157, 162; Exhibit DRA-1 (Hoglund), p. 7-19; Exhibit SG-16 (LoGuidice), pp. 22-23.

15. Services (Acct 345, 2008-11)

ISSUE: In the 1970's, San Gabriel, along with many other water purveyors, began using polyethylene pipe for its service laterals. By 1995, after experiencing many problems with polyethylene pipe, the Company began using copper tubing for all of its service laterals. Over time, polyethylene pipe often becomes brittle and prone to rupture. When this happens, the service lateral leaks and must be repaired, often repeatedly. To reduce costs, save time, and avoid excessive pavement repairs, the Company began replacing plastic services when they leaked the first time. Also, when a polyethylene service leaks on a street where all of the other services on the street are also plastic and were installed at the same time, it is often a precursor to leaks on those services as well. To avoid customer complaints and complaints from City officials for frequently excavating and patching the street in the same general area, the Company began replacing plastic services along entire blocks where warranted. As a direct consequence, the scale of San Gabriel's plastic service replacement program has increased dramatically since 2005.

In this GRC, San Gabriel proposed a budget for constructing new and replacement services in line with recent experience. As DRA recognized the estimates for the four-year period 2008 through 2011, ranging between $1.6 and $2.3 million per year and totaling $6,830,000, were below the four-year average of recorded costs prior to 2007, which was higher than the average. As indicated in a chart accompanying the testimony of City witness Michael Thornton, the cost of the Company's replacement services just in 2008 exceeded $5.6 million, which makes clear that the Company's budgets for 2008 through 2011 are certainly not too high. DRA found those estimates reasonable.

RESOLUTION: The Parties agreed to the four years' budgets proposed by San Gabriel.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Services (Acct 345, 2008-11)	$6,830.0	$6,830.0	$6,830.0	none	$6,830.0

REFERENCES: Exhibit FUSD-3 (Counsel), pp. 143, 149, 157, 162; Exhibit DRA-1 (Hoglund), p. 7-19; Exhibit SG-16 (LoGuidice), pp 23-24; see also, Exhibit COF-1 (Thornton), Att. 10.

16. Meters (Acct 346, 2008-11)

ISSUE: San Gabriel proposed to pursue a pilot study of automated meter reading ("AMR") systems, to identify suitable AMR equipment, and to implement initial phase installation of the selected AMR system. Due to delays in the Company's initiation of a pilot study, DRA proposed to defer recognizing the $28,000 cost of that study from 2008 to 2009. DRA considered budgeting for the first two years of AMR installation to be premature, and recommended deferring those costs to the next GRC. San Gabriel responded to DRA in rebuttal testimony, noting that AMR technology is proven and is being implemented world-wide, listing benefits associated with AMR implementation, and pointing out prospective cost savings and leak detection gains that AMR will provide.

RESOLUTION: Recognizing that the pilot study had been delayed and that planning for division-wide deployment of AMR should await completion of the pilot study, the Parties agreed to recognize in rates the cost of the pilot study as completed in 2009 and to defer recognizing larger-scale implementation costs until the next GRC.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Meters (Acct 346, 2008-11)	$3,375.0	$3,375.0	$28.0	$3,347.0	$28.0

REFERENCES: Exhibit SG-4 (Arrighi), pp. 7-9; Exhibit FUSD-3 (Counsel), pp. 143, 157, 163; Exhibit DRA-1 (Hoglund), p. 7-20 to 7-21; Exhibit SG-13 (Arrighi), pp. 1-5.

17. Public Fire Hydrants (Acct 348, 2008-11)

ISSUE: San Gabriel proposed modest investments each year for new and replacement public fire hydrants. DRA did not address this subject in its report, but included the dollars in Account 348 in its Results of Operations tables.

RESOLUTION: The Parties agreed that the planned work should be done on the schedule proposed.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Hydrants (Acct 348, 2008-11)	$290.0	$290.0	$290.0	none	$290.0

REFERENCES: Exhibit FUSD-3 (Counsel), pp. 143, 150, 158 and 163.

18. Structures & Improvements (Acct 371, 2008-11)

ISSUE: Almost all of San Gabriel's proposed capital investment assigned to this account is related to the new Fontana headquarters office complex, which is a subject that will be addressed later in this proceeding. Apart from the new Fontana headquarters office complex, San Gabriel proposed minor investments for structures and improvements, which DRA did not oppose.

RESOLUTION: The Parties agreed that the planned work should be done as proposed.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Structures & Improvements (Acct 371, 2008-11)	$20.0	$20.0	$20.0	none	$20.0

REFERENCES: Exhibit FUSD-3 (Counsel), p. 144, 150, 158 and 163; Exhibit DRA-1 (Hoglund), p. 7-21.

