

APPENDIX A

TABLE 1-1

GREAT OAKS WATER COMPANY

SUMMARY OF EARNINGS

Test Year 2010/2011

Item	DRA	GOWC	DRA	GOWC	Adopted
	At Present Rates	At Present Rates	Proposed	Proposed	
	(A)	(B)	(C)	(D)	
(Dollars in Thousands)					
Operating Revenues:					
Metered Water Service Revenues	11,713.19	11,534.33	12,751.50	13,892.00	12,516.00
Fire Protection Revenue	53.82	53.82	53.80	65.93	65.93
Other Revenues	7.00	7.00	12.33	37.86	12.33
Total Operating Revenues (Excludes CPUC Fees)	11,774.02	11,595.15	12,817.63	13,995.80	12,594.26
Expenses					
O&M and A&G (No Payroll)	8,360.02	7,827.19	8,362.87	7,852.72	8,307.82
Payroll Expenses	1,640.48	1,810.10	1,640.48	1,810.10	1,588.49
Depreciation Expenses	1,154.20	1,154.94	1,154.20	1,154.94	1,156.39
Taxes Other Than Income	271.39	27.75	271.39	27.75	258.83
CCFT	(2.06)	240.66	89.94	265.16	67.98
FIT	(3.19)	774.00	315.34	859.06	230.46
DPAD Federal Credit	1.07	-	(83.84)	-	(83.33)
Fed. Deferred Income Tax Expenses	-	70.17	70.20	70.17	70.17
Total Expenses (Excludes CPUC Fees)	11,421.92	11,904.81	11,820.58	12,039.89	11,596.81
Net Income	352.10	(309.66)	997.05	1,955.91	997.46
Ratebase	11,069.50	12,219.03	11,069.50	11,079.80	11,069.74
Rate of Return	3.18%	-2.53%	9.01%	17.65%	9.01%

TABLE B-1

GREAT OAKS WATER COMPANY

OPERATING REVENUES

Test Year 2010/2011

(at Present Rates)

Item	DRA	GOWC	Adopted
	(A)	(B)	
	(Dollars in Thousands)		
<hr/>			
Metered Water Service Revenues:			
Consumption:			
Residential	5,655.74	5,569.38	5,655.74
Multi-Family Residential	1,315.45	1,295.36	1,315.45
Business	565.39	556.76	565.39
Industrial	196.32	193.32	196.32
Private Authority	306.27	301.59	306.27
Schools	372.80	367.11	372.80
Private Landscape	513.11	505.27	513.11
Agricultural	22.82	22.47	22.82
Meter Charges	2,765.29	2,723.07	2,765.29
			-
Total Metered Service Revenues	11,713.19	11,534.33	11,713.19
Private Fire Protection Services	53.82	53.82	53.82
			-
Other Revenues:			-
			-
Misc Revenues	7.04	7.05	7.04
Total Operating Rev.	11,774.06	11,595.20	11,774.06

TABLE B-2

GREAT OAKS WATER COMPANY

OPERATING REVENUES

Test Year 2010/2011

(at Proposed Rates)

Item	DRA	GOWC	Adopted
	(A)	(B)	
(Dollars in Thousands)			
Metered Water Service Revenues:			
Consumption:			
Residential	6,157.09	6,707.79	6,043.38
Multi-Family Residential	1,432.06	1,560.14	1,405.61
Business	615.51	670.56	604.14
Industrial	213.72	232.83	209.77
Private Authority	333.42	363.24	327.26
Schools	405.85	442.15	398.36
Private Landscape	558.59	608.55	548.27
Agricultural	24.84	27.07	24.39
Meter Charges	3,010.42	3,279.67	2,954.82
Total Metered Service Revenues	12,751.50	13,892.00	12,516.00
Private Fire Protection Services	53.80	65.93	53.80
			-
Other Revenues:			
			-
Credit Charge Fees	-	25.53	-
Misc Revenues	12.33	12.33	12.33
Total Operating Rev.	12,817.63	13,995.80	12,594.26

TABLE C-1

GREAT OAKS WATER COMPANY

AVERAGE SERVICES

2010/2011

ITEM	DRA	GOWC	Adopted
	(A)	(B)	
Metered Service:			
Single Family Residential	19,242.00	19,242.00	19,242.00
Multi-Family Residential	475.00	475.00	475.00
Business	286.00	286.00	286.00
Industrial	46.00	46.00	46.00
Public Authorities	161.00	161.00	161.00
Schools	34.00	34.00	34.00
Private Landscaping	173.00	173.00	173.00
Agricultural	9.00	9.00	9.00
Total, General Metered Water Services	20,426.00	20,426.00	20,426.00
			-
Private Fire Protection Service	286.00	286.00	286.00
			-
Total Average Services	20,712.00	20,712.00	20,712.00

TABLE D-1

GREAT OAKS WATER COMPANY
Average consumption per customer (CCF)
2010/2011

Item	DRA Analysis (A)	Utility Estimated (B)	Adopted
Avg. Gen. Metered Ser. Water Usage:			
Single Family Residential	173.00	152.40	173.00
Multi Family Residential	1,630.00	1,464.45	1,630.00
Business	1,165.60	1,037.35	1,165.60
Industrial	2,511.90	2,235.56	2,511.90
Public Authorities	1,119.70	996.46	1,119.70
Schools	6,453.70	5,675.97	6,453.70
Private Landscaping	1,750.80	1,150.57	1,750.80
Agricultural	14,009.30	14,009.30	14,009.30
Private Fire Protection Service (Flat Rate Service)	-	-	-

TABLE E-1

TOTAL CONSUMPTION AND SUPPLY
(KCCF PER YEAR - 2010/2011)

Item	DRA (A)	Utility (B)	Adopted
Total Gen. Metered Ser. Water Sales:			
Single Family Residential	3,328.87	2,932.51	3,328.87
Multi Family Residential	774.25	695.61	774.25
Business	332.78	296.16	332.78
Industrial	115.55	102.84	115.55
Public Authorities	180.27	160.44	180.27
Schools	219.43	192.98	219.43
Private Landscaping	302.01	267.48	302.01
Agricultural	126.08	126.08	126.08
Subtotal, Metered Service, KCCF	5,379.22	4,774.10	5,379.22
Unaccounted for Water (%)	4.04%	4.04%	4.04%
Total Water Produced	5,605.70	4,975.10	5,605.70
Total Water Sales	5,379.22	4,774.10	5,379.22

TABLE F-1

GREAT OAKS WATER COMPANY
(2010/2011)

OPERATION AND MAINTENANCE EXPENSES

Item	DRA 2010/2011 (A)	Utility (B)	Adopted
At Present Rates	(Dollars in Thousands)		
Payroll Expenses			
Field Employees	709.18	795.90	709.18
Office Employees	266.40	301.40	266.38
Management	859.40	927.50	-
Total Payroll	1,834.98	2,024.80	975.56
Less Capitalized Payroll	(194.50)	(214.70)	(188.40)
Net Payroll Expenses	1,640.48	1,810.10	787.16
Operating Expenses Other than Payroll			
Groundwater Charges, Acct. 700	5,924.20	5,242.30	5,924.16
Purchased Power, Acct 726	683.20	606.30	683.20
Total Volume Related Expenses	6,607.40	5,848.60	6,607.36
Maintenance Expenses:			
Maint. of Pump Equip, Wells Acct 711/732	16.50	16.50	16.50
Chemicals & Filtering, Acct 744	0.05	0.05	0.05
Meter Expense, Acct 754	1.40	1.40	1.43
T&D Maint & Supv, Acct 753,758	0.77	0.77	0.77
Maint of Reservoirs & Tanks, Acct 760	-	-	-
Maint of T&D Mains, Acct 761	33.80	33.80	33.80
Maint of Services, Acct 763	33.30	33.30	33.31
Maint of Meters, Acct 764	7.30	7.30	7.31
Maint of Hydrants, Acct 765	16.00	16.00	16.02
Maint of General Plant, Acct 805	32.50	32.50	32.50
Total O&M Expenses	6,749.02	5,990.22	6,749.07
A&G Expenses:			
Customer Records & Collection, Acct 773	132.40	132.40	132.39
Credit Card Processing fees	-	25.50	-
Uncollectible Accounts, Acct 775	40.00	43.10	40.00
Office Supplies & other exp, Acct 792	45.10	45.10	45.10
Property Ins, Acct 793	76.20	76.20	76.18
Injuries & Damages, Acct 794	49.20	49.20	49.18
Employee Pensions & Benefits, Acct 795	415.10	415.10	415.08
Franchise Requirements, Acct 796	284.10	284.10	251.89
Rate Case Expenses, Acct 797	26.90	75.00	26.00
Outside Services, Acct 798	221.90	396.60	221.93
Misc. Gen Exp incl CWA Dues, Acct. 799	69.90	69.90	50.80
Rents, Acct 811	174.00	174.00	174.00
Transportation Exp, Acct 903	76.20	76.20	76.18
Total A&G Expense	1,611.00	1,862.40	1,558.73
Total O&M and A&G Exp. Other than Payroll	8,360.02	7,852.62	8,307.80
Total Operating Expenses including Payroll	10,000.51	9,662.72	9,094.97

TABLE G-1

GREAT OAKS WATER COMPANY

TAXES OTHER THAN INCOME
(2010/2011)

Item	DRA Analysis (A)	Utility Estimated (B)	Adopted	
Ad Valorem Tax:		177.51	223.01	177.51
Payroll Expense		-	0.533	
Licenses, incl DMV	-		10.39	
Payroll Taxes:				
FICA (Social Security)		68.90	100.43	65.00
FICA (Medicare)		22.70	33.09	15.20
FUTA		0.78	1.14	0.50
SUI		1.50	2.19	0.63
Total Payroll Taxes		93.88	136.84	81.33
Total Taxes other than income		271.39	370.78	258.84

Description	At Proposed Rates		
	2010-2011	2011-2012	2011-2012
Operating Revenues	\$12,581,933.0	\$12,506,438.5	\$12,470,715.0
Less:			
O&M/A&G	\$9,896,309.5	\$9,944,611.8	\$10,027,044.8
Taxes not on income	258,834.2	264,010.9	269,291.1
Interest	276,552.0	276,552.0	276,552.0
Book Depreciation	1,156,391.8	1,159,006.0	1,161,988.9
CCFT	67,975.6	56,126.3	44,821.1
Federal Taxable Income before DPAD	925,869.9	806,131.5	691,017.2
Pumped Water %	100.00%	100.00%	100.00%
Qualified Production Activities Income ("QPAI")	\$925,869.9	\$806,131.5	\$691,017.2
DPAD %	9%	9%	9%
DPAD	\$83,328.3	\$72,551.8	\$62,191.5

