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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

In the matter of the Application of Golden State Water Company (U 133 W) for an order authorizing it to increase rates for water service by $20,327,339 or 20.12% in 2010; by $2,646,748 or 2.18% in 2011; and by $4,189,596 or 3.37% in 2012 in its Region II Service Area and to increase rates for water service by $30,035,914 or 32.67% in 2010; by $1,714,524 or 1.39% in 2011; and by $3,664,223 or 2.92% in 2012 in its Region III Service Area.	Application 08-07-010 (Filed July 1, 2008)
And Related Matters.	Application 07-01-014

JOINT MOTION FOR APPROVAL OF SETTLEMENT AGREEMENT

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JOINT MOTION FOR APPROVAL OF SETTLEMENT AGREEMENT

I. INTRODUCTION

Pursuant to Rule 12.1 of the California Public Utilities Commission ("Commission") Rules of Practice and Procedure ("Rule"), Golden State Water Company ("Golden State") and the Division of Ratepayer Advocates ("DRA") (collectively referred to as the "Parties") hereby respectfully submit this Joint Motion to Approve Settlement Agreement ("Joint Motion"). Based on the information provided below and elsewhere in the record, the Parties jointly move the Commission for an order approving in its entirety and without modification or condition the settlement agreement that they have negotiated and entered into, a copy of which is attached as Exhibit 1 to this Joint Motion ("Settlement Agreement").

In summary, the Parties represent to the Commission as follows: (1) the Settlement Agreement commands the sponsorship of the Parties; (2) the Parties are fairly representative of the affected interests; (3) no terms of the Settlement Agreement

contravene any statutory provision or any decision of the Commission; (4) the Settlement Agreement, together with this Joint Motion and the record in the proceeding, conveys to the Commission sufficient information to permit the Commission to discharge its regulatory obligations on the issues addressed by the Settlement Agreement; and (5) the Settlement Agreement is reasonable in light of the entire record, and it fulfills the criteria that the Commission requires for approval of such a settlement. Therefore, the Parties respectfully request that the Commission grant this Joint Motion and approve the Settlement Agreement in its entirety and without modification or condition.

II. BACKGROUND AND PROCEDURAL HISTORY

1. Golden State is a Class A water company regulated by the Commission. Golden State divides its service territory into three geographical regions: Region 1, Region 2 and Region 3. Region 1 incorporates customer service areas in Northern California and California's Central Coast. Regions 2 and 3 encompass areas of Southern California. Golden State's headquarters is located in San Dimas, California.

2. The Parties acknowledge that there is a rather long and somewhat complicated procedural history associated with the capital improvement project constructed at Golden State's La Serena Water Treatment Plant ("La Serena Project") and the La Serena Project costs. Golden State first requested rate recovery of $331,000 of La Serena Project costs in Application ("A.") 00-03-066, which was its 2000 General Rate Case ("GRC") application for Region 1. In Decision 00-12-063, the Commission authorized Golden State to include $331,000 of La Serena Project costs in its adopted rate base and customer rates. Due to various circumstances, including the implementation of the Commission's Rate Case Plan in 2004, Golden State did not file another complete GRC application for Region 1 until January 2007.

3. On January 5, 2007, Golden State filed A.07-01-014, part of its 2007 GRC for Region 1, requesting authority to increase its revenue requirement and rates in its

Santa Maria customer service district of its Region 1.[1] In A.07-01-014, Golden State requested Commission authorization to include approximately $3.8 million of La Serena Project costs in its adopted rate base and customer rates for a new reservoir and other related plant improvements in Golden State's Santa Maria ratemaking area. Golden State included these costs in its historical rate base accounts in A.07-01-014. DRA asserts that Golden State did not submit Prepared Testimony about these costs with A.07-01-014; Golden State asserts that it did submit Prepared Testimony about these costs in A.07-01-014. DRA, in its Report in A.07-01-014, and in DRA's Opening and Reply Brief in A.07-01-014, objected to Commission authorization and inclusion of these costs in Golden State's adopted rate base and customer rates alleging, among other things, that these specific La Serena Project costs had not been reviewed for reasonableness. Golden State responded to DRA's objections in rebuttal testimony and requested that the Commission authorize these costs in its decision in the 2007 Region 1 GRC.

4. On February 1, 2008, the Commission issued Decision 08-01-043 authorizing new rates for Golden State in its Region 1 GRC. Decision 08-01-043 did not clearly discuss the authorization of the approximate $3.8 million of La Serena Project costs; however, Decision 08-01-043 did include the approximate $3.8 million in rate base tables and tariff sheets adopted in and attached to the decision.

5. On January 31, 2008, Golden State filed Advice Letter 1267-W to implement the rate tables and tariff sheets attached to Decision 08-01-043, which included $3,812,290 of La Serena Project costs in Golden State's adopted rate base and customer rates. On February 29, 2008, the Commission approved Advice Letter 1267-W thereby including the $3,812,290 of La Serena Project costs in Golden State's adopted rate base and customer rates effective January 1, 2008 through January 1, 2011.

6. On March 3, 2008, DRA filed for rehearing of Decision 08-01-043 alleging, among other things, that the La Serena Project costs had not been reviewed for

[1] *See* A.07-01-009-A.07-01-015, which includes A.07-01-014 for the Santa Maria customer service area.

reasonableness. On August 21, 2008, the Commission issued Decision 08-08-031, granting a limited rehearing of Decision 08-01-043 for the purpose of considering whether it is reasonable to include the $3.7 million of La Serena Project costs in Golden State's adopted rate base and customer rates.[2]

7. On July 1, 2008, Golden State filed A.08-07-010, its GRC application for Regions 2 and 3, requesting authority to increase its revenue requirement and rates in those regions. On September 23, 2008, the Commission held a pre-hearing conference in A.08-07-010 wherein Golden State and DRA discussed how to best implement Decision 08-08-031 (the Commission's decision granting rehearing of Decision 08-01-043 regarding the La Serena Project), and the scope and schedule for the remainder of the proceeding.[3] On October 22, 2008, the Assigned Commissioner and Administrative Law Judge ("ALJ") in A.08-07-010 issued an Amended Scoping Memo and Ruling consolidating A.07-01-014 regarding the rehearing of the La Serena Project costs ordered in Decision 08-08-031 with Golden State's Regions 2 and 3 GRC, and setting forth the scope and schedule of the consolidated proceeding.

8. On July 1, 2008, Golden State served Prepared Testimony (except on the La Serena Project) in A.08-07-010. On December 5, 2008, Golden State served its Prepared Testimony regarding the La Serena Project rehearing issues.[4] On February 5, 2008, DRA served its Report, addressing both the Region 2 and Region 3 GRC issues and the La Serena Project rehearing issues.[5] On April 6, 2009, Golden State served its Rebuttal Testimony.[6] Evidentiary hearings were held May 11-15 and May 18, 2009. Opening and Reply briefs were filed on July 6, 2009 and July 14, 2009, respectively. ALJ Rochester issued a Proposed Decision in the consolidated proceeding on November

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[2] D.08-08-031 at p. 15 (Ordering Paragraph No. 2).

[3] A.08-07-010/A.07-01-014, Transcript of Proceeding, September 23, 2008 at pp. 2-11.

[4] A.08-07-010/A.07-01-014, Exhibits 5 to 24 (Golden State Prepared Testimony); Exhibit 70 (Gisler Prepared Testimony (La Serena)).

[5] A.08-07-010/A.07-01-014, Exhibits 100 to 110 (DRA Prepared Testimony).

[6] A.08-07-010/A.07-01-014, Exhibits 72 to 89 (Golden State Rebuttal Testimony).

17, 2009. Comments and Reply Comments to the Proposed Decision were submitted on December 7, 2009 and December 14, 2009, respectively.

9. On January 29, 2010, an assigned Commissioner and ALJ ruling amended the Scoping Memo and reopened the record for the limited purpose of receiving supplemental testimony on several issues, including the La Serena Project costs, the application of the four-factor cost allocation methodology, and the method for recovering regulatory expenses.[7] On February 12, 2010, Golden State served supplemental testimony on these issues; on March 12, 2010, DRA served supplemental testimony on these issues.[8] Golden State served rebuttal testimony on April 2, 2010.[9] Evidentiary hearings were scheduled for April 7-9, 2010, but after a pre-hearing conference on April 1, 2010, the parties agreed to forego evidentiary hearings. Supplemental opening briefs were filed on April 29, 2010. Supplemental reply briefs were filed on May 13, 2010. Oral argument was held on August 16, 2010, and the case was submitted at the close of oral argument.

10. On October 20, 2010, following the completion of the supplemental phase, ALJ Rochester issued another Proposed Decision ("PD"). Assigned Commissioner Bohn issued an alternate Proposed Decision ("APD") on that same date. Comments and reply comments to the PD and APD were submitted on November 9, 2010 and November 15, 2010, respectively.

11. On November 19, 2010, the Commission issued Decision 10-11-035 resolving all issues in Golden State's Region 2 and Region 3 GRC (A.08-07-010) and resolving the rehearing of Decision 08-01-043 regarding Golden State's La Serena Project costs. Decision 10-11-035 allocated 52.4% ($1,843,956) of the La Serena Project costs to new customers and 47.6% ($1,675,044) of the costs to existing customers,

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[7] A.08-07-010/A.07-01-014, Ruling of the Assigned Commissioner and Administrative Law Judge Amending the Scoping Memo and Reopening the Record (January 29, 2010).

[8] A.08-07-010/A.07-01-014, Exhibits 211 to 215 (Golden State Supplemental Testimony); Exhibits 131 to 135 (DRA Supplemental Testimony).

[9] A.08-07-010/A.07-01-014, Exhibits 216 to 220 (Golden State Supplemental Rebuttal Testimony).

ordered Golden State to remove $1,843,956 from adopted rate base, and ordered Golden State to give its Region 1 ratepayers a one-time credit of $582,832 to offset the fact that Golden State's adopted rate base and customer rates previously included the portion of the La Serena Project costs that the Commission ordered Golden State to remove.

12. On December 22, 2010, Golden State filed an application for rehearing of Decision 10-11-035 on the ground that the Commission had erroneously disregarded $287,000 Golden State had collected from developers, who constructed four new developments in the Nipomo System between 2000 and 2004, in calculating the dollar amount relating to the La Serena Project that the Commission directed Golden State to remove from rate base.[10]

13. On December 22, 2010, DRA filed an application for rehearing of Decision 10-11-035 challenging the Commission's decision regarding the reasonableness of the La Serena Project costs, Golden State's recovery of regulatory expenses associated with processing A.08-07-010, and the four factor methodology used by the Commission to determine the number of customers for Golden State's affiliate American States Utility Service ("ASUS").[11]

14. On January 13, 2010, Golden State filed Application 10-01-009, its 2010 GRC application, requesting authority to increase its revenue requirement and rates in all service areas in Region 1, including its Santa Maria service area. On December 16, 2010, the Commission issued Decision 10-12-059 resolving all issues in Golden State's Region 1 GRC. Decision 10-12-059 authorized Golden State to include $97,682 for a backwash pond improvement at the La Serena plant site, and made other adjustments to certain budget items related to the La Serena Project costs. The cumulative effect of Decision 10-11-035 and Decision 10-12-059 was to reduce the amount related to the La Serena Project in Golden State's adopted rate base and customer rates to $1,979,708.

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[10] A.08-07-010/A.07-01-014, Application of Golden State Water Company for Rehearing of Decision 10-11-035 (December 22, 2010).

[11] A.08-07-010/A.07-01-014, Application for Rehearing of the Division of Ratepayer Advocates of Decision 10-11-035 (December 22, 2010) at pp. 2-4.

15. On July 29, 2011, the Commission issued Decision 11-07-057 granting a limited rehearing of Decision 10-11-035 on the issues raised by DRA (along with several additional issues) and denying Golden State's application for rehearing. In addition, Decision 11-07-057 ordered the Director of the Commission's Division of Water and Audits ("DWA") to undertake an audit of the La Serena Project costs. In connection with DWA's audit, Decision 11-07-057 ordered Golden State to provide DWA with copies of all information it has regarding the La Serena Project costs.[12]

16. On March 7, 2012, the Commission issued a Scoping Memo enumerating the issues to be addressed in this rehearing proceeding and setting a schedule, including written testimony, evidentiary hearings and briefing.[13] The Commission's March 7, 2012 Scoping Memo ordered that the record of this proceeding shall include, among other things, the DWA Audit Report.[14] On March 23, 2012, DWA issued its Financial & Compliance Verification of the La Serena Plant Improvements and 2008 Regulatory Expenses of Golden State ("DWA Audit Report").

17. On May 24, 2012, DWA issued an Advice Letter Suspension Notice directing Golden State to stay the $582,832 refund ordered in Decision 10-11-035 pending the outcome of this rehearing proceeding.