19. Office Equipment (Acct 372, 2008-11)

ISSUE: The principal capital project assigned to this account was San Gabriel's investment in a Global Information System ("GIS") planned for 2011. DRA objected to this proposed investment because the Company did not provide a cost breakdown as requested, but did not address the remainder of the estimate for this account. In rebuttal testimony, San Gabriel explained the need for a GIS system to replace the Company's antiquated manual drafting operations and improve its mapping and systems analysis capabilities and also provided the requested cost breakdown

RESOLUTION: DRA was satisfied with the Company's cost breakdown for the GIS project, and the Parties agreed that the planned investments should be made on the schedule proposed.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Office Equipment (Acct 372, 2008-11)	$1,100.0	$1,100.0	$200.0	$900.0	$1,100.0

REFERENCES: Exhibit FUSD-3 (Counsel), p. 144, 151, 158 and 164; Exhibit DRA-1 (Hoglund), p. 7-21; Exhibit SG-16 (LoGuidice) p. 24 and Att. 2.

20. Transportation Equipment (Acct 373, 2008-11)

ISSUE: San Gabriel proposed varying expenditures each year to replace ageing passenger vehicles and trucks. DRA analyzed the Company's plans based on the Department of General Services' vehicle replacement schedule recommendations, concluding that the Company's plans met those criteria. DRA therefore concurred in the Company's cost estimates.

RESOLUTION: The Parties agreed that the planned investments should be made on the schedule proposed.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Transportation Equipment (Acct 373, 2008-11)	$943.0	$943.0	$943.0	none	$943.0

REFERENCES: Exhibit FUSD-3 (Counsel), pp. 144, 151, 159 and 164; Exhibit DRA-1 (Hoglund), pp. 7-21 to 7-22.

21. Communications Equipment (Acct 376, 2008-11)

ISSUE: San Gabriel proposed minor investments each year for communications equipment, which DRA did not oppose.

RESOLUTION: The Parties agreed that the planned investments should be made on the schedule proposed.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Communications Equipment (Acct 376, 2008-11)	$70.0	$70.0	$70.0	none	$70.0

REFERENCES: Exhibit FUSD-3 (Counsel), pp. 144, 151, 159 and 164.

22. Tools & Equipment (Acct 378, 2008-11)

ISSUE: San Gabriel proposed minor investments each year assigned to the Tools & Equipment account, which DRA did not oppose.

RESOLUTION: The Parties agreed that the planned investments should be made on the schedule proposed.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Tools & Equipment (Acct 378, 2008-11)	$200.0	$200.0	$200.0	none	$200.0

REFERENCES: Exhibit FUSD-3 (Counsel), pp. 145, 151, 159 and 165.

23. Fontana Union Investment

ISSUE: In June 2006, San Gabriel and other parties entered into a comprehensive settlement of a class action lawsuit brought on behalf of Fontana Union Water Company ("Fontana Union") shareholders who were no longer receiving water pursuant to their shares. In July 2006, San Gabriel paid for and thereafter received clear title to certain Fontana Union shares that were at issue in the case. San Gabriel's investment in Fontana Union shares totals $5,189,000, of which $4.2 million was paid for shares of Fontana Union in connection with the 2006 settlement. The City's witness asserted that San Gabriel's purchases of Fontana Union stock should not be included in rate base, but DRA did not take that position. The Company responded to the City in rebuttal testimony, explaining that San Gabriel's Fontana Union shares and water rights to which San Gabriel is entitled pursuant to those shares represent the principal sources of supply and water rights for the Fontana Water Company division and its customers, and noting that the Commission has always recognized that San Gabriel's investment in Fontana Union shares belongs in rate base.

RESOLUTION: The Parties agreed that San Gabriel's entire investment in Fontana Union shares should be included in rate base.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Fontana Union Investment	$5,189.0	$5,189.0	$5,189.0	none	$5,189.0

REFERENCES: Exhibit SG-1 (LoGuidice), p. 10-4; Exhibit SG-9 (Whitehead), pp. 13-20; Exhibit COF-2 (Ramas), pp. 38-48; Exhibit SG-18 (Whitehead), pp. 1-8.

K. RECYCLED WATER PROJECT

ISSUE: The Company provided extensive evidence regarding its plans for maximizing the beneficial use of recycled water, especially through cooperative efforts with the City and with the Inland Empire Utilities Agency ("IEUA"). The Company included in its showing a proposed tariff for recycled water service and a proposal to use facilities fees revenue to supplement funding from third-party sources to fund construction of a recycled water delivery system. DRA expressed concern about relying on facilities fees revenue to fund development of the recycled water project and about the level of proposed recycled water rates. DRA recommended that the Company file a separate application for its proposed recycled water project once more certain agreements are reached, sources of funds are identified, and costs and rates are better known. In rebuttal testimony, San Gabriel warned against delaying the project and defended the proposed terms and rates.

