

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



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Application of Great Oaks Water Company (U-162-W) for an Order authorizing it to increase rates charges for water service by \$1,930,413 or 14.28% in 2013, to decrease rates by \$477,210 or - 3.09% in 2014, and to decrease rates by \$426,852 or -2.85% in 2015.

Application No. 12-07-005
(Filed July 2, 2012)

**JOINT MOTION OF THE GREAT OAKS WATER COMPANY
AND THE DIVISION OF RATEPAYERS ADVOCATES
FOR ADOPTION OF SETTLEMENT AGREEMENT**

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March 6, 2013

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

Application of Great Oaks Water Company (U-162-W) for an Order authorizing it to increase rates charges for water service by \$1,930,413 or 14.28% in 2013, to decrease rates by \$477,210 or -3.09% in 2014, and to decrease rates by \$426,852 or -2.85% in 2015.

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**JOINT MOTION OF THE GREAT OAKS WATER
COMPANY AND THE DIVISION OF RATEPAYERS
ADVOCATES' FOR ADOPTION OF SETTLEMENT
AGREEMENT**

I. INTRODUCTION

Pursuant to Rule 12.1 et seq. of the Rules of Practice and Procedure (“Rules”) of the California Public Utilities Commission (“Commission”), Great Oaks Water Company (“Great Oaks”) and the Division of Ratepayer Advocates (“DRA”) submit for Commission approval and adoption the Settlement Agreement between Great Oaks and DRA pertaining to Great Oaks’ general rate case application (“A.12-07-005”). A copy of the Settlement Agreement is attached to this joint motion as “Settlement Agreement.” Based upon the information set forth below and elsewhere in the record, Great Oaks and DRA (“the Parties”) jointly file this motion respectfully requesting the Commission approve and adopt the Settlement Agreement negotiated and entered into by the Parties, which resolves all contested issues in this proceeding.

The Parties represent to the Commission as follows: (1) the Settlement Agreement is reasonable, consistent with the law, and in the public interest; (2) the

Parties are fairly representative of the affected interests;¹ (3) no terms of the Settlement Agreement contravene any statutory provision or any decision of the Commission; (4) the Settlement Agreement, together with the record in the proceeding, conveys to the Commission sufficient information to permit the Commission to discharge its regulatory obligations on the issues addressed in the Settlement Agreement; and (5) the Settlement Agreement is reasonable in light of the entire record and fulfills the criteria that the Commission requires for approval of such a settlement. Based upon these representations, the evidence in the record, and the terms of the Settlement Agreement attached hereto as “Exhibit A,” the Parties jointly request that the Commission grant this motion and issue an order approving and adopting the Settlement Agreement.

II. BACKGROUND AND PROCEDURAL HISTORY

1. Great Oaks is a Class A water company regulated by the Commission. Great Oaks’ headquarters is located in San Jose, in Northern California.

On July 2, 2012, Great Oaks filed its general rate case application, A.12-07-005. DRA filed a protest to A.12-07-005 on July 31, 2012. On August 16, 2012, Great Oaks served updates to its application, testimony, and exhibits. On September 10, 2012, the Commission held a Prehearing Conference. On September 26, 2012, the Assigned Commissioner and Administrative Law Judge issued the Assigned Commissioner’s Scoping Memo and Ruling setting forth the issues to be addressed in this proceeding. On October 23, 2012, a Public Participation Hearing in this proceeding was held in San Jose, California. On October 26, 2012, DRA served its Report in A.12-07-005, and on November 7, 2012, DRA served its Amended Report. On November 9, 2012, Great Oaks served its rebuttal testimony.

¹ The Parties include Great Oaks, the utility applicant in A.12-07-005, and DRA, which represents the interests of ratepayers.

2. Great Oaks’ exhibits in this proceeding consist of detailed testimony, Results of Operations Reports, supporting Work Papers, and the Exhibits Great Oaks-1-7, listed and described in the following table:

Great Oaks’ Exhibits	Description
Great Oaks-1	Report on Results of Operations, Chapters 1 through 11 and Exhibits 1-41b through 9-1 (submitted and served with A.12-07-005 as Exhibit D)
Great Oaks-2	Original GRC Workpapers (submitted and served with A.12-07-005 as Exhibit E)
Great Oaks-3	Capital Projects Justifications (submitted and served with A.12-07-005 as Exhibit G)
Great Oaks-4	Updates to General Rate Case Application Testimony and Exhibits (originally served August 16, 2012)
Great Oaks-5	Corrected Exhibit E GRC Workpapers (originally served on DRA on October 17, 2012)
Great Oaks-6	Great Oaks Water Company Rebuttal Testimony (originally served November 9, 2012)
Great Oaks-7	FINAL Exhibit E GRC Workpapers (supporting Settlement Agreement)

3. DRA’s testimony in this proceeding and supporting work papers are set forth in DRA’s Amended Report served on November 7, 2012:

DRA’s Exhibits	Description
DRA-Exhibit 1	DRA’s Amended Report issued on November 7, 2012 ²
DRA Exhibit 2	DRA’s 3/1/2013 Errata to Amended Report replacing pages 3-6, 3-7, and 5-12 of DRA’s Amended Report (Exhibit 1).

² DRA is only moving its 11/7/12 Amended Report into evidence since the Amended Report supersedes its Original Report.