18. On June 6, 2012, Golden State served its Prepared Testimony on the rehearing issues.[15] On October 15 and 16, 2012, DRA served its Report and DRA's consultant's testimony[16] on the rehearing issues. On November 29, 2012, DRA served its Amended Report on the rehearing issues.[17] On December 7, 2012, Golden State served

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[12] D.11-07-057 at p. 38 (Ordering Paragraph No. 8).

[13] A.08-07-010/A.07-01-014, Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge (March 7, 2012).

[14] A.08-07-010/A.07-01-014, Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge (March 7, 2012) at p. 2.

[15] A.08-07-010/A.07-01-014, Exhibits 222 to 226 (Golden State Opening Testimony).

[16] A.08-07-010/A.07-01-014, Exhibit 137 (Ramas Prepared Testimony).

[17] A.08-07-010/A.07-01-014, Exhibit 136 (DRA's Amended Report).

its rebuttal to DRA's report.[18] On February 28, 2013, DRA served its Errata to Amended Report making corrections to pages 116-117 of DRA's Amended Report.[19] Concurrently with this Joint Motion, the Parties are jointly filing a motion pursuant to Rule 13.8(d) to admit this testimony and supporting exhibits into the record in this proceeding.[20] Both Parties have engaged in extensive discovery throughout this rehearing proceeding.

19. Commencing on December 18, 2012, the Parties met and engaged in settlement negotiations. The Parties have agreed upon terms and conditions, comprising the resolution of the specific issues in this rehearing proceeding, which the Parties believe are fair and reasonable in light of the evidentiary record and in the public interest. The terms and conditions agreed to by the Parties are summarized below in Section III of this Joint Motion.

20. In accordance with Rule 12.1, the Parties served a notice of settlement conference on all parties of record in Application 07-01-014 and Application 08-07-010, and held a settlement conference on March 5, 2013. On March 6, 2013, the Parties entered into the Settlement Agreement resolving all of the specific issues in the rehearing of Decision 10-11-035 in A.08-07-010 and A.07-01-014.

III. THE SETTLEMENT AGREEMENT IS REASONABLE, CONSISTENT WITH THE LAW AND ITS ADOPTION WILL SERVE THE PUBLIC INTEREST

Rule 12.1 requires that a settlement be "reasonable in light of the whole record, consistent with law, and in the public interest." The proposed Settlement Agreement readily meets all of these criteria.

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[18] A.08-07-010/A.07-01-014, Exhibits 227 to 231 (Golden State Rebuttal Testimony).

[19] A.08-07-010/A.07-01-014, Exhibit 138 (DRA's Errata to Amended Report).

[20] A.08-07-010/A.07-01-014, Motion of Golden State Water Company and the Division of Ratepayer Advocates to Admit Written Testimony and Supporting Exhibits Into the Record (March 6, 2013).

A. The Settlement Agreement is Reasonable

As described in detail below, the terms of the Settlement Agreement present a reasonable and comprehensive resolution of all of the disputed issues identified by the Commission in its Scoping Memo. The Parties have entered into the Settlement Agreement after extensive investigation and analysis and have expended significant resources in these settlement efforts, which have resulted in a reasonable and fair settlement of the issues presented in this proceeding.

1. The Parties Have Made a Compelling Evidentiary Showing in Support of the Settlement Agreement

The Parties have submitted lengthy and thorough testimony and exhibits analyzing the issues that the Commission ordered be addressed in this rehearing, which have been resolved in the Settlement Agreement. Golden State's regulatory affairs and engineering teams have presented a comprehensive analysis of the La Serena Project, regulatory expenses and cost allocation issues in this rehearing. In addition, with respect to the La Serena Project, Golden State has engaged two independent outside experts to evaluate and analyze the issues raised by the Commission: (1) James Becica, an expert in construction management; and (2) Jeffrey Heden, an expert in water system design and engineering. Based on a thorough review and analysis of the extensive documentary evidence regarding the La Serena project—including Golden State's internal records as well as the records maintained by CH2MHILL, the construction and design firm that performed the work at issue at Golden State's La Serena water treatment plant—Golden State submitted comprehensive Prepared Testimony evaluating the reasonableness of the La Serena Project, including the reasonableness and necessity of the scope of work and the reasonableness of the budget and costs of the various components of the project.[21]

DRA has also engaged in a detailed critical analysis of the La Serena Project, including the reasonableness of the La Serena Project costs, regulatory expenses/accounting, and cost allocation issues presented in this rehearing. DRA has

[21] A.08-07-010/A.07-01-014, Exhibits 222 to 231 (Golden State Opening and Rebuttal Testimony).

engaged in extensive discovery, including data and document requests served to Golden State, regarding the rehearing issues associated with the La Serena Project. DRA reviewed numerous written responses to its data requests as well as thousands of pages of documents produced by Golden State in response to its document requests. DRA also responded to discovery from Golden State.

Specifically, DRA's Report presents a comprehensive analysis of the issues set forth in this rehearing such as reasonableness of the La Serena Project, the reasonableness and necessity of the scope of work for the project, the reasonableness of the budget and costs of the various components of the project, regulatory expenses, and cost allocation issues.[22] Golden State then served Rebuttal Testimony in response to DRA's report, addressing the issues raised by DRA.[23]

In sum, the detailed testimony, reports, and analysis described above demonstrate that both DRA and Golden State have fully and adequately analyzed each of the issues enumerated by the Commission for consideration in this rehearing proceeding. The Parties have reached a consensus in the Settlement Agreement that is reasonable in light of the evidentiary record and fulfills the criteria that the Commission requires for approval of such a settlement.

2. The Individual Issues Enumerated by the Commission in Decision 11-07-057 Have Been Resolved By the Parties

The Commission identified several issues in the Scoping Memo (items (a) through (s)) to be addressed by the parties in this rehearing proceeding.[24] Notwithstanding the differing positions of the Parties on the issues set forth in their testimony, the Parties have reached a global settlement on all of the issues set forth in the Scoping Memo (Items (a)-(s)).

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[22] A.08-07-010/A.07-01-014, Exhibit 136-137 (DRA's Amended Report and Consultant's Report).

[23] A.08-07-010/A.07-01-014, Exhibits 227 to 231 (Golden State Rebuttal Testimony).

[24] A.08-07-010/A.07-01-014, Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge (March 7, 2012) at pp. 2-4.

In summary, the Parties have resolved all of the La Serena Project issues set forth in Scoping Memo Items (a) through (n), including the reasonableness of the project costs, cost overruns associated with the project, ratemaking issues, and the collection of contributions from developers to fund the project, as follows:

(1) The Parties agree that the total cost of the La Serena Project, inclusive of (i) the major plant improvement Project constructed by CH2MHILL in 2005-2006, and (ii) additional subsequent work performed by Golden State up through 2009 (including erosion control, site paving and backwash pond improvements), is $4,110,664.[25]

(2) The Parties agree that $1,844,856 of the $4,110,664 in La Serena Project costs are just and reasonable, used and useful, and should be included in Golden State's adopted rate base and customer rates as of January 1, 2008.[26]

(3) The Parties agree that Golden State currently has $1,979,708 of La Serena Project costs in its adopted rate base and customer rates;[27] therefore, Golden State shall file an Advice Letter for a rate base offset in the amount of $336,350.24 for its Santa Maria ratemaking district, which is the difference between the existing amount of $1,979,708 in adopted rate base for the La Serena Project and the settlement amount of 1,844,856 in this rehearing proceeding, adjusted for accumulated depreciation and contributions received.[28]

(4) The Parties agree that Golden State shall make a one-time credit to the customers of its Santa Maria ratemaking district of $974,024. This credit amount is based upon the monies that have been collected in customer rates since January 1, 2008

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[25] Settlement Agreement at § 3.1.

[26] Settlement Agreement at § 3.2.

[27] Settlement Agreement at § 3.3. This figure is derived as follows: (i) Decision 00-12-063 authorized $331,000 related to the La Serena project in Golden State's customer rates effective January 1, 2001 through January 1, 2008; (ii) Decision 08-01-043 included $3,812,290 related to the La Serena project in Golden State's customer rates effective January 1, 2008 through January 1, 2011; and (iii) Decision 10-11-035, combined with Decision 10-12-059, reduced the authorized amount related to the La Serena project in Golden State's customer rates to $1,979,708 effective January 1, 2011.

[28] Settlement Agreement at § 3.3.

that are attributable to the La Serena Project costs in customer rates in excess of the $1,844,856 figure agreed to by the Parties.[29]

The Parties have also resolved the cost allocation issue raised by the Commission in Scoping Memo Item (o). In particular, the Parties agree that there will be no change to the allocation of general office expenses adopted in Decision 10-11-035 for the purpose of the rates established in A.08-07-010. The Parties further agree to address the issue of the appropriate number of military customers and appropriate allocation methodology in Golden State's 2014 GRC.[30]

Finally, as to regulatory expenses (Scoping Memo Items (p) through (s)), the Parties have settled the disputed issues described in their testimony, and reached an agreement that (i) Golden State's recovery of regulatory expenses associated with processing its 2008 GRC (including the $450,000 in CH2MHILL consultant costs) on a deferred basis was appropriate; (ii) a mechanism transitioning Golden State to recovery of regulatory expenses on a forecast basis has been agreed to; and (iii) although Bear Valley Electric Company regulatory expenses were mistakenly labeled as Golden State expense in the 2008 Annual Report, none of these regulatory costs were charged to Golden State's water customers.[31]

The Parties emphasize that the Settlement Agreement is an integrated global settlement of all of the rehearing issues set forth in Decision 11-07-057 and that none of the issues were resolved in isolation from each other. The Parties believe this Settlement Agreement is a reasonable compromise of all the issues, consistent with the law, and in the public interest. Therefore, the Parties jointly recommend that the Commission approve the Settlement Agreement in its entirety thereby resolving all issues in this rehearing proceeding. The individual Scoping Memo items are individually addressed in greater detail below.

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[29] Settlement Agreement at § 3.4.

[30] Settlement Agreement at § 7.1.

[31] Settlement Agreement at §§ 8.0 to 9.0.

3. Scoping Memo Items and Summary of Settlement Terms

<u>Scoping Memo Item (a)</u>:
What is the total cost of the La Serena Project?

Resolution of Scoping Memo Item (a)

Golden State and DRA have reviewed and analyzed the documentary evidence in the record, and the Parties' testimony agrees with DWA's finding in its Audit Report that the total cost of the La Serena project, inclusive of (a) the major plant improvement project constructed by CH2MHILL in 2005-2006, and (b) additional subsequent work performed by Golden State up through 2009 (including erosion control, site paving and backwash pond improvements), is $4,110,664.[32] The Settlement Agreement reflects the Parties' agreement as to the $4,110,664 figure.[33]

<u>Scoping Memo Item (b)</u>:
How much of the La Serena Project costs are already in Golden State's rate base? On what date(s) were the costs placed in rate base and for how long were/are they in rate base?

Resolution of Scoping Memo Item (b)

The Parties agree that the record in the various Commission proceedings involving the La Serena Project costs indicates the following:

- Pursuant to Decision 00-12-063, and the Commission's approval of Golden State's Advice Letter 1088-W, $331,000 in La Serena Project costs authorized by the Commission were placed into Golden State's customer rates, effective January 21, 2001.[34] The $331,000 in La Serena Project costs remained in Golden State's customer rates through January 1, 2008 (7 years).[35]

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[32] A.08-07-010/A.07-01-014, Exhibit 136 (DRA's Amended Report) at p. 9; Exhibit 225 (Garon Opening Testimony) at p. 2; DWA Audit Report at p. 17, Table 5.

[33] Settlement Agreement at § 3.1.

[34] A.08-07-010/A.07-01-014, Exhibit 225 (Garon Opening Testimony) at pp. 4-5; DWA Audit Report at p. 17, Table 5.

[35] A.08-07-010/A.07-01-014, Exhibit 225 (Garon Opening Testimony) at p. 7; DWA Audit Report at p. 17, Table 5.

- Pursuant to Decision 08-01-043, Golden State filed and the Commission approved Golden State's Advice Letter 1267-W, thereby including $3,812,290 in La Serena Project costs in customer rates, effective January 1, 2008.[36] The $3,812,290 in La Serena Project costs remained in Golden State's adopted rate base and customer rates through January 1, 2011 – a period of three years.[37]

- Pursuant to Decision 10-11-035, Golden State was ordered to remove $1,843,956 of La Serena Project costs from Golden State's adopted rate base effective as of January 1, 2011.[38] Additionally, Decision 10-12-059 (the Commission's decision resolving Golden State's 2010 Region 1 GRC) authorized the inclusion of $97,682 in La Serena Project costs into Golden State's customer rates, and made other adjustments to certain budget items related to the La Serena Project that had been authorized by Decision 08-01-007. The cumulative effect of Commission Decisions 10-11-035 and 10-12-059, and the Commission's approval of Golden State's Advice Letter 1429-W, was to reduce the amount related to the La Serena project in Golden State's customer rates to $1,979,708 effective January 1, 2011.