RESOLUTION: The Parties agreed in principle with the approach for developing recycled water service that San Gabriel is pursuing, in particular the development of a cooperative plan under which San Gabriel would construct facilities to deliver recycled water from IEUA to serve City and FUSD facilities as well as other potential users of recycled water. San Gabriel agreed not to seek approval at this time to implement a tariff for recycled water service or to apply facilities fees revenue to fund construction of recycled water delivery facilities, and the Parties agreed that San Gabriel should address such matters by a separate application or Advice Letter.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Recycled Water Project	Plans, funds and tariff	Plans, funds and tariff	Separate application	not quantified	Agreement as to plans and future filing

REFERENCES: Exhibit SG-10 (Arrighi), pp. 8-13; Exhibit DRA-1 (Hoglund), p. 7-22 to 7-23; Exhibit SG-19 (Arrighi). pp. 1-3.

L. WORKING CASH ALLOWANCE

ISSUE: San Gabriel prepared the working cash component of rate base in a manner consistent with the method adopted by the Commission in past GRCs, including a lead/lag study in accordance with Standard Practice U-16. Applying this method produced a calculation of high working cash requirements, but the Company chose to limit its proposed allowance to $1.0 million, a substantially lower amount. DRA did not challenge the Company's calculation but recommended a lower allowance based on past Commission-approved working cash allowances. In rebuttal testimony, San Gabriel confirmed the consistency of its lead/lag study with Standard Practice U-16, noted that the lead/lag study indicated that a working cash allowance of nearly $4.4 million was appropriate, and explained why San Gabriel proposed a much lower allowance.

RESOLUTION: The Parties agreed that it would be reasonable to include in rate base a working cash allowance commensurate with San Gabriel's proposal.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Working Cash Allowance	$1,000.0	$1,000.0	$579.0	$421.0	$1,000.0

REFERENCES: Exhibit SG-1 (Batt), pp. 10-3, 10-7, 10-8; Exhibit SG-5 (Batt), pp. 2, 8-15; Exhibit DRA-1 (Hoglund), p. 9-1; Exhibit SG-14 (Batt), pp. 4-5; Exhibit SG-15 (Dell'Osa), p. 13-14.

M. FACILITIES FEES REVENUE

ISSUE: Pursuant to D.07-04-046, Ordering Paragraph No. 3, on November 15, 2007, San Gabriel filed its Advice Letter No. 358, proposing new revenue requirements for the Fontana Water Company division reflecting inclusion in utility plant of all investment recorded to that date for the Sandhill project and inclusion in Contributions in Aid of Construction ("CIAC") of all facilities fees recorded to that date. The facilities fees revenue added to CIAC by that Advice Letter amounted to $1.9 million. The City called for a reduction of rate base by the full amount of facilities fees collected during the period 2008-2011, including $4,329,050 collected as of April 30, 2008. On November 17, 2008, San Gabriel filed Advice Letter No. 368, its next annual Advice Letter pursuant to D.07-04-046, reflecting inclusion in utility plant of all investment recorded through September 30, 2008, in the Sandhill project and inclusion in CIAC of all facilities fees revenues through that date. The facilities fees revenue to be added to CIAC by this recent Advice Letter, effective January 1, 2009, amount to an additional $3,083,850. During the evidentiary hearings, San Gabriel made clear that the $1.9 million in facilities fees that were the subject of Advice Letter No. 358 are included in recorded CIAC and so will reduce Test Year rate base, and that the Company intends to make a similar adjustment to Test Year rate base to reflect the additional $3,083,850 in facilities fees recorded through September 2008. The Company proposed to continue the present Commission-adopted procedure for making annual Advice Letter filings to adjust rates to reflect rate base reductions for facilities fees revenue recorded in CIAC over the prior year.

RESOLUTION: The Parties agreed that the additional $3,083,850 in facilities fees revenue addressed by the Advice Letter filed November 15, 2008, should be included in Test Year CIAC and that the annual Advice Letter procedure for adjusting rates to reflect recorded facilities fees revenue should be continued during this GRC cycle.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Facilities Fees Revenue	Not quantified	Not quantified	Not addressed	none	$3,083.9

REFERENCES: Exhibit SG-1 (Batt), pp. 10-3 to 10-4; Exhibit SG-5 (Batt), pp. 21-22; Exhibit COF-2 (Ramas), p. 17; Exhibit SG-14 (Batt), p. 5; Exhibit SG-15 (Dell'Osa), pp. 12-13; Tr. 221:14-224:28 (Ramas/City and Counsel/SGV); Tr. 271:23-276:7 (Batt/SGV).

N. DEPRECIATION EXPENSE AND RESERVE

ISSUE: San Gabriel included in its revenue requirement calculations an allowance for depreciation expense and a forecasted depreciation reserve based on standard procedures and accrual rates, with adjustments reflecting the dates on which the Sandhill upgrade project became operational and when the former headquarters office complex is expected to be removed from rate base. DRA agreed with the methods the Company used to calculate depreciation expense and depreciation reserve, noting that differences between the Parties were due to different estimates of plant additions.