4. Throughout the proceedings on A.12-07-005, Great Oaks and DRA communicated regularly on the issues presented in the general rate case application. On January 7, 2013, the Parties reached a tentative agreement on all issues presented in A.12-07-005. On January 9, 2013, Administrative Law Judge Robert Barnett was advised of the settlement and, on that same day, ALJ Barnett acknowledged the settlement and cancelled the evidentiary hearing previously scheduled for January 31, 2013. The Parties convened a settlement conference by telephone at 11:00 am on March 4, 2013, with notice and opportunity to participate provided to all interested persons.

5. Following the settlement conference, the Parties completed the drafting of the Settlement Agreement and caused it to be executed on March 4, 2013. The Parties now jointly present the Settlement Agreement to the Commission and respectfully request its approval and adoption.

III. THE SETTLEMENT AGREEMENT

A. Overview of the Settlement Agreement.

The Settlement Agreement addresses all of GOWC's requests in A.12-07-005 and resolves all issues related to Great Oaks' revenue requirement and rate design for the time period from July 1, 2013 through June 30, 2016 throughout Great Oaks' service area. These issues include, but are not limited to, the following: customer forecasts including classes and number of customers; forecasts of water sales and consumption per customer across various customer classes for Test Year 2013/2014; revenue requirement; operation and maintenance expenses; administrative and general expenses ("A&G") other than payroll; employee pension and benefits plan; new employees and payroll expenses; capitalized payroll; plant in service and capital additions; depreciation expense and reserve; working cash allowance; taxes; ratebase; special requests; customer service; water quality; employee health insurance memorandum account; and modifications to GOWC's conservation rate design.

B. 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 all of the issues resolved in the Settlement Agreement. Great Oaks' witnesses have presented a comprehensive analysis of the proposed and agreed upon capital projects, expense items, and rate design proposals. The results of this analysis are shown in the extensive exhibits and evidentiary showing in this proceeding in support of Great Oaks' proposals. DRA staff has also engaged in a detailed critical analysis of all facets of Great Oaks' requested rate increase. DRA engaged in thorough written discovery seeking additional information regarding the rate increase requested by Great Oaks. Great Oaks timely responded to each discovery request, providing DRA with the requested information. DRA submitted detailed testimony, setting forth its analysis and position on each individual issue and expense item included in Great Oaks' requests. Following submission of DRA's Amended Report, Great Oaks served rebuttal testimony addressing issues contested by DRA. Both Great Oaks and DRA engaged in extensive fact-checking to discover and correct inadvertent calculation errors and the Parties have made corrections to the data so that all data included in the Settlement Agreement is accurate.

In summary, the detailed testimony, reports, and analysis described above, demonstrate that Great Oaks and DRA have fully and adequately analyzed each of the contested issues addressed in the Settlement Agreement and reached a consensus that is reasonable in light of the evidence. The individual issues the Parties have settled, including their original positions on each issue, are described in detail in the Settlement Agreement.

C. Terms and Conditions of the Settlement Agreement.

The Settlement Agreement addresses all issues related to Great Oaks' revenue requirement and rate design for the time period from July 1, 2013 through

June 30, 2016 throughout Great Oaks' service area, including, but not limited to, the following:

1. Customer Forecast.

DRA reviewed Great Oak's testimony and work papers regarding its customer classes and number of customers for Test Year 2013/2014 and found Great Oak's forecasts to be in compliance with the requirements of D.07-05-062 and reasonable because they are close to Great Oaks' past five year average for customer growth. Hence, the Parties agreed upon Great Oak's forecast for classes and numbers of customers for Test Year 2013/2014.³ (See Settlement Agreement, Section 3.1.)

2. Water Sales.

Great Oaks forecasts water sales and consumption per customer across various customer classes for Test Year 2013/2014. DRA reviewed Great Oaks' testimony and work papers regarding its water sales and consumption per customer for Test Year 2013/2014 and found Great Oaks' forecasts to be reasonable and in compliance with the Commission's approved New Committee Method, which utilizes 30 years of weather and 10 years of historical consumption data. Hence, the Parties agreed upon Great Oaks' forecast for total water sales in the amount of 4,796,469 Ccf for the Test year 2013/2014. (See Settlement Agreement, Section 3.2.)

DRA did not, however, agree with Great Oaks' forecast of 7.00 % for unaccounted water for Test Year 2013/2014 finding that this proposed rate differed substantially from the five-year average rate that is normally used in this forecast. Thus, DRA recommended a forecast of 4.25% for unaccounted for water for the Test Year 2013/2014. Through settlement discussions, the Parties agreed to a forecast of 4.75% for Great Oaks' unaccounted for water rate for Test Year

³ DRA's Amended Report, 11/7/12, p. 2-10, Table C-1.

2013/2014, which more closely reflects the recorded five-year average. (See Settlement Agreement, Section 3.2.)

3. Revenues.

Great Oaks' requested revenues of \$15,446,642 for Test Year 2013/2014. DRA reviewed Great Oaks' testimony and work papers regarding this request and recommended revenues of \$14,361,000 for Test Year 2013/2014, which was \$1,105,642 less than Great Oaks' request. Through settlement discussions, the Parties agreed to revenues of \$14,561,442 for Test Year 2013/2014, which results in an \$885,200 savings to ratepayers and is 5.73% less than Great Oaks' original requested figure. (See Settlement Agreement, Section 3.3.)