<u>Scoping Memo Item (c)</u>:
If the La Serena Project costs are in rate base, what amounts were placed there and under what authorization were those costs placed into Golden State's rate base?

In this proceeding, the Parties acknowledge and agree that the Commission in Decision 00-02-063 authorized a total of $331,000 in La Serena Project costs, and in Decision 08-01-043 authorized a total of $106,000 in La Serena Project costs, for

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[36] A.08-07-010/A.07-01-014, Exhibit 225 (Garon Opening Testimony) at p. 6; DWA Audit Report at p. 17, Table 5.

[37] A.08-07-010/A.07-01-014, Exhibit 225 (Garon Opening Testimony) at p. 7; DWA Audit Report at p. 17, Table 5.

[38] D.10-11-035 at p. 83. As discussed in detail below, Golden State was also ordered to give its Region I ratepayers a one-time credit of $582,832 based upon the inclusion of the $1,843,956 in La Serena Project costs that the Commission determined should be removed from customer rates. However, DWA stayed the $582,832 refund ordered in D.10-11-035 pending the outcome of this rehearing proceeding. *See* DWA Advice Letter Suspension Notice (May 24, 2012).

inclusion in Golden State's adopted rate base and customer rates. The Parties have disagreed, however, as to whether Decision 08-01-043 intended to authorize the additional approximate $3.8 million of La Serena Project costs at issue in A.07-01-014 for inclusion in Golden State's adopted rate base and customer rates.

In its Report in this proceeding, DRA asserted that Golden State submitted Prepared Testimony on the $106,000 of La Serena Project landscaping and paving costs in A.07-01-014, but did not submit Prepared Testimony on the approximate $4 million of La Serena Project costs included in Golden State's historical rate base accounts, noting that Golden State provided information about these costs in CWIP tables and historical rate base work papers.[39] Hence, DRA alleged that Golden State failed to meet its burden of proof in A.07-01-014 regarding the reasonableness of the approximate $4 million of La Serena Project resulting in a violation of Section 454(a) of the California Public Utilities Code[40] and the requirements of the Rate Case Plan (Decision 07-05-062).[41]

In its Rebuttal Testimony in this proceeding, Golden State disagreed with DRA's assessment of the record in A.07-01-014. Golden State asserted that it fully complied with Section 454(a) of the California Public Utilities Code and the requirements of the Rate Case Plan (Decision 07-05-062) in A.07-01-014 and met its burden of proof regarding the reasonableness of the approximate $4 million of La Serena Project costs.[42] Golden State asserted that the Prepared Testimony of Jenny Darney-Lane and Ernest Gisler submitted in A.07-01-014 both specifically address the CWIP tables and work papers, which included detailed justifications for the approximate $4 million of La Serena Project costs included in Golden State's historical rate base accounts.[43] Golden State also asserted that Ernest Gisler's Rebuttal Testimony in A.07-01-014 addressed the

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[39] A.08-07-010/A.07-01-014, Exhibit 136 (DRA's Amended Report) at p. 19.

[40] All "Section" references are to the California Public Utilities Code unless otherwise specified.

[41] A.08-07-010/A.07-01-014, Exhibit 136 (DRA's Amended Report) at pp. 31-34.

[42] A.08-07-010/A.07-01-014, Exhibit 230 (Garon Rebuttal Testimony) at pp. 67-79.

[43] A.08-07-010/A.07-01-014, Exhibit 230 (Garon Rebuttal Testimony) at pp. 78-79.

approximate $4 million of La Serena Project costs and that it was not inappropriate to do so in response to the issues raised by DRA in its Report in A.07-01-014.[44]

In its Rebuttal Testimony in this proceeding, Golden State also asserted that in addition to submitting Prepared Testimony in A.07-01-014 addressing the La Serena Project costs, Golden State also responded to DRA's challenge to these costs in detailed data request responses, comprehensive rebuttal testimony, evidentiary hearing testimony and briefing specifically addressing the reasonableness of the La Serena Project and its costs.[45] Therefore, Golden State asserts that its evidentiary showing in A.07-01-014 was in full compliance with the Commission's rules, statutes and policies, that it did not violate Section 454(a) or the requirements of the Rate Case Plan (Decision 07-05-062) and that its Prepared Testimony in A.07-01-014 provided DRA and all other parties with adequate and sufficient information regarding all aspects of the La Serena Project.[46]

In its Report in this proceeding, DRA asserted that the Commission in Decision 08-01-043 did not specifically authorize any La Serena Project costs beyond the $106,000 for landscaping and paving for inclusion in Golden State's adopted rate base and customer rates.[47] Therefore, DRA asserted that Golden State violated Section 451 when, subsequent to Decision 08-01-043, it filed Advice Letter 1267-W to implement rate tables and tariff sheets that included the approximate $4 million of La Serena Project in its adopted rate base and customer rates.[48] DRA also asserted that Golden State's Opening and Reply Brief in A.07-01-014 lacked transparency about the fact that Golden State was seeking rate recovery of the approximate $4 million of La Serena Project costs included in its historical rate base accounts and that such a critical omission appeared to be a Rule 1.1 violation.[49]

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[44] A.08-07-010/A.07-01-014, Exhibit 230 (Garon Rebuttal Testimony) at pp. 107-112.

[45] A.08-07-010/A.07-01-014, Exhibit 230 (Garon Rebuttal Testimony) at pp. 67-71.

[46] A.08-07-010/A.07-01-014, Exhibit 230 (Garon Rebuttal Testimony) at pp. 67-71, 73-77, 78-79.

[47] A.08-07-010/A.07-01-014, Exhibit 136 (DRA's Amended Report) at p. 27.

[48] A.08-07-010/A.07-01-014, Exhibit 136 (DRA's Amended Report) at pp. 31-34.

[49] A.08-07-010/A.07-01-014, Exhibit 136 (DRA's Amended Report) at pp. 34-35.

In its Rebuttal Testimony in this proceeding, Golden State asserted that it fully complied with Section 451 of the California Public Utilities Code.[50] Golden State asserted that the Commission in Decision 08-01-043 authorized Golden State to include the full amount of the La Serena Project in adopted rate base and customer rates.[51] Golden State asserted that the Commission, in fact, ordered Golden State to implement rates based upon rate tables and tariff sheets that Commission staff drafted and attached as exhibits to Decision 08-01-043, and which included the La Serena Project costs.[52] Thus contrary to DRA's assertion, Golden State asserted that its implementation of these Commission adopted rate tables and tariff sheets by way of Advice Letter 1267-W was in full compliance with Section 451.[53]

Golden State also asserted that both its Opening Brief and Reply Brief in A.07-01-014 were accurate and fully apprised the Commission of Golden State's request in A.07-01-014 that the Commission address the reasonableness of the approximate $4 million of La Serena Project costs in its resolution of A.07-01-014 and authorize Golden State to include these costs in its adopted rate base.[54] Accordingly, Golden State asserted that DRA's purported claim of a Rule 1.1 violation was baseless and lacking in any evidentiary support.[55]

Resolution of Scoping Memo Item (c)

The Parties acknowledge that there has been confusion in A.07-01-014 as to what La Serena Project costs were before the Commission for review in that proceeding and whether La Serena Project costs have been in rates, including whether Golden State was

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[50] A.08-07-010/A.07-01-014, Exhibit 230 (Garon Rebuttal Testimony) at pp. 79-84.

[51] A.08-07-010/A.07-01-014, Exhibit 230 (Garon Rebuttal Testimony) at pp. 81-82.

[52] A.08-07-010/A.07-01-014, Exhibit 230 (Garon Rebuttal Testimony) at p. 79.

[53] A.08-07-010/A.07-01-014, Exhibit 230 (Garon Rebuttal Testimony) at p. 84.

[54] A.08-07-010/A.07-01-014, Exhibit 230 (Garon Rebuttal Testimony) at pp. 117-124. It should also be noted that Golden State's Opening Brief and Reply Brief followed the explicit instructions of ALJ DeAngelis regarding the Santa Maria issues. *See* A.07-01-014, Evidentiary Hearing Transcript at p. 856. Golden State followed these instructions and addressed the La Serena Project issues as directed by ALJ DeAngelis.

[55] A.08-07-010/A.07-01-014, Exhibit 230 (Garon Rebuttal Testimony) at pp. 129-130.

authorized to include La Serena Project costs in rates, and this confusion persisted and affected subsequent Commission proceedings involving the La Serena Project costs.[56] The Parties also acknowledge that Decision 08-01-043 did not clearly discuss the authorization of the approximate $3.8 million of La Serena Project costs for inclusion in Golden State's adopted rate base and customer rates, however, Decision 08-01-043 did include the approximate $3.8 million of La Serena Project costs in rate base tables and tariff sheets adopted in and attached to the decision.

As part of the overall settlement reached in this rehearing proceeding, Golden State and DRA have agreed to a compromise that resolves all of the La Serena Project and other issues, including the issues presented by the Commission in Scoping Memo Item (c), as follows:

Adopted Rate Base and Customer Rates

The Settlement Agreement provides that (i) $1,844,856 of the $4,110,664 in total La Serena Project costs are just and reasonable, used and useful, and should be included in Golden State's adopted rate base and customer rates as of January 1, 2008;[57] (ii) Golden State shall file an Advice Letter for a rate base offset in the amount of $336,350.24 for its Santa Maria ratemaking district, which is the difference between the existing amount of $1,979,708 in adopted rate base for the La Serena Project and the settlement amount of 1,844,856 in this rehearing proceeding adjusted for accumulated depreciation and contributions received;[58] and (iii) Golden State shall make a one-time credit to the customers of its Santa Maria ratemaking district of $974,024.[59] This credit amount is based upon the monies that have been collected in customer rates since January 1, 2008 that are attributable to the La Serena Project costs in customer rates in excess of the $1,844,856, which is the amount the parties agree is just and reasonable, used and

[56] Settlement Agreement at § 4.1.

[57] Settlement Agreement at § 3.2.

[58] Settlement Agreement at § 3.3.

[59] Settlement Agreement at § 3.4.

useful, and should be included in Golden State's adopted rate base and customer rates as of January 1, 2008.

The Parties acknowledge that Decision 10-11-035 ordered Golden State to refund $582,832 based upon the reduction of rate base ordered by the Commission in that decision. Pursuant to an Advice Letter Suspension Notice issued on May 24, 2011 by DWA, Golden State was directed to stay the $582,832 refund pending the outcome of this rehearing proceeding. Accordingly, the Parties agree that the one-time credit of $974,024 replaces the $582,832 that Golden State was ordered to refund in Decision 10-11-035.

Commission Rules, Statutes and Policies

The Settlement Agreement also resolves the issue raised by DRA concerning Golden State's compliance with the Commission's Rules, Statutes and Policies. Without agreeing that there has been any such non-compliance, Golden State agrees that it will comply with all requirements of the Commission's Rate Case Plan in all future GRCs, as set forth in Commission Decision 04-06-010 and Decision 07-05-062, including providing draft testimony with all proposed applications and Prepared Testimony with all final GRC applications.[60]

DRA agrees that Golden State should not be assessed any fines or penalties under Rule 1.1, or any other statute, rule, order or policy of the Commission, and that there is no need for the Commission to issue an Order to Show Cause, open an investigation, or take any other action regarding Golden State's conduct in A.07-01-014 or A.08-07-010.[61] DRA also agrees that it will not allege or assert in any future proceeding before the Commission that (a) Golden State misled the Commission in A.07-01-014 and/or in A.08-07-010 about the La Serena Project costs, (b) Golden State violated Rule 1.1, Public Utilities Code Sections 451 or 454, the Rate Case Plan, or any other statute, order or rule of the Commission in connection with the La Serena Project costs, or (c) Golden State's conduct in A.07-01-014 or A.08-07-010 was in any way improper in connection with the

[60] Settlement Agreement at § 4.2.

[61] Settlement Agreement at § 4.3.

La Serena Project costs.[62] DRA also agrees that it will not rely upon or cite to any statements made in Decision 08-08-031 and/or in Decision 11-07-057 (the La Serena Project rehearing decisions) that allege and/or imply that Golden State violated Commission Rules, statutes or orders as evidence of wrongdoing by Golden State in any future proceeding before the Commission.[63]

Legal Costs Associated with Rehearing (Decision 11-07-057)

The Settlement Agreement provides that Golden State will identify separately in its draft testimony, prepared testimony, and work papers and exclude 75% of all legal and consulting costs incurred in this rehearing proceeding from any historical expenses used to forecast expenses in any future GRCs and/or other filings. This exclusion will include any and all amounts included within Golden State's deferred regulatory expense account and any amounts used as the basis for a forecast of future regulatory expenses.[64]

<u>Scoping Memo Item (d)</u>:
Did Golden State seek authorization from the Commission for the La Serena Project prior to undertaking it? If so, when? If not, why not?

<u>Scoping Memo Item (e):</u>
Did Golden State inform the Commission during the La Serena Project that the project was being constructed? Did Golden State inform the Commission during construction of any cost overruns? If so, when? If not, why not?