RESOLUTION: The Parties agreed to apply the methods used by the Company to calculate depreciation expense and depreciation reserve.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Depreciation Expense	$4,993.9	$4,995.6	$4,858.3	$137.3	$4,932.1
Depreciation Reserve (avg.)	$58,233.6	58,292.8	$58,059.7	$233.1	$58,154.1

REFERENCES: Exhibit SG-1 (Dell'Osa), pp. 9-1 to 9-5; Exhibit SG-6 (Dell'Osa), p. 15; Exhibit DRA-1 (Hoglund), pp. 8-1 to 8-3; Exhibit SG-15 (Dell'Osa). pp. 11, 9-4 (Table 9B), 11-6 (Table C).

O. TAXES OTHER THAN INCOME

ISSUE: The Company calculated payroll taxes and ad valorem property taxes based on standard procedures. Differences between San Gabriel's and DRA's calculations were attributable to the differences in payroll expense and Plant in Service estimates, respectively. DRA agreed with the methodology San Gabriel used to calculate these tax expenses.

RESOLUTION: The Parties agreed to apply the methods used by the Company to calculate payroll and ad valorem taxes.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Payroll Taxes	$421.8	$430.6	$470.0	($39.4)	$421.8
Ad Valorem Taxes	$2,208.9	$2,201.7	$2,127.4	$74.3	$2,154.5

REFERENCES: Exhibit SG-1 (Dell'Osa), pp. 7-1 to 7-2, 7-6; Exhibit SG-6 (Dell'Osa), pp. 15-16; Exhibit DRA-1 (Hoglund), p. 5-1; Exhibit SG-15 (Dell'Osa), pp. 11, 11-6 (Table 11C).

P. INCOME TAXES

ISSUE: The Company calculated state and federal taxes based on standard procedures and consistently with prior Commission decisions. Differences between San Gabriel's and DRA's calculations were attributable to differences in projected revenues, expenses, and tax deductions. DRA agreed with the methodology San Gabriel used to calculate income tax expenses.

RESOLUTION: The Parties agreed to apply the methods used by the Company to calculate state and federal income taxes. The Parties' indentification during the settlement process of an error in the weighted average cost of debt used to calculate interest expense resulted in substantial reductions in settlement income tax expense.

At each party's proposed rates:	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
State Franchise Tax	$1.855.3	$2,127.3	$1,643.8	$483.5	$1,318.0
Federal Income Tax	$7,772.8	$8,855.2	$6,978.0	$1,877.2	$5,726.6

The income tax expenses shown in the above table are based on each Party's or the settlement's proposed rates, as the case may be.

REFERENCES: Exhibit SG-1 (Dell'Osa), pp. 7-3 to 7-4, 7-8; Exhibit SG-6 (Dell'Osa), pp. 16-17; Exhibit DRA-1 (Hoglund), p. 6-1 to 6-5; Exhibit SG-15 (Dell'Osa), pp. 11, 11-6 (Table 11C).

Q. NET TO GROSS MULTIPLIER

ISSUE: The change in gross revenue required to produce a unit change in net revenues is obtained by applying the net-to-gross multiplier to the net revenue increment required. San Gabriel calculated the net-to-gross multiplier by the standard method. DRA used the same method, calculating the same multiplier.

RESOLUTION: The Parties agreed to apply the same multiplier.

	SGV Direct	SGV Rebuttal	DRA Report	Difference	Settlement
Net-to-Gross Multiplier	1.799163	1.799163	1.799163	none	1.799163

REFERENCES: Exhibit SG-1 (Dell'Osa), p. 11-2; Exhibit SG-6 (Dell'Osa), p. 14; Exhibit DRA-1 (Hoglund), p. 9-2.

III. ATTACHMENTS

A comparison exhibit, setting forth the original positions of the parties on various elements of revenue requirement as presented in San Gabriel's application and direct testimony, DRA's report, and San Gabriel's rebuttal testimony, and the settlement terms stated herein, the differences between settlement amounts, the Company's original position on the various revenue requirement elements, is appended to this Settlement Agreement as Attachment 1.

The specific terms of the Parties' settlement of issues relating to San Gabriel's water conservation programs and program expense are appended as Attachment 2. A table showing eliminations and deferrals of capital projects under the Settlement Agreement with respect to calendar years 2008, 2009, 2010, and 2011 is appended as Attachment 3. And Attachment 4 provides two contrasting summaries of earnings for the Company, based on the rates proposed in A.08-07-009 and based on the terms of this Settlement Agreement, respectively – with the latter version incorporating the receipt of facilities fees through September 30, 2008, as will be reflected in rates pursuant to Advice Letter No. 368, filed November 13, 2008, and effective January 1, 2009.