4. Operation and Maintenance Expenses ("O&M").

Great Oaks originally requested O&M expenses of \$7,679,054 for Test Year 2013/2104, but, after correcting some errors in its work papers, changed the requested amount to \$7,538,804. DRA reviewed Great Oaks' testimony and revised work papers regarding its O&M expenses and found Great Oaks' request to be reasonable because the requested O&M expenses are close to Great Oaks' past five-year average for O&M expenses. Through Settlement discussions, the Parties agreed to O&M expenses of \$7,538,518 for Test Year 2013/2014, which results in a \$140,536 savings to ratepayers and is 1.83% less than Great Oaks' original requested amount. (See Settlement Agreement, Section 3.4.)

5. Administrative and General Expenses ("A&G") other than payroll.

Great Oaks originally requested \$3,175,389 for A&G expenses (other than payroll) in Test Year 2013/2014. DRA reviewed Great Oaks' testimony and work papers regarding this request and found most of this request to be reasonable with the exception of expenses associated with Great Oaks' proposed revisions to its employee pension plan (discussed separately under sub-paragraph 6 below). DRA recommended \$2,235,900 for A&G expenses for Test Year 2013/2014. Through settlement discussions, the Parties agreed to a figure of \$2,248,685 for A&G

expenses (other than payroll) for the Test Year 2013/2104, which results in a \$926,704 savings to ratepayers and is 29.18% less than Great Oaks' original requested amount. (See Settlement Agreement, Section 3.5.)

6. Employee Pension and Benefits Plan.

Great Oaks originally requested \$1,901,431 for Test Year 2013/2014 to revise its pension and benefits plan. DRA points out that Great Oaks does not offer either supplemental pension ("SERP") for its executives or medical benefits after retirement. Similarly, Great Oaks does not have a 401K program, employee bonuses, stock purchase plan, long-term disability insurance offerings, or an employee matching program. Specifically, Great Oaks' request includes \$1,589,000 for contributions to its pension plan for Test Year 2013/2014, and \$312,431 for other employee benefits,⁴ which are discussed in detail in Chapter 4 of DRA's Amended Report.⁵ Great Oaks primary explanation for the increase in pension benefits is the company's need to have competitive salaries and benefits to recruit good talent.

DRA analysis found that Great Oaks' proposed revisions to its employee pension and benefits plan would require increased employer contributions over a three-year period of time, with total contributions for each year as follows: \$1,589,000 in Test Year 2013/2014; \$965,000 in 2014/2015; and \$345,000 in 2015/2016.⁶

DRA reviewed Great Oaks' testimony and work papers regarding this request and for the most part, found it to be reasonable. However, DRA recommended the lesser figure of \$740,000 per year for the employer contributions to pension over a five year contribution schedule, beginning with Test Year 2013/2014, as opposed to Great Oaks' proposed three-year contribution schedule. DRA asserts that spreading the employer pension contributions over a

⁴ GOWC's Exhibit D, Chapter 5, pp. 29-30.

⁵ DRA's Amended Report, 11/7/12, pp. 4-4 – 4-7.

⁶ DRA's Amended Report, 11/17/12, pp. 4-4 – 4-8.

longer period of time will assist in avoiding rate shock to ratepayers in the test year and beyond. DRA also found Great Oaks' request for \$312,431 for other benefits was reasonable.⁷

Through settlement discussions, Great Oaks proposed and the Parties agreed upon a seven-year schedule, with updated assumptions in the actuarial modeling, for the employer contributions, as follows: \$680,000 per year beginning in Test Year 2013/2014 through rate year 2020/2021. When compared to Great Oaks' proposed three-year transition schedule, the agreed upon seven-year transition schedule for the increased employer contributions to both pension and benefits results in \$992,431 (\$680,000 + \$312,431), instead of Great Oaks' proposed \$1,901,431, for Test Year 2013/2014, a savings to ratepayers of \$909,000, or 47.8%, in Test Year 2013/2014. (See Settlement Agreement, Section 3.6.) Therefore, the agreed-upon result is a more gradual increase in pension funding than what was originally proposed by Great Oaks. The proposed settlement reduces the potential rate shock to ratepayers from augmented funding of the pension plan.

In addition, the Parties agreed that the terms of the employee pension plan would be revised so that retirement benefits increase from a current maximum of 1.90% of average monthly compensation per year of participation (maximum 32 years participation) to a maximum of 2.60% of average monthly compensation per year of participation (maximum 32 years participation) over the seven-year transition schedule agreed upon by the Parties. Given that Great Oaks does not offer health benefits for its retirees (or many other benefits listed above), DRA found this request to be reasonable. (See Settlement Agreement, Section 3.6)

7. New Employees and Payroll Expenses.

Great Oaks requested the addition of four (4) new employees: two (2) general office employees and two (2) entry-level field service employees. Great

⁷ DRA's Amended Report, 11/17/12, pp. 4-4 – 4-8.