TABLE H -1

GREAT OAKS WATER COMPANY

Income Tax
2010/2011
Present Rates @2009

Item	DRA	Utility	DRA	Utility	Adopted
	(A)	(B)	(E)	(F)	
	(Dollars in Thousands)				
Operating Revenues	11,774.02	11,595.15	12,817.63	13,995.80	12,594.26
Expenses:					
Oper & Maint/A&G Expenses	8,360.02	7,852.62	8,362.87	7,852.62	8,307.82
Admin & Gen	-				
Payroll	1,640.48	2,024.80	1,640.48	2,024.80	1,588.49
Taxes Other Than Income	271.39	370.78	271.39	370.78	258.84
Deferred Income Taxes	70.17	70.17	70.20	70.17	70.17
Depreciation Expense	1,154.20	1,154.94	1,154.20	1,154.94	1,311.12
Interest Expense	301.09		301.09		276.55
Total Operating Expenses Excluding Income Taxes	11,797.35	11,473.30	11,800.23	11,473.30	11,812.98
Taxable Income, CCFT	(23.33)	3,000.50	1,017.40	3,000.50	781.28
CCFT Rate (8.84%)	8.84%	8.84%	8.84%	8.84%	8.84%
Current Calif. Corp. Franchise Tax	(2.06)	265.24	89.94	265.24	69.07
Deductions					
Tax Depreciation	(1,154.20)	(1,180.00)	(1,154.20)	(1,180.00)	(115.64)
Interest Expense	301.09		301.09		276.55
CCFT Taxable Income	(23.33)	3,000.50	1,017.40	3,000.50	781.28
CCFT (at 8.84%)	8.84%	8.84%	8.84%	8.84%	8.84%
FIT Taxable Income	(21.27)	2,526.60	927.46	2,526.60	677.82
FIT @ 34%	(3.19)		315.34		230.46
FIT (Before Adjustment)	(3.19)	859.10	315.34	859.10	230.46

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TABLE I

GREAT OAKS WATER COMPANY

PLANT IN SERVICE
Test Years 2010/2011 and 2011/2012

Item	DRA 2009/2010 (A) (Dollars in Thousands)	Utility (B)	DRA 2010/2011 (C)	Utility (D)	DRA 2011/2012 (E)	Utility (F)	DRA 2012/2013 (G)	Utility (H)	Adopted 2010/2011	Adopted 2011/2012	Adopted 2012/2013
Plant in Service-BOY	35,655.20	37,194.70	37,550.50	37,945.70	37,975.80	38,045.40	38,073.80	38,141.80	37,945.66	38,045.31	38,141.68
Additions:											
Utility Funded	1,779.90	811.00	485.50	160.00	160.00	160.00	160.00	160.00	160.00	160.00	160.00
Advances											
Contributions	189.10	1.00	0.50								
Total Additions	1,969.00	812.00	486.00	160.00	160.00	160.00	160.00	160.00	160.00	160.00	160.00
Less:											
Retirements	73.70	61.00	60.70	60.30	62.00	63.60	61.55	59.50	60.35	63.63	59.52
End of Year Balance	37,550.50	37,945.70	37,975.80	38,045.40	38,073.80	38,141.80	38,172.25	38,242.30	38,045.31	38,141.68	38,242.16
Average Plant in Service	36,602.85	37,570.20	37,763.15	37,995.55	38,024.80	38,093.60	38,123.03	38,192.05	37,995.49	38,093.50	38,191.92

A.09-09-001 COM/JB2/tcg

TABLE J

GREAT OAKS WATER COMPANY

ACCUMULATED DEPRECIATION AND EXPENSE
Test Years 2010/2011 and 2011/2012

Item	DRA EY 2009/2010 (A)	Utility (B) (Dollars in Thousands)	DRA TY 2010/2011 (C)	Utility (D)	DRA TY 2011/2012 (E)	Utility (F)	Adopted 2010/2011	Adopted 2011/2012	Adopted 2012/2013
Accumulated Depreciation (BOY)	15,754.20	16,275.10	16,820.20	17,367.60	17,913.70	18,463.70	17,367.53	18,463.57	19,558.95
Accruals During Year:									
Contributed Plant	143.50	143.50	143.50	143.50	143.50	143.50	143.50	143.50	143.50
Depreciation Expenses	996.20	1,010.00	1,010.70	1,012.90	1,013.40	1,015.50	1,012.89	1,015.50	1,018.48
Total Accruals	1,139.70	1,153.50	1,154.20	1,156.40	1,156.90	1,159.00	1,156.39	1,159.00	1,161.98
Add: Salvage	-	-	-	-	-	-	-	-	-
Less:									
Retirements	73.70	61.00	60.70	60.30	62.00	63.60	60.35	63.63	59.52
End of Year Balance	16,820.20	17,367.60	17,913.70	18,463.70	19,008.60	19,559.10	18,463.57	19,558.94	20,661.41
Avg. Accumulated Deprec.	16,287.20	16,821.35	17,366.95	17,915.65	18,461.15	19,011.40	17,915.55	19,011.26	20,110.18

TABLE K

GREAT OAKS WATER COMPANY

WEIGHTED AVERAGE DEPRECIATED RATEBASE

Item	DRA	Utility	DRA	Utility	DRA	Utility	Adopted 2010/2011	Adopted 2011/2012	Adopted 2012/2013
	EY 2009/2010 (A) (Dollars in Thousands)	(B)	TY 2010/2011 (C)	(D)	TY 2011/2012 (E)	(F)			
Utility Plant in Service	37,550.50	37,945.70	37,975.80	38,045.40	38,073.80	38,141.80	37,945.66	38,045.31	38,141.68
CWIP	330.90	330.90	330.90	330.90	330.90	330.90	330.90	330.90	330.90
Materials and Supplies	-	-	-	-	-	-	-	-	-
Working Cash, Ratemaking Year Basis	1,540.80	1,542.40	1,555.10	1,552.60	1,523.30	1,581.80	1,542.40	1,494.18	1,503.81
Deferred Debits	-	-	-	-	-	-	-	-	-
Total Additions to Ratebase	39,422.20	39,819.00	39,861.80	39,928.90	39,928.00	40,054.50	39,818.96	39,870.39	39,976.40
Less									
Average Accumulated Depreciation	16,820.20	17,367.60	17,913.70	18,463.70	19,008.60	19,559.10	17,915.55	18,463.57	19,558.94
Advances for Construction	6,984.70	7,062.10	6,934.50	6,806.90	6,679.30	6,551.60	7,062.10	6,806.86	6,551.61
Contributions in Aid of Construction	3,072.30	3,144.00	3,215.80	3,287.50	3,359.30	3,431.00	3,144.00	3,287.49	3,431.00
Deferred FIT	540.10	600.10	675.20	750.20	844.10	938.00	569.08	711.35	889.19
Unamortized Investment Tax Credits	63.20	58.50	53.10	47.70	44.10	40.40	58.50	47.74	40.38
Total Deductions from Ratebase	27,480.50	28,232.30	28,792.30	29,356.00	29,935.40	30,520.10	28,749.22	29,317.01	30,471.12
Net Ratebase	11,941.70	11,586.70	11,069.50	10,572.90	9,992.60	9,534.40	11,069.74	10,553.38	9,505.28
Interest Calculation									
Net Ratebase	11,941.70	11,586.70	11,069.50		9,992.60		11,069.74	10,553.38	9,505.28
Long Tern Debt Percentage	0.34	0.34	0.34		0.34		0.30	0.30	0.30
Cost of Debt	0.08	0.08	0.08		0.08		0.08	0.08	0.08
Interest	324.81	315.16	301.09		271.80		265.67	253.28	228.13

APPENDIX B

**Table 1
Comparison Chart of Proposed Residential Conservation Rates**

Topic	Proposed Decision	Great Oaks*	DRA**
Service Charge			
5/8-3/4" Current	\$7.96	\$7.96	\$7.96
Proposed	\$7.55	\$10.41	\$7.55
Low-Income Current	\$5.05	\$3.98	\$5.05
Proposed	\$3.775	\$5.205	\$3.775
Quantity Charge			
Current	\$1.894	\$1.894	\$1.894
Adopted	\$1.9167		
RevSBR		N/A	\$1.9167
Proposed			
Tiers #	3	1	3
Break ccf	0-13/≥14-32/>33	N/A	0-13/≥14-32/>33
Rates	\$1.770/\$1.9167/\$2.209	\$2.252	\$1.730/\$1.9167/\$2.289
Differ %	8% 15%	N/A	11% 19%
Ratio			
BMP 1.4			
Status			
(30/70)			
Current	26.6:73.4	26.6: 73.4	26.6: 73.4
Proposed	22.04:77.96	26.6: 73.4	22.04:77.96

*Great Oaks' proposed rates are taken from Exhibit 20

**DRA rate design model developed using adopted revenue requirement from decision.

Table 2
Illustrative Examples of Residential Service Charge Rates
(Based on 2010 Revenue Requirements)

<i>Meter Size</i>	<i>Rate</i>
5/8 x 3/4 inch	\$7.55
3/4 inch	\$15.10
1 inch	\$22.64
1.5 inch	\$37.74
2 inch	\$60.38
3 inch	\$113.22
4 inch	\$188.69
6 inch	\$377.39
8 inch	\$603.82
10 inch	\$868.00
12 inch	\$1,245.38
14 inch	\$1,698.25

