Decision **PROPOSED DECISION OF ALJ SMITH** **(Mailed 3/19/2013)**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application of the Golden State Water Company (U 133 W) for an order authorizing it to increase rates for water service by $58,053,200 or 21.4% in 2013, by $8,926,200 or 2.7% in 2014; and by $10,819,600 or 3.2% in 2015.	Application 11-07-017 (Filed July 21, 2011)

(See Attachment 1 for Appearances)

DECISION ON THE 2011 GENERAL RATE CASE FOR GOLDEN STATE WATER COMPANY

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DECISION ON THE 2011 GENERAL RATE CASE FOR GOLDEN STATE WATER COMPANY

Summary

This decision authorizes a revenue requirement for Golden State Water Company (Golden State) of $313.5 million, a 15.6 percent increase over 2013 revenues at 2011 rates for the 12 months beginning January 1, 2013. Revenues for 2014 are estimated to increase by 2.7 percent over 2013 adopted revenues, and revenues for 2015 are estimated to increase by 1.8 percent over 2014 adopted revenues.

The average residential customer with a 5/8 x 3/4" meter will experience a bill change in 2013 ranging from a decrease of 4.2 percent in the Bay Point Customer Service Area (CSA) to an increase of 26.0 percent in the Simi Valley CSA, excluding any applicable surcharges. Table 1 shows the dollar and percent change in the average residential monthly bill for each ratemaking area.

Table 1
Change in the monthly bill for the average residential customer with a 5/8 x 3/4" meter (excluding any applicable surcharges)

Ratemaking Area	Monthly Usage (hundred cubic feet)	Amount ($)	Percent Change
Arden Cordova	@ 13 Ccf	3.67	17.7%
Bay Point	@ 8 Ccf	-2.63	-4.5%
Clearlake	@ 6 Ccf	1.69	2.2%
Los Osos	@ 8 Ccf	10.69	18.6%
Ojai	@ 12 Ccf	-2.99	-4.1%
Santa Maria	@ 18 Ccf	3.38	7.7%
Simi Valley	@ 13 Ccf	12.80	25.5%
Region 2	@ 11 Ccf	7.18	14.0%
Region 3	@ 12 Ccf	6.30	13.4%

The decision adopts the settlement agreement between Golden State, the Division of Ratepayer Advocates, and The Utility Reform Network that addresses most of the issues in the proceeding,[1] and resolves two remaining contested issues by (1) authorizing Golden State to enter into the stipulation resolving the Santa Maria Groundwater Adjudication and Litigation, and to participate in activities required by the stipulation; and (2) authorizing Golden State to recalculate the surcharge levied in the Arden Cordova CSA for amortizing and recovering the balance of the Aerojet Water Litigation Memorandum Account.

In addition, the decision addresses the first review of Golden State's conservation rate pilot programs adopted in Decision (D.) 08-08-030 and D.09-05-005, including a review of the Water Revenue Adjustment Mechanism (WRAM) and Modified Cost Balancing Account (MCBA) revenue decoupling mechanisms. The decision finds that the WRAMs/MCBAs are achieving their stated purpose by severing the relationship between sales and revenue and removing most disincentives for Golden State to implement conservation rates and conservation programs. In addition, the decision finds that the cost savings resulting from conservation are passed on to ratepayers, and that overall water consumption by Golden State ratepayers has been reduced.

The decision does not adopt any of the WRAM Options set forth in D.12-04-048, because large WRAM balances result from inaccurate sales forecasts and none of the WRAM Options address the inaccurate forecasts. The decision requires Golden State and DRA to meet to consider modifications to the sales

[1] The Settlement is Attachment 3 to this decision.

forecasting methodology to improve the accuracy of Golden State's sales forecasts under conservation rates, and to report on this effort in the next general rate case (GRC).

Public Utilities Code § 455.2 provides for interim rate relief when the Commission is unable to issue its final decision on the GRC application of a water corporation with greater than 10,000 service connections in a manner ensuring the decision becomes effective on the first day of the test year in the application.[2] The first day of the test year for this application was January 1, 2013.

Golden State timely sought and was granted authority to file a tariff to implement interim rates, effective January 1, 2013, and to establish a memorandum account to track the difference between the interim rates and final rates. The surcharge to true-up the interim rates must comply with Standard Practice U-27-W, and be based on the methodology set forth in D.03-06-072. Any over-collection must be refunded to customers in the form of a surcredit and any under-collection must be collected from customers in the form of a surcharge.

This proceeding is closed.

1. Background

On July 21, 2011, Golden State Water Company (Golden State) filed Application (A.) 11-07-017 (Application), a general rate case (GRC) request to increase rates for water service in each of its ratemaking areas in Regions 1, 2 and 3 of its service territory and for its General Office for the period from January

[2] All statutory references are to the Public Utilities Code unless otherwise indicated.

2013 through December 2015.[3] In addition, the Application includes 12 special requests.

The Application appeared in the Commission's Daily Calendar on July 26, 2011.

Protests to the Application were timely filed by the Town of Apple Valley on August 18, 2011, the City of Claremont on August 22, 2011, the City of Ojai on August 19, 2011, the City of San Dimas on August 24, 2011, and the Division of Ratepayer Advocates (DRA) on August 25, 2011.[4]

A prehearing conference (PHC) was held on September 21, 2011.[5]

On October 26, 2011, Golden State filed a motion for a post-application modification to include a request for recovery of costs that it will incur in Region 2 for water fluoridation implemented in connection the First 5 LA Oral Health Community Development Program (First 5 LA Program).

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[3] Golden State has nine ratemaking districts within Regions 1, 2 and 3. Region 1 is comprised of the Arden Cordova, Bay Point, Clearlake, Los Osos, Ojai, Santa Maria and Simi Valley Customer Service Area (CSAs). Each Region 1 CSA is a separate ratemaking area. Region 2 is a single ratemaking area comprised of the Central Basin East, Central Basin West, Southwest, and Culver City CSAs. Region 3 is a single ratemaking area comprised of the Apple Valley, Barstow, Calipatria-Niland, Claremont, Morongo Valley, Placentia, San Dimas, San Gabriel Valley, Los Alamitos, and Wrightwood CSAs.

[4] The November 2, 2011 ALJ ruling granted the City of Placentia's October 12, 2011 motion for party status, and the February 16, 2012 ALJ ruling granted the January 27, 2012 motion for party status by the cities of Barstow, Cypress, and Stanton.

[5] During the prehearing conference, The Utility Reform Network (TURN) and the Utility Workers Union of America - Local 246 were granted party status.

On November 2, 2011, the assigned Commissioner and Administrative Law Judge (ALJ) issued a scoping memo and ruling addressing, among other things, the issues to be considered and the schedule for the proceeding (Scoping Memo).[6]

Public participation hearings were held in November and December 2011, and in February and March 2012.

Evidentiary hearings were scheduled for May 4, 2012, and May 8, 2012. On May 1, 2012, Golden State, DRA, and TURN (collectively, "Settling Parties") informed the ALJ that they reached agreement on most but not all issues in the proceeding. On May 4, 2012, the Settling Parties informed the ALJ that negotiations were continuing, and requested that evidentiary hearings be postponed until May 8, 2012. As a result, no evidentiary hearings were held and a PHC was held instead.

During the May 4 PHC, parties were directed to serve supplemental testimony on the Water Revenue Adjustment Mechanism (WRAM) Options.[7] In addition, a schedule was established for filing the proposed settlement agreement and for the filing of briefs on the remaining contested issues.

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[6] The Scoping Memo affirmed the Commission's preliminary findings in Res ALJ 176-3278 that the category for this proceeding is ratesetting and that hearings are necessary.

[7] On April 19, 2012, the Commission adopted Decision (D.) 12-04-048, addressing the schedule and process for the applicants to A.10-09-017, including Golden State, to recover from or refund to customers the annual net balance in the applicants' WRAMs and Modified Cost Balancing Accounts (MCBAs). Among other things, D.12-04-048 requires pending and upcoming general rate case proceedings to review the WRAM and MCBA mechanisms, and to include as a part of that review consideration of five options addressing the WRAM specified in the decision (WRAM Options).

On May 8, 2012, the parties waived cross examination of witnesses on the remaining contested issues, and informed the ALJ that they wished to proceed directly to the filing of briefs on those issues.

On June 21, 2012, the Settling Parties filed a motion for approval of the settlement agreement. The proposed settlement agreement (Settlement) resolves all issues in this proceeding except Golden State's request for approval of its entry into the stipulation resolving the Santa Maria Groundwater Adjudication and Litigation (Special Request No. 1), Golden State's request to recalculate the surcharge levied in the Arden Cordova Customer Service Area (CSA) for amortizing and recovering the balance of the Aerojet Water Litigation Memorandum Account (Special Request No. 8), and the WRAM-related issues.

On June 22, 2012, Golden State and DRA submitted briefs on contested issues concerning Special Requests No. 1 and No. 8, and on June 29, 2012, Golden State and DRA submitted reply briefs on those issues.

On July 30, 2012, the cities of Barstow, Claremont, Cypress, Placentia, Stanton, and the Town of Apple Valley (collectively, "Cities") filed joint comments on the Settlement, and on August 14, 2012, the Settling Parties filed joint reply comments.

On September 7, 2012, Cities, DRA, Golden State, and TURN participated in supplemental evidentiary hearings to address the WRAM Options. In addition, the Settling Parties responded to the ALJ's questions concerning the Settlement.

On September 21, 2012, DRA, Golden State, and TURN submitted supplemental briefs on the WRAM Options, and on October 5, 2012, DRA, Golden State, and TURN submitted supplemental reply briefs.[8]

On October 5, 2012, Golden State filed a motion for interim rates.[9] No responses to the motion for interim rates were filed. By ALJ ruling issued October 25, 2012, Golden State was authorized to file a tariff to implement interim rates, effective January 1, 2013, and to establish a memorandum account to track the difference between the interim rates and final rates.

On October 22, 2012, submission of the proceeding was set aside for the limited purpose of admitting late-filed exhibit JP-1 into the record.[10] On November 13, 2012, submission of the proceeding was set aside for the limited purpose of obtaining clarification of portions of the Settlement. On November 16, 2012, the proceeding was submitted upon the filing of the Settling Parties' response, pursuant to the November 13, 2012 ALJ ruling.

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[8] The proceeding was submitted upon the filing of reply briefs.

[9] Pub. Util. Code § 455.2 provides for interim rate relief when the Commission is unable to issue its final decision on the GRC application of a water corporation with greater than 10,000 service connections in a manner ensuring the decision becomes effective on the first day of the test year in the application. D.04-06-018 and D.07-05-062 require any request for interim rate relief to demonstrate that the utility has made a substantial showing in the application supporting a rate increase at least equal to the rate of inflation. In addition, the Commission must determine whether the cause for the delay in issuing the final decision is due to actions by the water corporation, and if interim relief is in the public interest.

[10] Exhibit JP-1 is the revised version of the Settlement reflecting corrections identified at the September 7, 2012 supplemental evidentiary hearing and other ALJ-requested non-substantive changes.

2. Public Comments on the Application

The Commission received thousands of letters and electronic mail (e-mail) messages from customers concerning the Application. In addition, the Commission received correspondence from many state, county, and local elected officials opposing the Application. The written correspondence and public participation hearing comments highlighted areas of concern, and helped focus attention on those areas. Written correspondence and comments at public participation hearings are discussed below.

2.1. Public Participation Hearings

Public participation hearings (PPHs) were held in twelve communities served by Golden State to provide members of the public an opportunity to comment on the Application.[11] Prior to and during the initial series of PPHs held during November and December 2011, the Commission received many requests from customers, legislators, and other public officials requesting PPHs in other communities served by Golden State. As a result, the Commission held additional PPHs in February and March 2012.

More than 2,100 members of the public attended the PPHs, and more than 450 individuals, including many state, county, and local officials, spoke at one or more PPHs. Most speakers opposed the Application, and none supported it. Almost half of those who spoke complained that, after several rate increases in recent years, Golden State's rates were no longer reasonable or affordable.

Many speakers stated that they are on fixed incomes, unemployed, or underemployed, and cannot afford higher water rates. Others stated that Golden State's rates are excessive compared to other neighboring or nearby water providers, and that Golden State's request to increase rates is unreasonable in the current economy.

Several speakers stated that water rates are degrading residents' property values, and are forcing small businesses to close. Some speakers complained that

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[11] PPHs were held in Rancho Cordova on November 28, 2011, Bay Point on November 9, 2011, Clearlake on November 30, 2011, Los Osos on December 2, 2011, Carson on December 5, 2011, Claremont on December 6, 2011, Barstow on December 7, 2011, Apple Valley on December 8, 2011, Ojai on February 27, 2012, Bell Gardens on February 28, 2012, Stanton on February 29, 2012, and Calipatria on March 13, 2012.

the amount of water provided under the current first tier is inadequate and unreasonable. Many speakers objected to WRAM charges as unfair and a disincentive for customers to conserve.

We consider the views of the elected representatives of the area when assessing the views of the local community because we believe they are representing the interests of their citizens and are speaking on behalf of their constituents. Thirty-three public officials spoke at one or more of the PPHs held in this proceeding.

All of the public officials that spoke at a PPH opposed the Application. The public officials expressed concerns that the proposed rate increases were unreasonable, given the difficult economic conditions faced by Californians in recent years, and that the proposed increases were particularly onerous for the elderly, disabled, and other citizens that were on fixed incomes, underemployed, and unemployed. Public officials spoke not only of the negative impact rate increases would have on their constituents, but also the burden these rate increases would have on the cities themselves, as customers of Golden State.

2.2. Written Correspondence

The Commission received thousands of letters and electronic mail messages (emails) from Golden State customers, and written communications from many public officials concerning the Application. None of the writers support the Application.

Many writers are particularly unhappy with the conservation rate structure and the WRAM. For example, Contra Costa County Supervisor Federal Glover's March 16, 2012 letter states,

> "We also understand one of the reasons for the rate increase request is to make up for revenue lost because of conservation efforts, which would not have succeeded if residents had not

> complied. Why should the residents be punished for doing what is being asked of them?"

Senator Bob Huff's September 30, 2011 letter to Commission President Peevey asks,

> "Why are ratepayers being penalized with higher rates for conserving water as [Golden State] has directed them to do?"

