



**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

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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 \$8,164,800 or 14.2% in July 2012,)
\$3,067,400 or 4.7% in July 2013, and)
\$3,758,200 or 5.6% in July 2014.)
_____)

Application No. 11-07-005
(Filed July 11, 2011)

**JOINT MOTION OF
THE DIVISION OF RATEPAYER ADVOCATES
AND SAN GABRIEL VALLEY WATER COMPANY (U337W)
FOR APPROVAL OF SETTLEMENT AGREEMENT**

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May 2, 2012

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OF THE STATE OF CALIFORNIA**

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In accordance with Rule 12.1 of the Commission’s Rules of Practice and Procedure (“Rules”), San Gabriel Valley Water Company (“San Gabriel”) and the Division of Ratepayer Advocates (“DRA”) (together, “the Settling Parties”) hereby respectfully request that the California Public Utilities Commission (“Commission”) approve the Settlement Agreement between DRA and San Gabriel that was entered into and executed by them on the date of this filing, for the purpose of resolving most of the issues presented in the above-captioned application.

Consistent with Rule 12.1, this Motion is submitted after the prehearing conference, held on September 7, 2011, but it is not submitted within 30 days after the conclusion of evidentiary hearings, the last day of which was January 31, 2012. Administrative Law Judge (“ALJ”) Douglas Long did not set a deadline for

filing a settlement motion, emphasizing that the Parties' motion and settlement should be complete and fully explanatory. Tr. 621:20-24 (Statement of ALJ Long). The Settling Parties respectfully request that the 30-day limit specified in Rule 12.1 be considered to have been waived in this instance to permit consideration of the proposed Settlement Agreement.

The public agency participants in this proceeding, the City of Fontana (the "City") and the Fontana Unified School District (the "District"), actively participated in the mediation and settlement process but are not parties to the Settlement Agreement and oppose certain of its terms. Accordingly, the Settlement Agreement is not presented as an all-party settlement.

A. Factual and Procedural Background

San Gabriel filed the present Application on July 11, 2011, seeking Commission authorization to increase rates for the Test Year beginning July 1, 2012 and Escalation Years beginning July 1, 2013 and July 1, 2014, and make other investments and changes as specified therein. DRA and the City filed protests to the Application on August 8, 2011, followed by a protest filed by the District on August 9, 2011.

At the prehearing conference convened by ALJ Long on September 7, 2011, the parties broadly outlined their positions, addressed procedural issues and indicated a desire to mediate the contested issues. The Assigned Commissioner's Ruling and Scoping Memo, issued October 4, 2011, provided for the parties to participate in the Commission's alternative dispute resolution process and, on November 23, 2011, ALJ Seaneen Wilson was appointed to serve as an ALJ neutral to assist the parties. The

parties initiated informal settlement negotiations on November 29, 2011, and continued with such discussions through January 3, 2012. Over the course of these several weeks of settlement discussions, the Settling Parties reached agreement on the principal terms of a settlement, which were summarized in the opening statement of San Gabriel's counsel on the first day of evidentiary hearing, January 4, 2012.

Over the next several weeks, the terms of settlement were reduced to writing in the form of a Settlement Terms Sheet, including the resolution and clarification of additional settlement terms. After the conclusion of evidentiary hearings on January 31, the terms sheet was converted into a formal Settlement Agreement, with substantial additional work required to substantiate the statements of the Parties' positions, the basis for resolving each issue, the specific terms of settlement, and the impacts on revenue requirement of each settlement term. The final result was the Settlement Agreement that is appended to this Motion as Appendix A, which the Settling Parties respectfully submit for the Commission's approval. In accordance with Rule 12.1(a) the Parties also submit a Comparison Exhibit, included in the Settlement Agreement as Attachment C.

B. Summary of the Proposed Settlement Agreement

The proposed Settlement Agreement resolves all issues outstanding in this proceeding between San Gabriel and DRA with the exception of four remaining contested matters. As set forth in the Settlement Agreement, issues resolved by the Settlement Agreement include, but are not limited to: (i) the projected number of customers and consumption by customer; (ii) water loss; (iii) operation and maintenance expenses; (iv) administrative and general expenses; (v) utility plant additions (with the

exceptions noted below); (vi) rate base (with the exceptions noted below); (vii) income taxes and other taxes; (viii) working cash allowance; (ix) customer service reporting; (x) conservation program and rate design; (xi) programmatic changes to San Gabriel's California Alternative Rates for Water ("CARW") Program; (xii) San Gabriel's investment in Fontana Office Building A; and (xiii) balancing and memorandum accounts.