Respectfully submitted,

DIVISION OF RATEPAYER ADVOCATES

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Dated: December 24, 2008

Respectfully submitted,

SAN GABRIEL VALLEY WATER COMPANY

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Dated: December 24, 2008

ATTACHMENT 1

SAN GABRIEL VALLEY WATER COMPANY
FONTANA WATER COMPANY DIVISION
A.08-07-009

SETTLEMENT TERMS

Test Year 2009-2010 ($ in 000s)
(Settlement Terms Different from SGV App'n in Bold)

ISSUE (italics = disputed by City/FUSD)	**SGV APP'N**	**SGV REBUTTAL**	**SETTLEMENT**	**DRA REPORT**
Cost of Capital				
Return on Equity	12.2% (10.5%)	12.2% (10.5%)	Not determined	9.9% ROE
Capital Structure	65% Equity	65% Equity	Not determined	60% Equity
Return on Rate Base	10.58% (9.48%)	10.58% (9.48%)	**9.32%**	8.95%
Number of Customers				
Metered Connections	43,162	43,162	43,162	43,162
Private Fire Services	908	908	908	908
Public Fire Hydrants	5,135	5,135	5,135	5,135
Total Sales and Supply				
Total Metered Sales	19,090.9 kccf	19,090.9 kccf	19,090.9 kccf	19,090.9 kccf
Unaccounted for Water	1,446.6 kccf	1,446.6 kccf	1,446.6 kccf	1,446.6 kccf
Total Production/Deliveries	20,537.5 kccf	20,537.5 kccf	20,537.5 kccf	20,537.5 kccf
Expense Escalation Factors	May 2008	July 2008 or latest	May 2008	July 2008
Operation Expenses				
Purchased Water	$8,980.2	$8,980.2	$8,980.2	$8,980.2
Purchased Power	$5,070.2	$5,070.2	$5,070.2	$5,070.1
Chemicals	$906.9	$932.0	$906.9	$906.9
Payroll	$3,402.8	$3,476.0	$3,402.8	$3,429.2
Materials & Supplies (incl. postage)	$178.3	$183.1	$178.3	$178.3

ISSUE (italics = disputed by City/FUSD)	SGV APP'N	SGV REBUTTAL	SETTLEMENT	DRA REPORT
Conservation Expense	$650.8	$650.9	**$400.0**	$300.0
Transportation	$497.7	$511.5	$497.7	$497.7
Utilities & Rents	$69.6	$71.5	$69.6	$69.5
Outside Services	$237.7	$240.3	$237.7	$237.7
Miscellaneous	$80.2	$82.5	$80.2	$80.1
Uncollectibles @ 0.2648% (at present rates)	$128.5	$128.5	$128.5[1]	$128.4
Maintenance Expenses				
Payroll	$890.5	$909.8	$890.5	$897.4
Materials & Supplies	$483.4	$497.1	$483.4	$483.4
Transportation	$267.1	$274.5	$267.1	$267.0
Utilities & Rents	$4.9	$5.0	$4.9	$4.8
Outside Services	$222.1	$222.1	$222.1	$222.0
Miscellaneous	$228.4	$234.9	$228.4	$228.4
Administrative & General				
Payroll	$355.3	$363.0	$355.3	$358.1
Materials & Supplies (incl. postage)	$55.2	$56.7	$55.2	$63.8
Transportation	$15.7	$16.1	$15.7	$18.2
Utilities & Rents	$3.6	$3.7	$3.6	$4.1
Outside Services	$40.5	$40.9	$40.5	$44.6
Miscellaneous Expenses	$469.4	$469.7	$469.4	$407.4
Property Insurance	$13.7	$13.7	$13.7	$13.6
Injuries & Damages	$421.0	$430.0	$421.0	$457.5
Employee Pensions & Benefits	$1,948.2	$1,963.8	$1,948.2	$1,817.4
Regulatory Commission Expense	$502.9	$398.5	**$398.5**	$388.6

ISSUE (italics = disputed by City/FUSD)	SGV APP'N	SGV REBUTTAL	SETTLEMENT	DRA REPORT
Franchise Fees @ .7655% (at present rates)	$371.3	$371.3	$371.3[2]	$370.3
Administrative Expense Transferred	($717.5)	($719.0)	($584.6)	($556.3)
Allocated Common Expense	$3,018.5	$3,133.5	$3,018.5	$2,830.4
Bank Charges	$60.2	$59.7	$60.2	$60.2
Utility Plant Additions				
Plant F10 (2008-11)	$217.0	$217.0	$217.0	$217.0
Plant F13 (2008-11)	$1,500.0	$1,500.0	$1,500.0	$555,000
Plant F14 (2008-11)	$565.0	$565.0	**$165.0**	$565.0
Plant F15 (2009-11 by AL)	$3,745.0	$3,745.0	**$0**	$0
Plant F16 (2008-09)	$2,675.0	$2,675.0	$2,675.0	$1,915.0
Plant F17 (2009)	$1,660.0	$1,660.0	$1,660.0	$0
Plant F20 (2010)	$100.0	$100.0	$100.0	$100.0
Plant F21 (2008-11 by AL)	$4,190.0	$4,190.0	**$3,585.0**	$3,585.0
Plant F23 (2009 by AL)	$2,600.0	$2,600.0	$2,600.0	$0
Plant F25 (2011 by AL)	$5,000.0	$5,000.0	**$0**	$0
Plant F44 (2008-11 partly AL)	$2,570.0	$2,570.0	**$0**	$700.0
Plant F53 (2010 by AL))	$2,300.0	$2,300.0	**$0**	$0
Plant F54 (2009-11 by AL)	$5,015.0	$5,015.0	**$0**	$0
Mains (Acct 343, 2008-11)	$14,070.0	$14,070.0	**$10,070.0**	$10,070.0
Services (Acct 345, 2008-11)	$6,830.0	$6,830.0	$6,830,0	$6,830.0
Meters (Acct 346, 2008-11)	$3,375.0	$3,375.0	**$28.0**	$28.0
Hydrants (Acct 348, 2008-11)	$290.0	$290.0	$290.0	$290.
Structures & Improvements (Acct 371, 2008-11)	$20.0	$20.0	$20.0	$20.0