Although the comments received during the public participation hearings and in written correspondence are not accorded the weight of testimony received during evidentiary hearings, the public comments helped to highlight the issues of greatest concern to customers. For example, as discussed below, this proceeding gave additional attention to the WRAM. In addition, the Settlement adopted by this decision requires Golden State to implement a customer satisfaction survey program, and Golden State and DRA to consider an affordability study that may be included in the next GRC.

3. Standard of Review

Golden State bears the burden of proof to show that the rates it requests are just and reasonable and the related ratemaking mechanisms are fair.[12]

Most of the issues in this proceeding were resolved through the Settlement filed in this proceeding. In order for the Commission to consider any possible proposed settlement as being in the public interest, the Commission must be

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[12] In adopting the Rate Case Plan for Water Utilities, the Commission further articulated the required showing for a water utility's GRC: "A utility's application for a rate increase must identify, explain, and justify the proposed increase." D.04-06-018. In particular, the application must include testimony, with supporting analysis and documentation, describing the components of the utility's proposed increase, e.g., results of operations, plant in service. All significant changes from the last adopted and recorded amounts must be explained, and all forecasted amounts must include an explanation of the forecasting method.

convinced that the parties have a sound and thorough understanding of the Application, and all of the underlying assumptions and data included in the record. This level of understanding of the Application and development of an adequate record is necessary to meet our requirements for considering any settlement.

In considering each remaining disputed issue, we evaluate whether Golden State's showing meets our standards for justifying a rate increase. We first consider the Settlement, followed by a discussion of the remaining disputed issues.

4. Background on Proposed Settlement

The June 21, 2012 motion for approval of settlement agreement states that a settlement conference was convened, beginning on April 16, 2012, with notice and opportunity to participate provided to all interested persons. Representatives of Apple Valley, Barstow, Claremont, Cypress, DRA, Golden State, Ojai, Placentia, Stanton, and TURN met in person and by teleconference on several occasions from April 16 to April 27, 2012. Parties also engaged ALJ MacDonald as a Commission-assigned neutral mediator to assist the parties in their negotiations, and negotiations continued through May 8, 2012.

DRA, Golden State, Ojai, and TURN each participated in discussions regarding substantive issues. Although Ojai participated in discussions regarding substantive issues, it did not sign or comment on the Settlement.

The Cities (Apple Valley, Barstow, Claremont, Cypress, Placentia, and Stanton) attended the settlement conference but did not participate in any substantive discussions or negotiations. San Dimas and the Utility Workers Union of America did not participate in any portion of the settlement conference or comment on the Settlement.

On July 30, 2012, the Cities filed comments on the Settlement, stating that they cannot support the Settlement because it does not go far enough to alleviate the concerns raised by the Cities or their residents. The Cities express particular concern about the Settlement's forecast of overhead rates, as discussed below. No other party filed comments on the Settlement.

On August 14, 2012, the Settling Parties filed a joint reply to the Cities' comments.

On August 13, 2012, the Settling Parties moved to file a supplemental exhibit to correct a typographical error in Appendix A to the Settlement. However, additional minor typographical and computational errors were identified at the September 7, 2012 evidentiary hearing and, as a result, on September 28, 2012, the Settling Parties submitted a revised document correcting various errors and making other non-substantive formatting changes requested by the ALJ. The revised Settlement was admitted into the record on October 22, 2012 as late-filed Exhibit JP-1. All citations to the Settlement in this decision refer to Exhibit JP-1.

5. Summary of the Settlement

The Settlement resolves all issues, except those related to cost of capital, in connection with Golden State's revenue requirement and rate design for 2013-2015 for each of the ratemaking areas in Golden State's service territory and its General Office, including number of customers, operating expenses, maintenance expenses, administrative and general expenses, allocated expenses, utility plant additions, depreciation expense and reserve, working cash

allowance, taxes, and inflation and other factors used to develop revenue requirements and rates.[13]

The additions to plant addressed by the Settlement, including construction work in progress, are reasonable and justified. The operation & maintenance, and administrative & general expenses agreed-upon in the Settlement, including General Office expenses, cost allocations, insurance, pension and benefits, and overhead rates are reasonable and necessary to provide safe and reliable water service. The revenue requirements and rate increases for test and escalation years, including the forecasts of sales, revenue, consumption, and number of customers, are reasonable and justified.

In addition, the Settlement resolves Golden State's special requests, except Special Request No. 1, Golden State's request for approval of its entry into the stipulation resolving the Santa Maria Groundwater Adjudication and Litigation, and Special Request No. 8, Golden State's request to recalculate the surcharge levied in the Arden Cordova CSA for amortizing and recovering the balance of the Aerojet Water Litigation Memorandum Account.[14] The resolution of the special requests addressed by the Settlement is reasonable.

The Settlement also resolves two other issues included in the scope of this proceeding: (1) the requirement that Golden State file a rate design proposal that complies with D.10-12-059 (addressing the 2010 general rate case for

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[13] The revised rate case plan adopted in D.07-05-062 requires Golden State to file a separate application for cost of capital determinations. Golden State's cost of capital, capital structure, return on equity, and rate of return were addressed in D.12-07-009.

[14] In addition, the Settlement contains the Settling Parties' agreement concerning the effect of any recommendations made by a Settling Party on the WRAM and MCBA issues addressed in supplemental hearings.

Golden State's Region 1), and (2) Golden State's request to recover costs in connection with water fluoridation implemented pursuant to Golden State's participation in the First 5 LA Program.[15] The Settlement's rate design proposal is reasonable and complies with D.10-12-059,[16] and the Settlement's resolution of Golden State's request in connection with the First 5 LA Program is reasonable.

In resolving the various issues, the Settlement sets forth the positions of the Settling Parties on the issues, the differences between the Settling Parties' positions, and the Settlement terms. Following is a summary of the primary issues addressed by the Settlement.

5.1. Plant – Regions 1, 2, and 3

The Settlement resolves all issues concerning plant in Regions 1, 2, and 3, including capital budgets, advice letter projects, overhead rates, contingency rates, construction work in progress (CWIP), depreciation accrual rates, out of service assets, adjustments to working cash revenue lag days, and adjustments to rate base in connection with D.11-12-034.

5.1.1. Capital Budgets

Golden State requested capital budgets for Regions 1, 2, and 3 for 2012, 2013 and 2014 totaling $226.7 million.[17] DRA recommended capital budgets

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[15] The Scoping Memo includes as an issue the reasonableness of the operation and maintenance costs for proposed fluoridation systems in connection with water fluoridation implemented pursuant to Golden State's participation in the First 5 LA Program contained in the October 26, 2011 supplemental testimony of S. David Chang (Exhibit GSWC-59).

[16] D.10-12-059 addressed the 2010 GRC for Golden State's Region 1.

[17] The 2012 capital budget includes projects previously approved for which Golden State is requesting cost recovery in this GRC.

totaling $102.5 million for all three Regions.[18] The Settlement provides for aggregate capital budgets of $57.5 million for all three Regions for each of the three years in the rate-case cycle, totaling $172.5 million.[19]

The Settlement further provides that projects included in Golden State's 2012, 2013, and 2014 capital budget requests for which it proposed advice letter treatment and to which DRA agreed are included as a part of the $57.5 million annual capital budget and, except for the Dace Well project, do not require advice letter filings.[20]

The Settlement adopts a forecasted overhead rate of 22 percent for capital projects during 2012 – 2014, a five percent contingency rate for non-recurring capital projects, and a 2.5 percent contingency rate for blanket expenditures. As a result of these agreements, the agreed-upon amounts for certain capital items include overhead and contingency costs and are higher than Golden State's initial requests.

The Cities object to the Settlement's forecasted overhead rate for capital projects that exceeds the amount initially requested, and question whether previously approved capital projects are, in fact, being completed. In particular, the Cities state that the Settling Parties did not attempt to re-calculate overhead

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[18] DRA agreed with 30 of Golden State's requested plant additions but objected in part to 325 requests and in whole to 252 requested plant additions. Table 3.3 of the Exhibit JP-1 lists undisputed capital projects, Table 3.2 lists the projects which DRA partially agreed to, and Table 3.4 lists the projects which DRA disputed.

[19] The capital budgets include $5.0 million per year for Maximum Day Demand related projects in Region 3.

[20] The agreed-upon annual capital budgets do not include the CWIP additions or the advice letter projects discussed below.

rates to determine whether the agreed-upon overhead rate is reasonably related to overhead costs.[21]

The Settling Parties respond that, because they agreed to capital budgets that are lower than initially requested by Golden State, a higher overhead rate is required to recover forecasted overhead costs.[22] The Settling Parties state that recalculating the forecasted overhead rates as suggested by the Cities would result in an overhead rate higher than 22 percent.

Golden State's actual overhead rate is determined by dividing actual overhead costs by capital expenditures. TR 1321:10-23. Thus, Golden State's actual overhead rate may vary from the forecast. The agreed-upon overhead rate of 22 percent is reasonable for forecasting purposes.

Under the Settlement, design costs for capital projects will be included in non-recurring, non-pipeline capital projects at a rate of 12.5 percent for projects with budgeted construction costs that are less than or equal to $500,000, and 27.5 percent of the budgeted construction cost for projects that have budgeted construction costs greater than $500,000.[23] The Settlement requires Golden State to record in rate base the actual design cost it incurs for a capital project after construction is completed, whether those costs are higher or lower than the budgeted amount adopted in this decision.

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[21] July 30, 2012 Comments of Cities to Joint Motion of Settling Parties to Approve Settlement Agreement at 2.

[22] August 14, 2012 Reply Comments of Settling Parties on Joint Motion of Settling Parties to Approve Settlement Agreement at 3-4.

[23] As discussed below, the Settlement does not provide design costs for the First 5 LA Program.

The Settlement provides a pool of funds for non-recurring pipeline projects in each ratemaking area that is less than the amounts initially requested by Golden State but which provides Golden State flexibility in prioritizing pipeline replacements. The amounts spent on non-recurring pipeline and other capital projects, if any, will be reviewed for reasonableness in the next GRC.[24]

The Settlement permits Golden State, with specific exceptions, to include its 2010 recorded CWIP in Test Year 2013 rate base plus additional expenditures to complete the CWIP projects. The agreed-upon CWIP additions and three specific advice letter projects (i.e., the Dace Well, Bissell Well, and Wilson Well projects) are not included in the $57.5 million annual capital budget for Regions 1, 2 and 3. The Settlement provides that the costs associated with completing these three well projects will be incorporated into rate base and rates via advice letter filings.

5.1.2. Advice Letter Projects

Golden State requested to include its 2010 recorded CWIP in rate base, plus additional expenditures to complete the CWIP projects, including budgets for completing the Bissell Well and Dace Well (both in Region 2). DRA recommended that the proposed budgets for completing the Bissell and Dace Wells be removed from CWIP and instead be incorporated into rate base and rates via advice letter filings.

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[24] In its next GRC, Golden State is required, among other things, to (1) include a comparison of the forecasted capital additions adopted in this GRC and actual capital additions; (2) list the plant improvements authorized in test years but not built; and (3) list plant improvements built in last test years but not authorized. D.07-05-062, Appendix A, Attachment 1, Section II.D.

The Settlement allows Golden State to file advice letters for authorization to include in rate base, upon completion, the actual costs to complete the Bissell Well, Dace Well, and the Wilson Well in Region 3. The final cost for these advice letter projects will include overhead costs not to exceed the agreed-upon overhead rate of 22 percent, and will reflect the actual costs of the plant additions, except that the final costs will not exceed the amounts specified in the Settlement.

When abandonment of Bissell Well No. 1 is completed, and construction of Bissell Well No. 3 is completed and is used and useful, Golden State may file an advice letter to include in rate base and rates an amount not to exceed $3,986,562, less all Proposition 50 funding Golden State receives for this project. When the Dace Well project has been completed and is used and useful, Golden State may file an advice letter to include in rate base and rates an amount not to exceed $2,300,000. When the Wilson Well project has been completed and is used and useful, Golden State may file an advice letter to include in rate base and rates an amount not to exceed $2,206,831.

5.1.3. Depreciation Accrual Rates

Golden State and DRA initially applied the same methodology and depreciation accrual rates to forecast plant depreciation, and DRA agreed with Golden State's composite depreciation rates. The Settlement reduces the composite depreciation accrual rates to reduce the depreciation expense by $500,000 (an amount equal to a revenue requirement of $2.5 Million in capital additions), and Golden State will use the revised composite depreciation rates for this rate case cycle and the next rate case cycle for test year 2016. The composite depreciation rates are shown in Table 3.8 of Exhibit JP-1.

5.1.4. Out of Service Assets

DRA identified assets in Golden State's forecasted rate base that were no longer in service, and identified vacant land that DRA recommended be removed from Utility Plant in Service. The Settlement retires $12,864,191 of depreciable assets that are out of service in accordance with the Uniform System of Accounts. In addition, Golden State must transfer vacant land, valued at $886,371, from Utility Plant in Service to Non-Operating Plant. The adjustments to rate base in 2012 are shown in Table 3.9 of Exhibit JP-1.

5.1.5. Adjustments to Working Cash Revenue Lag Days

The working cash allowance is a rate base component that compensates investors for funds provided by them which are permanently committed to the business for the purpose of paying operating expenses in advance of receipt of offsetting revenues from its customers.[25] DRA opposed Golden State's proposed lag days in connection with collection of revenues associated with the 2010 WRAM balancing account net of the MCBA.[26]

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[25] The procedure specified in Standard Practice U-16 is used to determine the average number of days the utility has available the amount of the expense before its payment (i.e., lag days). A similar analysis of weighted average days is made of revenues by classes of customers to determine the average number of days that the utility has extended credit to its customers for the cost of service supplied by the utility.

[26] The WRAM tracks the difference between adopted and actual revenues. The MCBA tracks the difference between adopted and actual costs associated with purchased water, purchased power, and pump taxes. If the combined over- or under-collection tracked in the WRAMs and the difference between adopted and actual costs tracked in the MCBAs exceeds 2.5% of Golden State's prior year revenue requirement, the combined balance of the accounts will be amortized. Any shortfall is recovered over a period of 12 to 36 months from the end of the year, depending on the size (percent) of the under-collection (combined over-collections will be passed through as surcredits on

Footnote continued on next page

The Settlement adjusts the Working Cash lag days, as set forth in Table 3.11 of Exhibit JP-1, including adjusting the working cash lag days for Customer Service Areas that remain on bi-monthly billing.