Oaks explained that these four new employees are needed due to the retirement of two long-term employees, which has resulted in adjustments to job duties and responsibilities, and because of Great Oaks' newly requested capital projects. Thus, Great Oaks requested total payroll expenses (including the four (4) new employees) of \$2,037,425 for the Test Year 2013/2014. DRA reviewed Great Oaks' testimony and work papers regarding these requests, including the proposed salaries, and found this request to be reasonable. As two very experienced and seasoned employees left the company, the company had to reorganize itself and it was shown that hiring the four entry level positions, along with additional duties of others was a reasonable outcome. The salaries of the two retirees are roughly comparable to the salaries of the four newer hires. However, DRA used a lower labor escalation rate and recommended total payroll expenses of \$2,003,503 for the Test Year 2013/2014.⁸ Through settlement discussions, the Parties agreed upon total payroll expenses of \$2,020,464 for the Test Year 2013/2014. (See Settlement Agreement, Section 3.7.)

8. Capitalized Payroll.

In D.10-11-034 and D.11-02-003, the Commission adopted a capitalized payroll percentage of 10.6% for Great Oaks. Great Oaks requested the continuation of the same capitalized payroll percentage in this GRC. DRA reviewed Great Oaks' testimony and work papers regarding this request and found this request to be reasonable.⁹ Hence, the Parties agreed upon Great Oaks' proposed capitalized payroll percentage of 10.6% for this rate case cycle. (See Settlement Agreement, Section 3.8.)

9. Summary of A&G and O&M Expenses and Payroll.

The agreed upon settlement positions of the Parties with respect to O&M expenses, A&G Expenses, and Payroll for Test Year 2013/2014 are shown in the

⁸ DRA's Amended Report, 11/7/2013, pp. 4-12 - 4-13.

⁹ DRA's Amended Report, 11/7/2013, pp. 4-13 - 4-14.

Table 7-1 of the comparative exhibit attached to the Settlement Agreement as Appendix A. The Parties' agreed upon amounts are \$11,593,498 for the Test Year 2013/2014 and \$11,626,136 for the Test Year 2014/2015. When compared to Great Oaks' original requests, the agreed-upon numbers represent savings to ratepayers of \$1,082,403 (8.54 %) for the Test Year 2013/2014, and \$459,810 (3.80%) for the Test Year 2014/2015. (See Settlement Agreement, Section 3.9.)

10. Taxes.

A. Payroll Taxes. Great Oaks' proposed payroll taxes were \$141,299 for Test Year 2013/2014. DRA identified errors in Great Oaks' payroll tax calculations and requested corrected estimates for Federal unemployment taxes and updated State unemployment insurance rates. DRA proposed \$138,587 for payroll taxes.¹⁰ Great Oaks accepted DRA's recommendations and updated the payroll tax calculations to the agreed upon payroll amounts shown in Great Oaks' Corrected Exhibit E (Great Oaks-5). Hence, the Parties agreed that the updated correct payroll tax amount is \$139,730 for Test Year 2013/2014. (See Settlement Agreement, Section 3.10; see also Table 8-1 of Appendix A to Settlement Agreement.)

B. Property Taxes. Great Oaks' proposed property taxes were \$188,233 for Test Year 2013/2014. DRA identified errors in Great Oaks' property tax calculations and provided recommendations to update the property tax calculations. Great Oaks accepted DRA's recommendations and updated the property tax calculations shown in Great Oaks' Corrected Exhibit E (Great Oaks-5) to \$183,698 for Test Year 2013/2014. DRA and Great Oaks further negotiated the property tax calculations for Test Year 2013/2014 and agreed upon a compromise. Hence, the Parties agreed that the updated correct property tax is \$183,560 for Test Year 2013/2014. (See Settlement Agreement, Section 3.10; see also Table 8-1 of Appendix A to Settlement Agreement.)

¹⁰ DRA's Amended Report, 11/7/12, p. 4-14.

C. Income Taxes. Great Oaks’ projected income taxes for California Corporation Franchise Tax (“CCFT”) and Federal Income Tax (“FIT”) for Test Year 2013/2014 were \$102,807 and \$388,142, respectively. DRA identified errors in Great Oaks’ proposed revenues, expenses, rate base, and net income, and proposed CCFT of 68,600 and FIT of \$364,500 for the Test Year 2013/2014.¹¹ The Parties negotiated agreements on proposed revenues, expenses, rate base, and net income, as well as on CCFT and FIT for Test Year 2013/2014. Hence, the Parties agreed that the levels of CCFT and FIT for Test Year 2013/2014 are \$99,177 and \$421,656, respectively. (See Settlement Agreement, Section 3.10; see also Table 9-1 of Appendix A to Settlement Agreement.)

11. Plant in Service and Capital Additions.

Great Oaks’ updated Exhibit E (Exhibit Great Oaks-5) includes detailed values for plant in service and requested additions to plant (see pp. WP-14 - WP-17). Great Oaks’ updated Exhibit G (Exhibit Great Oaks-3) provides a narrative description and justification for all proposed capital projects. DRA not only reviewed Great Oaks’ testimony and work papers regarding Great Oaks’ request for proposed capital projects, but also conducted a field investigation of the major proposed capital projects prior to making any recommendations in DRA’s Report and Amended Report. DRA recommended approval of most of Great Oaks’ requested capital additions.

A. Recommended Plant Additions.

The Parties agreed to the following plant additions requested in A.12-07-005:

Year	Addition	Amount
2012/2013	Skid Steer Loader	\$26,000
2012/2013	Vacuum Truck	\$25,000
2012/2013	Water Quality Sampling Stations	\$43,200

¹¹ DRA’s Amended Report, 11/7/12, pp. 5-2 - 5-6.