ISSUE (italics = disputed by City/FUSD)	**SGV APP'N**	**SGV REBUTTAL**	**SETTLEMENT**	**DRA REPORT**
Office Equipment (Acct 372, 2008-11)	$1,100.0	$1,100.0	$1,100.0	$200.0
Transportation Equipment (Acct 373, 2008-11)	$943.0	$943.0	$943.0	$943.0
Communications Equipment (Acct 376, 2008-11)	$70.0	$70.0	$70.0	$70.0
Tools & Equipment (Acct 378, 2008-11)	$200.0	$200.0	$200.0	$200.0
Fontana Union Investment	$5,189.6	$5,189.6	$5,189.6	$5,189.6
Other Topics				
Recycled Water Project	Plans, Funds and Tariff	Plans, Funds and Tariff	**Agreement as to Plans**	Separate Application
Working Cash Allowance	$1,000.0	$1,000.0	$1,000.0	$579.0
Facilities Fees Revenue	Not quantified	Not quantified	$3,030.0	Not addressed
Depreciation Expense	$4,993.9	$4,995.6	$4,932.1	$4,858.3
Depreciation Reserve	$58,233.6	$58.292.8	$58,154.1	$58,059.7
Ad Valorem Taxes	$2,208.9	$2,201.7	$2,102.3	$2,127.4
Payroll Taxes	$421.8	$430.6	$421.8	470.0
State Income Tax (at utility proposed rates)	$1,855.3	$2,127.3	$1,318.0	$1,643.8
Federal Income Tax (at utility proposed rates)	$7,772.8	$8,855.2	$5,726.6	$6,978.0
Net-to-Gross Multiplier	1.799163	1.799163	1.799163	1.799163

[1] Uncollectibles amount shown in Settlement Summary of Earnings (Attachment 4) differs from the amount shown here because the amount shown in Attachment 4 is based on Settlement rates.
[2] Franchise Fees amount shown in Settlement Summary of Earnings (Attachment 4) differs from the amount shown here because the amount shown in Attachment 4 is based on Settlement rates.

ATTACHMENT 2

II. ISSUES SUBJECT TO SETTLEMENT AGREEMENT

1. **Conservation Budget through June 30, 2012.**
    a. **Conservation Programs.** Parties agree that FWC should be authorized a maximum of $400,000 annual budget to fund conservation programs for the year beginning July 1, 2009, or the partial year remaining from the effective date of a decision authorizing this settlement through June 30, 2012.

2. **Flexibility and spending limits for conservation programs.** Parties agree that FWC will have flexibility to spend the authorized conservation funds on the following programs up to the maximum budget of $400,000, subject to caps for each category. Authorized program expenses are as follows:
    a. **Education and Public Information Programs** (Capped at $50,000.)
        1) National Theatre for Children
        2) Public Events & Supplies for Events
        3) Conservation Kits
        4) Other to be determined by FWC.
    b. **Residential** (Capped at $228,600.)
        1) Ultra-Low Flush Toilets
        2) High-Efficiency Clothes Washers
        3) Rotating Nozzles
        4) Smart Timers
    c. **Commercial, Industrial & Institutional** (Capped at $262,500.)
        1) Ultra-low flush toilets
        2) High-efficiency clothes washers
        3) Zero water urinal
        4) Food steamers
        5) Pre-rinse spray heads
        6) Pressurized water broom
    d. **Large Landscape** (Capped at $123,800.)
        1) Water 2 Save
        2) Weather Base Irrigation Controller
        3) Rotating Nozzles

3. **Accountability.** Parties agree it is FWC's obligation to provide records verifying that all the incentive payments or equipment provided through these conservation programs went solely to FWC customers. However, a total of up to $10,000 may be allocated to the overhead costs of third-party service providers.

4. **Guiding principle for customer rebates and/or incentive payments.** Parties agree on the importance of increasing the number of customers reached with conservation incentives. FWC agrees to prioritize funding incentives (rebates) to a greater number of customers over improving the marketability of the current incentives by increasing the dollar value of rebates offered. FWC will make a good faith effort to abide by this principle.

5. **One-way balancing account.** FWC shall track its authorized expenses in a one-way balancing account subject to refund so that any unspent funds will be refunded to the ratepayers. FWC shall collect the authorized budget through rates. Within 60 days of July 1, 2012, or the effective date of new rates under 2011 GRC, FWC shall file an advice letter with the Commission demonstrating its revenues collected, its costs, and the over-collection, if any. FWC shall include a methodology for the refund, if any.