5.1.6. Adjustments to Rate Base In Connection with D.11-12-034

D.11-12-034 adopted a settlement between Golden State and the Commission's Division of Water and Audits (DWA) that resolves allegations that Golden State failed to exercise reasonable management oversight, and failed to apply adequate internal control of the costs of specific projects and related contracts, primarily in Region 1. The settlement adopted in D.11-12-034 required Golden State to (1) refund $9.5 million to customers, (2) permanently reduce rate base by $2.5 million, (3) reduce the balance in its existing Arden-Cordova Memorandum Account by $500,000, and (4) proportionately reduce the surcharge used to collect the account's remaining balance.

D.11-12-034 was issued after Golden State filed its application in this proceeding. As a result, DRA recommends and Golden State agrees that the rate base reduction of $2.5 million adopted in D.11-12-034, as shown in Table 3.10 of Exhibit JP-1, should be incorporated into the rates approved in the final decision for this proceeding.[27]

5.2. Sales and Customers

Golden State and DRA used the "five-year average" methodology prescribed in D.07-05-062 to forecast customer growth in each customer class,

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monthly service charges). Because Golden State cannot file for recovery of the shortfall until after the end of the year, it can take up to four years to recover the shortfall.

[27] The agreed-upon adjustments are consistent with Advice Letters 1473-W, 1474-W, 1475-W, 1476-W, 1477-W, 1478-W, 1479-W, 1480-W and 1482-WA.

adjusting for changes between customer classes and to account for the ongoing conversion of flat to measured rate service in the Arden Cordova CSA. Tables 4.1 through 4.9 of Exhibit JP-1 show the forecast of customer growth in each customer class for each ratemaking area.

Golden State and DRA used the five-year average, including drought years, to forecast annual usage per customer.[28] For each ratemaking area, Tables 4.10 through 4.18 of Exhibit JP-1 show the forecast annual usage per customer in each customer class for each ratemaking area. Table 4.19 of Exhibit JP-1 shows the 2011 actual water usage by ratemaking area, and compares these amounts to Settlement's forecast of consumption.

5.3. Labor Expenses

Golden State based its forecasts of labor expenses in Region 1, 2, and 3 on its 2011 organizational structure and actual annual salaries.[29] In addition, Golden State requested an Operations Engineer position for the Central District, and six additional positions in connection with the First 5 LA Program (discussed below).[30] DRA disagreed with aspects of Golden State's

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[28] The customer count for the Arden Cordova CSA was further adjusted to account for the ongoing conversion of flat to measured rate service.

[29] Golden State's methodology uses twelve month recorded ratios of expense to capital labor, plus inflation, overtime, merit increases, stand-by and call-out pay, and adjustments for vacancies using an average vacancy factor. GSWC-16.

[30] Golden State also requested to move eleven positions from the General Office to the Regions, and to transfer a Water Quality Technician 3 from the Orange County District in Region 3 to the Environmental Quality Department in the General Office as an Environmental Specialist.

methodology, and recommended several adjustments that would substantially reduce the forecasted labor expenses.[31]

The Settlement's labor expenses are shown in Tables 5.1 through 5.3 of Exhibit JP-1. Under the Settlement, Golden State will have the discretion to hire, within the settled dollar amounts, the proposed positions it determines have the highest priority.

5.4. Administrative and General Expenses

Golden State developed its forecasts of administrative and general (A&G) expenses using, with various exceptions, an inflation-adjusted five-year average of historical data, adjusted for customer growth.[32] DRA used a similar methodology but with various adjustments, including adjusting for customer growth only in escalation years 2014 and 2015.[33] Tables 6.1 through 6.11 of Exhibit JP-1 show the agreed-upon A&G expenses.

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[31] *See* DRA-6, DRA-12, DRA-13, DRA-16.

[32] GSWC-13. A&G expenses include office supplies, property insurance, injuries and damages, pensions and benefits, business meals, outside services, miscellaneous, allocated General Office expenses (corporate support and centralized operations support), allocated District Office expense, other maintenance of general plant, and rent.

[33] DRA-5, DRA-12, DRA-13.

5.5. Operations and Maintenance Expenses

Golden State developed its forecasts of operations and maintenance (O&M) expenses using an inflation-adjusted five-year average of historical data (with several exceptions), adjusted for customer growth and including conservation expenses.[34] DRA objected to aspects of Golden State's methodologies, including (1) the method for developing the rate for uncollectible expenses; (2) the use of other than the five-year average of historical costs, and (3) the use of a customer growth factor in test year estimates.[35] DRA also opposed Golden State's request for costs related to the Automated Vehicle Locating System. In addition, DRA recommended adjustments to General Office expenses and the allocation of those expenses, and reductions to Golden State's proposed conservation expenses.

Tables 7.1 through 7.6 of Exhibit JP-1, excluding Table 7.4, show the agreed-upon O&M expenses. Table 7.4 shows the agreed-upon uncollectible rates for each ratemaking area.

5.6. Taxes

Golden State and DRA used the same methods to develop property, payroll, and local tax rates but applied the payroll tax rate to different initial payroll estimates. The primary differences between Golden State's and DRA's estimates of federal income taxes are due to differences in revenues, expenses, rate base, the Domestic Production Activity Deduction, and state tax deductions.

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[34] GSWC-13. O&M expenses include other operating expense (including chemicals), common customer account allocated expenses/allocated general office – billing and cash processing, uncollectibles, operation labor and all other operating expenses; and maintenance expense, (including maintenance labor and other maintenance expense).

[35] DRA-2 Revised, DRA-6, DRA-8, DRA-16.

Tables 8.1 and 8.3 of Exhibit JP-1 show the agreed-upon property tax and local tax rates, respectively. Table 8.2 shows the agreed-upon forecast of payroll tax expense, and Table 8.4 shows the agreed-upon forecast of the California Corporate Franchise Taxes deduction for federal income tax purposes.

In 2011, the Internal Revenue Service issued Revenue Procedure 2011-43 containing guidelines for determining which costs for maintaining, replacing or improving electric transmission and distribution property may be expensed and which costs must be capitalized.[36] According to TURN, it is likely that similar regulations will be issued for the water industry (Repair Regulations) in the near future and Golden State will likely adopt the change in tax accounting for repair costs before its next GRC.

TURN recommended that Golden State account for the temporary tax timing differences resulting from implementation of the Repair Regulations on a normalized (rather than flow-through) basis in order to preserve the benefit of implementing the Repair Regulations for future rate cases. This will result in lower future rates for ratepayers while allowing Golden State to have the benefit of the zero cost of capital to help fund its capital improvements.

[36] TURN-1.

Golden State will incur additional costs to implement the Repair Regulations, and could experience detrimental collateral tax effects as a result of the Repair Regulations.[37] Golden State recommended that, if the Commission requires Golden State to normalize the tax consequences of the Repair Regulations, the Commission explicitly state that either (a) a portion of any gross tax savings from the implementation prior to the next GRC, in an amount equivalent to Golden State's implementation and collateral costs, be treated as a flow-through tax adjustment (i.e., the amount to be normalized would be net of implementation and collateral costs); or (b) a balancing account be established for Golden State to record its implementation and collateral costs for recovery in the next GRC or upon a separate filing for the recovery of the balance.

Under the Settlement, Golden State will treat the deferred taxes associated with the implementation of the Repair Regulations for both federal and California purposes on a normalized basis. In addition, Golden State's General Office Outside Services expense is increased by $300,000 to implement the Repair Regulations. These costs are subject to refund. Golden State may establish a memorandum account to record other tax effects resulting from implementing the Repair Regulations.

The memorandum account will track permanent and flow-through tax effects on other tax calculations resulting from implementing the Repair Regulations that may increase or decrease federal income taxes or California Corporation Franchise Taxes in years prior to 2016. The memorandum account

[37] GSWC-83.

will remain open until January 1, 2016, when rates become effective in Golden State's next GRC.[38]

In addition, Golden State will provide DRA and TURN, within 15 days of filing its Form 10-K for the implementation year and within 15 days of filing a tax return for the same period, reports identifying (1) the federal tax deduction for the "catch-up" repairs adjustment (IRC Sec. 481(a) adjustment) used for financial-statement purposes and its federal tax return filing; and (2) the tax deduction used on Golden State's federal tax return filing for the first tax year that is on the new repairs method (after making the change with a 481(a) adjustment), and then annually thereafter until Golden State files its next GRC, within 15 days of filing a tax return for the same period.

5.7. Supply Volumes and Costs

Golden State analyzed historical usage, expected developments, and system constraints to determine water supply volumes from wells and purchased water, and used historical data to forecast water supply costs. DRA recommended decreasing the forecasted supply mix by the new sources of supply forecasted for the test years. The difference in parties' forecasts of supply volumes and sales is the result of differences in supply mix and projections of sales.

Tables 9.1 through 9.9 of Exhibit JP-1 display the agreed-upon supply mix volumes for each ratemaking area. The Settlement adopts Golden State's method

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[38] To the extent that the effects of implementing repair regulations impact Golden State's revenue requirement prior to the approval of the memorandum account, Golden State will treat an equivalent offsetting portion of the temporary difference of implementing the repair regulations as a flow-through adjustment with the intent that Golden State be made whole.

for forecasting purchased water, pump taxes, and purchased power costs, and requires that the latest available rates be used to calculate supply expenses in the final decision tables.

5.8. Conservation Expenses and Programs

Golden State developed its water conservation program budgets for each CSA based on the prior adopted conservation budgets, the most recent conservation expenses incurred, and the current conservation programs and trends. DRA recommended lower conservation expenses based on its analysis of Golden State's historical spending, the potential for duplication with third-party efforts, the cost effectiveness of programs, and other factors, including progress toward achieving the water conservation goals set by Senate Bill (SB) x7-7.[39] According to DRA, conservation program expenditures should be reduced, given the current economy, and because most Golden State service areas have already met the goals set by SB x7-7 and the remaining service areas are close to achieving the goals.[40]

Tables 10.1 through 10.11 of Exhibit JP-1 display the agreed-upon conservation program expenses for each CSA.

Under the Settlement, conservation funds for each CSA in Region 1 are not transferrable between CSAs, and spending caps are placed on the School Conservation Education Program, Water Conservation Kits, and High Efficiency

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[39] SB x7-7 establishes the goal of reducing urban per capita water use in California by 20 percent by December 31, 2020, and to make progress towards this goal by reducing urban per capita water use by at least 10 percent by December 31, 2015. Water Code § 10608, et seq. Among other things, SB x7-7 requires all urban retail water suppliers to develop urban water use targets and to periodically report on progress toward achieving the targets.

[40] DRA-8.

Toilet Distribution Programs in all Regions.[41] However, Golden State has the flexibility to spend conservation funds on other cost effective programs that are consistent with the Flex Track Menu of the Memorandum of Understanding of the California Urban Water Conservation Council. Golden State must report on the cost effectiveness of such measures in its annual report to the Commission summarizing conservation activities and expenses.

In addition, separate one-way balancing accounts must be established for each CSA in Region 1, and for Regions 2 and 3, and any unspent funds will be refunded to ratepayers at the end of this rate case cycle.

5.9. General Office Plant

The Settlement adopts a budget of $10,788,600 for capital projects in Golden State's General Office for 2012 through 2014, including a 2.5 percent contingency rate for projects in 2012 and 2013 and a five percent contingency rate in 2014.[42] The agreed-upon General Office capital projects are detailed in Appendix B to Exhibit JP-1, and certain disputed projects including General Office remediation and window replacement projects are summarized in Tables 11.1 through 11.7 of Exhibit JP-1. The General Office capital budgets are shown in Table 11.8.

The Settlement adopts the composite depreciation rates shown in Table 11.9 of Exhibit JP-1 for the General Office Centralized Operations Support, and Billing and Payment Processing. In addition, the Settlement adopts

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[41] In addition, a spending cap is placed on the Public Information/Outreach Program in Region 1.

[42] Golden State's General Office is comprised of Corporate Support, Centralized Operations Support, and Billing and Payment Processing.

Golden State's forecast of CWIP to be closed in 2012 of $25,801,238, as shown in Appendix C to Exhibit JP-1.

5.10. General Office Allocation

Costs for the General Office (Corporate Support, Centralized Operations Support, and Billing and Payment Processing) are allocated to Golden State and its affiliates according to the support they provide to those entities. The Settlement allocates General Office costs in a manner consistent with the Commission's four-factor allocation methodology.

The Settlement allocates Corporate Support costs to Golden State's water operations (77.7 percent), Bear Valley Electric operations (10.55 percent), and American States Utility Services, Inc. (11.75 percent) because Corporate Support provides services to all three entities.[43] Billing and Payment Processing costs, including costs for the new Customer Care and Billing System and the PowerPlan system, are allocated to Golden State water operations (88.05 percent) and to Bear Valley Electric (11.95 percent).[44] Centralized Operations Support exclusively supports Golden State water operations, and 100 percent of its costs are assigned to Golden State.

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[43] Golden State previously provided certain services and support to its affiliate, Chaparral City Water Company (CCWC), including the postage associated with mailing CCWC's customer bills. In 2011, Golden State's parent, American States Water Company, sold CCWC, and, as a result, Golden State no longer provides any services or support to CCWC and no General Office costs are allocated to CCWC.

[44] In response to the November 13, 2012 ALJ ruling, the Settling Parties state that the reference to "Centralized Operations Support" in Section 12.2 of the Settlement is a typographical error that should instead read "Billing and Payment Processing."

5.11. General Office Revenues and Expenses

In 2007, Golden State created its Centralized Operations Support Department and eliminated its regional offices as part of a corporate reorganization. As a result, the Settlement uses an adjusted three-year average of expenses to forecast costs, in addition to various other adjustments to particular expense items.[45] Tables 13.1 through 13.21 of Exhibit JP-1 show the agreed-upon General Office revenues and expenses.

5.12. Rate Design

The Scoping Memo includes as an issue the directive in D.10-12-059 requiring Golden State to file in this GRC a rate design proposal for all service areas that complies with the settlement adopted by D.10-12-059.

In particular, D.10-12-059 requires Golden State to design rates that more closely comply with the California Urban Water Conservation Council's (CUWCC) Best Management Practice (BMP) Number 1.4, which sets a target of recovering 30 percent of total revenue through the service charge and 70 percent of total revenue through the quantity charge.[46] In addition, D.10-12-059 requires Golden State to file in this GRC a rate design proposal for all service areas that provides more uniform tier width and price differentials between tiers.[47] The Settlement adopts Golden State's rate design proposal, and the rate design set forth in the Settlement complies with D.10-12-059.