2013/2014	Billing and Database Software	\$55,000
2013/2014	Vehicles – 2 new pickup trucks	\$36,000
2012/2013	Demerest-WalMart Tie-in	\$16,000
2012/2013	Shenado Place Tie-in	\$18,000
2012/2013	Paloma-Riverview Tie-in	\$20,000
2012/2013	Coyote Road Tie-in	\$14,000
2012/2013	Alyssa Court Tie-in	\$26,000

B. Recurring/Routine Additions.

The Parties agreed to the following recurring/routine additions requested in A.12-07-005:

Year	Addition	Amount/Year
2013/2014 through 2015/2016	Replacement Hydrants	\$40,000
2013/2014 through 2015/2016	Computer Equipment	\$9,000
2013/2014 through 2015/2016	Replacement Vehicles	\$36,000
2013/2014 through 2015/2016	Service Installations	\$30,000
2013/2014 through 2015/2016	Communications Equipment	\$1,000
2013/2014 through 2015/2016	Power-Operated Equipment	\$2,000
2013/2014 through 2015/2016	Tools, Shop, and Garage Equip.	\$5,000
2013/2014 through 2015/2015/2016	General Order 103 Meter Testing and Lead-Free Meter Replacement Program	\$675,328

C. GO 103 Meter Testing and Lead-Free Meter Replacement Program.

Great Oaks requested \$675,328 per year, beginning with Test Year 2013/2014, to add lead-free meters to plant-in-service. DRA reviewed Great Oaks’ testimony and work papers and found this request to be reasonable.¹² Thus,

¹² DRA’s Amended Report, 11/7/12, p. 6-9.

DRA accepted this request without modifications and recommends approval of this proposed capital addition.

D. Proposed Plant Additions withdrawn in A.12-07-005.

1. Well 14.

Great Oaks' requested approval to construct Well 14 claiming that it is currently experiencing pumping reductions in several of its wells due to excessive drawdown (see Exhibit Great Oaks-3).¹³ Great Oaks also provided testimony that Well 14 was needed to ensure sufficient supply to meet needs projected in Great Oaks' 2010 Urban Water Management Plan (see Exhibit 3-5 of Exhibit Great Oaks-1). DRA reviewed Great Oaks' testimony and work papers and found that the reasons stated by Great Oaks for the Well 14 request were insufficient and that Well 14 is not necessary at this time. DRA points out that Great Oaks owns the property where the Well 14 site would be constructed, therefore, Well 14 can always be constructed should the need arise in the future. Hence, DRA recommended disallowing Well No. 14 in its Report.¹⁴ Through settlement discussions, Great Oaks accepted DRA's recommendation and withdrew its request for Well 14 at this time. However, Great Oaks reserves the right to renew the request should water supply conditions change in the future. (See Settlement Agreement, Section 3.11.)

2. Interties.

Great Oaks' request for the interties with SJWC is based upon a California Department of Public Health ("CDPH") request that interties between water systems with hard connections (such as Great Oaks and SJWC water systems) be redesigned and replaced with open connection points on each system. DRA reviewed Great Oaks' testimony and work papers for this request and found the request to be necessary and reasonable. However, DRA also found that the design

¹³ DRA Amended Report, 11/7/12, pp. 6-5 - 6-10.

¹⁴ DRA's Amended Report, 11/7/12, pp. 6-5 - 6-6.

of the interties and cost-sharing arrangements with SJWC has not yet been determined and that the CDPH has not identified a deadline for completion of the requested interties. Because this project is in the early development stages and will impact both Great Oaks and SJWC, DRA recommends that Great Oaks submit the interties project by filing a Tier 2 Advice Letter when more complete information is available.¹⁵ Through settlement discussions, Great Oaks accepted DRA's recommendation and withdrew its request for the interties project at this time (See Settlement Agreement, Section 3.11.)

E. Advice Letter Projects.¹⁶

1. Country View Tank (Request Withdrawn).

In A.12-05-007, Great Oaks included a request to revisit the Country View Tank issue, which Great Oaks had requested in A.09-09-001 (its 2009 GRC) and the Commission decided upon in D.10-11-034. On December 21, 2011, Great Oaks filed an application for rehearing of several issues in D.10-11-034, including the Country View Tank project.

DRA reviewed Great Oaks' testimony and work papers, including new information since its 2009 GRC, about this request and found the request to be reasonable. DRA found that the proposed tank is needed to address potential fire flow emergencies for existing and new customers. DRA also found that the cost estimate of \$385,000 is uncertain due to contingencies mostly related to the purchase of the real property needed for the tank.¹⁷

During this proceeding, however, the Commission issued D.12-10-045 in response to Great Oaks' application for rehearing of D.10-11-034 thereby resolving the rehearing issues including the Country View Tank project. Because of the rehearing decision, DRA determined that it would be inappropriate to

¹⁵ DRA's Amended Report, 11/7/12, pp. 6-3 - 6-4.

¹⁶ DRA recommends approving these projects with final dollar amounts determined by reasonableness review upon Advice Letter filing.

¹⁷ DRA's Amended Report, 11/7/12, pp. 6-8.

continue to address this project in this proceeding. DRA recommends that Great Oaks file a petition to modify the D.10-11-034 and D.12-10-045 to obtain Commission approval of this capital project in a manner different than what the Commission has ordered in those decisions. As part of this Settlement Agreement, GOWC agrees to withdraw this request from this application and DRA agrees to not oppose Great Oaks' petition to modify D.10-11-034 and D.12-10-045. (See Settlement Agreement, Section 3.11.)