Figure 1: Conservation Rate Design Procedure

1. First, calculate division-wide rates by traditional rate design procedures (Standard Practice U-07-W, para. 11) to obtain uniform rates, using GRC-adopted customers and sales quantities and GRC-adopted revenue amounts (as adjusted by subsequently effective advice letters) for the time period during which the proposed rates will be charged.
2. Convert the resulting low-income discount (50% of the service charge according to the CARW customer's meter size) into the dollar amount to apply as the CARW discount.
3. Calculate the amount of any required BMP 1.4 revenue shift from the monthly Service Charges to the Quantity Rates, based on the Commission-adopted targets. [This decision sets these targets as at least 77.96% of the adopted revenue requirement collected from the quantity revenues.]
4. Add the dollar amount of the required BMP 1.4 revenue shift determined under Step No. 3 to the adopted Residential Quantity Rate Revenue used in Step No. 1.
5. Calculate the Single (uniform) Quantity Rate to be used in the Water Revenue Adjustment Mechanism calculation for residential customers by dividing the dollar amount developed in Step No. 4 by the Adopted Annual Residential ccf Sales used in Step No. 1.
6. Segregate the Adopted Annual Residential ccf Sales between the three rate tiers using the adopted percentages. [This decision finds that 41.24% of the adopted ccf sales quantities will be in the 1-13 ccf/mo. first tier; 38.08% of the adopted ccf sales quantities will be in the 14-32 ccf/mo. second tier and that 20.68% of the adopted ccf sales quantities will be in the >32 ccf/mo. third tier.]
7. Using the adopted tiered rate differential, develop tiered Quantity Rates for residential customers that are designed to produce the exact same revenues as those produced by the uniform quantity rate determined in Step No. 5. [This decision sets the Tier 1/Tier 2 rate differential at 8% and the Tier 2/Tier 3 rate differential at 15%.]
8. Subtract the dollar amount of the required BMP 1.4 revenue shift determined under Step No. 3 from the adopted revenue requirement collected from the service charge for Residential customers.
9. Develop monthly service charges by meter sizes for residential customers by dividing the service charge revenue calculated in Step No. 8 by the adopted number of residential services. (This monthly service charge will be calculated by taking the service charge derived from the Adopted Residential Revenue Requirement multiplied by one minus the required BMP 1.4 percentage revenue shift and multiplying this product by Commission-adopted meter ratios to develop service charge rates for each meter size.)

(END OF APPENDIX B)

APPENDIX C

WATER/FLC:jrb

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

**RESOLUTION NO. W-4534
May 5, 2005**

R E S O L U T I O N

**(RES. W-4534), GREAT OAKS WATER COMPANY. ORDER
APPROVING ADVICE LETTER NO. 169-W.**

SUMMARY

This Resolution approves Great Oaks Water Company's (Great Oaks or Company) Advice Letter Number (AL No.) 169-W for a Litigation Expense Memorandum Account for the reasons shown.

BACKGROUND

Great Oaks filed AL No. 165 on December 13, 2004, to establish five memorandum accounts using the procedure described in the Water Division's Standard Practice U-27-W (Standard Practice or U-27-W). The U-27-W procedure requires water utilities to file in the "Preliminary Statement" part of the tariffs new tariff sheets with descriptions of the memo accounts. This is the method for establishing memo accounts used by energy and telecommunications utilities. Great Oaks requested five separate memorandum accounts including the following litigation expense memorandum account:

"A Santa Clara Valley Water District Memorandum Account to track litigation costs incurred to stop the Santa Clara Valley Water District from discriminating against the Company and its ratepayers in how it charges for water pumped from the ground as opposed to treated surface water,"

On December 29, 2004, the Office of Ratepayer Advocates (ORA) filed a protest to AL No. 165. ORA cited the provisions of Decision (D.) 02-08-054 wherein the Commission laid out four guidelines for the establishment of memo accounts:

1. The expense is caused by an event of an exceptional nature that is not under the utility's control;
2. The expense cannot have been reasonably foreseen in the utility's last General Rate Case (GRC) and will occur before the utility's next scheduled rate case;
3. The expense is of a substantial nature in the amount of money involved; and
4. The ratepayers will benefit by the memorandum account treatment adopted.¹

Water Division subsequently wrote Resolution Number (Res. No.) 4525 recommending rejection of AL No. 165. Great Oaks subsequently withdrew the advice letter.

On April 8, 2005, Great Oaks filed AL No. 169-W to add a new section to the preliminary statement in its tariffs to establish a memorandum account. The purpose of the account was to track the expenses of a lawsuit against the Santa Clara Valley Water District (District) to stop its practice of levying a "northern zone" pump tax upon the utility that is then passed through to utility customers through a balancing-type memorandum account. The suit would also request correction of misallocations between the water utility and flood control function managed by the District which causes pump tax to be increased more than otherwise necessary, and a refund of monies already overpaid to the extent permitted by the statutes of limitations. Great Oaks states that, if the litigation is

¹ D.02-08-054, August 22, 2002, "Interim Decision Authorizing the Creation of a Memorandum Account," in Application 01-09-062 et seq. *In the Matter of the Application of California Water Service Company (U 60 W), a Corporation, for an Order Authorizing It to Increase Rates Charged for Water Service at Each of Its Operating Districts to Recover Increased Operating Expenditures at Its General Office*", at 3.

successful, the ratepayers would save more than \$5,131,344 per year in pump tax, or about \$5.00 per customer per week.

However, unlike the Commission's usual practice of not passing through litigation costs if the utility loses the lawsuit, this memorandum account provides that, in the event the utility loses the suit, the ratepayers would pick-up up to \$100,000 of the legal costs (about \$5.00 per customer). That is the reason Water Division believes that a resolution is required.

DISCUSSION

In order for a regulated water utility to establish a memorandum account it must address the four criteria outlined above. In this filing the utility did so as follows:

“a. The Company has no control over the amount of pump tax imposed by this special governmental unit, and until the Fall of 2004 was unaware of the solid basis to challenge how the tax imposed.

“The Santa Clara Valley Water District is a countywide special district established by the California Legislature. The SCVWD is a dual agency that manages both the water resource and flood control throughout Santa Clara County. The SCVWD funds the water resource from pump tax on the water the Company draws from the ground and serves to its customers, and to a limited extent property tax. The pump tax is a pass through expense to the Company and is essentially paid 100% by customers. Total pump tax paid by the Company and customers in 2004 was \$5,131,344, or about \$100,000 a week or \$5 a customer a week.

“The SCVWD has divided the county into two pump tax zones North County and South County. The North County rate is about two times the South County rate. The essential SCVWD rationale for this distinction is that the North County zone has the facilities to create and use treated water, but treated water is not available to the South County zone.

“Great Oaks service territory bridges both zones. The Company has never connected to or used the treated water provided by the SCVWD. In fact, it is the often expressed desire of our customers that the Company never do so, because the Company's untreated ground water tastes much better, and has no treatment

byproducts. All other retail water providers in the north zone either use or are connected to the SCVWD treated water facilities.

“Despite this clear distinction the SCVWD has included most of Great Oaks wells and territory in the north zone. This means customers are currently paying much more for water than if the Company was fully included within the south zone. In addition to the forward looking savings, there is also the clear opportunity for rebate of the excess pump tax collected for the time allowed by the applicable statutes of limitation.

“The Company also believes that the SCVWD has inappropriately charged the water utility with part of the expenses that should be allocated to flood control in violation of the SCVWD’s enabling act. The impact of this misallocation is to increase the pump tax on water in both zones. In addition to the forward looking savings from proper allocations, there is also the clear opportunity for rebate of the misallocations for the time allowed by the applicable statutes of limitation.

“The legal basis for challenging both issues was not known to the Company before the Fall of 2004.

“b. The expense cannot have been reasonably foreseen in the utility’s last general rate case and will occur before the utility’s next scheduled rate case.

“The litigation and Memorandum Account were not contemplated in the Company’s last rate case order D.0312039 mailed December 19, 2003. The reason is that the Company did not learn of the basis to challenge how the pump tax is imposed until the Fall of 2004. Additionally, the Company did not learn of the misallocations until after that time. Time is of the essence, because every day that passes without the lawsuit filed means the Statute of Limitations eliminates another day of potential refund or rebate of tax paid or misallocated.

“c. The expense is of a substantial nature in the amount of money involved.

“As stated above, total pump tax paid by the Company and customers in 2004 was \$5,131,344, or about \$100,000 a week or \$5 a week per customer. If the litigation is successful the Company believes it will reduce this pass through expense by 50% or \$125 per customer a year or \$2.50 a week in current dollars and pump tax.

“d. The ratepayers will benefit by the memorandum account treatment.

“Because pump tax is a pass through expense, the Company’s view is any money recovered should belong to the ratepayers.

“The Company had requested this result in the context of Advice Letter 165 filed December 13, 2004, i.e. that ratepayers take the risk of the suit and obtain 100% of the benefit. The Company sought no reward, only to be protected from the cost of the litigation which only benefits ratepayers. However, in that filing the Company did not suggest any limit on the cost of the litigation that could accrue in the Memorandum Account.

“In the context of AL 165 ORA advised it was concerned about the potential cost and preferred the Company bear the risk of the litigation, and that after attorneys fees and costs were repaid would recommend 30% of the net proceeds go to the shareholders as a reward for taking the risk.

“AL 165 was withdrawn by the Company on February 23, 2005 because it included other matters not related to the SCVWD, which did not provide for a focused discussion on just the Water District.

“The Company has carefully considered ORA’s suggestions from AL 165.

“The Company has proactively responded to ORA’s comments by adding a cap on the proposed Memorandum Account, capping potential ratepayer risk for litigation expenses to \$100,000. This means for the risk equal to the cost of one week of pump tax the ratepayers will have the opportunity to have the tax they pay cut in half, which could mean a reduction of over \$2.5 million out of \$5 million annually in current dollars and tax. Despite the reward suggested by ORA, the Company believes that pass through expenses should be at the ratepayers’ risk and the potential reward to ratepayers is worth the minimal risk equaling one week’s additional tax.

“If the litigation is successful, then the expense of the litigation will first be charged against that recovery to the extent permitted by law, with only net cost remaining, if any, requested for recovery from ratepayers through the Memorandum Account.

“The Company requests that AL 169-W be allowed to go into effect or affirmatively authorized by the Commission. If allowed to go into effect or affirmatively authorized, the Company recognizes that no expenses can be converted from the Memorandum Account into rates without further Commission review and action.

“The tariffs also provide the accounting procedure from Standard Practice U-27-W, including the fact that only funds incremental to or additional to those authorized in the Company’s last rate case can be included.”