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[45] For example, as a result of the sale of CCWC, Corporate Support costs for office supplies are reduced by $75,000, and office postage reduced by $76,200. In addition, several substantial adjustments were made to pension and benefits expense.

[46] Ordering Paragraph No. 5.

[47] Ordering Paragraph No. 6.

Golden State proposed to adjust the tier structure in the Ojai CSA by (1) redesigning the tier thresholds and rates for residential customers in Ojai to be consistent with Golden State's other Region 1 ratemaking areas, (2) setting the Ojai rate differential between tiers to be the same as other Golden State ratemaking areas with residential tier rates (i.e., 15 percent), and (3) except for Clearlake, setting service charges and quantity rates that are more consistent with the CUWCC BMP 1.4's threshold of 30 percent of revenues recovered through the service charge and 70 percent of revenues recovered through the quantity rate.

TURN proposed an alternative rate design that would establish a three-tier rate structure for all residential customers, including those in Arden Cordova and Clearlake. Consistent with CUWCC BMP 1.4, TURN's proposal would set rates for general meter customers to recover 30 percent of revenues through the service charge and 70 percent of revenues through quantity charge. TURN's proposal would also set the service charge to be the same for residential customers and nonresidential customers under one general metered tariff.

Except for Ojai, TURN proposed to (1) set the Tier 2 rate for residential customers equal to the non-residential customers' single quantity rate, (2) set the Tier 1 rate at 80-90 percent of the Tier 2 rate, and (3) set the Tier 3 rate at 150 percent of the Tier 2 rate.[48] In addition, Tier 1 for residential customers would provide up to eight hundred cubic feet (Ccf), Tier 3 would capture

[48] TURN's proposal for Ojai would (1) set the residential Tier 2 rate to equal the non-residential Tier 2 rate, (2) set the Tier 1 rate at 93 percent of the Tier 2 rate, and (3) set the Tier 3 rate at 117 percent of the Tier 2 rate.

15 percent of overall residential usage, and Tier 2 would capture the remaining usage (i.e., total usage minus the usage captured in Tiers 1 and 3).

Under the Settlement, rates in all ratemaking areas, except Clearlake, are set to recover 30 percent of general meter revenue from the service charge and 70 percent from the quantity charge.[49] In addition, the current tier structure will not change for ratemaking areas with residential tiered rates, except in Ojai where Tier 1 for residential customers will be enlarged to include up to 13 Ccf, and Tier 2 will include up to 25 Ccf.[50] Table 14.2 of Exhibit JP-1 shows the residential tier structure for each ratemaking area.

Except for Ojai, non-residential customers will continue to have the current single quantity rate structure. Except in Arden Cordova, Clearlake, and Ojai, the general metered non-residential quantity rate will equal the Tier 1 rate of general metered residential customers, the residential Tier 2 rate will be 15 percent higher than the Tier 1 rate, and the Tier 3 rate will be 15 percent higher than the Tier 2 rate.

5.13. Phasing of Los Osos Rate Increase

The increase in revenue requirement for the 2013 test year for Los Osos is estimated to be $1.2 million, or 40 percent. To mitigate rate shock, the revenue increase in 2013 will be 50 percent (approximately $608,000) of the increase in revenue requirement. Golden State must defer cost recovery of the remaining 50 percent in a balancing account accruing interest at a rate equal to Golden

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[49] The Clearlake service charge is set to recover 50 percent of fixed costs in the Clearlake CSA. Residential and non-residential customers in Arden Cordova and Clearlake will continue to share the same single quantity rate structure.

[50] The current tier structure for Ojai nonresidential customers will not change.

State's authorized rate of return. Golden State must file an advice letter for authority to implement a flat monthly rate surcharge on Los Osos customers, effective January 1, 2014, to amortize the balance over a three-year period.

5.14. Customer Service

DRA reviewed Golden State's customer service, and, for the most part, found that Golden State's customer service was reasonable and that customer complaints were within General Order (GO) 103-A standards.[51] However, DRA raised concerns about the relatively high number of customer complaints in Ojai, and recommended that Golden State improve Ojai's customer service. DRA recommended that the Commission reduce Ojai rates in the next GRC if Golden State's customer service in Ojai did not improve.

Golden State responds that water quality complaints from Ojai customers declined by 27 percent from 2008 to 2010. According to Golden State, main leaks in 2008 required Golden State to supplement its supply with purchase treated surface water at a time when seasonal changes caused decayed dissolved organic lake bottom materials to mix with surface water, resulting in taste and odor complaints from customers. Water taste and odor was improved with chlorination, resulting in only two taste and odor complaints in 2010 and three in 2011. Golden State took additional measures to reduce water discoloration and turbidity, resulting in only one Ojai customer complaint about water color in 2011.The Settling Parties resolve this issue by, among other things, agreeing that Golden State is in compliance with the customer service standards set forth in G.O. 103-A, and that Golden State is in compliance with CDPH Primary and

[51] DRA-7. General Order 103-A contains the rules governing water service, including minimum standards for operation, maintenance, design, and construction.

Secondary Drinking Water Standards. The Settlement also reduces the revenue requirement increase for Ojai by approximately 10 percent or $79,000.[52] In addition, the Settlement requires Golden State to implement a customer satisfaction survey program for customers contacting Golden State concerning service requests, questions, or complaints; and to annually provide the Commission, DRA, and TURN a report analyzing the survey data. Golden State must also submit these reports in its next GRC.

The estimated $50,000 annual cost for the customer survey program will be shared by customers and shareholders. The Settlement increases General Office Outside Services expense by $25,000 to cover the customers' share of survey costs.

The Settlement requires Golden State to (1) analyze customer contact investigation reports in detail to identify any on-going customer issues, (2) identify measures to improve customer service, and (3) provide progress reports to the Commission every six months. In addition, Golden State must analyze field investigation reports of customer contacts for the years 2010, 2011, and 2012 to identify any other potential customer issues, submit a report to the Commission, DRA, and TURN on the proposed customer service improvement measures by November 1, 2013, and thereafter provide to the Commission

[52] Pursuant to the Settlement, this adjustment is a concession made solely for the purpose of compromise and settlement, and is not an admission by Golden State to any claim or allegation made or asserted by any party in this proceeding, and Golden State's concession will not be cited or used to support any allegation, claim or circumstance associated with the operations of Golden State, including without limitation, any allegations or claims related to customer service, water quality and/or service quality.

customer service annual reports on the status of implementing the customer service improvement measures and their call center statistics.

5.15. Affordability Study

As discussed above, many speakers at the public participation hearings complained that Golden State's rates are no longer reasonable or affordable. As a result of these and other comments to the Commission, DRA recommended that Golden State be required to conduct an affordability study to provide information in the next GRC about Golden State's rates relative to other water companies, and to help evaluate the adequacy of Golden State's low income programs.[53]

DRA recommended that Golden State be required to work with DRA to develop the scope of the study, and that the cost of the study be shared equally between Golden State's shareholders and ratepayers. Golden State recommended that, if the Commission ordered Golden State to conduct an affordability study, the cost of the study should be recovered from customers in rates.

The Settlement requires Golden State and DRA to meet and confer prior to the next GRC (scheduled for July 2014) to discuss the preparation of an Affordability Study that may be included in Golden State's next GRC filing.[54]

5.16. Low Income Program

The Settlement provides for Golden State to continue the current low income ratepayer assistance program. Eligible customers will receive a flat

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[53] DRA-1, DRA-9.

[54] The Settling Parties state that they intend to meet and confer in the Fall of 2013. If no agreement can be reached as to the scope or cost of the study, Golden State is not required to include the studies in the next GRC. (TR 1331:11-28.)

monthly credit equal to approximately 15 percent of a typical California Alternative Rates for Water customer's average monthly undiscounted bill. Non-profit group living facilities, agricultural employee housing facilities, and migrant farm worker housing centers will receive a flat monthly credit of $20.00.

The program will be funded via a monthly volumetric surcharge on every unit of water sold by Golden State, with a surcharge of approximately $0.054/Ccf for Region 1, 0.156/Ccf for Region 2, and $0.082/Ccf for Region 3.[55]

Golden State will continue its balancing account to record the surcharge revenues and costs to implement and administer the program, and the balancing account will accrue interest at the 90-day commercial paper rate. In addition, Golden State will provide an annual summary report of the program to the Water and Audits Division and to DRA, and to continue program review in its future GRCs.

5.17. Special Requests

The Settlement resolves Golden State's special requests, except for Special Requests Nos. 1 and 8. The special requests resolved by the Settlement are addressed in Section 18 of Exhibit JP-1, and summarized below.

5.17.1. Special Request No. 2 – Additional Fire Sprinkler Combinations

The Settlement adopts Golden State's request to include sprinkler rates in all ratemaking areas and the calculations supporting the sprinkler rate, which are based on the methodology developed by the Commission's Water and Audits Division.

[55] Flat rate customers in Arden Cordova will have a surcharge of $1.96 per month.

5.17.2. Special Request No. 3 – New Memorandum Account

The Settlement withdraws Golden State's request for authority to establish a memorandum account to track O&M expenses relating to the investigation and treatment of high uranium levels at its Orangethorpe Plant in Placentia, Region 3, and Golden State's request for a memorandum account to track carrying costs for future recovery equal to Golden State's adopted rate of return.

5.17.3. Special Request No. 4 – Amortization and Continuation of Balancing and Memorandum Accounts

The Settlement resolves Golden State's requests concerning the amortization or continuation of the following balancing and memorandum accounts. The specific agreements for each of the balancing and memorandum accounts at issue are set forth in Section 18.3 of the Settlement.

- Barstow Water Alert Memorandum Account;
- Bay Point Water Quality Memorandum Account;
- California Alternative Rates For Water Balancing Account;
- Calipatria Prison Memorandum Account;
- Catastrophic Event Memorandum Account;
- City of Torrance Balancing Account;
- Conservation Expenses One-Way Balancing Account (with new balancing accounts opened for 2013 – 2015);
- Conservation Order Instituting Investigation Memorandum Account;
- Cost of Service Memorandum Account;
- General Office Maintenance Memorandum Account;
- General Rate Case Memorandum Account;

- Los Osos Groundwater Adjudication Memorandum Account (to be amortized for 12 months and converted to balancing account with an annual cap of $200,000);
- Los Osos Interlocutory Stipulated Judgment Memorandum Account;
- Mandatory Conservation Rationing Implementation Memorandum Accounts (i.e., the MEMCRIMA and the R3MCRIMA);
- Military Family Relief Program Memorandum Account;
- Omega Chemical Corporation Superfund Site Memorandum Account;
- Operational Energy Efficiency Program Memorandum Account;
- Oracle Technical Support Costs Memorandum Account;
- Orange County Annexation Memorandum Account;
- Outside Services Memorandum Account;
- Pension And Benefits Balancing Account;
- Pressure Reducing Valve Modernization and Energy Recovery Memorandum Account;
- Randall-Bold Balancing Account;
- Rate Case Memorandum Account (RIRCMA);
- Santa Maria Steelhead Recovery Plan Memorandum Account;
- Santa Maria Stipulation Memorandum Account;
- Santa Maria Water Rights Balancing Account;
- Santa Maria Water Rights Memorandum Account;
- Simi Valley Mandatory Conservation Rationing Implementation Memorandum Account;
- Temporary Interest Rate Balancing Account;
- Water Conservation Memorandum Account; and

- Well Study Balancing Account (capped at $375,000, to be amortized and closed when project is complete).

5.17.4. Special Request No. 5 – Balancing Account for Group Medical Insurance Costs

Golden State estimates group medical insurance costs to increase by 11.6 percent in 2013, 19.5 percent in 2014, and 15.5 percent in 2015. According to Golden State, the labor inflation factors used by the Commission will not allow Golden State to recover the anticipated cost increases, and, therefore, Golden State requested a balancing account to track the difference between the forecasted group medical insurance costs included in rates and the actual group medical insurance costs Golden State incurs.

DRA opposed this request, and instead recommended that the medical insurance premium increases be limited to 8.25 percent per year.

Instead of establishing a balancing account or an escalation rate, the Settlement provides for group medical insurance costs of $7,344,200 in the test year, $7,918,000 in 2014, and $8,537,500 in 2015. Table 18.2 of Exhibit JP-1 shows the allocation of these totals to the Regions and General Office.

5.17.5. Special Request No. 6 - Increase in Meter Testing Deposit

Golden State requested an increase in the deposit for meter testing from $2.00 to $25.00 for a one inch or smaller size meter, and from $3.50 to $50.00 for meters larger than one inch. The charges for meter testing are contained in Golden State's Rule 18 and have not been revised since 1964.

The Settlement increases the deposit for meter testing to $25.00 for a one inch or smaller size meter and to $50.00 for meters larger than one inch.

5.17.6. Special Request No. 7 Chemicals included in MCBA

Golden State requested that the cost of chemicals be included in the MCBA because, according to Golden State, chemicals are part of the variable costs directly resulting from well water production. DRA opposed this request.

Pursuant to the Settlement, Golden State withdraws this request.

5.17.7. Special Request No. 9 - Update for Advice Letter Projects

D.10-12-059 authorized Golden State, upon completion of capital projects, to file advice letters to include in rate base the actual costs of the approved plant additions, not to exceed the maximum amounts specified in that decision, and to receive a corresponding rate adjustment for the additional rate base (Advice Letter Projects). D.10-12-059 found this reasonable because it permits Golden State timely recovery of costs for projects that are actually built, and protects the ratepayers from paying for projects which are not completed.

Golden State requested that the rate impact of any of the Advice Letter Projects that are completed, and for which an advice letter has been filed and approved after the time of the filing of this Application but before the implementation of the first test year rates approved in this proceeding, be incorporated into the final rates approved in this proceeding. DRA supported Golden State's request.

The Settlement identifies four Advice Letter Projects that the Settling Parties agree should be included in rates and incorporated into the adopted revenue requirement in this proceeding. These Advice Letter Projects are shown in Table 18.3 of Exhibit JP-1.

After the Settlement was filed, the Commission approved Advice Letter Nos. 1495-W, 1501-W and 1502-W for Advice Letter Projects that are not listed in

Table 18.3 of Exhibit JP-1. The amount of the rate base offsets associated with these advice letters should be incorporated into the rate base that is calculated pursuant to this decision.