2. Well 2 Pump Storage Building.

In its 2009 GRC application, Great Oaks requested and the Commission approved the addition of a stand-by generator for Great Oaks' Well 2 (D.10-11-034, p. 47). The Well 2 site is in a residential area, with a City of San Jose-imposed noise level restriction (55dB). In this GRC application, Great Oaks has requested authorization to build an enclosure for the Well 2 generator with sufficient space to securely store equipment. Great Oaks also requests that it be permitted to file an Advice Letter to add the cost of this enclosure to its rate base upon completion of the project. Construction estimates are \$180,000.

DRA has reviewed Great Oaks' testimony and work papers regarding this request, and has also conducted a site inspection of the proposed building location. DRA found that the proposed Well 2 Pump storage enclosure is reasonable and necessary.¹⁸ Therefore, the Parties agreed that, upon completion of the project, Great Oaks shall file a Tier 3 Advice Letter to add the project to rate base and that the estimated cost of \$180,000 shall not be a hard cap. The Parties also agreed that cost recovery for this project through a rate base offset shall be subject to a reasonableness review of the costs and subsequent Commission authorization of recovery of the costs in rates. (See Settlement Agreement, Section 3.11.)

12. Summary of Great Oaks' Plant-in-Service and Capital Additions.

¹⁸ DRA's Amended Report, 11/7/12, pp. 6-9.

As indicated under paragraph 11 above, Great Oaks and DRA agreed on capital projects and additions to rate base. The agreed-upon plant additions are \$1,053,497, \$967,209, and \$972,024 for Test Years 2013/2014, 2014/2015, and 2015/2016, respectively. (See Settlement Agreement, Section 3.12.)

13. Depreciation Expense and Reserve.

Great Oaks and DRA essentially agreed on depreciation expense and reserve requested in A.12-07-005, with the differences between the Parties due to slight differences in capital additions addressed in Section 3.11, above. DRA reviewed Great Oaks' testimony and work papers regarding this request and found errors in Great Oaks' Exhibit E, which Great Oaks corrected in Corrected Exhibit E. Hence, the Parties agreed to Average Accumulated Depreciation expenses in the amounts of \$19,442,142, \$20,497,654, and \$21,570,815 for Test Years 2013/2014, 2014/2015, and 2015/2016, respectively. (See Settlement Agreement, Section 3.13.)

14. Ratebase.

Great Oaks originally requested the weighted average depreciated rate base set forth in its original Exhibit E (Great Oaks-2): \$10,299,921 and \$10,710,465 in Test Year 2013/2104 and 2014/2015. DRA reviewed Great Oaks' testimony and work papers regarding this request and found errors in Great Oaks' Exhibit E (Great Oaks-2), which Great Oaks corrected in Corrected Exhibit E (Great Oaks-5). DRA analyzed the corrections and determined that weighted average depreciated rate base shown in Corrected Exhibit E is correctly calculated and should be authorized.¹⁹ Hence, the Parties agreed on the weighted average depreciated rate base in the amounts of \$12,984,779, \$13,207,400, and \$13,306,351 for Test Years 2013/2014, 2014/2015, and 2015/2016, respectively. (See Settlement Agreement, Section 3.14.)

¹⁹ DRA's Amended Report, 11/7/12, pp. 8-1- 8-2.

15. Customer Service.

DRA analyzed Great Oaks' customer service, including service procedures, customer complaints, customer walk-in facility, and call center. DRA found Great Oaks to have good customer service procedures and found Great Oaks' service quality is in accordance with standard Performance Measure set by the Commission for complaints filed with the Consumer Affairs Branch (the standard being less than, or equal to, 0.1% of the company's total customers).²⁰ Hence, the Parties recommend that the Commission adopt DRA's findings that Great Oaks' customer service is of good quality and in accordance with the Commission's standards. (See Settlement Agreement, Section 3.15.)

16. Water Quality.

Great Oaks submitted the required water quality information with A.12-07-005. DRA reviewed Great Oaks' testimony and work papers regarding water quality and found the following: (1) Great Oaks operates a water system under a permit from the California Department of Public Health ("CDPH"); (2) Great Oaks' water supply comes from 19 groundwater wells drawing water from the Santa Clara Valley Groundwater Basin; and, (3) Great Oaks' wells and water supply meet drinking water standards and do not require treatment or disinfection prior to distribution to customers.²¹ Thus, DRA found that Great Oaks' water system is in compliance with CDPH water quality regulations, all applicable federal drinking water requirements, and General Order 103-A. Therefore, the Parties recommend that the Commission adopt DRA's findings that Great Oaks' water system is in compliance with CDPH water quality regulations, all applicable federal drinking water requirements, and General Order 103-A. (See Settlement Agreement, Section 3.16)

²⁰ DRA's Amended Report, 11/7/12, pp. 9-1- 9-2.

²¹ DRA's Amended Report, 11/7/12, pp.10-1 -10-2.