The Parties acknowledge that Golden State did seek prior Commission authorization in its 2000 Region 1 GRC for the $331,000 in La Serena Project costs approved by Decision 00-12-063. The Parties also agree that Golden State did seek prior Commission authorization in its 2007 Region 1 GRC for $106,000 in La Serena Project costs approved by Decision 08-01-043.[65]

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[62] Settlement Agreement at § 4.4.

[63] Settlement Agreement at § 4.5.

[64] Settlement Agreement at § 10.1. The Parties acknowledge that as of the date of DRA's Report (October 15, 2012), the total amount of legal and outside consulting costs amounted to approximately $900,000.

[65] A.08-07-010/A.07-01-014, Exhibit 136 (DRA's Amended Report) at p. 16; Exhibit 225 (Garon Opening Testimony) at pp. 11-12.

As to the balance of the La Serena project resulting in the approximate $4 million of La Serena Project costs (including the actual construction of the improvements approved by D.00-12-063), Golden State's Opening Testimony in this proceeding asserted that these improvements were undertaken in the time period between Golden State's 2000 Region 1 GRC and 2007 Region 1 GRC, and thus, Golden State did not seek prior authorization from the Commission for these improvements.[66] Golden State also asserted that Golden State did not inform the Commission during the construction of the La Serena project about any details regarding the budget for the project during this time period, including whether or not there were any cost overruns associated with the construction of the project, because to do so would be contrary to established Commission policy and procedure.[67] Therefore, Golden State asserted that A.07-01-014 (Golden State's 2007 GRC) was Golden State's first opportunity to inform the Commission of the changes to the scope and budget of the La Serena Project.[68]

Specifically, as Golden State explains in its Prepared Testimony in this proceeding, if a utility must undertake a capital project between GRCs that has not yet been approved by the Commission, it normally does not seek prior authorization from the Commission to undertake the capital project.[69] Instead, it undertakes the capital project and records it in its CWIP accounts until such project has closed to plant, at which time it is moved to the utility's internal recorded rate base accounts (which include all completed capital projects, not just those capital projects approved for inclusion in the utility's adopted rate base accounts and customer rates).[70] The utility then presents its CWIP accounts and internal recorded rate base accounts to the Commission in its next GRC.[71] If the Commission approves the utility's CWIP and internal recorded rate base accounts,

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[66] A.08-07-010/A.07-01-014, Exhibit 225 (Garon Opening Testimony) at pp. 11-16.

[67] A.08-07-010/A.07-01-014, Exhibit 225 (Garon Opening Testimony) at pp. 16-17.

[68] A.08-07-010/A.07-01-014, Exhibit 225 (Garon Opening Testimony) at pp. 16-17.

[69] A.08-07-010/A.07-01-014, Exhibit 225 (Garon Opening Testimony) at p. 16.

[70] A.08-07-010/A.07-01-014, Exhibit 225 (Garon Opening Testimony) at p. 16.

[71] A.08-07-010/A.07-01-014, Exhibit 225 (Garon Opening Testimony) at p. 16.

any costs included in those accounts that have not previously been included in customer rates are then reflected in the utility's adopted rate base and customer rates from that time forward.[72] Golden State asserted that it followed the above Commission policy and procedure with respect to the La Serena Project costs.

In its Report in this proceeding, DRA pointed out that it was not until CH2MHILL and Golden State agreed to Task Order No. 7 in May of 2005, and its subsequent revisions, that the scope of and budget for the La Serena Project increased significantly.[73] Therefore, DRA asserted that it was in Golden State's 2007 GRC (A.07-01-014) that Golden State should have informed the Commission about changes to the scope and budget of the La Serena Project by submitting Prepared Testimony about these issues and the significant increase in costs.[74] DRA's and Golden State's position on these issues is discussed above under Scoping Memo Item (c).

Resolution of Scoping Memo Items (d) and (e)

As part of the overall settlement reached in this rehearing proceeding, Golden State and DRA have agreed to a compromise that resolves all of the La Serena Project and other issues, including the issues presented by the Commission in Scoping Memo Items (d) and (e). The Parties agree that $1,844,856 of the $4,110,664 in La Serena Project costs are just and reasonable, used and useful, and should be included in Golden State's adopted rate base and customer rates as of January 1, 2008.[75]

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[72] A.08-07-010/A.07-01-014, Exhibit 225 (Garon Opening Testimony) at p. 16.

[73] A.08-07-010/A.07-01-014, Exhibits 136 (DRA's Amended Report) pp. 18-34.

[74] A.08-07-010/A.07-01-014, Exhibits 136 (DRA's Amended Report) pp. 18-34.

[75] Settlement Agreement at § 3.2.

<u>Scoping Memo Item (f):</u>
What, if any, amount of cost overruns resulted from the La Serena Project?

<u>Scoping Memo Item (g):</u>
What were the causes of the cost overruns for the La Serena Project?

DRA and Golden State have engaged in an extensive review and analysis of the documentary evidence in the record regarding the amount and causes of any cost overruns associated with the La Serena Project. This documentary evidence includes Golden State's internal records associated with the La Serena Project, including thousands of pages of e-mails and other internal documents, as well as the La Serena Project files maintained by CH2MHILL, the contractor that designed and constructed the project. Golden State and DRA have reached different conclusions as to the amount and cause of the cost overruns associated with the La Serena Project.

DRA's Report states that all costs associated with the La Serena Project in excess of the capital budgets related to the La Serena Project approved by the Commission in Decision 00-12-063 ($331,000) and Decision 08-01-043 ($106,000) constitute cost overruns.[76] DRA calculated this dollar amount to be $3,673,644.[77] DRA concluded that the cause of these cost overruns was Golden State's poor estimates and mismanagement of the project.[78]

Golden State's testimony states that the construction costs associated with the La Serena Project incurred by CH2MHILL in excess of the construction-ready budget established for the project in late 2005 constitute cost overruns.[79] Golden State calculated this cost overrun dollar amount to be $206,478.[80] Golden State also calculated a total cost overrun amount, inclusive of Golden State internal costs related to the project, to be

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[76] A.08-07-010/A.07-01-014, Exhibit 136 (DRA's Amended Report) at p. 45.

[77] A.08-07-010/A.07-01-014, Exhibit 136 (DRA's Amended Report) at p. 45.

[78] A.08-07-010/A.07-01-014, Exhibit 136 (DRA's Amended Report) at p. 45.

[79] A.08-07-010/A.07-01-014, Exhibit 225 (Garon Opening Testimony) at pp. 52-60; Exhibit 222 (Becica Opening Testimony) at pp. 14-16; Exhibit 225 (Becica Rebuttal Testimony) at p. 5-10.

[80] A .08-07-010, Exhibit 225 (Garon Opening Testimony) at p. 59.

$231,901.[81] Golden State concluded that the cause of these cost overruns was the occurrence of unanticipated events, including unforeseen site conditions encountered during the construction project, that caused additional work to be necessary for the completion of the project.[82] Golden State also concluded that the cost overruns associated with the La Serena Project were incurred for work that was necessary and reasonable, and that these cost overruns were within the normal industry standard for such water system construction projects.[83]

In addition to DRA's and Golden State's review and analysis, DWA also engaged in an audit of the La Serena Project for the purpose of quantifying the amount of cost overruns associated with the La Serena Project. DWA's Audit Report concludes that the construction costs associated with the La Serena Project incurred by CH2MHILL in excess of the initial April 2005 Task Order No. 7 budget estimate constitute cost overruns.[84] DWA calculated this cost overrun dollar amount to be $1,081,210.[85]

Resolution of Scoping Memo Items (f) and (g)

As part of the overall settlement reached in this rehearing proceeding, Golden State and DRA have agreed to a compromise that resolves all of the La Serena Project and other issues, including the issues presented by the Commission in Scoping Memo Items (f) and (g). The Parties agree that $1,844,856 of the $4,110,664 in La Serena Project costs are just and reasonable, used and useful, and should be included in Golden State's adopted rate base and customer rates as of January 1, 2008.[86]

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[81] A.08-07-010/A.07-01-014, Exhibit 225 (Garon Opening Testimony) at p. 59.

[82] A.08-07-010/A.07-01-014, Exhibit 222 (Becica Opening Testimony) at pp. 14-16.

[83] A.08-07-010/A.07-01-014, Exhibit 222 (Becica Opening Testimony) at p. 16.

[84] DWA Audit Report at pp. 18-19.

[85] DWA Audit Report at pp. 18-19.

[86] Settlement Agreement at § 3.2.

<u>Scoping Memo Item (h):</u>
Did Golden State seek facilities fees from each of the developers concerning the La Serena Project? If so, in what amount(s), and why and how were the facilities fees calculated? If not, why not?

Resolution of Scoping Memo Item (h)

The Parties agree that the record in the various Commission proceedings reflects that Golden State collected a total of $383,600 in contributions from the developers.[87] Golden State's testimony explains how the contribution amounts that were collected were calculated.[88] Golden State applied $287,000 ($157,000 from the developer of Tract 2336 and $130,000 from the developer of the Dorothea Lange Elementary School) to offset a portion of the La Serena project costs.[89] These factual statements are also confirmed by DWA's Audit Report.[90]

<u>Scoping Memo Item (i):</u>
What are the names and business addresses of the persons employed at each of the construction project development companies that Golden State management and/or its consultants, agents, or employees informed of the facilities fees with respect to the La Serena Project costs?

Resolution of Scoping Memo Item (i)

Golden State's testimony provides the names and business addresses of the subject developers as follows:

<u>Tract 2336</u>:
Mr. John Kind, Carriage Homes, Inc.
P.O. Box 2353
Bakersfield, CA 93303

Mr. Terrence B. Flatley
New Dawn Homes, Inc.
500 Grenoble Road, Santa Barbara, CA 93110.

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[87] A.08-07-010/A.07-01-014, Exhibit 136 (DRA's Amended Report) at p. 82; Exhibit 225 (Garon Opening Testimony) at p. 20.

[88] A.08-07-010/A.07-01-014, Exhibit 230 (Garon Rebuttal Testimony) at p. 33-35.

[89] A.08-07-010/A.07-01-014, Exhibit 136 (DRA's Amended Report) at p. 82; Exhibit 225 (Garon Opening Testimony) at p. 20.

[90] DWA Audit Report at p. 3.

The Dorothea Lange Elementary School:
Mr. Perry Judd
Lucia Mar School District
602 Orchard Street
Arroyo Grande, CA 93420

Tract 1790:
Ms. Shawn Russ
485 Via Maxwell, Nipomo, CA 93444

Tract 2196:
Mr. Bill Gerrish
The Nipomo Group
P.O. Box 1206
Arroyo Grande, CA 93421.[91]

DRA's testimony does not dispute the accuracy of these names and business addresses.[92]

Scoping Memo Item (j):
Did Golden State provide each of the four construction project developers with updated information concerning the actual costs of the La Serena Project? If so, when and by what means?

Scoping Memo Item (k):
If the answer to (j.) above is no, who was involved in deciding that Golden State would not provide each of the four construction project developers with updated information concerning the actual costs of the La Serena Project? State the names and business addresses of all the persons involved.

Scoping Memo Item (l):
Why did Golden State not collect updated facilities costs from each of the four developers with respect to the La Serena Project?

In regard to items (j) through (l), Golden State's Opening Testimony in this proceeding states that Golden State did not provide any of the developers with updated information regarding the La Serena Project costs.[93] DRA came to this same conclusion

[91] A.08-07-010/A.07-01-014, Exhibit 225 (Garon Opening Testimony) at p. 19.

[92] A.08-07-010/A.07-01-014, Exhibit 136 (DRA's Amended Report) at p. 91.

[93] A.08-07-010/A.07-01-014, Exhibit 225 (Garon Opening Testimony) at p. 21.

in its Report in this proceeding.[94] Golden State's Opening Testimony also states that there is nothing in the record that indicates or suggests that any person employed by Golden State made a decision one way or the other as to whether or not to provide any of the developers with updated information regarding the La Serena project costs, or collect updated contributions from the four developers.[95] Golden State asserts in its testimony that any such collection of updated contributions from the four developers would not have been permissible or appropriate pursuant to its Tariff Rule 15.[96] DRA asserts in its Report that Golden State's management's failure to update the developers and collect updated contributions constitutes mismanagement by Golden State.[97]

Resolution of Scoping Memo Items (j) through (l)

As part of the overall settlement reached in this rehearing proceeding, Golden State and DRA have agreed to a compromise that resolves all of the La Serena Project and other issues, including the issues presented by the Commission in Scoping Memo Items (j) and (l). As described above, the Parties agree that $1,844,856 of the $4,110,664 in La Serena Project costs are just and reasonable, used and useful, and should be included in Golden State's adopted rate base and customer rates as of January 1, 2008.[98] This agreement resolves any questions or concerns regarding Golden State's obligation to have collected funds under Golden State's Tariff Rule 15 from the new developers for the construction of the La Serena Project. In addition, the Parties have also agreed to the following with respect to Golden State's Tariff Rule 15 for the purpose of avoiding controversy surrounding the application of Rule 15 in the future.