Golden State received approval to reflect in rates a rate base offset filed in Advice Letter 1508-W, with rates effective on January 19, 2013. Golden State should be authorized to add the associated revenue requirement and rate base of Advice Letter No. 1508-W to the revenue requirement and rate base approved in this decision.

If any additional rate base offset advice letters are filed by Golden State and approved before the effective date of this decision, Golden State should be authorized to add the associated revenue requirement of those rate base offsets to the revenue requirement approved in this decision.

5.17.8. Special Request No. 10 – Inclusion of Flat Rate Customers in the Arden Cordova WRAM

As discussed elsewhere in this decision, the WRAM tracks the difference between adopted and actual quantity revenue. The WRAM account applies to general meter customers and does not include flat rate customers.

Golden State is currently converting flat rate customers to metered rates in the Arden Cordova CSA, and requested to include both metered and flat rate customers in the Arden Cordova WRAM. According to Golden State, WRAM calculations will be skewed if customers are converted from flat to measured service at a rate different than that used to estimate forecasted sales, and including flat rate customers in the WRAM would avoid confusion and simplify WRAM tracking. DRA opposed this request.

Pursuant to the Settlement, Golden State withdraws this request.

5.17.9. Special Request 11 – Inclusion of Bay Point Ratemaking Treatment of Asset Lease Agreement

D.11-09-017 ordered Golden State to (1) remove from rate base and amortize the undepreciated book value of its abandoned Hill Street water treatment facility over a six-year period, with interest, and (2) to collect in rates the prepaid capacity cost for replacement water from the Contra Costa Water District over a six-year period. Golden State requested that the ratemaking treatment related to the Hill Street water treatment facility ordered in D.11-09-017 be incorporated in the final rates adopted in this proceeding. DRA supported this request.

The Settlement incorporates the ratemaking treatment ordered in D.11-09-017 by reducing the Utility Plant of Bay Point by $2,929,670 and reducing the depreciation reserve by $1,965,119. In addition, the Settlement includes $370,000 in Bay Point's rate base to cover the cost to demolish the Hill Street water treatment facility.

5.17.10. Special Request No. 12 - General Office Remediation

Golden State requested $2,327,260, plus overhead and contingency costs, to repair water and moisture damage throughout Golden State's San Dimas office building. DRA recommended approval of 50 percent of this request to encourage Golden State to continue to pursue insurance proceeds.

The Settlement approves a total of $2,327,260 for this project, including overhead costs, in Golden State's 2012 plant.

5.18. First 5 LA Oral Health Community Development Program

The First 5 LA Oral Health Community Development Program (First 5 LA Program) funds water fluoridation infrastructure equipment construction and related public education activities to improve the oral health of children in

Los Angeles County from the prenatal stage through age five. The First 5 LA Program provides funds only for fluoridation equipment, such as chemical storage facilities, chemical feed pumps and plumbing, and process control.[56]

The First 5 LA Program does not pay for engineering design and consulting services costs or O&M costs, and Golden State requested authority to recover those costs in rates. The Scoping Memo includes as an issue whether Golden State's request for O&M costs for proposed fluoridation systems in connection with the First 5 LA Program should be approved.

Golden State estimates O&M costs in Year 2013 for the First 5 LA Program will be $1,009,724, including labor costs for six new water treatment operator positions, associated pension and benefits, chemicals and vehicles. Golden State requested that, if Golden State files for a surcharge for fluoridation in connection with the First 5 LA Oral Health Community Development Program during this proceeding, the authorized expenses be incorporated into the final rates approved in this proceeding.[57]

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[56] Golden State received $4,895,245 in funding for capital projects in six of its Region 2 water systems, and anticipates receiving an additional $796,477 in funding for its Artesia system. Golden State Motion for a Post-Application Modification at 2.

[57] Golden State filed Advice Letter (AL) 1455-W on August 8, 2011, to establish a memorandum account to track, among other costs, operation and maintenance expenses for the period from 2013-2015 for proposed fluoridation systems in connection with the First 5 LA Oral Health Community Development Program. On November 10, 2011, the Commission adopted Resolution (Res.) W-4890 addressing Golden State's request, and requiring the operation and maintenance costs in connection with the First 5 LA Oral Health Community Development Program that are incurred beginning January 2013 be reviewed and considered in this proceeding.

DRA objected to the inclusion of capital costs in Golden State's Year 2013 cost estimate for the First 5 LA Program ($334,776 for the purchase of six new vehicles and $423,219 in design costs).

The Settlement resolves this issue by including costs for new water treatment operator positions, associated pension and benefits, chemicals, and vehicles. The Settlement provides that Golden State will have the discretion to hire, up to the settled dollar amounts, the proposed positions it determines have the highest priority. However, pursuant to the Settlement, Golden State withdraws its request for design costs.

6. Adoption of Settlement

The Commission has specific tests for granting a motion for approval of a settlement. In particular, Rule 12.1(d) provides that the Commission will not approve a settlement, whether contested or uncontested, unless it is reasonable in light of the whole record, consistent with law, and in the public interest. As discussed below, the Settlement satisfies Rule 12.1(d) and the Commission's other requirements specified in Rule 12.1 for approval of formal settlements.

Prior to adopting a settlement, the Commission must be satisfied that the parties have a sound and thorough understanding of the application and of all the underlying assumptions and data included in the record. This level of understanding of the application and development of an adequate record is necessary to consider a settlement as required by Article 12 of the Commission's Rules of Practice and Procedure.

The Settlement is a detailed proposal which clearly shows the differences in final litigation positions and the agreed-upon compromise for every category. The Settlement includes sufficient information to determine what was allowed for rates and what Golden State is obliged to do (or not do).

As discussed below, the Settlement meets the tests for Commission adoption because the Settlement does not contravene or compromise any statutory provision or prior Commission decision and is consistent with the law, is reasonable, and in the public interest.

Golden State filed the Application and testimony explaining in detail its request for rate increases and other requests, and Claremont, DRA, and TURN submitted testimony containing their analyses of and recommendations concerning the Application. Based upon our review of the extensive prepared testimony and comprehensive briefing of the litigated issues, the Settling Parties demonstrate a thorough understanding of the Application and the underlying assumptions and data contained in the record. Therefore, the proposals resolving the issues in this proceeding are offered by competent parties that are able and well-prepared to make informed choices in the settlement process.

The Settling Parties have complied with Rule 12.1(a) by making the appropriate filings and noticing a settlement conference. The Motion and Settlement contain a statement of the factual and legal considerations adequate to advise the Commission of the scope of the Settlement and of the grounds for its adoption. The Settlement is limited to the issues in this proceeding, and includes a comparison indicating the impact of the Settlement in relation to the utility's application and issues DRA and TURN contested in their prepared testimony.

The Settlement is reasonable in light of the whole record because it represents a package of inter-related compromises made by the Settling Parties. Each of the issues resolved by the Settlement was addressed by evidence of record, and most fall within the range of recommendations offered by the various parties in their testimony. Those resolutions that do not fall within the range of recommendations are the result of compromises made by the Settling

Parties elsewhere in the Settlement. Overall, the Settling Parties agree to an amount that is substantially less than Golden State initially requested.

The Settling Parties have balanced a variety of issues important to them and have agreed to the proposals put forth in the Settlement as a reasonable means by which to finally resolve the issues identified in this proceeding. Each of the proposals put forth in the Settlement reflect compromises made by the Settling Parties from their competing litigation positions.

Each resolved issue put forth in the Settlement is reasonable in light of the whole record, because the Settling Parties fairly reflect the affected interests, these parties actively participated in this proceeding, and the proposals put forth in the Settlement fairly and reasonably resolve the issues raised by the parties.

The Settling Parties are experienced in public utility litigation, and the Settlement is the result of extensive and vigorous negotiations, including Commission-assisted mediation. The Commission could have resolved the issues in this proceeding in favor of any of the parties. Accordingly, the Settling Parties have balanced a variety of issues of importance to them and have agreed to the proposals put forth in the Settlement as a reasonable means by which to resolve the issues in the Application and in the responses and protests to the Application.

Most of the active parties in this proceeding support or do not oppose the proposals presented in the Settlement. The proposals put forth in the Settlement are the result of arms-length negotiations between the parties and, although not supported by all parties to this proceeding, are mostly uncontested.

In comments on the Settlement, the Cities state that they cannot support the Settlement because it does not go far enough to alleviate the concerns raised by the Cities or their residents. Except for the issue concerning re-calculating

overhead rates discussed above, Cities do not specify the portions of the Settlement that they oppose.[58]

The Settlement is the product of numerous and extensive settlement conferences noticed under the provisions of Rule 12. Thus, for the reasons discussed above, and taken as a whole, the resolutions put forth in the Settlement are reasonable in light of the whole record.

The Settling Parties dispute factual and legal issues, but set aside most of their disputes and propose to resolve issues that they contend are within the Commission's jurisdiction and do not contravene or compromise any statutory provision or prior Commission decision. The Settlement does not contravene or compromise any statutory provision or prior Commission decision.

There is a public policy favoring the settlement of disputes to avoid costly and protracted litigation.[59] The Settlement and each of the resolutions set forth therein satisfy this public policy preference for the following reasons.

The sponsors of the Settlement represent the interests of the Applicant and its customers. Golden State represents the interests of its shareholders and provides necessary water services to its customers. DRA and TURN represent the interests of residential and small commercial customers and subscribers.

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[58] Comments must specify the portions of the settlement that the party opposes, the legal basis of its opposition, and the factual issues that it contests. If the contesting party asserts that hearing is required by law, the party shall provide appropriate citation and specify the material contested facts that would require a hearing. Any failure by a party to file comments constitutes waiver by that party of all objections to the settlement, including the right to hearing. (Rule 12.2.)

[59] D.88-12-083, 30 CPUC 2d 189, 221.

Thus, the Settling Parties represent the interests of shareholders and ratepayers that have an interest in the services provide by Golden State.

The proposals put forth in the Settlement serve the public interest by resolving competing concerns in a collaborative and cooperative manner. By reaching agreement, the parties avoid the costs of further litigation in this proceeding, and eliminate the possible litigation costs for rehearing and appeal.

Approval of the Settlement provides speedy and complete resolution of most of the contested issues between the parties and facilitates prompt approval of the Application. Thus, the Settlement meets the applicable settlement standards of Rule 12.1(d) and therefore should be accorded the same deference the Commission accords settlements generally. Because the proposals put forth in the Settlement are presented as an integrated package of revenue requirement and rate recommendations, all of the proposals put forth in the Settlement should be approved.

Adoption of the Settlement is binding on all parties to the proceeding. However, pursuant to Rule 12.5, the Settlement does not bind or otherwise impose a precedent in this or any future proceeding. We specifically note, therefore, that Golden State must not presume in any subsequent application that the Commission would deem the outcome adopted herein to be presumed reasonable and it must, therefore, fully justify every request and ratemaking proposal without reference to, or reliance on, the adoption of the Settlement.

7. Litigated Issues: Special Request Nos. 1 and 8

Parties did not reach agreement on Special Request No. 1, Golden State's request for Commission approval of the stipulation resolving the Santa Maria Groundwater Adjudication and Litigation and related rate adjustments, and Special Request No. 8, Golden State's request for approval to recalculate the surcharge levied in the Arden Cordova CSA used to amortize and recover the balance of the Aerojet Water Litigation Memorandum Account. These requests are addressed below.

7.1. Special Request No. 1 - Santa Maria Adjudication Settlement

We approve Golden State's request to enter into the stipulation resolving the Santa Maria Groundwater Adjudication and Litigation (Stipulation),[60] and authorize Golden State to participate in the Nipomo Mesa Management Authority and the Santa Maria Valley Management Area management committee/Twitchell Management Authority.

In addition, we authorize Golden State to participate in the construction and maintenance of the Nipomo Supplemental Water Project (NSWP), and to purchase water from the NSWP. However, because the final construction schedule and costs for the NSWP are not yet known and because it is not known when costs will be incurred for water purchased from the NSWP, Golden State must file an application at a later time to request recovery of reasonable NSWP-related capital costs, O&M costs, and purchased water costs.

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[60] The Superior Court issued a judgment adopting the Stipulation in 2008, in *Santa Maria Valley Water Conservation District v. City of Santa Maria, et al.* (and related actions), Lead Case No. CV 770214, Superior Court of the State of California, County of Santa Clara. The Stipulation is contained in GSWC-21, Volume 2 (Switzer-Schedule 2).

Our approval of Golden State's entry into the Stipulation and participation in activities in connection with it authorizes Golden State to encumber its water rights in the Santa Maria Valley Groundwater Basin (Santa Maria Basin), in accordance with § 851.[61]

We approve Golden State's request to recover its litigation related costs incurred since December 31, 2005, recorded in the Santa Maria Water Rights Memorandum Account (SMWRMA),[62] and rate adjustments to cover the costs to implement certain water management programs required under the Stipulation.

DRA opposes Special Request No. 1, in part. DRA states that it is neutral as to Golden State's request for approval of its entry into the Stipulation. However, according to DRA, because Golden State seeks to encumber utility assets and recover in rates the costs associated with its obligations under the Stipulation, Golden State should have filed a separate "§ 851 application" instead of making its request in this GRC application.

DRA recommends that, if voters do not approve the Nipomo Mesa Special Assessment tax,[63] and before ratepayers incur or fund any costs in connection with the NSWP, Golden State be required to file a separate application for approval of its share of the NSWP capital costs and the additional O&M and purchased water costs associated with the NSWP. DRA recommends that the

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[61] Section 851 states, in part: "A public utility… shall not sell, lease, assign, mortgage, or otherwise dispose of, or encumber the whole or any part of its …plant, system, or other property necessary or useful in the performance of its duties to the public, or any franchise or permit or any right thereunder…without first having either secured an order from the commission authorizing it to do so for qualified transactions valued above five million dollars ($5,000,000)…"

[62] The balance in the SMWRMA as of March 31, 2011 is $1,750,703.

[63] In June 2012, voters rejected the Nipomo Mesa Special Assessment tax.

Commission defer until then consideration of whether Golden State's water rights in the Santa Maria Basin are being encumbered and whether such encumbrance should be approved by the Commission in accordance with § 851.

The Santa Maria Basin underlies a surface area of approximately 171,000 acres in northern Santa Barbara and southern San Luis Obispo Counties. The Stipulation divides the Santa Maria Basin into three distinct management areas: the Santa Maria Valley, the Nipomo Mesa, and the Northern Cities. Golden State's Santa Maria CSA is located in the Santa Maria Valley and Nipomo Mesa Management Areas.