17. Special Requests.

A. Revenue-Decoupling WRAM and/or MCBA Accounts.

Great Oaks requested authorization to establish a revenue-decoupling Water Revenue Adjustment Mechanism (“WRAM”) and/or a Memorandum Cost Balancing Account (“MCBA”) to address the revenue effect of the pilot program for conservation rates that Great Oaks requested in A.12-07-005. Great Oaks has a Monterey-style WRAM account that does not decouple sales from revenues. In D.10-11-034, the Commission decided not to authorize a revenue-decoupling WRAM for Great Oaks because “Great Oaks has not actively promoted conservation in its service territory to a degree that would warrant consideration of a full WRAM.”²² In A.12-07-005, Great Oaks presented evidence showing that Great Oaks has made necessary and proper efforts to promote conservation and that the disincentive to promote conservation remains because there is no decoupling of sales from revenues.

DRA reviewed Great Oaks’ testimony and work papers regarding this request. DRA opposes Great Oaks’ request for a revenue-decoupling WRAM and/or MCBA because of unresolved Commission concerns about substantial under-collections in WRAM/MCBA Pilot programs involving Class A water utilities. Hence, DRA recommends that until a thorough investigation of WRAM/MCBA mechanisms is conducted, that Great Oaks’ request for a full decoupling WRAM/MCBA be denied in order to prevent Great Oaks’ customers from being impacted by these unresolved issues.²³ Through settlement discussions, Great Oaks has accepted DRA’s recommendation and has withdrawn its request for a revenue-decoupling WRAM/MCBA account in A.12-07-005. (See Settlement Agreement, Section 3.17.)

²² D.10-11-034, p. 59.

²³ DRA’s Amended Report, 11/7/12, pp. 2-9 - 2-10.

B. Chromium VI Memorandum Account.

Great Oaks requested authorization to establish a Chrome VI Memorandum Account for potential compliance costs related to the treatment of Chromium VI, if and when state and/or federal regulations for treatment levels are established. Under Great Oaks' request, upon the establishment of a Maximum Contaminant Level (MCL) for Chromium VI by state and/or federal regulatory agencies, the memorandum account would become effective and track operating costs and capital expenditures related to meeting the established MCL.

DRA opposed this request for the following reasons: (1) the full extent of natural occurrence of Chromium VI is not well known; (2) estimated costs to provide for this contingency is nearly impossible at this time; and (3) such costs are speculative at this time.²⁴ Through settlement discussions, Great Oaks has accepted DRA's recommendation and has withdrawn its request for a Chromium VI Memorandum Account in A.12-07-005. (See Settlement Agreement, Section 3.17.)

C. Employee Health Insurance Memorandum Account.

Great Oaks requested authorization to establish an Employee Health Insurance Memorandum Account to track incremental health insurance costs due to the unknowns associated with employee health insurance expenses and the implementation of the Patient Protection and Affordable Care Act. DRA reviewed Great Oaks' testimony and work papers regarding this request and found it to be reasonable.²⁵ Hence, the Parties agreed that Great Oaks is authorized to establish an Employee Health Insurance Memorandum Account to track incremental health insurance costs. The Parties also agreed that any such costs tracked in Great Oaks' Health Insurance Memorandum Account shall be subject to a

²⁴ DRA's Amended Report, 11/7/12, pp. 11-1 - 11-4.

²⁵ DRA's Amended Report, 11/7/12, pp. 11-1 - 11-3.

reasonableness review of the costs and subsequent Commission authorization of recovery of the costs in rates. (See Settlement Agreement, Section 3.17.)

18. Modifications to Conservation Rate Design.

Great Oaks requested two modifications to its current conservation rate design. The first requested modification would eliminate the current service charge discount on conservation rates charged to single-family residential customers. Great Oaks submitted evidence indicating that proposed general metered service rates generate less than twenty five percent (25%) of fixed costs as required by the California Urban Water Conservation Council Best Management Practices. Great Oaks included the elimination of the service charge discount in its calculations of proposed rates in its original Work papers, Exhibit Great Oaks-2, and its Corrected Work papers, Exhibit Great Oaks-5. DRA reviewed Great Oaks' testimony and work papers and found the request to be reasonable.²⁶ Hence, the Parties agreed that the current service charge discount on conservation rates charged to single-family residential customers should be eliminated from Great Oaks' conservation rates authorized in this proceeding. (See Settlement Agreement, Section 3.18.)

Great Oaks' second requested modification to its current conservation rate design would correct an error in the rate-designed block rates modifying the block rates to be applied on a bi-monthly basis instead of a monthly basis (See Exhibit Great Oaks-1, Chapter 9). DRA found that the modification produces the originally intended revenue effects of conservation rate design. Proposed rates and revenues calculated in Exhibit Great Oaks-1 and Exhibit Great Oaks-5 are based upon this requested modification. DRA reviewed Great Oaks' testimony and work papers regarding this request and finds the request reasonable. Hence, the Parties agreed that the conservation rate design should be modified with the

²⁶ DRA's Amended Report, 11/7/12, pp.2-8 - 2-9.

same block rates, but with the block rates applied on a bi-monthly basis instead of on a monthly basis. (See Settlement Agreement, Section 3.18.)