Tariff Rule 15 - Special Facilities

In regard to Golden State's Tariff Rule 15, the Settlement Agreement provides that Golden State shall analyze the impacts of new developments on the design capacity of

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[94] A.08-07-010/A.07-01-014, Exhibit 136 (DRA's Amended Report) at pp. 93-94.

[95] A.08-07-010/A.07-01-014, Exhibit 225 (Garon Opening Testimony) at p. 21.

[96] A.08-07-010/A.07-01-014, Exhibit 225 (Garon Opening Testimony) at 26-29.

[97] A.08-07-010/A.07-01-014, Exhibit 136 (DRA's Amended Report) at pp. 93-94.

[98] Settlement Agreement at § 3.2.

special facilities as set forth in Rule 15 C.1.b. prior to requesting rate base treatment for such new facilities in future GRC applications, unless the Commission establishes a facilities fee and/or connection fee that applies in lieu of Rule 15 C.1.b. Golden State also agrees to separately identify new developments in its Prepared Testimony on Rate Base in all future GRC applications. The Parties further agree that nothing in the Settlement Agreement is intended to limit Golden State's discretion under Rule 15 C.1.b with respect to the collection of advances for the cost of special facilities.[99]

New Tariff for Facilities Fee and/or Connection Fee

The Settlement Agreement also provides that, prior to December 31, 2013, Golden State agrees to work cooperatively with DRA and DWA to establish a new facilities fee and/or connection fee that will apply on a prospective basis to new developments in Golden State's Santa Maria ratemaking area and to amend its Rule 15 to include a new provision incorporating the facilities fee and/or connection fees into its Rule 15 for the Santa Maria ratemaking area.[100] Golden State also agrees, prior to filing any future GRC applications, to identify, evaluate, and determine if Golden State needs to establish a new facilities fee and/or connection fee in any other ratemaking areas that would apply on a prospective basis to new developments. If Golden State determines that a new facilities fee and/or connection fee is needed in any other ratemaking area/s, Golden State agrees to propose the facilities fee and/or connection fee and respective amendments to its Rule 15 in its next GRC for review by all parties as part of the GRC process.[101] Golden State agrees to review any such facilities fees and/or connection fees to determine if there is a need to increase or decrease the fees by 10% or more due to a change in the estimated or actual costs of the facilities covered by the fees and/or an increase or decrease in the number of proposed units used to calculate the fees. If there is a need to increase or decrease one or more fees by 10% or more, Golden State will either propose to adjust relevant fees as part of its next GRC or, if the filing of its next GRC is not timely,

[99] Settlement Agreement at § 5.1.

[100] Settlement Agreement at § 6.1.

[101] Settlement Agreement at § 6.2.

through an appropriate Advice Letter, to reflect the updated information. The adjusted fees will be collected on a prospective basis only after approved by the Commission.[102]

<u>Scoping Memo Item (m):</u>
Are all of the La Serena costs just and reasonable? If so, state the supporting evidence?

<u>Scoping Memo Item (n):</u>
What amount of credit may be due Golden State's Region I ratepayers concerning the La Serena Project, and what is the basis for any credit?

DRA and Golden State have engaged in an extensive review and analysis of the documentary evidence in the record regarding the reasonableness of the La Serena Project costs. This documentary evidence includes Golden State's internal records associated with the La Serena Project, including thousands of pages of e-mails and other internal documents, as well as the La Serena Project files maintained by CH2MHILL, the contractor that designed and constructed the La Serena Project. DRA and Golden State have come to differing conclusions regarding the reasonableness of the La Serena Project costs, as set forth below.

In its Report, DRA asserted that the only costs associated with the La Serena Project that are just and reasonable are the capital budget item amounts related to the La Serena Project that were approved in Decision 00-12-063 ($331,000) and Decision 08-01-043 ($106,000), for a total dollar amount of $437,000.[103] DRA asserted that the remaining La Serena Project costs are not just and reasonable for various reasons, including (i) Golden State failed to make the requisite evidentiary showing in Application 07-01-014; (ii) the La Serena Project was undertaken primarily to provide additional water to the new developments in the Nipomo System; and (iii) Golden State's mismanagement and failure to control the cost overruns associated with the project.[104]

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[102] Settlement Agreement at § 6.3.

[103] A.08-07-010/A.07-01-014, Exhibit 136 (DRA's Amended Report) at p. 98.

[104] A.08-07-010/A.07-01-014, Exhibit 136 (DRA's Amended Report) at pp. 98-101.

Conversely, Golden State's Opening Testimony asserted that the entire $4,110,664 associated with the La Serena Project are just and reasonable, and used and useful.[105] Golden State also asserted that the La Serena Project was needed to provide safe and reliable water service to all of the customers of the Nipomo System - not just the new customers.[106] Further, Golden State asserted that the costs incurred in constructing the La Serena Project were prudently and reasonably incurred, and that Golden State properly managed the La Serena Project.[107]

Resolution of Scoping Memo Items (m) and (n)

As part of the overall settlement reached in this rehearing proceeding, Golden State and DRA have agreed to a compromise that resolves all of the La Serena Project and other issues, including the issues presented by the Commission in Scoping Memo Items (m) and (n). As described above, the Parties agree that $1,844,856 of the $4,110,664 in La Serena Project costs are just and reasonable, used and useful, and should be included in Golden State's adopted rate base and customer rates as of January 1, 2008.[108] Accordingly, the Settlement Agreement states that Golden State shall provide a one time credit to its customers in its Santa Maria ratemaking district in the amount of $974,024.[109] This credit amount is based upon the monies that have been collected in customer rates since January 1, 2008 that are attributable to the La Serena Project costs in customer rates in excess of the $1,844,856 figure agreed to by the Parties in the Settlement Agreement.[110]

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[105] A.08-07-010/A.07-01-014, Exhibit 225 (Garon Opening Testimony) at pp. 22-24; Exhibit 222 (Becica Opening Testimony) at pp. 5-16.

[106] A.08-07-010/A.07-01-014, Exhibit 225 (Garon Opening Testimony) at p. 23; Exhibit 223 (Heden Opening Testimony) at pp. 1-2.

[107] A.08-07-010/A.07-01-014, Exhibit 225 (Garon Opening Testimony) at pp. 22-24; Exhibit 222 (Becica Opening Testimony) at pp. 16-18.

[108] Settlement Agreement at § 3.2.

[109] Settlement Agreement at § 3.4.

[110] Settlement Agreement at § 3.4.

The Parties note that Decision 10-11-035 ordered Golden State to refund $582,832 based upon the reduction of rate base ordered by the Commission in that decision.[111] However, pursuant to an Advice Letter Suspension Notice issued on May 24, 2011 by DWA, Golden State was directed to stay the $582,832 refund pending the outcome of this rehearing proceeding.[112] Therefore, the one-time credit of $974,024 agreed to by the Parties in the Settlement Agreement replaces the $582,832 that Golden State was ordered to refund in Decision 10-11-035.

<u>Scoping Memo Item (o):</u>
For the purpose of the general office expense allocation in Application (A.) 08-07-010, what evidentiary basis supports the Commission permitting any deviation from the methodology used in Decision 07-11-037 to determine the number of customer for Golden State and its unregulated affiliate(s)?

In DRA's Report, DRA acknowledged the Commission's policy with regard to cost allocation issues as set forth in Decision 07-11-037. DRA asserted, however, that prior Commission decisions such as Decision 07-11-037 cannot bind future Commissions.[113] Thus, DRA asserted that the Commission does indeed have discretion to deviate from Decision 07-11-037 in evaluating and determining what method should be used for allocating costs between a utility's regulatory operations and unregulated affiliates, including determining what method is reasonable and appropriate in a given circumstance.[114] However, DRA concludes that the facts and circumstances underlying Decision 07-11-037 had not changed to the degree to warrant a reversal of that methodology in Decision 10-11-035 pertaining to the number of customers served by ASUS under the military contracts.[115]

In its Opening Testimony, Golden State asserted that the evidentiary basis permitting the Commission to deviate from the cost allocation methodology of Decision

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[111] D.10-11-035 at p. 99 (Ordering Paragraph 10).

[112] DWA Advice Letter Suspension Notice, May 24, 2011.

[113] A.08-07-010/A.07-01-014, DRA Exhibit 137 (Ramas Prepared Testimony) at pp. 4-12.

[114] A.08-07-010/A.07-01-014, DRA Exhibit 137 (Ramas Prepared Testimony) at pp. 4-12.

[115] A.08-07-010/A.07-01-014, DRA Exhibit 137 (Ramas Prepared Testimony) at pp. 4-12.

07-11-037 is set forth in Decision 07-11-037 itself.[116] As noted in Decision 10-11-035, the allocation method adopted in Decision 07-11-037 was an interim expedient based on three factors – total labor costs, total expenses and a weighted average number of customers, based upon the number of ultimate connections served and the nature of services provided by the affiliates.[117] As explained in Golden State's testimony, the basis for utilizing a weighted average number of customers in Decision 07-11-037 was driven, in part, by the need to take into consideration the varying levels of service provided by ASUS under military and city contracts.[118] Conversely, Golden State asserted, during the time period addressed by Decision 10-11-035 with the exception of its contract with the City of Torrance (ASUS-City), ASUS had only military contracts, under which it did not provide direct service to military base residents.[119] Additionally, in contrast to Decision 07-11-037, Decision 10-11-035 considered four factors, and the inclusion of both the total dollar amount of plant involved in the ASUS military contracts and the number of ASUS employees (as opposed to payroll expenses).[120] Based upon these facts, Golden State's testimony concludes that there is an evidentiary basis upon which Decision 10-11-035 deviated from the methodology set forth in Decision 07-11-037.

Resolution of Scoping Memo Item (o)

As part of the overall settlement reached in this rehearing proceeding, the Parties have settled the cost allocation issues presented in Scoping Memo Item (o). The Parties agree that there will be no change to the allocation of general office expenses adopted in Decision 10-11-035 for the purpose of the rates established in A.08-07-010. The Parties also agree that the issue of the appropriate number of military customers and appropriate cost allocation methodology to be used by Golden State in future proceedings will be addressed by the Parties in Golden State's 2014 GRC. The Parties also acknowledge and

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[116] A.08-07-010/A.07-01-014, Exhibit 225 (Garon Opening Testimony) at pp. 32-33.

[117] A.08-07-010/A.07-01-014, Exhibit 225 (Garon Opening Testimony) at pp. 32-33.

[118] A.08-07-010/A.07-01-014, Exhibit 230 (Garon Rebuttal Testimony) at p. 138.

[119] A.08-07-010/A.07-01-014, Exhibit 230 (Garon Rebuttal Testimony) at p. 138.

[120] A.08-07-010/A.07-01-014, Exhibit 230 (Garon Rebuttal Testimony) at p. 138.

agree that the settlement of this issue in this proceeding does not, in any way, modify the general office allocation percentages and provisions contained in Section 12 of the Settlement Agreement between Golden State, DRA and The Utility Reform Network entered into on June 21, 2012 in A.11-07-017.[121]

<u>Scoping Memo Item (p):</u>
Provide the legal authority that allows expenses incurred during the preparation and processing of a general rate case to be amortized and recovered from ratepayers over the subsequent three-year rate case cycle?

Golden State's Prepared Testimony identifies several Commission decisions that it asserts expressly authorize a utility's expenses incurred during the preparation and processing of a GRC to be amortized and recovered over the subsequent three-year rate cycle, including Decisions 76920, 03-050-78, 10-11-035, 12-04-009.[122] Golden State's testimony also identifies several Commission decisions that it contends, while not explicitly discussing this issue, authorize the recovery of deferred rate case expenses in past Golden State GRCs wherein Golden State has made it clear that its request is to recover rate case expenses on a deferred basis.[123]

DRA, in its Report, asserts that there are only two ways a utility may be legally authorized to recover deferred rate case expenses.[124] First, DRA asserts that such authority can be obtained through specific Commission approval of the deferral or a Commission directive requiring such deferral.[125] Second, DRA asserts that it is possible in limited circumstances to recover costs incurred in preparing and processing a GRC through a memorandum account.[126]

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[121] Settlement Agreement at § 7.1.

[122] A.08-07-010/A.07-01-014, Exhibit 226 (Switzer Opening Testimony) at p. 12.

[123] A.08-07-010/A.07-01-014, Exhibit 226 (Switzer Opening Testimony) at p. 12.

[124] A.08-07-010/A.07-01-014, Exhibit 226 (Switzer Opening Testimony) at pp. 20-22.

[125] A.08-07-010/A.07-01-014, Exhibit 226 (Switzer Opening Testimony) at pp. 20-22.

[126] A.08-07-010/A.07-01-014, Exhibit 226 (Switzer Opening Testimony) at p. 23.