The Santa Maria Basin is replenished through percolation of rainfall on land overlying the Santa Maria Basin, naturally occurring percolation of water from the stream channels crossing the Santa Maria Basin (e.g., the Santa Maria River), and return flows from groundwater applied to overlying lands. Replenishment also occurs from developed water sources, including water imported from the Coastal Branch of the State Water Project, and from the Lopez and Twitchell Reservoirs. However, groundwater extractions from the Santa Maria Basin significantly exceed natural replenishment, and the Santa Maria Basin cannot support current water demands without the additional developed supplies.

In 1997, the Santa Maria Valley Water Conservation District sued a number of parties, including Golden State, to adjudicate the water rights in the Santa Maria Basin (Litigation).[64] The Litigation sought to adjudicate all claims to

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[64] Rural Water Company, Inc., (U 311 W), a Class C water utility regulated by this Commission, is also a party to the Litigation. However, this decision applies only to Golden State.

water rights in the Santa Maria Basin and included approximately 1,000 property owners.

After several years of the Litigation, a majority of the parties, including Golden State, settled their dispute through the Stipulation that was approved in 2005.[65] Under the Stipulation, Golden State agrees to a determination of its water rights and commits to share a portion of the construction costs for a new water supply pipeline connecting the City of Santa Maria to the Nipomo Mesa Management Area (i.e., the NSWP) and ongoing groundwater basin management expenses.

Golden State previously requested Commission approval of Golden State's entry into the Stipulation and related rate adjustments in A.06-02-026. D.07-05-041 approved a partial settlement in A.06-02-026 that resolved certain issues regarding Litigation costs. In particular, the partial settlement authorized Golden State to capitalize $2.7 million of the $5.5 million in Litigation costs incurred through Year 2005, to establish a cost recovery balancing account, and to amortize and surcharge within ten years the remaining $2.8 million (plus interest) in the balancing account. In addition, the partial settlement authorized Golden State to establish a ten-year memorandum account (i.e., the SMWRMA), and to amortize and surcharge within ten years the Litigation costs incurred in 2006 and later (plus interest), subject to a reasonableness review.

Because of uncertainties about whether the NSWP would be built, D.07-05-041 did not approve Golden State's entry into the Stipulation and did not authorize recovery of NSWP-related costs. Instead, a second phase of the

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[65] The trial court issued a judgment in 2008, which incorporated the Stipulation in its entirety.

proceeding was initiated and the statutory deadline for resolving A.06-02-026 was extended in order to allow more time for the uncertainties to be resolved.[66]

D.08-04-007 dismissed A.06-02-026 without prejudice because the status of the Litigation had not substantially changed and there was no timeframe for resolving the uncertainties surrounding the NSWP. However, D.08-04-007 allowed Golden State to file an application at the appropriate time in the future for the Commission to consider the entire Stipulation. According to Golden State, now is the appropriate time for the Commission to consider the entire Stipulation because the stipulating parties have been implementing the Stipulation's terms for several years and the Commission has reasonable information concerning the maximum costs that Golden State is likely to incur under the Stipulation.

In particular, we now know that the NSWP will be built. We also know that voters have rejected the Nipomo Mesa Special Assessment tax.[67] As a result, Golden State is required by the Stipulation to pay a portion of the costs to construct, operate, and maintain the NSWP.[68]

We do not yet know what will be the final capital costs and the additional operation and maintenance (O&M) costs associated with the NSWP or when those costs will be incurred. The cost of constructing the NSWP is currently estimated to be $23.6 million, and Golden State's share of that cost is estimated to be $1.97 million. (GSWC-25 at 30.) However, the NSWP's engineering plans and

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[66] D.08-02-032 further extended the statutory deadline to April 28, 2008.

[67] Golden State Water Company Opening Brief at 12.

[68] The Stipulation requires Golden State to fund 8.33% of the NSWP capital, operations, and maintenance costs.

construction costs are not yet final. Similarly, Golden State estimates its share of O&M costs for the NSWP to be $20,900 per year but describes this amount as a "rough estimate" that will be further refined.

Golden State does not request at this time to include the capital costs for the NSWP in rate base or to include NSWP O&M costs in its revenue requirement. Instead, Golden State proposes to later file a request to initiate recovery of the costs, subject to a reasonableness review.

DRA argues Golden State should have filed an application pursuant to § 851, instead of requesting approval in this general rate case proceeding, to encumber utility assets and recover in rates the costs associated with Golden State's obligations under the Stipulation.

Section 851 requires a public utility to obtain Commission authorization before selling, leasing, assigning, mortgaging, or otherwise disposing of, or encumbering property necessary or useful in the performance of its duties to the public. However, nothing in the Public Utilities Code or the Commission's Rules requires a public utility to file a separate, stand-alone, application to request authority pursuant to § 851, or prohibits a public utility from including in a GRC or other application a request for authority pursuant to § 851. The testimony served with the Application acknowledges that Golden State's participation in the Stipulation will encumber its water rights in the Santa Maria Basin, and that Commission approval of its request to participate in the Stipulation is required pursuant to § 851. (GSWC-21 at 10.)

The Stipulation is beneficial to Golden State's customers in the Santa Maria CSA because it secures Golden State's water rights in the Santa Maria Basin, provides mechanisms for ensuring the reliability of those rights, and requires Golden State to bear only its proportional share of the costs that must be incurred

in order to preserve those rights. Approval of Golden State's entry into the Stipulation will secure Golden State's right to rely on the Santa Maria Basin for sufficient quantities of water needed to meet current and anticipated future demands of Santa Maria CSA customers.

If Golden State is not authorized to participate in the Stipulation, Golden State will be required to undertake additional litigation and incur additional, unbounded, litigation costs without any certainty of a more favorable outcome than that provided by the Stipulation. Approval of Golden State's entry into the Stipulation will limit and provide certainty about litigation costs.

Further litigation could result in less favorable water rights for Golden State in the Santa Maria Basin, and a less affordable and reliable water supply for customers in the Santa Maria CSA.[69] Approval of Golden State's entry into the Stipulation provides certainty about Golden State's water rights in the Santa Maria Basin and ensures Golden State customers in the Santa Maria CSA have a reliable water supply.

Golden State and its Santa Maria CSA customers will further benefit from the Stipulation because (1) monitoring programs and annual reports required by the Stipulation ensures the long-term integrity of water resources, (2) the Stipulation's partitioning of the Santa Maria Basin into three management areas provides greater flexibility in the management of each area, (3) the costs to manage the Santa Maria Basin's water resources will be shared equitably, (4) the Stipulation's drought and water shortage management plan and allocation

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[69] Further litigation could result in Golden State being declared an "appropriator," limiting its right to extract groundwater and leaving Santa Maria CSA customers vulnerable to future water supply shortages.

scheme equitably limits water allocations in the event of a severe water shortage, and (5) the Stipulation provides for continuing Court jurisdiction to protect and preserve water resources.

Golden State's entry into the Stipulation should be authorized because the Stipulation is in the best interest of Golden State and its customers in the Santa Maria CSA.

Pursuant to the Stipulation, Golden State must pay 31.25 percent of the $650,000 annual cost of managing the Twitchell Reservoir (i.e., $203,125 per year), and $18,750 per year as its share of the $75,000 annual budget for the Nipomo Mesa Management Area committee. The Settlement includes these costs in the revenue requirement for the 2013 Test Year as part of Golden State's other O&M costs.

As discussed above, we authorize Golden State to participate in the construction and maintenance of the NSWP, and to purchase water from the NSWP, pursuant to the Stipulation. Based on current estimates, Golden State must pay $1.97 million for construction of the NSWP, and $20,900 per year in O&M costs for the NSWP. The cost of supplemental water purchased from the NSWP is estimated to be approximately $300,000 per year. However, because the final construction schedule and costs for the NSWP are not yet known, and because it is not known when costs will be incurred for water purchased from the NSWP, Golden State must file an application to request recovery of reasonable NSWP-related capital costs, O&M costs, and purchased water costs.

Recovery of Litigation-related costs is included in Golden State's 2013 Test Year estimates for O&M expenses.[70] Pursuant to the Settlement, the SMWRMA will be converted to a balancing account and the account will be continued. A surcharge will be established to amortize the balance of $1,796,805 over a 10 year period.

7.2. Special Request No. 8 – Water Litigation Memorandum Account Surcharge

Golden State is authorized to recalculate the surcharge levied in the Arden Cordova CSA that amortizes and recovers the balance of the Aerojet Water Litigation Memorandum Account. The recalculated surcharge will increase by $1.30 per month for flat rate customers (from $5.42 per month to $6.72 per month), and $0.045per Ccf for metered customers (from $0.155/Ccf to $0.200/Ccf). DRA opposes Golden State's request, arguing the Commission never intended for ratepayers to pay the interest charges accruing to the memorandum account balance. DRA asks the Commission to find that interest amounts on the Aerojet Water Litigation Memorandum Account balance are not recoverable from customers.

In particular, DRA requests that the surcharge of $0.120/Ccf or $4.72/month authorized by D.05-07-045 be recovered from customers for the current account balance only, and that the Water Availability Fee (WAF) payments Golden State expects to receive from Aerojet be used to pay down the remaining memorandum account balance (i.e., interest accruing to the memorandum account in the future), until the amount has been fully amortized.

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[70] D.07-05-041 authorized establishment of the SMWRMA to track Litigation-related costs incurred after December 31, 2005.

In October 1999, Southern California Water Company (now Golden State) and its parent, American States Water Company, filed a lawsuit on behalf of the Arden-Cordova CSA against the State of California and several state agencies, and a lawsuit against Aerojet General Corporation (Aerojet) and its subsidiary Cordova Chemical Company, after high levels of two rocket fuel additives were found in several wells serving the Cordova system. These lawsuits were ultimately resolved through binding settlement agreements.

Settlement of the Aerojet lawsuit (Aerojet Settlement), among other things, requires Aerojet to pay Golden State $17.5 million to compensate Golden State for its litigation costs by (1) assessing a WAF of approximately $6,000 on each equivalent development unit of new housing built on certain land that Aerojet owns within or adjacent to the municipal boundaries of Rancho Cordova, (2) collecting the WAF payments from the builder/developer as development occurs, and (3) transmitting the WAF payments to Golden State. Under the Aerojet Settlement, recovery of the $17.5 million in Golden State's litigation costs (plus interest) is not guaranteed to be paid by a date certain but is contingent upon the development of certain Aerojet properties.

Resolution (Res.) W-4181, dated February 3, 2000, authorized Golden State to establish the Aerojet Water Litigation Memorandum Account to record certain costs, including litigation costs, associated with the groundwater contamination lawsuits, and conditioned recovery of any of the recorded costs upon future reasonableness review. A.03-10-057, among other things, considered the reasonableness of the costs in the Aerojet Water Litigation Memorandum Account, and resolved the matter in D.05-07-045.

D.05-07-045 ordered that the balance of the unpaid litigation costs in the memorandum account authorized by Res. W-4181 be carried forward with

interest at the three-month commercial paper rate,[71] and authorized Golden State to impose a surcharge in the Arden-Cordova customer service area to amortize the balance in the memorandum account during the ensuing 20-year period.[72] Thus, D.05-07-045 intended for Arden-Cordova customers to pay the unreimbursed litigation cost balance, including interest charges accruing to the memorandum account, and Arden-Cordova customers are currently paying via surcharge the principal and interest charges accruing to the memorandum account.

Pursuant to the Aerojet Settlement, Aerojet will collect WAFs from developers as certain Aerojet properties are developed. Aerojet must (eventually) pay Golden State $17.5 million, plus interest at the 90-day commercial paper rate, beginning January 1, 2004, via the WAF payments that Aerojet receives from developers. Pursuant to D.05-07-045, Golden State must credit any WAF payments from Aerojet to the memorandum account as they are received.[73] Thus, if Aerojet pays Golden State the agreed-upon amount within the 20-year life of the memorandum account, the payments will offset the litigation cost principal and interest charges accruing to the account and Arden-Cordova customers will be refunded any over collections.

Because recovery of the $17.5 million in litigation costs (plus interest) to be paid by Aerojet to Golden State is contingent upon the development of certain

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[71] Ordering Paragraph No. 6.

[72] Finding of Fact No. 14, Ordering Paragraph No. 2.

[73] Finding of Fact No. 12. In addition, Res. W-4181 (Ordering Paragraph No. 7) requires Golden State to credit the memorandum account by all amounts it receives from defendants.

Aerojet properties, D.05-07-045 recognized that the amounts to be recovered from ratepayers depended on how quickly the Aerojet properties were developed and acknowledged that, under a worst case scenario in which no WAF payments materialized, ratepayers would pay all litigation costs.

According to the status reports ordered by D.05-07-045,[74] Golden State has received no WAF payments from Aerojet, and Golden State is uncertain as to when any WAF payments may be received.[75] Thus, it appears that the worst case scenario is unfolding. As a result, with the passage of time, it is becoming increasingly unlikely that Aerojet will pay Golden State the agreed-upon amount by 2025 when the memorandum account is scheduled to be fully amortized and closed.[76]

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[74] Ordering Paragraph No. 4 requires Golden State to annually submit a status report for the Aerojet development associated with the WAF payments, summarizing (1) the current timeline for Aerojet development milestones; (2) the number of equivalent development unit of new housing permitted in the prior year and the number anticipated to be permitted in the ensuing five years; and (3) the amount of WAF monies received in the prior year and amount anticipated to be received in the ensuing five years.

[75] The 2006 and 2007 status reports expected 375 dwelling units to be built in 2011 and the development to be fully built out by 2019. However, the February 2012 status report is uncertain as to (1) when construction of dwelling units will begin, (2) the expected number of units to be built in the next five years, (3) the timing of any WAF payments, and (4) when the Aerojet development is expected to be completed.

[76] D.05-07-045 does not address the handling of WAF payments that may be received by Golden State after the memorandum account is amortized and closed in 2025. However, Res. W-4181 states that Golden State proposes to pass on all money received from defendants to its ratepayers, including punitive damages, as long as ratepayers pay for all the litigation expenses. (At 3.) In addition, Golden State states in A.03-10-057 that it would be ludicrous to suggest that Golden State would keep both payments (i.e., WAF payments and surcharges), unjustly enriching itself. *See* Southern California Water Company's May 5, 2005 Brief in Reply to the Opening Brief of the Office of Ratepayer Advocates at 11.