In its prior evaluation of this memorandum account when it was filed in AL No. 165, the Water Division said:

“The Santa Clara Valley Water District Memorandum Account seems to be a litigation memorandum account. The pursuit of this litigation would hopefully result in a readjustment by the Santa Clara Valley Water District (District) in how it covers its costs, shifting more costs to surface water customers and lowering the costs to Great Oaks and other groundwater customers. Great Oaks estimates savings of as much as \$2,500,000. While this may be a worthy endeavor, it needs to be discussed in the GRC. If there are going to be cost savings, this Commission should decide how they should be allocated. Also, lowering Great Oaks’ cost might result in raising other utility’s costs. For example, San Jose Water Company’s customers’ costs may increase since San Jose buys treated surface water from the District. Consideration of these and any other consequences is best addressed in a GRC.”

Since that time the Company has provided more information. It has contacted an outside law firm that believes the suit will be won, and that has committed to its costs being \$100,000 or less. (The only situation in which the Company thinks the cost may exceed \$100,000 would be if the Company has to do an audit. In that case the Company would recover those costs from the award if they win the suit, or would absorb them if it loses.)

With respect to San Jose Water Company’s customers seeing an upward pressure on their bills, the Water Division admits that it would not be nearly as large as the drop in Great Oak’s customer’s bills since it would be spread over a substantially larger customer base.

Normally, when a utility litigates, it would hope to get an award that gives it some monies over its costs. Great Oaks has chosen not to pursue the lawsuit independently, where, if it won, it could bank the lower costs until its next general rate case. Instead it will immediately lower rates and surcredit any dollars received for past overpayments. This may constitute some basis for having the customers pick up the first \$100,000 or litigation costs if the Company loses.

Water Division understands Great Oak's urgency to go forward with the litigation considering the substantial costs which could be saved. Additionally the utility has coordinated with the ORA. ORA did not protest this advice letter. Consequently, and because spreading of the \$100,000 across Great Oak's approximately 20,000 service connections could be considered *de minimus*, Water Division recommends the Commission approve the memorandum account.

NOTICE AND PROTESTS

Because the AL requested no rate changes, no public notice was required. The AL was sent to the standard service list.

COMMENTS

This is an uncontested matter subject to the public notice comment exclusion provided in Public Utilities Code Section 311(g)(3). Comment was received from the ORA that the granting of this memorandum account shall not set precedent for the treatment of legal expenses incurred in the normal business operations of the Company.

FINDINGS

1. The Commission has promulgated four guidelines for the establishment of memorandum accounts during the General Rate Case cycle.
2. Great Oaks has adequately addressed those four guidelines in its Advice Letter Number 169-W.
3. Great Oaks is scheduled to file a General Rate Case in July of 2005.
4. The Santa Clara Valley Water District Memorandum Account could have substantial ratepayer benefits. Those benefits would be more substantial if the lawsuit were started as soon as possible.

5. The lawsuit does not raise any known critical issues that would require that it be analyzed in a General Rate Proceeding.

THEREFORE IT IS ORDERED THAT:

1. Great Oaks Water Company's Advice Letter No. 169-W is approved.
2. This memorandum account shall not set precedent for the treatment of legal expenses incurred in the normal business operations of a water utility.
3. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on May 5, 2005; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director

MICHAEL R. PEEVEY
President
GEOFFREY F. BROWN
SUSAN P. KENNEDY
DIAN M. GRUENEICH
Commissioners

I abstain.

/s/ JOHN A. BOHN
Commissioner

PRELIMINARY STATEMENT
(Continued)

F. Memorandum Accounts.

(N)

1. The Company by this tariff has established a Santa Clara Valley Water District Memorandum Account to track the costs related to litigation against the Water District. The Memorandum Account is capped at a maximum of \$100,000.

a. The purpose of the litigation is to end the Water District's practices of: cross-subsidizing flood control from water production; cross-subsidizing treated water from ground water; and, discriminating against the Company and its ratepayers in how the Water District charges for water the Company pumps from the ground. These charges are imposed using a pump tax, and 100% of the pump tax is passed through to customers. The pump tax is assessed in two zones, north and south county. The south county zone pump tax is about 50% of the north county zone. The Water District's rationale for the difference is that the north county zone has and uses treated water, which is not available in the south county zone. The Company's territory bridges the zones. The Company has never been connected to or used treated water. All other north zone water retailers use or are connected to the Water District's treated water. Despite this clear distinction the Water District has included most of the Company's wells and territory in the north zone. Customers thereby pay 50% more for water in current dollars as a pass through expense than if the Company were fully within the south zone. Additionally, the Water District has misallocated costs from flood control to the water utility causing the pump tax to be higher.

b. The pump tax expense is a pass through that only impacts customers, and not the Company. The Company will track the costs of the litigation in the Memorandum Account in this tariff. If the litigation is successful the regular Commission practice is to permit the recapture of the expense of the litigation—subject to a reasonableness review—with the net proceed going 100% to ratepayers. The Company agrees to cap the total litigation expense for a successful judgment at the \$100,000 in the Memorandum Account plus a maximum of \$300,000 which may have accrued at the Company's risk. If successful the judgment could take several forms. If the Company is shifted into the south zone prospectively only or/and other misallocations are corrected with no cash money everything will be booked to the Memorandum Account and the Company will file an Advice Letter to recover the expense of the successful litigation—subject to a reasonableness review—and reduce rates, subject to full notice and review. If the judgment also includes a refund of cash money then the Company expects to offset the expense of the litigation first against the cash money—subject to a reasonableness review—with 100% of the balance going to ratepayers. The Company will book what it receives to the Memorandum Account and file an Advice Letter to initiate this review and rate reduction subject to full notice and review. If the litigation is *not* successful then the Company intends that customers repay the litigation expenses—subject to a reasonableness review-- in future rates capped at a maximum of \$100,000 which is equivalent to one week of current pump tax or about \$5 per customer total.

2. The costs which will be booked to the Memorandum Account include attorneys' fees, court fees, general litigation expenses and expert witness fees. None of these costs or this litigation were contemplated or included in the Company's last rate case D. 0312039.

3. If any recovery of the expenses from the Memorandum Account is requested, it will be in an appropriate proceeding for which a new public notice to ratepayers will be provided. Establishing this Memorandum Account and tracking the expenditures does *not* authorize any monetary recovery by the Company from ratepayers without further specific public notice to ratepayers, a reasonableness review, and CPUC authorization.

(To be inserted by utility)

Issued by

(To be inserted by Cal. P.U.C.)

Advice Letter No. 169

Alan J. Gardner

Date Filed APR - 8 2005

Decision No. _____

NAME
Chief Operating Officer

Effective MAY - 5 2005

Resolution No. W 4 5 3 4

PRELIMINARY STATEMENT
(Continued)

4. The Accounting Procedure from Commission Standard Practice U-27 will be used for this Memorandum Account.

a. The expenses or capital investment to be included in the Memorandum Account must be additional or incremental to those allowed in the Company's last general rate case proceeding. The Company shall make entries to the Memorandum Account at the end of each month in the following manner:

1. Debit entries equal to the incremental or additional amounts recorded in the Company's operations, maintenance, administrative and general expense accounts that were incurred as a result of the triggering event.
2. Debit entries equal to the depreciation and/or amortization amounts of new or replacement utility plant installed to continue the provision of uninterrupted services to customers.
3. Debit entries equal to the return on investment on the average monthly balance of new or replacement utility plant installed in 2.a.2 above.
4. Credit entries equal to the proceeds reimbursed by the Company's insurance or governmental grants covering the triggering event.
5. Credit or debit entries to transfer all or a portion of the balance in the Memorandum Account to other adjustment clauses for future rate recovery as may be approved by the Commission.

b. The Company shall also file an Advice Letter to the Commission detailing any utility plant retired from service and the proposed rate making adjustment for such plant.

(To be inserted by utility)

Issued by

(To be inserted by Cal. P.U.C.)

Advice Letter No. 169

Alan J. Gardner
NAME

Date Filed APR - 8 2005

Decision No. _____

Chief Operating Officer

Effective MAY - 5 2005

Resolution No. W 4 5 3 4

(END OF APPENDIX C)

APPENDIX D



California Public Utilities Commission
Division of Water and Audits

FINANCIAL & COMPLIANCE VERIFICATION

OF

GREAT OAKS WATER COMPANY

(WTA - 162)

For the Period
March 1, 2009 through June 30, 2010

Prepared by
The Division of Water and Audits
August 20, 2010

Financial & Compliance Verification
of
Great Oaks Water Company (WTA 162)
For the Period March 1, 2009 through June 30, 2010

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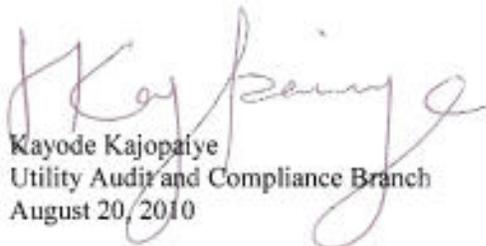
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Independent Verification Opinion

This independent verification opinion is being provided pursuant to the Assigned Commissioner John A Bohn (Commissioner) and Administrative Law Judge (ALJ) Christine M. Walwyn's (ALJ) June 21, 2010 joint ruling (Commissioner and ALJ joint ruling) to reopen the evidentiary record in Great Oaks Water Company's (Great Oaks) General Rate Case (GRC) Application 09-09-001, dated September 3, 2009.¹ That Commissioner and ALJ joint ruling directed the Division of Water and Audits (DWA) to verify how Great Oaks processed and accounted for its ratepayer provided pump tax funds as set forth in Ruling # 2 of the Commissioner and ALJ joint ruling. The DWA assigned its Utility Audit, Finance and Compliance Branch (UAFCB) to conduct the verification.

UAFCB conducted its verification consistent with the applicable attestation standards established by the American Institute of Certified Public Accountants (AICPA), and accordingly included verification of Great Oaks' records, on a test basis, and examining other relevant documentation, including but are not limited to the Commission's directives, to afford a reasonable basis for an opinion with regards to the verification. UAFCB believes it has performed the necessary procedures and collected sufficient evidential material in expressing its opinion.

In UAFCB's opinion, Great Oaks' treatment of its pump tax funds was not in compliance with Public Utilities Code (PUC) §§ 451 and 794, the Commission Uniform System Of Accounts for Class A Water Utilities, and Commission Decision 04-06-018. In addition, the UAFCB verified that Great Oaks: (1) has established an escrow-type account with Waddell & Reed Services (W&R) to set aside its withheld pump tax funds; (2) has an account balance in the escrow account of \$5,363,124, as of June 30, 2010; (3) has not withdrawn any fund from the escrow-type account; and (4) has not included the interest and penalties imposed by SCVWD in its GRC application, thereby confirming that Great Oaks has not passed on the interest and penalties associated with pump tax late payments to its ratepayers.