Resolution of Scoping Memo Item (p)

As part of the overall settlement reached in this rehearing proceeding, Golden State and DRA have settled the issues related to deferred rate case expenses in Scoping Memo Item (p). The Settlement Agreement provides that Golden State's recovery on a deferred basis of its regulatory expenses associated with the processing of A.08-07-010 was appropriate.[127] The Settlement Agreement provides that Golden State will have a transition mechanism that will enable Golden State to both (i) forecast its 2017 GRC regulatory expenses, and (ii) recover its regulatory expenses incurred through 2015 for the preparation of the 2014 GRC on a deferred basis.[128] The Parties agree that Golden State will recover its deferred 2014 GRC regulatory expenses over a three year amortization period without interest unless a three year period results in a surcharge greater than 0.5% of adopted revenues in which case Golden State will agree to a longer amortization period necessary to result in a surcharge that is less than 0.5% of adopted revenues.[129]

The Parties agreed-upon transition mechanism is a reasonable resolution of this issue that has been acknowledged by the Commission to make a utility whole in this context. In Decision 12-04-009, Suburban Water Company's 2012 GRC decision, the Commission authorized Suburban to continue its practice to amortize prior year regulatory costs because "we would otherwise have to 'catch up' for the unamortized years as well as include a future forecast in rates to avoid a gap in Suburban's recovery of reasonable costs."[130] The Commission also directed Suburban to present an option in its next GRC that would convert the regulatory expenses in rates to a forecast rather than an amortization.[131] Thus, the Commission has recently recognized that a transition from a deferral and amortization basis to a forecast basis for regulatory expenses is reasonable

[127] Settlement Agreement at § 8.2.

[128] Settlement Agreement at § 8.3.

[129] Settlement Agreement at § 8.3.

[130] D.12-04-009 at p. 9.

[131] D.12-04-009 at pp. 10-11.

and appropriate for utilities such as Golden State and Suburban, who have historically recovered such expenses on a deferred basis. The Parties' settlement of this issue reflects this principle and should be adopted.

<u>Scoping Memo Item (q):</u>
Did Golden State receive Commission authorization to book the CH2MHill consultant costs totaling $450,000 for Regions II and III into a memorandum account or any other account? If not, how, when, where and by whom were these costs booked into Golden State's Uniform System of Accounts, Account 146 and/or 797?

Golden State's Prepared Testimony asserted that Decision 10-11-035 authorized the recovery of the $450,000 in regulatory expenses for Golden State's engagement of CH2MHILL as reasonably incurred.[132] Specifically, Golden State identifies the Commission's finding in Decision 10-11-035 that Golden State's regulatory commission expenses that were deemed reasonable and placed in Account 146 (such as the CH2MHILL consultant costs) should be amortized and recovered over the three-year rate case cycle.[133] Prior to Decision 10-11-035, Golden State testified that it booked the CH2MHILL consultant costs (along with other regulatory expenses) into Account 146 pursuant to the normal treatment of these expenses and this account.[134]

DRA's Report asserted that the Commission has not granted Golden State the authority to defer rate case costs it incurs, including the CH2MHILL consultant costs, in either a memorandum account or Account 146 for future recovery in rates.[135] DRA has not otherwise challenged in this rehearing proceeding the reasonableness of the CH2MHILL consultant costs that were classified as regulatory costs.

Resolution of Scoping Memo Item (q)

As part of the overall settlement reached in this rehearing proceeding, Golden State and DRA have settled the issues in Scoping Memo Item (q). The Settlement

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[132] A.08-07-010/A.07-01-014, Exhibit 226 (Switzer Opening Testimony) at p. 13.

[133] A.08-07-010/A.07-01-014, Exhibit 226 (Switzer Opening Testimony) at p. 13.

[134] A.08-07-010/A.07-01-014, Exhibit 226 (Switzer Opening Testimony) at p. 13.

[135] A.08-07-010/A.07-01-014, DRA Exhibit 137 (Ramas Prepared Testimony) at pp. 26-29.

Agreement provides that the recovery of the $450,000 in CH2MHILL consultant costs on a deferred basis was appropriate.[136]

<u>Scoping Memo Item (r):</u>
Explain Uniform System of Accounts, Accounts 146 and 797.

Resolution of Scoping Memo Item (r)

Both Golden State and DRA have provided explanations of Uniform System of Accounts, Account 146 and 797 in their respective testimony.[137] Although the Parties' testimony reflects differing views as to the operation of these accounts, this Scoping Memo Item is resolved by way of the overall settlement reached in this proceeding, including the provisions of the Settlement Agreement related to the deferred rate case expense issue described in detail above.[138]

<u>Scoping Memo Item (s):</u>
Did Golden State's 2008 annual report for Regions II and III concerning rate charges to its water customers include regulatory expenses that are attributable to Golden State's Bear Valley Electric Company?

Resolution of Scoping Memo Item (s)

Both Golden State's and DRA's testimony state that (i) Golden State's 2008 annual report inadvertently mislabeled Golden State's Bear Valley Electric Company deferred regulatory expense under the caption Region II & III GRC – 2008 in its 2008 Annual Report; (ii) Golden State has issued a corrected schedule properly correcting this typographical error; and (iii) as noted in the DWA Audit Report, the Bear Valley Electric Company regulatory costs were not charged to Golden State's water customers.[139]

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[136] Settlement Agreement at § 8.2.

[137] A.08-07-010/A.07-01-014, Exhibit 226 (Switzer Opening Testimony) at pp. 13-15; A.08-07-010/A.07-01-014, DRA Exhibit 137 (Ramas Prepared Testimony) at pp. 12-16.

[138] Settlement Agreement at § 8.3.

[139] A.08-07-010/A.07-01-014, Exhibit 226 (Switzer Opening Testimony) at pp. 16-21; A.08-07-010/A.07-01-014, DRA Exhibit 137 (Ramas Prepared Testimony) at pp. 29-31.

Additional Issue - Maintenance Programs

In its Report, DRA raised certain issues regarding Golden State's maintenance practices. In particular, DRA asserted that preventative maintenance programs should have been in place for certain facilities at the La Serena water treatment plant, including an underground vault, natural gas line, and concrete slabs on grade and pipe supports.[140] Golden State disagreed with DRA's assessment and, in its Rebuttal Testimony explained that all of the facilities addressed by DRA are considered non-essential facilities for which a preventive maintenance program is not warranted. Golden State's testimony explained that it is industry standard and prudent practice to employ a corrective maintenance program for such facilities, and not a preventative maintenance program.[141]

As part of the overall settlement reached in this proceeding, the Parties agree that, prior to December 31, 2013, Golden State will work with DRA in identifying the appropriate maintenance programs for water treatment plant infrastructure components that could cause bodily harm such as gas lines and earthquake connections and to implement such safety-related maintenance programs (if warranted and not in place already) before filing its 2014 GRC in 2014.[142]

B. The Settlement is Consistent with the Law

The Parties are aware of no statutory provision or prior Commission decision that would be contravened or compromised by the Settlement Agreement. The issues resolved in the Settlement Agreement are within the scope of this proceeding, and its terms are fully consistent with existing law.

C. The Settlement is in the Public Interest

The Commission has held that a settlement that "commands broad support among participants fairly reflective of the affected interests" and "does not contain terms which contravene statutory provisions or prior Commission decisions" serves the public

[140] A.08-07-010/A.07-01-014, DRA Exhibit 136 (DRA's Amended Report) at pp. 67-72.

[141] A.08-07-010/A.07-01-014, Exhibit 229 (Gisler Rebuttal) at pp. 14-18.

[142] Settlement Agreement at § 11.1.

interest.[143] In this proceeding, the primary public interest is in the delivery of safe and reliable water service at reasonable rates. The Settlement Agreement advances this interest by fairly balancing Golden State's opportunity to earn a reasonable rate of return against the needs of consumers for safe and reliable water service at reasonable rates.

Moreover, the Commission has expressed a "strong public policy" in favor of settlements.[144] This policy supports many worthwhile goals, including the reduction of litigation expenses, conservation of scarce Commission resources and risk reduction relating to unknown and potentially unacceptable litigation outcomes.[145] As the Commission has recently stated:

> This strong public policy favoring settlements weighs in favor of our resisting the temptation to alter the results of the negotiation process. As long as a settlement taken as a whole is reasonable in light of the record, consistent with the law, and in the public interest it should be adopted.[146]

Here, Commission approval of the Settlement Agreement will provide for the speedy resolution of contested issues, will save unnecessary litigation expenses and will conserve Commission resources. The Parties have offered extensive testimony and exhibits in support of the Settlement Agreement. For these foregoing reasons, the Settlement Agreement is consistent with Commission precedent, does not contravene statutory law and is in the public interest. Therefore, the Commission should approve the Settlement Agreement and grant such other relief as the Commission deems reasonable and necessary.

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[143] *Re San Diego Gas & Elec.*, D.92-12-019, 46 CPUC 2d 538, 552.

[144] D.05-03-022 at pp. 8-9.

[145] D.05-03-022 at p. 9 (citing D.92-12-019, 46 CPUC 2d 538, 553).

[146] D.05-03-022 at p. 9.

IV. GOLDEN STATE'S REQUEST FOR A COMMISSION ORDER REGARDING GOLDEN STATE'S COMPLIANCE WITH COMMISSION RULES, ORDERS AND STATUTES

Both of the Commission's rehearing decisions in this proceeding—Decision 11-07-057 and Decision 08-08-031—contain statements regarding Golden State's actions in including La Serena Project costs in rates, and in presenting the La Serena Project to the Commission in the 2007 GRC that could potentially be used against Golden State in future Commission proceedings. For example, Decision 11-07-057 makes the following statements:

- "Golden State has provided conflicting evidence of whether the La Serena costs are in rate base"[147]
- "It is absolutely clear that prior to Decision 10-11-035 Golden State was not authorized to place $3.7 million in costs for the La Serena project into its rate base, and had been directed that the money was not to be in rate base."[148]
- "[B]ecause the La Serena costs appear to have been charged to ratepayers absent authorization, and because they were not adequately collected from the developers, Golden State's charges are not consistent with statute, Commission orders or Golden State's tariff."[149]

The Parties' Settlement Agreement resolves all of the rehearing issues, including Golden State's compliance with Commission rules, orders and statutes with respect to the La Serena Project. As described above, the Parties agree that $1,844,856 of the $4,110,664 in La Serena Project costs are just and reasonable, used and useful, and should be included in Golden State's adopted rate base and customer rates as of January

[147] D.11-07-057 at 7.

[148] D.11-07-057 at 9.

[149] D.11-07-057 at 12.

1, 2008.[150] The Settlement Agreement further acknowledges that there has been confusion in the Commission's proceedings regarding what La Serena Project costs were before the Commission for review in Application 07-01-014, whether La Serena project costs have been in rates, and whether Golden State was authorized to include La Serena Project costs in rates.[151] The Parties have agreed that Golden State should not be assessed any fines or penalties under Rule 1.1, or any other statute, rule, order or policy of the Commission, and that there is no need for the Commission to issue an Order to Show Cause, open an investigation, or take any other action regarding Golden State's conduct in A.07-01-014 or A.08-07-010.[152] The Parties have also agreed that DRA shall not rely upon or cite to any statements made in Decision 08-08-031 and/or in Decision 11-07-057 that imply and/or allege that Golden State violated Commission Rules, statutes or orders as evidence of wrongdoing by Golden State in any future proceeding before the Commission.[153]

In order to avoid any future implication of wrongdoing, Golden State requests that the Commission include in its decision adopting the Settlement Agreement an order stating that all issues involving the La Serena Project costs have been fully resolved in the Settlement Agreement, and that any statements made in Decision 08-08-031 and Decision 11-07-057 (the La Serena Project rehearing decisions) that imply and/or allege that Golden State violated Rule 1.1, Public Utilities Code Sections 451 or 454, the Rate Case Plan, or any other statute, order or rule of the Commission in connection with the La Serena project costs, may not be relied upon as evidence of wrongdoing by Golden State in any future proceedings before the Commission. DRA is neutral as to Golden State's request for this order.

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[150] Settlement Agreement at § 3.3.

[151] Settlement Agreement at § 4.1.

[152] Settlement Agreement at § 4.3.

[153] Settlement Agreement at § 4.5.

V. THE PARTIES HAVE COMPLIED WITH THE REQUIREMENTS OF RULE 12.1(b)

Commission Rule 12.1(b) requires parties to provide a notice of a settlement conference at least seven (7) days before a settlement is signed. On February 25, 2013, the Parties notified all of the parties on the service list in these proceedings of a settlement conference and subsequently convened the settlement conference on March 5, 2013 to describe and discuss the terms of the proposed Settlement Agreement. Representatives of Golden State and DRA participated in the settlement conference. The Settlement Agreement was finalized and executed on March 6, 2013.