8. Authorization to File Revised Tariffs

Appendices A through F to this decision show the adopted rate base, revenue requirement, and other changes for the period 2013 through 2015 resulting from the adoption of the Settlement and resolution of the litigated issues in this proceeding.[77] Golden State is authorized to file, by Tier 1 advice letter, revised tariff schedules for each district and rate area in this proceeding, and to concurrently cancel its present schedules, in conformance with this decision. This filing is subject to approval by DWA. The effective date of the revised schedules will be five days after filing. The October 25, 2012 ALJ ruling authorized Golden State to file a tariff to implement interim rates, effective January 1, 2013, and to establish a memorandum account to track the difference, which is subject to refund, between the interim rates and the final rates adopted by the Commission in this proceeding.

For escalation years 2014 and 2015, Golden State is authorized to file Tier 1 advice letters in conformance with GO 96-B proposing new revenue requirements and corresponding revised tariff schedules for each district and rate area in this proceeding. Golden State's advice letters must follow the escalation procedures set forth in the Revised Rate Case Plan for Class A Water

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[77] The amounts for purchased water, purchased power, pump taxes shown in Attachment A (Summary of Earnings) reflect current data and, as a result, are higher than the amounts shown in Appendix A to Exhibit JP-1. Pursuant to D.12-07-009, and Advice Letter No. 1503-W. Golden State's rate of return was reduced from 8.64% to 8.34% and, as a result, income taxes are less than the amount shown in Appendix A to Exhibit JP-1. Recently filed rate base offset advice letters resulted in an increase to the rate base for Clearlake, Los Osos, Santa Maria and Simi Valley. Conservation expenses for Regions 2 and 3 are included in Allocated District Office expenses for Regions 2 and 3 and, as a result, differ from the amounts shown in Appendix A to Exhibit JP-1.

Utilities adopted in D.07-05-062 (RRCP) and must include supporting workpapers. The revised tariff schedules should take effect on January 1, 2014 and January 1, 2015, respectively and apply to services rendered on and after their effective dates. The proposed revised revenue requirements and rates must be reviewed by DWA. DWA must inform the Commission if it finds that the revised rates do not conform to the RRCP, this order, or other Commission decisions, and if so, should reject the filing.

An escalation advice letter, including workpapers, must be filed in accordance with GO 96-B no later than 45 days prior to the first day of the escalation year. To the extent that the pro forma earnings test for the 12 months ending September 30, as adopted in D.04-06-018, exceeds the amount authorized in this decision, the requested increase must be reduced from the level authorized in this decision to conform to the pro forma earnings test. Except as otherwise specified in the Ordering Paragraphs, advice letters filed in compliance with this decision should be handled as Tier 1 filings, effective on the first day of the test year.

As discussed above, the October 25, 2012 ALJ ruling authorized Golden State to file a tariff to implement interim rates, effective January 1, 2013, and to establish a memorandum account to track the difference, which is subject to refund, between the interim rates and the final rates adopted by the Commission in this proceeding. The surcharge to true-up the interim rates must comply with Standard Practice U-27-W. The tariff implementing the surcharge may be filed by Tier 1 advice letter after Golden State completes its calculations of the revenue differences between the interim and the final rates authorized by this decision. Advice letters not in compliance with this decision should be rejected consistent with GO 96-B.

9. Review of Golden State's Conservation Rate Pilot Programs

D.08-08-030 adopted a settlement between Golden State and DRA establishing a pilot program consisting of a conservation rate design and WRAM and MCBA decoupling mechanisms[78] for each Golden State ratemaking area.[79] Section III.B of the Golden State/DRA settlement adopted in D.08-08-030 provides that the pilot program would be reviewed in subsequent rate cases for each region. The settlement between Golden State and DRA adopted in D.09-05-005 similarly provides for a review of the pilot program in subsequent rate cases for each region.[80] The instant proceeding is the first time that the Commission has conducted a review of the Golden State pilot programs.

This proceeding reviewed Golden State's conservation rate pilot programs and the WRAM/MCBA decoupling mechanisms in two steps. First, pursuant to

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[78] Golden State's WRAMs are ratemaking accounts that track the difference between the authorized revenue requirement and actual revenue, excluding fire service revenue, unmetered service revenue, other general and non-general metered service revenue, and general metered service charge revenue. Golden State currently has a separate WRAM for six of the seven CSAs in Region 1, and for Regions 2 and 3.

Golden State's MCBAs are ratemaking accounts that track the difference between authorized and actual variable costs for purchased water, purchased power and pump taxes. The MCBAs track changes in both unit price and consumption for six of Golden State's seven CSAs in Region 1, and for Regions 2 and 3.

The amounts in the WRAMs and MCBAs for each ratemaking area are "netted" against each other and the remainder is billed (if under-collected) via a surcharge or refunded (if over-collected) via a surcredit on customer bills.

[79] The Arden-Cordova, Ojai, Clearlake, Wrightwood, and Desert service areas were excluded from the pilot program adopted in D.08-08-030.

[80] The settlement adopted in D.09-05-005 modified aspects of the pilot program adopted in D.08-08-030, and implemented the pilot program in other Golden State ratemaking areas.

the Scoping Memo, evidence was taken to determine whether the WRAMs/MCBAs are achieving their stated purpose and related questions. Second, pursuant to D.12-04-048, this proceeding considered five specific options for addressing WRAMs and MCBAs, and, in particular, options to address large WRAM balances that are resulting in large WRAM surcharges.[81]

The WRAMs and MCBAs were adopted as part of Golden State's water conservation pilot programs to ensure that Golden State and its customers are proportionally affected when conservation rates are implemented so that neither suffers or benefits from the implementation. During the time that the WRAM/MCBA mechanisms have been operating, except for the Arden Cordova CSA in 2011, there have been net under-collections in each ratemaking area with a WRAM/MCBA. These under-collections have been as high as 26.49 percent of a ratemaking area's authorized revenue requirement. D.12-04-048 proposed five options, discussed below, as possible ways to address large WRAM balances.

9.1. Are the WRAMs/MCBAs Achieving their Stated Purpose?

This proceeding considered (1) whether the WRAMs/MCBAs are achieving their stated purpose (i.e., whether Golden State and its ratepayers are proportionally affected under conservation rates), and if not, what changes are needed to ensure the WRAMs/MCBAs achieve their stated purpose; (2) whether the WRAMs/MCBAs have removed disincentives for Golden State to implement

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[81] D.12-04-048 addresses requests in connection with the large WRAM under-collections for Golden State and other water utilities with WRAMs/MCBAs, such as requests to shorten the time period for recovering large under-collections. Among other things, D.12-04-048 requires a more vigorous review of the WRAM/MCBA mechanism and options to the mechanism, as well as sales forecasting, in pending or upcoming GRC proceedings.

conservation rates and conservation programs; (3) whether cost savings resulting from conservation are passed on to ratepayers; and (4) whether overall water consumption by Golden State ratepayers has been reduced.[82]

The WRAMs/MCBAs established for Golden State are functioning as intended because the WRAMs/MCBAs have severed the relationship between sales and revenues, and, as a result, have removed most disincentives for Golden State to implement conservation rates and conservation programs.[83]

The cost savings resulting from conservation are being passed on to ratepayers because cost savings associated with purchased water, purchased power and pump taxes (i.e., MCBA over-collections) are being properly returned to ratepayers and increases in total costs associated with these items are passed through to ratepayers.

Golden State customers have reduced overall water consumption under water conservation programs. From 2007 through 2010, water consumption declined by at least 15 percent in areas with conservation rate designs, and more than 70 percent of the customers in those areas reduced their water usage.[84]

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[82] DRA and Golden State were the only parties to address the WRAM/MCBA issues set forth in the Scoping Memo.

[83] Golden State asserts that the Commission has not removed all financial disincentives for Golden State to implement conservation rates and conservation programs, citing the issues set forth in A.10-09-017.

[84] Water consumption also declined in the Clearlake CSA (the only Golden State ratemaking area without a conservation rate design) but by less than other Golden State ratemaking areas. TURN-3, Schedule SJR-S3.

The settlement adopted in D.09-05-005 states that, in setting the break points for the tiered rate structure, the goal was to ensure that all customers, particularly high usage customers, will receive effective price signals to conserve. (Section IV.D.2.c.) Thus, the settlement adopted in D.09-05-005 expected water consumption to decline in response to inclining block rates.

It is likely that conservation rates and conservation programs are contributing to reductions in water usage.[85] However, it is not possible at this time to determine how much of the reduction in water consumption is the result of conservation rates and conservation programs, and how much is due to other factors such as weather or economic conditions.

Because Golden State is authorized to collect via the WRAM the difference between its authorized and actual revenues, the over-estimate of forecasted water consumption has resulted in substantial under-collection of authorized revenues.[86] Parties identify the sales forecasting methodology as a factor leading to large WRAM balances but state that other factors such as weather, the economy, drought declarations, or community involvement in conservation

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[85] Golden State's actual sales in 2011 were 15 percent below the adopted level, and Golden State's actual sales have been below the adopted level every year since adoption of the current sales forecasting model in 2004. (TR 1276:14-1277:14.) According to Golden State, reduced consumption in recent years under conservation rates and conservation programs is partly or entirely due to customers' response to higher tiered rates. (TR 1263:17-21.) However, TURN questions the extent to which Golden State's tiered rates effect consumption because customers in Arden Cordova (a CSA without tiered rates) have also decreased consumption. (TURN-3 at 8:3-6.)

[86] Historically, the Commission has authorized but not guaranteed the revenues to be collected by rate-regulated utilities. However, the WRAM/MCBA mechanism effectively guarantees Golden State's revenue requirement because Golden State may collect via WRAM surcharges the difference between its actual and authorized revenues.

programs also reduce consumption and thereby affect WRAM balances. Whatever the cause, the large revenue under-collections result in large WRAM surcharges that customers perceive as punishment for conserving water.[87]

Golden State uses the consumption forecasting methodology set forth in the Revised Rate Case Plan (RRCP) adopted in D.07-05-062 to develop its estimate of water consumption.[88] Golden State asserts that the sales/consumption forecasting model required by the RRCP is insufficient to account for price elasticity effects.[89] The sales forecasting methodology set forth in the RRCP provides for the use of multiple regression analysis using historical temperature and rainfall data as independent variables.[90] However, this

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[87] For example, Claremont City Council Member Lyons comments, "[For] all our conservation efforts, we see no relief in water bills we receive, leading to the completely unexplainable possibility that if we turned off our water tomorrow citywide, we would in probably a short period of time receive a WRAM adjustment equaling the amount of savings that we would have seen." (TR 418:5-12.)

[88] TR 1263:7-15.

[89] Price elasticity of demand measures the extent to which demand for a product will decline in response to a price increase or rise in response to a price decrease (i.e., it is the percentage change in quantity demanded in response to a one percent change in price). Demand elasticity is usually quantified by dividing the percentage change in the quantity of the product purchased by the percentage change in the price of the product.

[90] In particular, this methodology specifies, "[calculating] customer consumption by using a multiple regression (any commonly used multiple regression software could be employed, e.g., Eviews, SAS, TSP, Excel, Lotus), based on the material in the 'Standard Practice No. U-2' and the 'Supplement to Standard Practice No. Utilities-25' with the following improvements: (A) Use monthly data for ten years, if available. If 10 years' data is not available, use all available data, but not less than five years of data. If less than five years of data is available, the utility and DRA will have to jointly decide on an appropriate method to forecast the projected level of average consumption; (B) Use 30-year average for forecast values for temperature and rain; and (C) Remove periods from the historical data in which sales restrictions (e.g., rationing) were imposed or the Commission provided the utility with sales adjustment compensation (e.g., a drought

Footnote continued on next page

methodology does not consider data on price changes that may affect consumption.

DRA disagrees that the forecasting methodology is inadequate, and argues that the current forecasting model takes into account trends in usage over time, regardless of the reason(s) for those trends, including recent trends of conservation and elasticity. DRA states that in recent years the adopted forecast is the result of different methods agreed upon through settlement negotiations and, therefore, the consumption forecasting methodology set forth in the RRCP should not be blamed for over estimates in consumption forecasts.[91] Golden State responds that the RRCP forecasting methodology would have yielded even greater over-estimates of water consumption than those reached through negotiations.

DRA recommends that the Commission order an independent third-party study to investigate the reasons for reduced consumption, and the results of this study be considered in Golden State's next GRC.[92] In particular, DRA recommends that Golden State conduct an analysis to disaggregate and quantify the individual factors affecting water consumption within its service areas similar to the study conducted for the Louisville Water Company (Louisville

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memorandum account), but replace with additional historical data to obtain 10 years of monthly data, if available." D.07-05-062, Appendix A, Minimum Data Requirements at A-23, Footnote No. 4.

[91] DRA comments on the Proposed Decision at 5-6.

[92] In addition, DRA recommends that this study investigate the relationship between variable costs and reductions in sales.

Study).[93] DRA states that a study costing up to one percent of Golden State's 2011 WRAM/MCBA balances could be cost effective but DRA does not provide an estimate of the cost to conduct the recommended study. TURN similarly recommends that the Commission require Golden State to conduct a multi-year analysis of its rate design, customer consumption patterns, and sales forecasting methodology.

Golden State agrees that such analyses would help to understand water consumption within its service areas and would help to produce a more accurate sales forecast. Golden State asserts, however, that conducting a study like the Louisville Study in each of its nine ratemaking areas would be time consuming and costly but does not provide an estimate of the cost or time to undertake such a study. Golden State recommends that the Commission carefully consider the cost and benefits of this type of study, and, if the Commission orders Golden State to conduct such a study, the Commission must specify what the study should accomplish and provide Golden State Water the necessary resources to fund the study. Golden State recommends that, at a minimum, the Commission should grant Golden State a memorandum account to track all related costs to be reviewed in its next GRC. In addition, Golden State recommends that the Commission address this issue on an industry-wide basis.

It is not clear that a study such as that recommended by DRA would provide the information needed to improve sales forecasting, and the cost of such a study is not known. Neither the Louisville Study nor the American Water Works Association publication describing the Louisville Study is part of the

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[93] The Louisville Study is described in "*Residential Water Use Trends in North America,*" Journal - American Water Works Association, February 2011.

record, and as a result, the Commission is not able to determine if a study similar to the Louisville Study would provide the information needed to improve consumption forecasts. In addition, there is no information in the record on the cost to conduct a study similar to the Louisville Study. Therefore, we are not able to determine from the record before us whether the benefits of such a study are worth the costs that would eventually be borne by Golden State's customers.