Kayode Kajopaiye
Utility Audit and Compliance Branch
August 20, 2010

¹ See Assigned Commissioner and Administrative Law Judge's Ruling Addressing the Motion of the Division of Ratepayer Advocates to Reopen the Record and Issue an Order to Show Cause.

Financial & Compliance Verification
of
Great Oaks Water Company (WTA 162)
For the Period March 1, 2009 through June 30, 2010

I. Executive Summary²

Pursuant to a June 21, 2010 Assigned Commissioner A. Bohn and Administrative Law Judge (ALJ) Christine M. Walwyn's joint ruling (Commissioner and ALJ joint ruling), the Utility Audit, Finance and Compliance Branch (UAFCB) of the Division of Water & Audits (DWA) verified specific ratepayer-funded pump tax payment records of Great Oaks Water Company (Great Oaks) for the period March 1, 2009 to June 30, 2010.³ UAFCB's findings are summarized below:

1. Great Oaks deposited its ratepayer-provided pump tax funds in an "escrow-type account" (a money market mutual fund account) with Waddell & Reed Services (W&R), rather than a banking entity. As of June 30, 2010, deposits in the escrow-type account total \$5,363,124.01, including interest earned.⁴ (Refer to Section IV, Goal 1 of this report for details.)
2. Great Oaks did not make any withdrawals from the aforementioned "escrow-type account" during the verification period. Great Oaks is setting aside its Santa Clara Valley Water District (SCVWD) pump tax payments in the escrow-type account pending the outcome of a lawsuit. (Refer to Section IV, Goal 2 of this report for details.)
3. Great Oaks did not hold ratepayers liable for the late payment interest and penalty charges imposed by SCVWD on the withheld pump tax payments. Great Oaks recorded the interest and penalty charges in its Income Statement at the expense of its shareholders. (Refer to Section IV, Goal 3 of this report for details.)
4. Great Oaks used the Financial Accounting Standard Statement #5 (FAS #5) to support its action of not disclosing to the Division of Ratepayer Advocates (DRA) and the Commission that it withheld pump tax payments to SCVWD and the establishment of an escrow type account. With regard to the disclosure requirements, UAFCB is unaware of Great Oaks being out of compliance with Generally Accepted Accounting Principles (GAAP) requirements. However, UAFCB found that Great Oaks is not in compliance with Public Utilities Code (PUC) §§ 451 and 794, the Uniform System of Accounts (USOA) for Class A Water Utilities, and D.04-06-018. (Refer to Section IV, Goal 4 of this report for details.)

² Appendix A describes the abbreviations and acronyms used in this report.

³ See Assigned Commissioner and Administrative Law Judge's Ruling Addressing the Motion of the Division of Ratepayer Advocates to Reopen the Record and Issue an Order to Show Cause.

⁴ Per W&R's July 28, 2010 confirmation letter.

II. Background

Great Oaks filed its General Rate Case (GRC) Application (A.) 09-09-001 (A.09-09-001 or GRC application) on September 3, 2009 and requested a \$1,846,100 increase in its revenue requirements. Among the expenses that Great Oaks filed for recovery were pump taxes. Evidentiary hearings for Great Oaks were concluded on January 29, 2010.

On March 19, 2010, DRA filed a motion to reopen the GRC evidentiary record to admit Great Oaks' nondisclosure of lack of payment of pump taxes to SCVWD, and to request that the Commission issue Great Oaks an Order to Show Cause for a violation of Rule 1.1⁵ and a possible violation of PUC §2114.⁶

On June 21, 2010, the Commissioner and ALJ joint ruling reopened the evidentiary record of Great Oaks' GRC application. The Commissioner and ALJ joint ruling directed DWA to verify four specific items, outlined in Section III-B of this report.⁷

III. Verification of Records

UAFCB started its verification tasks on June 18, 2010, and completed its field work on July 28, 2010. The UAFCB applied applicable auditing standards including, but not limited to, the Codification of Statements of Standards for Attestation Engagements, Numbers 1-12, as set forth by the American Institute of Certified Public Accountants (AICPA).

A. Verification Scope

The scope of UAFCB's verification included:

1. Deposits into the pump tax escrow account from March 1, 2009 to June 30, 2010; and
2. SCVWD's invoices from March 1, 2009 to June 30, 2010, including interest and penalties.

⁵ Rule 1.1 relates to ethics as defined in the Commissioner and ALJ joint ruling to reopen records... (dated June 21, 2010, page 4).

⁶ PUC §2114 re misrepresentation issues as defined in the Commissioner and ALJ joint ruling to reopen records... (dated June 21, 2010, page 4).

⁷ Commissioner and ALJ joint ruling, pages 11 & 12.

B. Verification Goals

UAFCB's verification goals as set forth in the Commissioner and ALJ joint ruling include:

Goal 1 – That Great Oaks' assertion that its ratepayer provided pump tax funds are being held in a separate bank account;

Goal 2 – That Great Oaks' separate bank account has provisions which require approval from Santa Clara County Superior Court for these funds to be dispensed to an entity other than the Santa Clara Valley Water District (SCVWD);

Goal 3 – That Great Oaks' accounting entries reflect its assertions that ratepayers are not liable for late payment interest and penalty charges relating to the withheld pump tax payments; and

Goal 4 – That Great Oaks' failure to inform Division of Ratepayer Advocates (DRA) and the Commission of its actions of withholding the pump tax funds from SCVWD did not violate any GAAP or the Commission's accounting or reporting requirements.

C. Verification Procedures

UAFCB performed the following verification tests to achieve its verification goals:

1. Requested that Great Oaks provide W&R's March 1, 2009 through June 30, 2010 quarterly statements and the prepared confirmation letter signed by Great Oaks and hand delivered to W&R.
2. Compared the W&R quarterly statements to W&R's confirmation letter of June 30, 2010.
3. Requested that Great Oaks provide SCVWD's March 1, 2009 through June 30, 2010 invoices.
 - a. Verified pump tax balances, including interest and penalty charges pertaining to withheld pump taxes.
 - b. Reconciled pump taxes, interest and penalties from SCVWD's invoices to Great Oaks' Well Meters Reports.
4. Reconciled monthly deposits shown in Great Oaks' Well Meters Reports to SCVWD's invoices and W&R's quarterly statements.
5. Researched GAAP statements, the California Public Utilities Code, and the Commission's directives to determine whether Great Oaks is in compliance with disclosure requirements regarding its lack of disclosure to DRA or the

Commission of withholding its SCVWD pump tax payments and establishing an escrow-type account with W&R.

IV. Verification Findings

Based on the application of the above verification goals and tests, the UAFCB found that:

Goal 1 - Separate Bank Account

UAFCB verified that Great Oaks did not open a separate "bank" account to deposit the withheld pump tax payments funded by its ratepayers. Instead, Great Oaks opened an "escrow-type account" with W&R, a financial services company.⁸ The escrow-type account was opened in May 2009 for the purpose of depositing and securely holding pump taxes imposed by SCVWD until a legal determination is made on the legality of the pump taxes.

Great Oaks' escrow-type account in W&R is similar to a money market mutual fund account. It is not a regular bank account where interest, if any, is easily computed. The deposits in the escrow account show Market Value as of the end of a quarter and at year end. Similarly, the deposits earn dividends which in turn are reinvested. The dividends earned fluctuate every month. In Year 2009, deposits made from May 2009 to December 2009, earned \$7,363; while deposits made from January 2010 through June 2010, earned just \$638 in dividends. There is a significant difference between the 2009 and 2010 dividends earned.⁹ According to W&R, Great Oaks' escrow-type account received an annual yield of .02% as of July 27, 2010.

The information provided by Great Oaks to UAFCB could not be used to verify that the money market account is in fact an escrow account in terms of how such accounts are normally structured or that the principal amount in excess of \$5 million in that account is secure and not subject to losses from periodic revaluation of the money market share prices or risk from maintenance fees exceeding any earned interest. As noted in W&R's investment disclosure statement on its web site, the investment products it offers are subject to investment risks, including possible loss of the principal invested.

The funds that Great Oaks deposited into the escrow-type account with W&R were based on its Well Meters Reports rather than on funds actually collected from its customers. Although the deposits were supported by Great Oaks' Well Meters Reports, UFACB was not able to reconcile the deposits in W&R escrow-type account to the amounts collected from its customers. The non-surcharge components of pump taxes collected as revenue is embedded in tariff rates for service charges and quantity charges.

⁸ As reported by W&R, the account is a money market mutual fund, ticker symbol UNCXX.

⁹ W&R uses the term "Interest" instead of "Dividend" in its statements.

Pursuant to Great Oaks' December 5, 2008 Advice Letter No. 192-W, Great Oaks was allowed to collect a surcharge of \$0.092 from all customer bills for a pump tax increase imposed by SCVWD, effective July 1, 2007. In addition, all customers were subject to a second surcharge of \$0.10 for the increased pump tax imposed by SCVWD effective July 1, 2008. These surcharges represent only the incremental portion of the total pump tax expenses.

Great Oaks bills its customers on a bi-monthly basis and read their meters prior to billing. For example, a meter read in the middle of July, covers a customer's water usage during May, June and July. In addition, Great Oaks prepares "Water Production Statements" reporting to SCVWD the amount of water pumped from its wells on a monthly basis. The water pumped is measured by "acre foot." The Water Production Statements are due to SCVWD on or before the 30th day following the end of the month. The statements include information on its wells and meters located in the north end (16 wells) and the south end (3 wells) of the County, and current month and previous' water production readings on a running total basis.

Upon submission of its Water Production Statements to SCVWD, Great Oaks makes a deposit into its W&R escrow account using the amount of the pump taxes indicated in the Water Production Statements.

To verify whether Great Oaks made timely deposits into the separate account, UAFCB selected a sample of Great Oak's documentation for certain months in 2009 and for the period of January to June 2010. UAFCB analyzed this documentation, including W&R's statements, SCVWD's invoices, and Great Oaks' Well Meters Reports.

SCVWD sends its monthly invoices to Great Oaks showing the volume of water pumped from Great Oaks' wells with corresponding pump tax amounts, plus any interest and penalties for late payments.