The Settlement Agreement does not address the ratemaking treatment of: (i) San Gabriel's full investment in Fontana Union Water Company shares; (ii) the Plant F7 retaining wall; or (iii) the Walnut Avenue pipeline. Nor does the Settlement Agreement address the reasonableness review mandated by Decision 09-06-027 regarding: (i) Southern California Edison's contractual obligation to provide Lytle Creek water to the Sandhill Water Treatment Plant; (ii) the adequacy of Edison's facilities to deliver sufficient water for Sandhill to operate at a capacity of 29 million gallons per day ("MGD"); and (iii) the capability of Sandhill to treat 29 MGD of Lytle Creek water if sufficient water is available. These issues were the subject of evidentiary hearings.

The Settlement Agreement describes each settled issue in detail, provides a statement of the respective starting positions of the Settling Parties and the rebuttal position of San Gabriel, indicates how the issue was resolved and lists a set of references to the testimony and exhibits of witnesses for the Settling Parties (and the City where relevant to the settlement) addressing the particular issue.

The Comparison Exhibit (Attachment C to the Settlement Agreement) displays a summary of earnings based on the original and settlement positions of the Settling Parties, showing the differences between settlement amounts for the various accounting categories and attributing those differences among the unresolved issues.

The Comparison Exhibit also presents the quantities to which the Settling Parties have agreed, including such factors as tax rates, numbers of services and customers by class and meter size, usage per customer, and water supply costs and production by source.

C. The Settlement Agreement Is Reasonable and in the Public Interest.

Rule 12.1(d) of the Commission's Rules requires a settlement be "reasonable in light of the whole record, consistent with law, and in the public interest" in order to receive Commission approval. The proposed Settlement Agreement readily meets this threshold requirement. DRA initiated comprehensive discovery with respect to the issues presented by the Application. San Gabriel responded to DRA's various requests for discovery in the lead up to settlement negotiations. The Settling Parties met and discussed the contested issues in good faith, negotiated vigorously in defense of their respective positions over a number of weeks, considered compromise proposals and counterproposals, and came to agreement on the terms of the Settlement Agreement as a compromise between the positions of the Settling Parties and in consideration of the positions taken by the City and the District.

The Settling Parties believe that the thorough process described above has resulted in a settlement that reflects careful analysis and evaluation of the Application and represents an appropriate compromise of the Settling Parties' positions with respect to each issue addressed herein. Accordingly, the Settling Parties respectfully submit that the proposed Settlement Agreement, as Rule 12.1(d) requires, is reasonable in light of the whole record, consistent with law, and in the public interest.

D. The Settling Parties Have Complied with the Requirements of Rule 12.1(B).

Commission Rule 12.1(b) requires parties to convene at least one settlement conference with notice and opportunity to all parties to participate for the purpose of discussing settlements in the proceeding. Such notice is required to be provided at least seven (7) days before a settlement is signed. On January 13, 2012, counsel for San Gabriel notified all parties on the service list in this proceeding of a settlement conference, which was convened on the afternoon of January 31, 2012.

Representatives of all parties attended and participated in the settlement conference. On the date of this filing, the Settling Parties finalized and completed the execution of the Settlement Agreement, in compliance with the rules for notice and opportunity for participation set forth above.

E. Evidentiary Hearings Are Not Required.

There are no disputed issues of material fact related to the Settlement Agreement. Therefore, the Settling Parties respectfully request that the Commission approve the Settlement Agreement without further evidentiary hearings and should expeditiously approve its terms.

F. Request For Relief.

As demonstrated above, the Settlement Agreement is reasonable in light of the whole record, consistent with law, and in the public interest. Therefore, DRA and San Gabriel respectfully request that the Commission approve and adopt the Settlement Agreement, as attached hereto, without modification, by its decision in this proceeding.

Respectfully submitted,

/S/ MARTHA PEREZ

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