VI. CONCLUSION

In light of the foregoing, the Settlement Agreement is reasonable in light of the whole record, consistent with law and in the public interest. Thus, the Parties respectfully request that the Commission approve the Settlement Agreement in its entirety.

Dated: March 6, 2013

Respectfully submitted,

/s/ Joseph M. Karp

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EXHIBIT 1

TO JOINT MOTION FOR APPROVAL OF SETTLEMENT AGREEMENT

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

In the matter of the Application of Golden State Water Company (U 133 W) for an order authorizing it to increase rates for water service by $20,327,339 or 20.12% in 2010; by $2,646,748 or 2.18% in 2011; and by $4,189,596 or 3.37% in 2012 in its Region II Service Area and to increase rates for water service by $30,035,914 or 32.67% in 2010; by $1,714,524 or 1.39% in 2011; and by $3,664,223 or 2.92% in 2012 in its Region III Service Area.	Application 08-07-010 (Filed July 1, 2008)
And Related Matters.	Application 07-01-014

SETTLEMENT AGREEMENT BETWEEN GOLDEN STATE WATER COMPANY AND THE DIVISION OF RATEPAYER ADVOCATES OF THE CALIFORNIA PUBLIC UTILITIES COMMISSION

I. TERMS AND CONDITIONS – GENERAL

1.1 This Settlement Agreement ("Settlement") is entered into by Golden State Water Company ("Golden State") and the Division of Ratepayer Advocates ("DRA") of the California Public Utilities Commission ("Commission"). Golden State and DRA are referred to jointly herein as the "Parties" or singularly as a "Party."

1.2 This Settlement resolves all outstanding issues that are currently before the Commission in the consolidated rehearing proceedings in Golden State's Application ("A.") 08-07-010 and A.07-01-014.

1.3 The Parties agree that (except as otherwise stated herein) the Commission's

adoption of this Settlement should not be construed as an admission or waiver by any Party regarding any fact, matter of law, or issue thereof that pertains to the subject of this Settlement. In accordance with the Commission's Rules of Practice and Procedure (hereinafter "Rule"), Rule 12.5, the Parties intend that the Commission's adoption of this Settlement be binding on each Party, including its legal successors, predecessors, assigns, partners, joint ventures, shareholders, members, representatives, agents, attorneys, parent or subsidiary companies, affiliates, officers, directors, and/or employees. Adoption of this Settlement does not constitute approval of, or precedent regarding, any principle in any future proceeding, unless the Commission expressly provides otherwise.

1.4 The Parties agree that no Party to this Settlement, or any Parties' legal successors, predecessors, assigns, partners, joint ventures, shareholders, members, representatives, agents, attorneys, parent or subsidiary companies, affiliates, officers, directors, and/or employees thereof, assumes any personal liability as a result of this Settlement.

1.5 The Parties agree that the Commission has primary jurisdiction over any interpretation, enforcement, or remedy pertaining to this Settlement, as provided by the California Constitution, Article XII, Section 8. No Party may bring an action pertaining to this Settlement in any local, State, or Federal court, or administrative agency, without having first exhausted its administrative remedies at the Commission.

1.6 If any Party fails to perform its respective obligations under this Settlement, the other Party may come before the Commission to pursue a remedy including enforcement.

1.7 The Parties agree that this Settlement is an integrated agreement and the provisions of the Settlement are not severable. Therefore, if the

Commission rejects any term or portion of this Settlement, the Parties shall convene a conference within fifteen (15) days thereof and engage in good faith negotiations to determine whether some or all of the remainder of the Settlement is acceptable to the Parties. In the event an agreement is reached, all Parties must consent in writing to any changes or the Settlement is void. If the Parties cannot agree to resolve any issue raised by the Commission's actions within thirty (30) days of their conference, this Settlement shall be deemed to be rescinded, the Parties shall be released from any obligation, representation, or condition set forth in this Settlement, including their obligation to support this Settlement, and the Parties shall be restored to their positions prior to having entered into this Settlement. Thereafter, the Parties may pursue any action they deem appropriate.

1.8 The Parties acknowledge and stipulate that they are agreeing to this Settlement freely, voluntarily, and without any fraud, duress, or undue influence by any other Party. Each Party hereby states that it has read and fully understands its rights, privileges, and duties under this Settlement, including each Party's right to discuss this Settlement with its legal counsel, and has exercised those rights, privileges, and duties to the extent deemed necessary.

1.9 The Parties have determined that this Settlement is in their best interests, and more cost-effective than undertaking the expenses, delays, and uncertainties of further litigation. In executing this Settlement, each Party declares that the terms and conditions herein are reasonable, consistent with the law, and in the public interest. Therefore, the Parties jointly request that the Commission accept and adopt this proposed Settlement in its entirety and without modification or condition, as reasonable, consistent with the law, and in the public interest.

1.10 The Parties agree that within three days of their execution of this Settlement they will jointly file this Settlement for Commission approval by joint motion under Commission Rule 12.1(a). In their joint motion, the Parties will ask that the Commission expeditiously consider and approve this Settlement in its entirety and without condition or modification.

1.11 The Parties agree to support this Settlement and use their best efforts to secure the Commission's approval of this Settlement in its entirety and without condition or modification.

1.12 The Parties agree to defend this Settlement before the Commission if the Commission's adoption of this Settlement is opposed by anyone else.

1.13 Each Party hereto agrees without further consideration to execute and deliver such other documents and take such other actions as may be necessary to achieve the purposes of this Settlement, including, without limitation, furnishing such additional information, documents, and/or testimony as the Commission may require (with due regard for confidentiality) in issuing an order adopting this Settlement.

1.14 The Parties acknowledge and agree that this Settlement has been jointly negotiated and drafted. The language of this Settlement shall be construed as a whole according to its fair meaning and not in favor of any Party.

1.15 This Settlement constitutes the entire agreement and understanding between the Parties as to the subject of this Settlement, and supersedes any prior agreements, commitments, representations, or discussions between the Parties.

1.16 This Settlement may not be amended or modified without the express written and signed consent of each Party hereto.

1.17 No Party has relied or relies upon any statement, promise, or representation by any other Party, except as specifically set forth in this Settlement. Each Party expressly assumes the risk of any mistake of law or fact made by such Party or its authorized representative.

1.18 This Settlement and each covenant and condition set forth herein shall be binding upon the respective Parties hereto.

1.19 This Settlement may be executed in counterparts by each Party hereto with the same effect as if all Parties had signed one and the same document. Any such counterpart shall be deemed to be an original and shall together constitute one and the same Settlement.

1.20 This Settlement shall become effective and binding on the Parties as of the date it is fully executed by all Parties.

1.21 This Settlement shall be governed by the laws of the State of California as to all matters, including validity, construction, effect, performance and remedy.

II. FACTUAL BACKGROUND

2.1 Golden State is a Class A water company regulated by the Commission. Golden State divides its service territory into three geographical regions: Region 1, Region 2 and Region 3. Region 1 incorporates customer service areas in Northern California and California's Central Coast. Regions 2 and 3 encompass areas of Southern California. Golden State's headquarters is located in San Dimas, California.

2.2 The Parties acknowledge that there is a rather long and somewhat complicated procedural history associated with the capital improvement project constructed at Golden State's La Serena Water Treatment Plant

("La Serena Project"), which is detailed in the Parties' Joint Motion for Approval of Settlement Agreement.

2.3 Golden State first requested rate recovery of $331,000 of La Serena Project costs in A.00-03-066, which was its 2000 General Rate Case ("GRC") application for Region 1. In Decision 00-12-063, the Commission authorized Golden State to include $331,000 of La Serena Project costs in its adopted rate base and customer rates. Due to various circumstances, including the implementation of the Commission's Rate Case Plan in 2004, Golden State did not file another complete GRC for Region 1 until January 2007.

2.4 On January 5, 2007, Golden State filed A.07-01-014, part of its 2007 GRC for Region 1, requesting authority to increase its revenue requirement and rates in its Santa Maria customer service district of its Region 1.[1] In A.07-01-014, Golden State requested Commission authorization to include approximately $3.8 million of La Serena Project costs in its adopted rate base and customer rates for a new reservoir and other related plant improvements in Golden State's Santa Maria ratemaking area. Golden State included these costs in its historical rate base accounts in A.07-01-014. DRA asserts that Golden State did not submit Prepared Testimony about these costs with A.07-01-014; Golden State asserts that it did submit Prepared Testimony about these costs in A.07-01-014. DRA, in its Report in A.07-01-014, Opening and Reply Brief in A.07-01-014, objected to Commission authorization and inclusion of these costs in Golden State's adopted rate base and customer rates alleging, among other things, that these specific La Serena Project costs had not been reviewed for reasonableness. On February 1, 2008, the Commission issued Decision

[1] See A.07-01-009-A.07-01-015, which includes A.07-01-014 for the Santa Maria customer service area.

08-01-043 authorizing new rates for Golden State in its Region 1 GRC. Decision 08-01-043 did not clearly discuss the authorization of the approximate $3.8 million of La Serena Project costs, however, Decision 08-01-043 did include the approximate $3.8 million in rate base tables and tariff sheets adopted in and attached to the decision.

2.5 On January 31, 2008, Golden State filed Advice Letter 1267-W to implement the rate tables and tariff sheets, attached to Decision 08-01-043, which included $3,812,290 of La Serena Project costs in Golden State's adopted rate base and customer rates. The Commission approved Advice Letter 1267-W on February 29, 2008, thereby including the $3,812,290 of La Serena Project costs in Golden State's adopted rate base and customer rates effective January 1, 2008 through January 1, 2011.

2.6 On March 3, 2008, DRA filed for rehearing of Decision 08-01-043 alleging, among other issues, that the La Serena Project costs had not been reviewed for reasonableness. On August 21, 2008, the Commission issued Decision 08-08-031, granting a limited rehearing of Decision 08-01-043 for the purpose of considering whether it is reasonable to include the $3.7 million of La Serena Project costs in Golden State's adopted rate base and customer rates.[2]

2.7 On July 1, 2008, Golden State filed A.08-07-010, its GRC requesting authority to increase its revenue requirement and rates in Region 2 and Region 3. On October 22, 2008, the Assigned Commissioner and ALJ in A.08-07-010 issued an Amended Scoping Memo and Ruling consolidating A.07-01-014 regarding the rehearing of the La Serena Project costs ordered

[2] Decision 08-08-031 at p. 15 (Ordering Paragraph No. 2). Note, the actual amount in Golden State's adopted rate base and customer rates was $3,812,290 as indicated in paragraph 2.5.

in D.08-08-031with Golden State's Regions 2 and 3 GRC.[3]

2.8 On November 19, 2010, the Commission issued Decision 10-11-035 resolving all issues in A.08-07-010 (Golden State's Regions 2 and 3 GRC) and resolving the rehearing of Decision 08-01-043 regarding the La Serena Project costs. Decision 10-11-035 allocated 52.4% ($1,843,956) of the La Serena Project costs to new customers and 47.6% ($1,675,044) of the costs to existing customers, ordered Golden State to remove $1,843,956 from adopted rate base, and ordered Golden State to give its Region I ratepayers a one-time credit of $582,832 to offset the fact that Golden State's adopted rate base and rates previously included the portion of the La Serena Project costs that the Commission ordered Golden State to remove.[4]

2.9 On December 22, 2010, DRA filed an application for rehearing of Decision 10-11-035 challenging the Commission's decision regarding the reasonableness of the La Serena Project costs, Golden State's recovery of regulatory expenses associated with processing A.08-07-010, and the four factor methodology used by the Commission to determine the number of customers for GSWC's affiliate American States Utility Service ("ASUS"), among other issues. [5]

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[3] A.08-07-010; Amended Scoping Memo and Ruling, October 22, 2008.

[4] D.10-11-035, at 83. On January 13, 2010, GSWC filed A.10-01-009 requesting authority to increase its revenue requirement and rates in all service areas in Region 1, including its Santa Maria service area. On December 16, 2010, the Commission issued D.10-12-059 resolving all issues in GSWC's Region 1 GRC. D.10-12-059 authorized GSWC to include $97,682 for a backwash pond improvement at the La Serena plant site, and made other adjustments to certain budget items related to the La Serena Project costs, thereby increasing the total costs of the La Serena Project to $4,110,664. The cumulative effect of Decision 10-11-035 and Decision 10-12-059 was to reduce the amount related to the La Serena Project in Golden State's adopted rate base and customer rates to $1,979,708.

[5] Application for Rehearing of the Division of Ratepayer Advocates of Decision 10-11-035 at pp. 2-4, A.08-07-010 (Dec. 22, 2010).

2.10 On July 29, 2011, the Commission issued Decision 11-07-057 granting a limited rehearing of Decision 10-11-035 on the issues raised by DRA, along with several additional issues. In addition, Decision 11-07-057 ordered the Director of the Commission's Division of Water and Audits ("DWA") to undertake an audit of the La Serena Project costs. In connection with DWA's audit, Decision 11-07-057 ordered Golden State to provide DWA with copies of all information it has regarding the La Serena Project costs.