In Appendix B, UAFCB presents a summary reconciliation of the pump taxes per Great Oaks' Water Production Statements, W&R statements, and SCVWD invoices, excluding interest and penalties.

Goal 2 - Withdrawals from Separate Bank Account

UAFCB verified that there weren't any withdrawals from the pump tax escrow-type account during UAFCB's March 1, 2009 through June 30, 2010 verification period. The amount of deposits plus interest earned in the W&R account through June 28, 2010 is \$5,363,124.

UAFCB's verification was based on its review and analysis of Great Oaks' statements reflecting pump tax deposits made to the escrow-type account controlled by W&R. UAFCB reviewed and analyzed W&R's quarterly statements and traced the entries back to Great Oaks' accounting entries, statements, and reports. UAFCB confirmed that the W&R quarterly statements reflect the monthly deposits made by Great Oaks. These

W&R statements identified interest earned as “dividend reinvested” and monthly deposits as “Shares Purchased.”

UAFCB was not able to verify that the trust-type account has a provision that requires approval of the Superior Court of the County of Santa Clara before any of the funds can be dispensed to an entity other than SCVWD. According to Great Oaks’ July 6, 2010 response to UAFCB’s Data Request No.1, “The restrictions on the (escrow) account are not provided by the account itself, but are instead based upon the instructions from Great Oaks’ Chief Executive Officer, to Great Oaks’ Chief Financial Officer, Vicki Mores, to open the (escrow-type) account for the purpose of depositing and securely holding groundwater charges imposed by the Santa Clara Valley Water District until a legal determination is made on the disposition of the funds.”

Goal 3 - SCVWD Interest & Penalty Charges

UAFCB verified Great Oaks’ accounting entries regarding SCVWD’s late payment interest and penalty charges included in SCVWD’s pump tax invoices from March 1, 2009, to June 30, 2010. Those late payment interest and penalty charges are due to Great Oaks withholding payments of the pump taxes. In Appendix C, UAFCB shows the breakdown of interest and penalties on a monthly basis through June 30, 2010. In the following table, UAFCB shows the total interest and penalties through June 30, 2010.

Table A
 Great Oaks Water Company, Inc.
 Interest and Penalty Charges Assessed by SCVWD
 From March 1, 2009 through June 30, 2010

Period	Interest	Penalties	Total
March 2009 to December 2009	\$156,284	\$35,499	\$191,783
January 2010 to June 2010	<u>267,696</u>	<u>29,737</u>	<u>297,433</u>
Total through June 30, 2010	<u>\$423,980</u>	<u>\$65,236</u>	<u>\$489,216</u>

Note: Great Oaks’ Balance Sheet as of June 30, 2010 shows on Account 230.100 for Interest & Penalties Payable, \$191,783 for 2009 and \$297,430 for 2010.

UAFCB also verified that Great Oaks recorded the Interest and Penalties in its accounting records “below-the-line” (non-utility). Great Oaks did not include the charges in its operating expense accounts for ratemaking purposes. Hence, Great Oaks’ ratepayers are not liable for any interest and penalty charges relating to its withholding of pump tax payments to SCVWD.

UAFCB also reviewed Great Oaks’ 2008 and 2009 Annual Reports filed with the Commission’s DWA. Great Oak’s Profit and Loss Statement for 2009 shows that it recorded \$191,783 of non-utility interest/penalty charges in Account 535 – Other Interest Charges.

Further, Great Oaks filed its last GRC application in 2009 using 2008 recorded operating expenses. Because the current issue of interest and penalty charges on pump taxes relates only to calendar years 2009 and 2010, UAFCB was unable to verify the interest and penalty charges for 2009 and 2010 in the 2009 GRC application documents, or if they were in fact excluded from operating expenses.

However, UAFCB did verify that only utility operating expenses for 2008 were considered in Great Oaks' last GRC filing. UAFCB compared Great Oaks' 2008 Profit & Loss Statement of its Annual Report and the 2009 GRC application operating expenses work-papers. Great Oaks excluded non-utility items, including interest and penalty charges from SCVW, from its GRC application. Therefore, Great Oaks' ratepayers have not been harmed for any interest and penalty charges resulting from its non-payment of pump taxes to SCVWD.

Goal 4 - Compliance with GAAP and the Commission's Accounting and Reporting Requirements

UAFCB found that although Great Oaks was in compliance with GAAP, it is not in compliance with PUC §§ 451 and 794, the USOA for Class A Water Utilities, and D.04-06-018, as detailed below:

A. Compliance with GAAP:

Great Oaks used the following sources and references to support its assertions that the collected pump tax fees were recorded in accordance with GAAP and disclosed in its financial statements.

1. Financial Accounting Standards – Statement No. 5 (FAS #5) – Accounting for Contingencies
2. Decision 07-05-062 dated May 24, 2007, Order Instituting Rulemaking to Consider Revisions to the GRC Plan for Class A Water Companies – Minimum Data Requirement of the Plan
3. Water Standard Practice U-38-W, the USOA for Class A Water Utilities
4. Water Standard Practice U-26-W, Adjusting and Estimating Operating Expenses of Water Utilities

FAS #5 requires that losses from a contingency be accrued in the financial statements as long as both of the following conditions are met (FAS #5 - ¶8):

1. Information available prior to issuance of the financial statements indicates that it is *probable* that an asset had been impaired or a liability had been incurred at the date of the financial statements (FAS #5 – ¶8a).
2. The amount of loss can be reasonably estimated (FAS #5 - ¶8b)

FAS #5 states that if one of the above conditions is not met, disclosure of the contingency losses may be necessary in order to make the financial statements not misleading. (FAS #5 -- ¶11).

Additionally, FAS #5 states that "Disclosure of the nature of an accrual, and in some circumstances the amount accrued, may be necessary for the financial statements not to be misleading." (FAS #5 -- ¶9).

Based on the above requirements, Great Oaks properly applied GAAP in classifying its withheld pump taxes as Accounts Payable or Accrued Payable, under its current liabilities, in its financial statements. However, Great Oaks did not make a disclosure statement in its financial statements since FAS #5 does not require it to do so.

Great Oaks reported the deposit amount in the escrow-type account with W&R as "Assets in Investment Firms" under Account 123.000. As of June 30, 2010, the balance in Great Oaks' Account 123.300 was \$5,363,040. At the same time, the balance in Great Oaks' Account 230.100 for Pump Taxes Payable – Other was \$5,355,123. The difference between these accounts was \$7,917, which was the interest earned (dividends reinvested) in the W&R escrow type account for 2009 & 2010.

B. Compliance with Commission's Directives Regarding Accounting and Reporting Requirements:

UAFCB conducted an independent research of the Commission's accounting and reporting requirements to determine whether Great Oaks' failure to inform DRA and the Commission of withholding its pump tax payments violated any Commission accounting or reporting requirements.

Initially, UAFCB found that PUC Sections 453(a) and 794, and Commission D.50185 were relevant in determining whether any such accounting or reporting violation occurred. UAFCB issued a July 22, 2010 data request to Great Oaks seeking reasons why its failure to disclose its withholding of pump tax payments did not violate those Commission authoritative pronouncements, as detailed in Appendix D. Great Oaks's comments, dated July 27, 2010, in response to the data request are included in Appendix E to this report.

Subsequent to the receipt and review of Great Oaks' response, UAFCB concluded that PUC Section 453(a) was not relevant in the pump tax issue. However, UAFCB subsequently concluded that PUC Section 451 and D.04-06-018 are relevant to the pump tax issue.

As shown by the following chronological events, Great Oaks had ample opportunities to properly account and report the pump tax issue prior to DRA's March 2, 2010 motion seeking to reopen the GRC record:

April 2009	Great Oaks Stopped Paying the Pump Tax Bills
June 9, 2010	Superior Court Ruled SCVWD Improperly Calculated Pump Taxes
September 3, 2009	Great Oaks Filed Its GRC
October 19, 2009	Great Oaks Updated GRC & Corrected Work Papers
January 23, 2010	Great Oaks Corrected Work Papers
January 2010	Evidentiary Hearings
February 3, 2010	Superior Court Awarded Great Oaks A Monetary Judgment
February 23, 2010	Opening Briefs Filed
March 2, 2010	Reply Briefs Filed
March 19, 2010	DRA Motion To Reopen GRC Record

1. PUC Section 794

PUC Section 794 authorizes the Commission to, after notice, and hearing if required within 15 days after receipt of notice, to prescribe by order the accounts in which particular outlays and receipts shall be entered, charged, or credited. Where the Commission prescribes the forms of accounts, records, or memoranda to be kept by any public utility for any of its businesses, it is unlawful for such public utility to keep any accounts, records, or memoranda for such business other than those so prescribed.

The Commission exercised that authority for Class A Water Utilities in its establishment and adoption of the USOA for Class A Water Utilities on June 29, 1954, pursuant to D.50185 (53 CPUC, at 258, identified but not reported). That USOA for Class A Water Utilities was incorporated into DWA's Standard Practice U-38-W. Great Oaks, being a Class A Water Utility, is required to maintain its accounting records in conformance with the adopted USOA for Class A Water Utilities.

2. Uniform System of Accounts (USOA)

The UAFCB has concludes that Great Oaks pump tax accounting is not in compliance with the USOA cost definition, disclosure procedure and interpretation as explained in the following paragraphs:¹⁰

Cost Definition

The USOA defines "Cost" to mean the amount of money actually paid for property or services or the cash value at the time of the transaction of any consideration other than money. Although Great Oaks has collected pump tax payments representing approximately 38% of an average residential bill from its ratepayers as pass-through operating expenses for ratemaking purposes, it has

¹⁰ Great Oaks also records its pump tax expenses in its Account #700, an account which is not listed in the USOA and which UAFCB was unable to find any records of Great Oaks requesting and receiving Commission authorization to create and use that account for pump tax expenses.

withheld making those payments to SCVWD since April 2009. Great Oaks' withholding of costs without full disclosure is not consistent with the cost definition. Great Oaks is not in compliance with this accounting requirement.

Disclosure Procedure

As specified in Sections 2.A. and 2.B. of the USOA Standard Practice, Class A Water Utilities are required to disclose not only their accounting records in a limited technical sense but also all other relevant information to permit a ready identification, analysis, and verification of all of the facts. Great Oaks' recording of billed pump taxes as operating expenses while withholding payments is relevant information that needs to be disclosed for the Commission to consider whether Great Oaks recorded pump tax expenses are reasonable.