   For each item listed in the Residential, Commercial, Industrial & Institutional and Large Landscape categories, the expenses shall only be booked to the one-way balancing account once the rebate or equipment is provided to a FWC customer.

   This balancing account is subject to Standard Practice U-27-W.

6. **Reporting Requirements.** FWC shall file with the Commission and DRA an annual summary report by October 1st of each of the following year showing actual expenses, justification, and results for each program. FWC shall provide in the report a descriptive account of the program and expenses and how much funding FWC provided to each third party and on what basis. Report shall contain:
   a. FWC's actual expenditures on conservation budgets, broken down by major category (Residential Rebate Programs, Commercial, Industrial & Institutional Rebate Programs, Large Landscape Programs and Education and Public Information Programs) and then specific program;
   b. For each program, actual number of rebates, rebate date, rebate amount, rebate device, customer address, customer class, and whether the customer previously received a rebate and if so, how many;
   c. Estimated water savings in AF based on number of rebates including cost per AF);
   d. For IEUA and Water 2 Save, the amount of funds granted and a full accounting of how the funds were spent and results achieved;
   e. Actual administrative costs incurred by program;
   f. Actual advertising expenses;
   g. A copy of advertising, education, and information materials, and
   h. A copy of agreements with IEUA or any other third party service provider, community based organization or other entity.

ATTACHMENT 3

December 9, 2008

Eliminations and Deferrals of Capital Projects under Proposed Settlement

(Dollars in Thousands)

	2008			2009			2010			2011			
	Rate Base	Advice Letter	Total	Rate Base	Advice Letter	Total	Rate Base	Advice Letter	Total	Rate Base	Advice Letter	Total	Grand Total
San Gabriel Proposed Capital Budget	$17,239.0	$700.0	$17,939.0	$15,224.0	$6,545.0	$21,769.0	$9,815.0	$9,755.0	$19,570.0	$8,302.0	$7,170.0	$15,472.0	$74,750.0
Plant F14 traveling screens - Acct 332										($400.0)		($400.0)	($400.0)
Plant F15 - Acct 321					($435.0)	($435.0)		($500.0)	($500.0)				
Acct 324					($10.0)	($10.0)		($760.0)	($760.0)		($40.0)	($40.0)	($810.0)
Acct 342					($2,000.0)	($2,000.0)		$0.0	$0.0		$0.0	$0.0	($2,000.0)
					($2,445.0)	($2,445.0)		($1,260.0)	($1,260.0)		($40.0)	($40.0)	($3,745.0)
Plant F16 - Acct 321	($500.0)		($500.0)	$500.0		$500.0							$0.0
Acct 324	($755.0)		($755.0)	$755.0		$755.0							$0.0
Acct 342	($710.0)		($710.0)	$710.0		$710.0							$0.0
	($1,965.0)		($1,965.0)	$1,965.0		$1,965.0							$0.0
Plant F21- Acct 306		($700.0)	($700.0)		$700.0	$700.0							$0.0
Acct 315											($350.0)	($350.0)	($350.0)
Acct 324											($255.0)	($255.0)	($255.0)
		($700.0)	($700.0)		$700.0	$700.0					($605.0)	($605.0)	($605.0)
Plant F25 - Acct 332											($5,000.0)	($5,000.0)	($5,000.0)
Plant F44 - Acct 306	($1,250.0)		($1,250.0)										
Acct 321													
Acct 324								($300.0)	($300.0)		($10.0)	($10.0)	($310.0)
Acct 342											($10.0)	($10.0)	($10.0)
											($1,000.0)	($1,000.0)	($1,000.0)
	($1,250.0)		($1,250.0)					($300.0)	($300.0)		($1,020.0)	($1,020.0)	($2,570.0)
Plant F53 - Acct 321													
Acct 324								($800.0)	($800.0)				($800.0)
Acct 342								($500.0)	($500.0)				($500.0)
								($1,000.0)	($1,000.0)				($1,000.0)
								($2,300.0)	($2,300.0)				($2,300.0)
Plant F54 - Acct 306					($1,500.0)	($1,500.0)							
Acct 315													($1,500.0)
Acct 321								($350.0)	($350.0)		($350.0)	($350.0)	($700.0)
Acct 324								($800.0)	($800.0)				($800.0)
Acct 332								($1,015.0)	($1,015.0)		($155.0)	($155.0)	($1,170.0)
Acct 342								($10.0)	($10.0)				($10.0)
								($835.0)	($835.0)				($835.0)
					($1,500.0)	($1,500.0)		($3,010.0)	($3,010.0)		($505.0)	($505.0)	($5,015.0)
Account 343 Mains F53 to F19				($2,000.0)		($2,000.0)	($2,000.0)		($2,000.0)				($4,000.0)
Account 346 - Meters	($28.0)		($28.0)	$28.0		$28.0	($1,697.0)		($1,697.0)	($1,650.0)		($1,650.0)	($3,347.0)
SG-DRA Settlement Budget	$13,996.0	$0.0	$13,996.0	$15,217.0	$3,300.0	$18,517.0	$6,118.0	$2,885.0	$9,003.0	$6,252.0	$0.0	$6,252.0	$47,768.0