2.11 On March 7, 2012, the Commission issued a Scoping Memo enumerating the issues to be addressed in this rehearing proceeding and setting a schedule, including written testimony, evidentiary hearings and briefing. The Commission's March 7, 2012 Scoping Memo ordered that the record of this proceeding shall include, among other things, the DWA Audit Report.

2.12 On March 23, 2012, DWA issued its Financial & Compliance Verification of the La Serena Plant Improvements and 2008 Regulatory Expenses of Golden State ("Audit Report"). On May 24, 2012, DWA issued an Advice Letter Suspension Notice directing Golden State to stay the $582,832 refund related to the La Serena Project costs ordered in Decision 10-11-035 pending the outcome of this rehearing proceeding.

2.13 On June 6, 2012, Golden State served its Prepared Testimony on the rehearing issues (Golden State Exhibits 222 through 226). On October 15, 2012, DRA served its Report on the rehearing issues. On November 29, 2012, DRA served its Amended Report on the rehearing issues (DRA Exhibit 136); DRA also served the Report of its consultant on the rehearing issues on October 16, 2012 (DRA Exhibit 137). On December 7, 2012, Golden State served its rebuttal to DRA's report (Golden State Exhibits 227

through 231). On February 28, 2013, DRA served its Errata to Amended Report (DRA Exhibit 138). Both Parties have engaged in extensive discovery throughout this rehearing proceeding.

2.14 Commencing on December 18, 2012, the Parties met and engaged in settlement negotiations. The Parties' agreed upon terms and conditions, comprising the resolution of the specific issues in this rehearing proceeding, which the Parties believe are fair and reasonable in light of the evidentiary record and in the public interest. The terms and conditions agreed to by the Parties are set forth in this Settlement Agreement in Section III below.

III. TERMS AND CONDITIONS OF THE SETTLEMENT

3.0 **<u>La Serena Project -- Rate Base</u>**

3.1 The Parties agree that the total cost of the La Serena Project, inclusive of (i) the major plant improvement Project constructed by CH2MHILL in 2005-2006, and (ii) additional subsequent work performed by Golden State up through 2009 (including erosion control, site paving and backwash pond improvements), is $4,110,664.

3.2 The Parties agree that $1,844,856 of the $4,110,664 in La Serena Project costs are just and reasonable, used and useful, and should be included in Golden State's adopted rate base and customer rates as of January 1, 2008.

3.3 The Parties agree that Golden State currently has $1,979,708[6] of La Serena Project costs in its adopted rate base and customer rates. The Parties agree

[6](i) Decision 00-12-063 authorized $331,000 related to the La Serena Project in Golden State's customer rates effective January 1, 2001 through January 1, 2008; (ii) Decision 08-01-043 included $3,812,290 related to the La Serena Project in Golden State's customer rates effective January 1, 2008 through January 1, 2011; and (iii) Decision 10-11-035, combined with Decision 10-12-059, reduced the authorized amount related to the La Serena Project in Golden State's customer rates to $1,979,708 effective January 1, 2011.

that Golden State shall file an Advice Letter for a rate base offset in the amount of $336,350.24 for its Santa Maria ratemaking district, which is the difference between the existing amount of $1,979,708 in adopted rate base for the La Serena Project and the settlement amount of $1,844,856 in this rehearing proceeding, adjusted for contributions received and accumulated depreciation.

3.4 The Parties agree that Golden State shall provide a one-time credit to its customers in its Santa Maria ratemaking district in the aggregate amount of $974,024. This credit amount is based upon the monies that have been collected in customer rates since January 1, 2008 that are attributable to the La Serena Project costs in customer rates in excess of the $1,844,856 figure agreed to in Section 3.3 above. The Parties acknowledge that Decision 10-11-035 ordered Golden State to refund $582,832 based upon the reduction of rate base ordered by the Commission in that decision. Pursuant to an Advice Letter Suspension Notice issued on May 24, 2011 by DWA, Golden State was directed to stay the $582,832 refund pending the outcome of this rehearing proceeding. Accordingly, the Parties agree that the one-time credit of $974,024 replaces the $582,832 that Golden State was ordered to refund in Decision 10-11-035.

4.0 **<u>Commission Rules, Statutes and Policies</u>**

4.1 The Parties acknowledge that there has been confusion in A.07-01-014 as to what La Serena Project costs were before the Commission for review in that proceeding and whether La Serena Project costs have been in rates, including whether Golden State was authorized to include La Serena Project costs in rates, and this confusion persisted and affected subsequent Commission proceedings involving the La Serena Project costs.

4.2 Golden State agrees to comply with all requirements of the Commission's

Rate Case Plan in all future GRCs, as set forth in Decision 04-06-010 and Decision 07-05-062, including providing draft testimony with all proposed applications and prepared testimony with all final GRC applications. Such draft testimony and/or prepared testimony shall explain all significant changes between last adopted figures and recorded amounts for (1) all capital additions built between GRCs that were not approved in a prior GRC, (2) all O&M expenses, and (3) all A&G expenses that are equal to or greater than 1% of test year gross revenues.

4.3 The Parties agree that Golden State should not be assessed any fines or penalties under Rule 1.1, or any other statute, rule, order or policy of the Commission, and that there is no need for the Commission to issue an Order to Show Cause, open an investigation, or take any other action regarding Golden State's conduct in A.07-01-014 or A.08-07-010.

4.4 DRA agrees that it will not allege or assert in any future proceeding before the Commission that (a) Golden State misled the Commission in A.07-01-014 and/or in A.08-07-010 about the La Serena Project costs, (b) Golden State violated Rule 1.1, Public Utilities Code Sections 451 or 454, the Rate Case Plan, or any other statute, order or rule of the Commission in connection with the La Serena Project costs, or (c) Golden State's conduct in A.07-01-014 or A.08-07-010 was in any way improper in connection with the La Serena Project costs.

4.5 DRA agrees that it will not rely upon or cite to any statements made in Decision 08-08-031 and/or in Decision 11-07-057 (the La Serena Project rehearing decisions) that imply and/or allege that Golden State violated Rule 1.1, Public Utilities Code Sections 451 or 454, the Rate Case Plan, or any other statute, order or rule of the Commission in connection with the La Serena Project costs, as evidence of wrongdoing by Golden State in any

future proceedings before the Commission.

5.0 **Tariff Rule 15 - Special Facilities**

5.1 The Parties agree that Golden State shall analyze the impacts of new developments on the design capacity of special facilities as set forth in Rule 15 C.1.b. prior to requesting rate base treatment for such new facilities in future GRC applications, unless the Commission establishes a facilities fee and/or connection fee that applies in lieu of Rule 15 C.1.b. Golden State agrees to separately identify new developments in its Prepared Testimony on Rate Base in all future GRC applications. The Parties agree that nothing in this Section 5.1 is intended to limit Golden State's discretion under Rule 15 C.1.b with respect to the collection of advances for the cost of special facilities.

6.0 **New Tariff for Facilities Fee and/or Connection Fee**

6.1 Prior to December 31, 2013, Golden State agrees to work cooperatively with DRA and DWA to establish a new facilities fee and/or connection fee that will apply on a prospective basis to new developments in Golden State's Santa Maria ratemaking area and to amend its Rule 15 to include a new provision incorporating the facilities fee and/or connection fees into its Rule 15 for the Santa Maria ratemaking area similar to section C.1.e of California Water Service Company's Commission-approved Rule 15.

6.2 Prior to filing any future GRC applications, Golden State agrees to identify, evaluate, and determine if Golden State needs to establish a new facilities fee and/or connection fee in other ratemaking areas that will apply on a prospective basis to new developments. If Golden State determines that a new facilities fee and/or connection fee is needed in any other ratemaking area/s, Golden State agrees to propose the facilities fee and/or connection

fee and respective amendments to its Rule 15 in its next GRC for review by all parties as part of the GRC process.

6.3 In the future Golden State agrees to review any existing facilities fees and/or connection fees adopted as a result of Section 6.1 or Section 6.2 above to determine if there is a need to increase or decrease the fees by 10% or more due to a change in the estimated or actual costs of the facilities covered by the fees and/or an increase or decrease in the number of proposed units used to calculate the fees. If there is a need to increase or decrease one or more fees by 10% or more, Golden State will either propose to adjust relevant fees as part of its next GRC or, if the filing of its next GRC is not timely, through an appropriate Advice Letter, to reflect the updated information. The adjusted fees will be collected on a prospective basis only after approved by the Commission.

7.0 **General Office Allocation**

7.1 The Parties agree that there will be no change to the allocation of general office expenses adopted in Decision 10-11-035 for the purpose of the rates established in A.08-07-010. The Parties agree to address the issue of the appropriate number of military customers and appropriate allocation methodology in Golden State's 2014 GRC. This agreement does not, in any way, modify the general office allocation percentages and provisions contained in Section 12 of the Settlement Agreement between Golden State, DRA and The Utility Reform Network entered into on June 21, 2012 in A.11-07-017.

8.0 **Recovery of Regulatory Expenses**

8.1 Golden State agrees to transition its accounting for regulatory expenses beginning in its 2014 GRC from a deferred basis to a forecast basis.

8.2 The Parties agree that Golden State's recovery on a deferred basis of its regulatory expenses associated with the processing of Application 08-07-010 (including the $450,000 in CH2MHILLconsultant costs) was appropriate.

8.3 The Parties agree that Golden State will have a transition mechanism that will enable Golden State to both (i) forecast its 2017 GRC regulatory expenses, and (ii) recover its regulatory expenses incurred through 2015 for the preparation of the 2014 GRC on a deferred basis. The Parties agree that Golden State will recover its deferred 2014 GRC regulatory expenses over a three year amortization period without interest unless a three year period results in a surcharge greater than 0.5% of adopted revenues, in which case Golden State will agree to such longer amortization period necessary to result in a surcharge that is less than 0.5% of adopted revenues. Golden State will provide DRA with full access to all information related to these expenses and not limit DRA's ability to ascertain the reasonableness of these costs before they become part of customer rates.

8.4 Golden State agrees that in its 2014 GRC, Golden State will identify the balances booked in Golden State's Deferred Regulatory Account, as of the date of filing, separately in its Prepared Testimony and work papers. Golden State will continue to book its costs related to the 2014 GRC through the end of 2015 to Golden State's Deferred Regulatory Account. Golden State also agrees to forecast its future regulatory expenses for the 2017 GRC on a prospective basis and to identify all such future regulatory expenses separately in its Prepared Testimony and work papers.

9.0 **<u>Bear Valley Electric Regulatory Expenses</u>**

9.1 The Parties agree that (i) Golden State's 2008 annual report inadvertently mislabeled Golden State's Bear Valley Electric Company deferred

regulatory expense under the caption "Region II & III GRC–2008" in its 2008 Annual Report; (ii) Golden State has issued a corrected schedule properly correcting this typographical error; and (iii) as noted in the DWA Audit Report, the Bear Valley Electric Company regulatory costs were not charged to Golden State's water customers.

10.0 **Legal Costs Associated with Rehearing Proceeding**

10.1 Golden State has incurred legal and outside consulting costs relating to the rehearing proceeding ordered by Decision 11-07-057. Golden State agrees to identify separately in its draft testimony, prepared testimony, and work papers and to exclude 75% of all legal and consulting costs incurred in this rehearing proceeding from any historical expenses used to determine rates in any future GRCs and/or other filings. This exclusion will include any and all amounts included within Golden State's deferred regulatory expense account and any amounts used as the basis for a forecast of future regulatory expenses. The Parties acknowledge that as of the date of DRA's Report (October 15, 2012), the total amount of legal and outside consulting costs amounted to approximately $900,000.

11.0 **Maintenance Program**

11.1 The Parties agree that, prior to December 31, 2013, Golden State will work cooperatively with DRA to identify and develop appropriate safety-related maintenance programs for water treatment plant infrastructure components, such as gas lines and earthquake connections, in order to protect any individual from harm. Golden State agrees to implement such safety-related maintenance programs (if not in place already) before filing its next GRC in 2014.

12.0 Evidentiary Record

12.1 The Parties agree and stipulate to the admission of Golden State's Prepared Testimony (Exhibits 222 through 226), DRA's Amended Report (Exhibit 136), DRA's Consultant Donna Ramas's Report (Exhibit 137), and DRA's Errata to Amended Report (Exhibit 138), and Golden State's Rebuttal Testimony (Exhibits 227 through 231) into the formal evidentiary record in this proceeding. The Parties agree to submit these Exhibits into the record by written motion pursuant to Rule 13.8(d), or in any other manner requested by the Administrative Law Judge in this proceeding.

IV. CONCLUSION

The Parties mutually agree that, based on the terms and conditions set forth above, this Settlement is reasonable, consistent with the law, and in the public interest.

Each Party to this Settlement represents that his or her signature to this Settlement binds his or her respective Party to the terms of this Settlement.

Dated: March 6, 2013

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Dated: March 6, 2013

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