Interpretation

As specified in page 8, Section 4 of the USOA, procedures were established for Class A Water Utilities to maintain accounting uniformity. To accomplish accounting uniformity Class A Water Utilities are required to request questions of doubtful interpretation to the Commission for consideration and decision. Great Oaks' recording of the pump tax operating expenses and recovering of these operating expenses while withholding payments and placing the collected monies into an escrow-type money market account is an unusual regulatory accounting event that meets the doubtful interpretation requirement and should have been brought before the Commission for review and approval.

3. Reporting Rate Case Estimates

In 2004, the Commission revised the reporting requirements for rate case estimates pursuant to D.04-06-018. UAFCB has concluded that Great Oaks is not in compliance with D.04-06-018's revised GRC reporting requirements adopted by the Commission on June 17, 2004. Great Oaks' non-compliance occurred in the reporting of forecast and contentious issues.

Forecast

A test year forecast allows the utility to project expected costs and determine the revenue requirement to recover those costs, and for the Commission to tailor the rate charges to *match anticipated cost* charges (emphasis added). Great Oaks forecasted approximately \$5.2 million in pump tax operating expenses for the test year 2010-2011, \$5.3 million in escalation year 2011-2012, and \$5.4 million in escalation year 2012-2013. However these operating expense estimates were not tailored to match anticipated cost charges because they were based on recorded pump tax operating expenses that Great Oaks knew were deemed illegal by the Superior Court of Santa Clara and subject to further litigation.¹¹ Great Oaks is

¹¹ As noted in Great Oaks April 12, 2010 response to DRA's Motion on pages 11 and 12, the court declared that SCVWD violated Proposition 218 by collecting a groundwater extraction fee without proper notice and voter approval and that SCVWD still has not complied with Proposition 218 by failing to secure voter approval of groundwater charges.

not in compliance with reporting reasonable test year and escalation years' pump tax operating expense estimates.

Contentious Issues

The Contentious Issues Section in D.04-06-018's appendix requires a utility to address contentious issues as part of its GRC. This section requires utilities to report by "List all significant issues not previously addressed by the Commission. Include the dollar impact of these issues, and a brief summary of the utility's rationale with cross-references to supporting testimony." Great Oaks failure to factually report its withholding of pump tax payments in its GRC precludes the Commission from taking into consideration all facts in authorizing a fair and reasonable test year pump tax operating expenses for the test year and escalation years. Great Oaks is not in compliance with the contentious issue reporting requirement.

4. PUC Section 451

PUC Section 451 requires, among other matters, that all charges demanded or received by any public utility for any product or commodity furnished or any service rendered or to be rendered shall be just and reasonable. Every unjust or unreasonable charge demanded or received for such product or commodity or service is unlawful. Great Oaks is not in compliance with this code section because it withheld information necessary for the Commission to establish fair and reasonable recovery of pump tax operating expenses.

V. Verification Recommendations

Based on the above verification findings, the UAFCB recommends the following:

Goal 1 – Separate Bank Account

Great Oaks should provide the Commission's DRA with the conditions, requirements, agreements, instructions, etc. for the separate escrow-type account opened with W&R which Great Oaks was not able to provide during UAFCB's verification fieldwork. Great Oaks should be required to transfer the entire balance in its W&R escrow-type account into a secured and separate "bank escrow" account or to a regular standard bank account.

Great Oaks should propose as part of its next GRC rate design filing a method to separate out the total pump tax component collected as revenue via surcharges, service charges, and quantity charges if pump tax is still an operating expense.

Goal 2 – Withdrawals from Separate Bank Account

To the extent that Great Oaks continues to maintain its escrow-type account with W&R, Great Oaks should be required to establish a specific withdrawal provision with W&R to ensure that any withdrawals made to entities other than SCVWD must require an approval of the Superior Court of Santa Clara County or the Commission.

Goal 3 – SCVWD Interest & Penalty Charges

No recommendation.

Goal 4 – Accounting Compliance

Great Oaks should be required to submit to the DWA a written proposal for its accounting of pump tax revenues, expenses, cash, receivables, and payables in compliance with the USOA. To avoid future confusion and problems, Great Oaks should be required to advise the Commission with information relating to any new accounting approaches, unusual accounting treatment or items, relevant procedures and records especially involving significant amounts.

APPENDIX A

Abbreviations and Acronyms

AICPA	American Institute of Certified Public Accountants
ALJ	Administrative Law Judge
Commission	California Public Utilities Commission
Commissioner and ALJ Joint Ruling	June 21, 2010 Joint Ruling of Commissioner John A. Bohn and ALJ Christine M. Walwyn
DRA	Division of Ratepayer Advocates
DWA	Division of Water and Audits
FAS #	Financial Accounting Standards Statement
GAAP	Generally Accepted Accounting Principles
GRC	General Rate Case
Great Oaks	Great Oaks Water Company
PUC	Public Utilities Code
SCVWD	Santa Clara Valley Water District
SP	Standard Practice
UAFCB	Utility Audit, Finance and Compliance Branch
USOA	Uniform System of Accounts
W&R	Waddell and Reed Services Company

(End of Appendix A)

GREAT OAKS WATER COMPANY
Comparison of Pump Taxes
Sampled Months in 2009 & 2010
(\$)

APPENDIX B

		Great Oaks			Waddell & Reed		Great Oaks vs. Waddell Reed	Santa Clara Valley Water District			SCVWD vs. WR
		Well Meters	Pump Tax Paid/Deposited	Difference	Statements	Comments	Difference Pump Tax Paid vs. WR Statement	Invoices (#1) (Ag & Non-Ag)	Invoices (#2) (Ag & Non-Ag)	Total	Difference Total Invoice vs. WR Statement
		a	b	c=a-b	d		e=b-d	f	g	h	i=h-d
2009	March	219,763	219,763	0	219,763		0	60,777	158,986	219,763	0
	May	491,913	491,913	0	491,913		0	155,111	336,802	491,913	0
	July	612,360	612,360	0	612,360		0	151,638	460,733	612,371	11
	September	498,394	498,394	0	498,394		0	145,617	352,764	498,381	(13)
	December	203,657	203,657	0	203,657	Deposited in Jan2010; Includes \$1,170 short paid in April 2009.	0	43,878	158,615	202,493	(1,164)
	Accu. Totals-2009	4,189,643	4,189,643	0							0
2010	January	175,763	175,763	0	175,763	Deposited in Mar2010	0	18,450	157,314	175,764	1
	February	156,424	156,424	0	156,424	Deposited in Apr2010	0	11,560	144,865	156,425	1
	March	212,571	212,571	0	212,571	Deposited in May2010	0	53,997	158,584	212,581	10
	April	243,400	243,400	0	243,400	Deposited in Jun2010	0	91,952	151,454	243,406	6
	May	377,320	377,320	0	377,320	Deposited in Jun2010	0	Not Late until July 2010-No Invoice		0	(377,320)
	June	525,869	525,869	0	0	Not due until end of July 2010	525,869	Not Late until July 2010-No Invoice		0	0
	Accu. Totals-2010	1,691,347	1,691,347								

Great Oaks Water Company, Inc.
 Santa Clara Valley Water District Interest & Penalty
 For Years 2009 & 2010
 Dollars

APPENDIX C

Line #	Year	Bill #	Billing Month	Thru December 31, 2009			Thru June 30, 2010			For 2010		
				Interest	Penalty	Total	Interest	Penalty	Total	Interest	Penalty	Total
				a	b	c=a+b	d	e	f=d+e	g=d-a	h=e-b	i=g+h
1	2009	1	March	4,862		4,862	8,509		8,509	3,647	0	3,647
2		2	March	12,719		12,719	22,258		22,258	9,539	0	9,539
3		1	April	10,643		10,643	19,765		19,765	9,122	0	9,122
4		2	April	16,360		16,360	30,383		30,383	14,023	0	14,023
5		1	May	20,208		20,208	40,416		40,416	20,208	0	20,208
6		2	May	9,307		9,307	18,613		18,613	9,306	0	9,306
7		1	June	7,596		7,596	16,711		16,711	9,115	0	9,115
8		2	June	18,428		18,428	40,543		40,543	22,115	0	22,115
9		1	July	6,066		6,066	15,164		15,164	9,098	0	9,098
10		2	July	18,429		18,429	46,073		46,073	27,644	0	27,644
11		1	August	4,752		4,752	14,256		14,256	9,504	0	9,504
12		2	August	13,397		13,397	40,192		40,192	26,795	0	26,795
13		1	September	7,055		7,055	28,221		28,221	21,166	0	21,166
14		2	September	2,912		2,912	11,649		11,649	8,737	0	8,737
15		1	October	2,025	20,248	22,273	14,174	20,248	34,422	12,149	0	12,149
16		2	October	1,525	15,251	16,776	10,675	15,251	25,926	9,150	0	9,150
17		1	November				9,809	16,348	26,157	9,809	16,348	26,157
18		2	November				8,033	13,389	21,422	8,033	13,389	21,422
19		1	December				2,194		2,194	2,194	0	2,194
20		2	December				7,931		7,931	7,931	0	7,931
21	2010	1	January				738		738	738	0	738
22		2	January				6,293		6,293	6,293	0	6,293
23		1	February				347		347	347	0	347
24		2	February				4,346		4,346	4,346	0	4,346
25		1	March				1,080		1,080	1,080	0	1,080
26		2	March				3,172		3,172	3,172	0	3,172
27		1	April				920		920	920	0	920
28		2	April				1,515		1,515	1,515	0	1,515
				156,284	35,499	191,783	423,980	65,236	489,216	267,696	29,737	297,433

Source: SCVWD Invoices; Great Oaks Interest/Penalty Detail Summary workpapers

PUBLIC UTILITIES COMMISSION

905 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



July 22, 2010

Mr. Timothy S. Guster
General Counsel
Great Oaks Water Company
20 Great Oaks Boulevard, Suite 120
San Jose, CA 95119

Dear Mr. Guster:

This letter is to provide you with the second data request for the verification of Great Oaks Water Company's assertions pertaining to its withholding of pump tax payments to Santa Clara Valley Water District as explained in the engagement letter sent to you on June 22, 2010. Included with this data request letter is **Data Request No. 2-GO- July 22, 2010** for the review of the Great Oaks that is being performed by the Utility Audit, Finance and Compliance Branch (UAFCB) of the California Public Utilities Commission (Commission). Please provide responses to this data request as they become available but no later than **July 29, 2010**. All data responses should be provided electronically and if a document is not available electronically, or not practicable to be sent electronically, CDs should be delivered to me at the Division of Water & Audits (DWA), 505 Van Ness Avenue, San Francisco, CA 94102.