ATTACHMENT 4

TABLE 11C **APPLICATION**

San Gabriel Valley Water Company
Fontana Water Company Division
SUMMARY OF EARNINGS and RATES OF RETURN
at Proposed Rates

(Dollars in Thousands)

	Test Year 2009-2010	Escalation Year 2010-2011	Escalation Year 2011-2012
Operating Revenues	$61,366.8	$63,093.1	$64,772.5
Operating Expenses			
Purchased Water & Assessments	$8,980.2	$8,980.2	$8,980.2
Purchased Power	$5,070.2	$5,070.2	$5,070.2
Chemicals	$906.9	$950.6	$997.6
Payroll	$4,648.6	$4,848.5	$5,054.5
Materials & Supplies (incl. Postage)	$716.9	$782.7	$853.6
Conservation Expense	$650.8	$650.9	$650.9
Transportation	$779.9	$817.5	$857.9
Pensions & Benefits	$1,948.2	$2,031.9	$2,118.3
Uncollectibles	$162.5	$167.1	$171.5
Franchise Fees	$469.7	$483.0	$495.8
Outside Services	$500.3	$521.8	$544.0
Insurance	$434.7	$453.4	$472.7
Other O&M Expense	$383.1	$401.5	$421.3
Other A & G Expense	$258.3	$270.7	$284.1
Bank Charges	$60.2	$63.1	$66.2
Subtotal	$25,970.4	$26,493.1	$27,038.8
Allocated Common Expenses	$3,018.5	$3,107.8	$3,178.0
Total Operating Expense	$28,988.9	$29,600.9	$30,216.8
Depreciation	$4,993.9	$5,804.9	$6,616.0
Ad Valorem Taxes	$2,208.9	$2,447.9	$2,686.9
Payroll Taxes	$421.8	$440.0	$458.7
Total Expense before Income Taxes	$36,613.5	$38,293.7	$39,978.3
Net Revenue Before Income Taxes	$24,753.3	$24,799.3	$24,794.2
State Income Tax	$1,855.3	$1,855.6	$1,877.3
Federal Income Tax	$7,772.8	$7,368.0	$7,366.0
Total Expenses	$46,241.6	$47,517.3	$49,221.6
Net Operating Revenues	$15,125.2	$15,575.8	$15,550.8
Rate Base	$159,604.6	$165,771.1	
Rate of Return	9.48%	9.40%	

TABLE 11C **SETTLEMENT**

San Gabriel Valley Water Company
Fontana Water Company Division
SUMMARY OF EARNINGS and RATES OF RETURN
at Proposed Rates

(Dollars in Thousands)

	Test Year 2009-2010	Escalation Year 2010-2011	Escalation Year 2011-2012
Operating Revenues	$57,327.6	$58,866.0	$60,355.0
Operating Expenses			
Purchased Water & Assessments	$8,980.2	$8,980.2	$8,980.2
Purchased Power	$5,070.2	$5,070.2	$5,070.2
Chemicals	$906.9	$950.6	$997.6
Payroll	$4,648.6	$4,848.6	$5,054.5
Materials & Supplies (incl. Postage)	$716.9	$770.7	$828.5
Conservation Expense	$400.0	$400.0	$400.0
Transportation	$779.9	$817.5	$857.9
Pensions & Benefits	$1,948.2	$2,031.9	$2,118.3
Uncollectibles	$151.8	$155.9	$159.8
Franchise Fees	$438.8	$450.6	$462.0
Outside Services	$500.3	$521.8	$544.0
Insurance	$434.7	$453.4	$472.7
Other O&M Expense	$383.1	$401.5	$421.3
Other A & G Expense	$186.6	$195.6	$205.2
Bank Charges	$60.2	$63.1	$66.2
Subtotal	$25,606.3	$26,111.5	$26,638.5
Allocated Common Expenses	$3,018.5	$3,107.8	$3,178.0
Total Operating Expense	$28,624.7	$29,219.3	$29,816.5
Depreciation	$4,932.1	$5,692.9	$6,453.7
Ad Valorem Taxes	$2,102.3	$2,307.5	$2,512.8
Payroll Taxes	$421.8	$440.0	$458.7
Total Expense before Income Taxes	$36,080.9	$37,659.7	$39,241.6
Net Revenue Before Income Taxes	$21,246.7	$21,206.3	$21,113.3
State Income Tax	$1,318.0	$1,291.0	$1,300.5
Federal Income Tax	$5,726.6	$5,359.7	$5,336.6
Total Expenses	$43,125.5	$44,310.4	$45,878.7
Net Operating Revenues	$14,202.1	$14,555.6	$14,476.2
Rate Base	$152,382.4	$156,232.2	
Rate of Return	9.32%	9.32%	

(END OF ATTACHMENT A)