IV. THE SETTLEMENT AGREEMENT IS REASONABLE, CONSISTENT WITH THE LAW, AND IN THE PUBLIC INTEREST.

Under Rule 12.1(d), the Commission will only approve settlements, whether contested or uncontested, that are reasonable in light of the whole record, consistent with law, and beneficial to ratepayers. It is a well-established policy of the Commission to approve settlements if they are fair and reasonable in light of the whole record.²⁷ This policy supports many worthwhile goals, including reducing litigation expenses, conserving Commission resources, and allowing parties to reduce the risk of unacceptable litigation results.²⁸

In this case, the proposed settlement as more fully described in the Settlement Agreement is reasonable in light of the whole record because it reflects the evidence presented by the Parties. The communications between the Parties has been detailed and comprehensive on all issues presented in A.12-07-005. The proposed settlement reflects the product of a negotiated compromise that is in the best interests of ratepayers and the Parties themselves. In reviewing the proposed settlement, the Parties request that the Commission give material weight to the Parties' evaluation of the evidence.²⁹

The testimony of the Parties will be received into evidence in connection with the Commission's receipt and consideration of this Joint Motion for Adoption of Settlement Agreement. The Parties' witnesses have considerable experience on the issues and facts included in their testimony, including water sales, operation and maintenance expenses, administrative and general expenses, taxation, and rate

²⁷ See, e.g., D.11-06-023, p. 13. See also D.05-03-022, p. 9.

²⁸ *Id.*

²⁹ In D.00-09-034, the Commission held that the parties' evaluation of the evidence should carry material weight in the Commission's review of a proposed settlement.

design. The Parties developed and supported their respective positions on the issues, as well as on the joint settlement, with thoughtful and thorough evidence sufficient for the Parties to enable them to jointly request Commission approval and adoption of the Settlement Agreement.

The Parties jointly submit that the Settlement Agreement memorializes a fair compromise of strongly held and well-articulated positions on the contested issues and that the body of testimony and exhibits to be received into evidence in this proceeding provides solid and credible support for the Commission to approve and adopt the Settlement Agreement as proposed.

A. The Settlement is Consistent with the Law.

The issues resolved in the Settlement Agreement are within the scope of this proceeding. The Parties are unaware of any statutory provision or Commission decision, resolution, or policy that would be contravened or compromised by the proposed settlement. The Parties have entered into the Settlement Agreement voluntarily upon the review and advice of their respective legal counsel and staff personnel.

The Commission's approval and adoption of the Settlement Agreement will not be construed as an admission or concession by either DRA or Great Oaks regarding any fact or matter in dispute in this proceeding, nor as a statement of precedent or policy of any kind for any purpose against either DRA or Great Oaks in any current or future proceeding.

The proposed Settlement Agreement is an integrated agreement so that if the Commission rejects any portion of the Settlement Agreement, DRA and Great Oaks each have the right to withdraw.

The Parties represent that the Settlement Agreement is fully consistent with all applicable laws and request that the Commission approve and adopt the Settlement Agreement.

B. The Settlement is in the Public Interest.

During the period before and after the service of DRA’s testimony, the Parties engaged in significant and extensive settlement negotiations on those issues that were contested. As evidenced by DRA’s testimony, the Parties initially agreed on most of the issues presented in A.12-07-005, leaving a limited number of contested issues remaining. The Parties fully considered the facts and the law relevant to this case and reached reasonable compromises on the remaining issues.

Compared to a full evidentiary hearing on all issues, as well as to a full evidentiary hearing on the few issues remaining after the service of DRA’s testimony, the proposed settlement achieves a significant savings in time, resources, and expenses for the Parties, the Commission, and the public. A full hearing on the issues potentially could have resulted in higher or lower rates than requested by Great Oaks or recommended by DRA. And, as the Commission has acknowledged, “[t]here is a strong public policy favoring the settlement of disputes to avoid costly and protracted litigation,”³⁰ and when the settlement is fair and reasonable in light of the whole record.³¹ This policy supports many worthwhile goals, including reducing the expense of litigation, conserving scarce Commission resources, and allowing parties to reduce the risk that litigation will produce unacceptable results.³² It is established Commission policy that “[a]s long as a settlement, taken as a whole, is reasonable in light of the record, consistent with law, and in the public interest, it will be adopted.”³³

The Parties represent that the Settlement Agreement is in the public interest and request that the Commission approve and adopt the Settlement Agreement.

³⁰ D.88-12-083, p. 85.

³¹ See e.g., D.88-12-083 (30 CPUC 2d 189, 221-223) and D.91-05-029 (40 CPUC 2d. 301, 326). See also D.11-06-023, p. 13.

³² D.11-06-023, p. 13.

³³ *Id.*

C. The Settlement Agreement Meets All Commission Requirements.

As discussed and represented above, the Settlement Agreements is reasonable, consistent with law, and in the public interest. As the Settlement Agreement meets all Commission requirements, the Parties respectfully request that the Commission approve and adopt the Settlement Agreement.

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 22, 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 4, 2013 to describe and discuss the terms of the proposed Settlement Agreement. Representatives of Great Oaks and DRA participated in the settlement conference. The Settlement Agreement was finalized and executed on March 4 and 5, 2013.

VI. CONCLUSION

The Parties jointly sponsor this Motion and represent that the accompanying Settlement Agreement is reasonable, consistent with law, and in the public interest. For all of these reasons, the Parties respectfully request that the Commission approve and adopt the Settlement Agreement as expeditiously as possible.

Respectfully submitted,

/s/ MARIA L. BONDONNO

/s/ TIMOTHY S. GUSTER

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