If you can not meet the **July 29, 2010** deadline, please notify me no later than **July 27, 2010**. If you have any other questions or concerns regarding this data request, please feel free to contact me at (415) 703-1181 or by e-mail at: fet@cpuc.ca.gov.

Yours truly,

A handwritten signature in black ink that reads "Fred E. Tamse".

Fred E. Tamse
Senior Financial Examiner
Utility Audit, Finance, and Compliance Branch - DWA

cc: Kayode Kajopaiye, Chief, UAFCB, CPUC
Raymond Yin, UAFCB, CPUC

Appendix D

**Great Oaks Water Company
Data Request No. 2 – GO – July 22, 2010
Prepared by: Fred E. Tamse**

Please explain how and why Great Oaks is in compliance with the following Standard Practice U-38-W paragraphs, an Public Utilities Code Section #794 in relation to ALJ's order regarding "disclosure" in accordance with GAAP & Commissions accounting and reporting requirements. Please provide your response on or before July 29, 2010 to Fred Tamse at fet@cpuc.ca.gov and Raymond Yin at ryy@cpuc.ca.gov.

1. SP U-38-W, Page 8, 2A (Records):

"Each utility shall so keep its books of account, and such other books, records, and memoranda which support, or are necessary to an understanding of, the entries in such books of account, as to be able to furnish readily full information as to any item included in any account. Each entry shall be supported by each detailed information as will permit a ready identification, analysis, and verification of all of the facts relevant thereto."

2. SP U-38-W, Page 9, 2B (Records):

"The books and records referred to herein include not only accounting records in a limited technical sense but all other records such as minute books, stock books, reports, correspondence, memoranda, and the like, which may be useful in developing the history of or facts regarding any transaction."

3. SP U-38-W, Page 9, 4 (Submission of Questions):

"To maintain uniformity of accounting, utilities shall submit questions of doubtful interpretation to the Commission for consideration and decision."

4. PUC §794 states that "The commission may, after notice, and hearing if requested within 15 days after receipt of notice, prescribe by order the accounts in which particular outlays and receipts shall be entered, charged, or credited. Where the commission has prescribed the forms of accounts, records, or memoranda to be kept by any public utility for any of its business, it is unlawful for such public utility to keep any accounts, records, or memoranda for such business other than those so prescribed, or those prescribed by or under the authority of any other state or of the United States, except such accounts, records, or memoranda as are explanatory of and supplemental to those prescribed by the commission."

Please note that the above inquiry relates to the establishment by Great Oaks of a separate escrow account in view of the litigation between Great Oaks and SCVWD, and the accrual of such amount in its accounting records without the knowledge of the Commission staff or its representatives.

Please contact Fred Tamse at fet@cpuc.ca.gov or at (415) 703-1181, if you have any questions.

Appendix E



GREAT OAKS WATER COMPANY

July 27, 2010

P. O. Box 23480
San Jose, California 95153
(408) 227-8540

Fred E. Tamse
Senior Financial Examiner
Utility Audit
Finance and Compliance Branch – DWA
505 Van Ness Avenue
San Francisco, CA 94102-3298

RE: Great Oaks Water Company ("Great Oaks") Response to Data Request No. 2 –
GO – July 22, 2010

Dear Mr. Tamse:

The following is Great Oaks' Response to Data Request No. 2 – GO – July 22,
2010.

Data Request

Please explain how and why Great Oaks is in compliance with the following Standard Practice U-38-W paragraphs, and Public Utilities Code §794 in relation to ALJ's order regarding "disclosure" in accordance with GAAP and Commission accounting and reporting requirements.

Data Request No. 2 – GO – July 22, 2010 also includes the following note at the conclusion of the Data Request:

Please note that the above inquiry relates to the establishment by Great Oaks of a separate escrow account in view of the litigation between Great Oaks and SCVWD, and the accrual of such amount in its accounting records without the knowledge of the Commission staff or its representatives.

Initial Comments and Response

By way of initial response to this note, reference is made to Great Oaks' "accounting records," while the Data Request relates to SP U-38-W which governs the system of accounts to be maintained by Class A water utilities. The "escrow account" referenced involves transactions within the groundwater charge account, account 700,

maintained by Great Oaks pursuant to SP U-38-W. The "escrow account" and account 700 are not the same however. For example, Great Oaks accounts for the interest and penalties claimed by SCVWD to be due, but such interest and penalties are not included in account 700. This proves false the allegation by the Division of Ratepayer Advocates ("DRA") that somehow Great Oaks' ratepayers are at risk in this matter.

Responses:

1. SP U-38-W, Page 8, 2A (Records):

"Each utility shall so keep its books of account, and such other books, records, and memoranda which support, or are necessary to an understanding of, the entries in such books of account, as to be able to furnish readily full information as to any item included in any account. Each entry shall be supported by each detailed information as will permit a ready identification, analysis, and verification of all of the facts relevant thereto."

Response:

Great Oaks Water Company ("Great Oaks") maintains regulatory accounts in compliance with Standard Practice U-38-W. The groundwater charge account, account 700, is an "operating expense account" maintained by Great Oaks pursuant to SP U-38-W and Commission directives, and has been so maintained by Great Oaks in this manner for many years, including through prior rate cases. As evidenced by the documentation already provided to DWA Auditor Fred Tamse, Great Oaks also was "able to furnish readily full information" as to the items in the groundwater charge account, account 700. Detailed information has been provided by Great Oaks permitting easy identification, analysis and verification of all of the facts relevant to the groundwater charge account, account 700. Great Oaks is in full compliance with SP U-38-W, Page 8, 2A (Records).

2. SP U-38-W, Page 9, 2B (Records):

"The books and records referred to herein include not only accounting records in a limited technical sense but all other records such as minute books, stock books, reports, correspondence, memoranda, and the like, which may be useful in developing the history of or facts regarding any transaction."

Response:

Great Oaks does, in fact, maintain more than simply accounting records. Corporate records, correspondence and other records are consistently maintained by Great Oaks covering a wide variety of subjects. With regard to the issues being audited, Great Oaks has provided all requested records and provided full access to its personnel. At no point in time has the Commission or DWA suggested that Great Oaks has failed to maintain adequate records under SP U-38-W, any other Commission rule, decision or resolution or any applicable law. Great Oaks is in full compliance with SP U-38-W, Page 9, 2B (Records).

3. SP U-38-W, Page 9, 4 (Submission of Questions):

"To maintain uniformity of accounting, utilities shall submit questions of doubtful interpretation to the Commission for consideration and decision."

Response:

As previously pointed out, Great Oaks' accounting of groundwater charges is maintained in accordance with all Commission rules and SP U-38-W, as well as with all generally accepted accounting principles. Great Oaks has no doubts about an interpretation of SP U-38-W, as no interpretation was or is required.

The concept of "doubtful interpretation" is obviously based upon some measure of doubt on the part of the utility in interpreting the system of accounts established by SP U-38-W. Any other reading of this section would allow for after-the-fact claims of doubt, even when unsupported by facts, Commission rules, standard practices, decisions or resolutions.

On this issue, Great Oaks has no doubts that it has correctly complied with all requirements of SP U-38-W in all matters, including the groundwater charge issue. No evidence of doubt on the part of Great Oaks exists on this issue, and no need to submit a question to the Commission on the issue of groundwater charges existed.

4. PUC §794:

"The commission may, after notice, and hearing if requested within 15 days after receipt of notice, prescribe by order the accounts in which particular outlays and receipts shall be entered, charged, or credited. Where the commission has prescribed the forms of accounts, records, or memoranda to be kept by any public utility for any of its business, it is unlawful for such public utility to keep any accounts, records, or memoranda for such business other than those prescribed, or those prescribed by or under the authority of any other state or of the United States, except such accounts, records, or memoranda as are explanatory of and supplemental to those prescribed by the commission."

Response:

While it is unclear why or how Great Oaks is to respond to this particular section of the Public Utilities Code, it should be noted that application of this section has initial prerequisites – notice and a hearing (if requested). With respect to Great Oaks and the Ruling by ALJ Walwyn, no notice under PUC §794 has ever been issued, no hearing has ever been held and no Commission decision prescribing, "by order the accounts in which particular outlays and receipts shall be entered, charged, or credited," has ever been issued. Without a notice and hearing, PUC §794 has no application to any issue related to Great Oaks.

By way of further response, Public Utilities Code §792 provides:

The commission may establish a system of accounts to be kept by the public utilities subject to its jurisdiction, or classify such public utilities and establish a system of accounts for each class, and may prescribe the manner in which such accounts shall be kept. It may also prescribe the forms of accounts, records, and memoranda to be kept by such public utilities, including the accounts, records, and memoranda of the movement of traffic as well as the receipts and expenditures of moneys, and any other forms, records, and memoranda which in the judgment of the commission may be necessary to carry out any of the provisions of this part.

Pursuant to the authority provided by the Public Utilities Code, the Commission established a uniform system of accounts in Standard Practice U-38-W, effective January 1, 1955. The system of accounts relates to how transactions are to be recorded, but does not provide the Commission with "the power to prescribe the terms and conditions of any transaction that will be reflected in the accounts." *Pacific Telephone & Telegraph Co. v. Public Utilities Commission* (1950) 34 Cal.2d 822, 827.

Therefore, to the extent that consideration is being given to prescribing the terms and conditions of any transaction by Great Oaks (or any other utility) within an account properly maintained under SP U-38-W, the law does not authorize the Commission to do so.

Conclusion

Mr. Tamse, I trust this responds fully to Data Request No. 2 – GO – July 22, 2010. In addition, I am unaware of any request you've made that has not received a complete response. In the event you desire any further information or desire clarification of information provided, please contact me directly.

Very truly yours,



Timothy S. Guster
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APPENDIX E

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******* SERVICE LIST *******
Last Updated on 19-OCT-2010 by: RC4
A0909001 LIST

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(END OF APPENDIX E)