Moreover, it makes little sense to undertake a potentially costly study in order to develop more precise forecasts if, in the end, the adopted consumption forecast is derived through negotiations. While the consumption forecasts adopted since the time that conservation rates were implemented have been reached through settlement negotiations, the forecasts presented in Golden State's rate case applications serve as the starting points for those negotiations. As a result, using a more accurate sales forecasting methodology as a starting point could lead to improved negotiated forecasts. Therefore, we should consider modifications to existing tools that may improve the accuracy of consumption forecasts before undertaking a potentially costly study that has not been sufficiently specified.

During the time that Golden State's conservation rates have been in effect, the negotiated consumption forecasts have led to significant over-estimates of forecasted water consumption. According to Golden State, the current RRCP forecasting methodology would have yielded even greater over-estimates of water consumption than those reached through negotiations. A comparison of actual consumption under conservation rates to the forecasts developed with the current RRCP methodology vs. other methodologies agreed upon through negotiations will help the Commission better determine the reasonableness of future proposed forecasts.

Golden State must submit with its next rate case application an analysis comparing, beginning in 2007 through the period where then-current data is available, (1) the actual consumption by ratemaking area by year, (2) the consumption forecast by ratemaking area by year using the current RRCP methodology, and (3) the consumption forecast by ratemaking area by year based on negotiations.[94] The analysis should compare the differences and percent difference between forecasts and actuals, and include graphs that display the comparisons. In addition, Golden State and DRA must meet to consider modifications to the sales forecasting methodology that would improve the accuracy of Golden State's sales forecasts under conservation rates, and the estimated costs to implement any proposed modifications. In the next GRC, Golden State and DRA, jointly or separately, must report on this effort, including a discussion of any recommended modifications to the RRCP's sales forecasting methodology or the limitations that prevent improvements to the methodology.

Other utilities have not yet reviewed the WRAM Options in their GRCs, as required by D.12-04-048. Therefore, it is premature to consider modifications to

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[94] The stipulation adopted by D.08-01-043 states that the parties used the five-year average to forecast sales for all classes except residential and commercial and that DRA accepted Golden State's estimate for all classes in all Region I areas except for residential and commercial classes in Arden Cordova, Clearlake, Santa Maria and Simi Valley, which were settled after several discussions.

The settlement adopted by D.10-12-059 states that the parties used the RRCP methodology to forecast sales for Clearlake, and used actual 2009 sales to forecast residential and commercial sales in the other Region I ratemaking areas.

The settlement adopted by D.10-11-035 for Regions II and III does not identify the methodologies used to develop the negotiated forecast but states that the parties updated their respective models using the most recent weather and consumption data then settled on water consumption.

the sales forecasting methodology on an industry-wide basis, and any potential modifications to the sales forecasting methodology discussed here that may be proposed by parties in the next GRC apply only to Golden State.[95]

9.2. Five Options for Addressing WRAMs and MCBAs

Because the WRAMs/MCBAs established for Golden State are functioning as intended, none of the WRAM Options set forth in D.12-04-048 should be adopted at this time. In addition, it is not necessary at this time to consider removing unaccounted for water expenses from the MCBA or to establish a penalty/reward mechanism in connection with unaccounted for water. We encourage Golden State to continue making progress on reducing unaccounted for water. As discussed below, parties may raise this issue in the next GRC and, if appropriate, include the issue of potential mechanisms to reduce unaccounted for water.

D.12-04-048 set forth the WRAM Options as possible ways to address large WRAM balances. However, as discussed above, large WRAM balances result from inaccurate sales forecasts (i.e., large differences between forecast and actual revenues), and none of the WRAM Options address the inaccurate forecasts that are resulting in large WRAM balances.

On April 19, 2012, the Commission adopted D.12-04-048, addressing the schedule and process for Golden State and other water utilities with WRAMs and MCBAs, to recover from or refund to customers the annual net balance in the applicants' WRAMs and MCBAs. Among other things, D.12-04-048 requires

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[95] D.12-04-048 requires a more vigorous review of the WRAM/MCBA mechanisms and options to the mechanisms, <u>as well as sales forecasting</u>, be conducted in each applicant's pending or next GRC proceeding. (Ordering Paragraph No. 4. Emphasis added.)

applicants in each upcoming GRC proceeding to provide testimony that, at a minimum, addresses the following WRAM Options[96]:

Option 1: Should the Commission adopt a Monterey-style WRAM rather than the existing full WRAM?[97]

Option 2: Should the Commission adopt a mechanism that bands the level of recovery, or refund, of account balances based on the relative size of the account balance.[98]

Option 3: Should the Commission place WRAM/MCBA surcharges only on higher tiered volumes of usage, thereby benefiting customers who have usage only in Tier 1 or have reduced their usage in the higher tier levels?

Option 4: Should the Commission eliminate the WRAM mechanism?

Option 5: Should the Commission move all customer classes to increasing block rate design and extend the WRAM/MCBA mechanisms to these classes?

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[96] D.12-04-048 authorizes the ALJ in this proceeding, among others, to require testimony on the WRAM Options as a part of the review of the WRAM and MCBA mechanisms. Pursuant to D.12-04-048, the WRAM Options were considered in this proceeding as part of the review of Golden State's conservation rate pilot programs. Golden State, DRA, and TURN submitted supplemental testimony on the WRAM Options.

[97] The Monterey-style WRAM is not a revenue decoupling mechanism as such, it is rather a revenue adjustment mechanism that allows the utility to true-up the revenue it actually recovers under its conservation rate design with the revenue it would have collected if it had an equivalent uniform rate design at actual sales levels.

[98] For example, an annual WRAM/MCBA under-collection/over-collection less than 5 percent of the last authorized revenue requirement would be amortized to provide 100 percent recovery/refund, balances between 5-10 percent would be amortized to provide only 90 percent recovery/refund, and balances over 10 percent would be amortized to provide only 80 percent recovery/refund.

Options 1, 2, or 4 should not be adopted because they would tie sales to revenues, and, as a result, could discourage Golden State from offering conservation rates and conservation programs, and undermine efforts to reduce water consumption in the state. Neither Option 3, TURN's proposal to limit the WRAM surcharge to Tiers 2 and 3, nor TURN's proposal or TURN's proposal for an inclining WRAM surcharge should be adopted because they would result in even larger WRAM surcharges on customers that exceed Tier 1 usage. TURN's proposals would shift the WRAM surcharge burden from some customers to others but do not address the underlying cause of the large WRAM balances.

Option 5 should not be adopted because, except for non-general metered customers, all customer classes currently have a WRAM, and there is not sufficient consumption data on non-general metered customers.

Although DRA suggests that the Monterey-style WRAM/Incremental Cost Balancing Account (ICBA) could be "a possible solution," no party recommends adopting a Monterey-style WRAM (Option 1). In addition, no party recommends adopting a mechanism that bands the level of recovery (Option 2) or eliminating the WRAM (Option 4), and no party recommends moving all customer classes to increasing block rate design and extend the WRAM/MCBA mechanisms to these classes (Option 5).

Golden State recommends that the WRAMs/MCBAs mechanisms be left undisturbed because they are operating as intended. Golden State argues that the Commission should reject all of the WRAM Options because they address the wrong problem. As discussed above, Golden State asserts that the large WRAM balances are the result of the inadequate sales forecasting methodology that Golden State uses in its GRCs.

According to Golden State, Option 1 (Monterey-Style WRAM), Option 2 (banding on recovery/refund according to the size of the balance), and Option 4 (eliminating the WRAM mechanism) would not sever the relationship between sales and revenue, and, as a result, do not remove disincentives to implementing conservation rates and conservation programs. Golden State argues that Option 3 (placing WRAM/MCBA surcharges only on higher tiered volumes of usage) would delay the recovery of WRAM balances and result in very large WRAM surcharges if placed only on higher tiers of usage.

Except for non-general metered customers, all customer classes, including nonresidential customers, currently have both a conservation rate design and a WRAM. Golden State argues and DRA agrees that it would be premature to adopt Option 5 (tiered rates for nonresidential customers) due to the variety of commercial customers and the lack of consumption data regarding these customers. Golden State recommends that the Commission instead approve the rate design in the Settlement that proposes conservation rates which meet the California Urban Water Conservation Counsel Best Management Practice 1.4 goal of recovering 30 percent of the revenue requirement from service charge revenues, and 70 percent from quantity charge revenues.

DRA opposes eliminating the WRAMs/MCBAs at this time (Option 4) because there is not sufficient data to justify doing so. DRA recommends, however, that this option and the other WRAM Options be considered again in Golden State's next GRC.

DRA recommends that non-revenue and/or unaccounted for water be excluded from the MCBA.[99]

DRA states that the current MCBA makes Golden State indifferent to reducing water losses (unaccounted for water), and in this respect does not further California's water conservation efforts. According to DRA, a Monterey-style WRAM (Option 1), combined with an ICBA would provide Golden State an incentive to reduce unaccounted for water because a Monterey-style WRAM/ICBA does not compensate Golden State for losses due to unaccounted for water.

Golden State responds that the unaccounted for water in Golden State's systems is within industry standards,[100] and DRA's proposal to address this issue is a solution in search of a problem. Half of Golden State's ratemaking areas have reduced water losses since the implementation of the MCBA, and in 2010 more than half of its ratemaking areas have water losses that are lower than the adopted water loss factor.[101] (GSWC-89 at 29.) Golden State has been working to replace and repair pipes that have a history of leaking, and has been successful in reducing leaks each year since 2008. GSWC-30(G) at Figure 1-4. Unaccounted for water has been less than 10 percent in most Golden State systems, except for

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[99] DRA uses the terms "non-revenue water" and "unaccounted for water" interchangeably. However, non-revenue water is comprised of "unbilled consumption" and "unaccounted for water." Unbilled consumption includes unbilled usage such as water used by public fire. Unaccounted for water is the sum of all water losses (leaks, tank overflows, meter errors, etc.).

[100] The California Urban Water Council has set "10 percent" as the benchmark for unaccounted for water. (GSWC-1 through GSCW-9.)

[101] "Water Loss" is the sum of "water used in operations" and "unaccounted for water."

Bay Point and Ojai, where unaccounted for water exceeded 10 percent each year since 2007, and Clearlake, where unaccounted for water exceeded 20 percent each year since 2003 (except in 2007 when it was 19.75 percent).[102] Because Golden State has made progress in reducing water losses, it is not necessary at this time to consider removing unaccounted for water expenses from the MCBA or to establish a penalty/reward mechanism in connection with unaccounted for water.

We encourage Golden State continue reducing non-revenue and unaccounted for water. However, Golden State should not be penalized for water used by local authorities to fight fires, and possibly other circumstances. An ICBA or other penalty/reward mechanism intended to motivate Golden State to reduce non-revenue or unaccounted for water should not be adopted until the parts of non-revenue and unaccounted for water over which Golden State has control can be identified and quantified. Therefore, parties may raise this issue in the next GRC and, if appropriate, the Commission may include the issue of potential mechanisms to reduce unaccounted for water.

DRA also questions whether the Commission should allow shortfalls in contract revenues to be recovered in the WRAM. According to DRA, the WRAM process may have allowed Golden State to recover revenue shortfalls associated with Golden State's contract with the United States Department of the Navy (Navy) from other Golden State customers. Although DRA only suggests that the WRAM process may allow inappropriate cross-subsidies to occur between

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[102] GSWC-1 at 9, GSWC-2 at 10, GSWC-3 at 10; GSWC-4 at 14; GSWC-5 at 10; GSWC-6 at 19; GSWC-7 at 8; GSWC-1 at 9 GSWC-8 at 16; GSWC-9 at 10.

residential and non-residential customer classes, DRA recommends that this issue be considered again in Golden State's next GRC.

The Navy usage qualifies for the WRAM because it is based on the general meter rate and meets the conservation rate design standard for non-residential customers. Golden State has included such contract revenues in all prior WRAM calculations and has done so without objections from DRA or the Commission.

We will not at this time require Golden State's next GRC to consider whether the WRAM process allows inappropriate cross-subsidies to occur between residential and non-residential customer classes or related issues. However, DRA or any other party may raise such issues when Golden State files its next GRC application, and the Commission will determine at that time whether the issue(s) should be included in the scope of the proceeding.

TURN recommends that the WRAM surcharge be placed on only Tiers 2 and 3 (Option 3), or, alternatively, that WRAM surcharges be structured so that higher usage tiers have higher surcharge rates applied to them. According to TURN, the 40 percent of residential customers who used the most water in 2007 have significantly reduced their consumption, and, as a result, are responsible for the increase in the WRAM balances. TURN states that placing the WRAM surcharge only on higher usage tiers (or placing a higher surcharge rate on higher usage tiers) will incent customers in Tiers 2 and 3 to conserve more water.

TURN contends that, when the WRAM surcharge is added to rates, it reduces the difference between tiers such that there is no longer a 15 percent difference between each tier. If the Commission does not adopt Option 3, TURN recommends that the Commission require Golden State to apply a inclining WRAM surcharge that would preserve a 15 percent differential between tiers when the WRAM surcharge is added to rates. TURN asserts that this would

send a more effective price signal to customers and encouraging additional conservation.

In addition, TURN recommends that, before deciding whether to eliminate the WRAM mechanism, the Commission should require Golden State in its next GRC to conduct a multi-year analysis of the effects of inclining block rates on consumption in each Golden State rate area.[103] TURN states that this analysis would inform the Commission as to whether the WRAM should be eliminated, and could provide data that may help design rate tiers, WRAM surcharges, and sales forecasts.

Golden State opposes TURN's recommendations to place the WRAM surcharge only on Tiers 2 and 3 or to apply larger WRAM surcharge rates to higher usage tiers. According to Golden State, placing all (or a larger proportion) of the WRAM surcharge on the top two tiers of usage is unfair and will exacerbate the large WRAM balances that have been experienced to date.

Much of TURN's analysis attributes large WRAM balances to customers' actions (e.g., customers that reduced water consumption the most are more responsible for large WRAM balances). However, as discussed above, large WRAM balances result from inaccurate sales forecasts that over-estimate consumption. For example, a precise sales forecast of consumption would result in a zero WRAM balance regardless of customers' actions. Thus, it is the inaccuracy of forecasters' estimates of consumption, not customers' usage patterns, which are responsible for large WRAM balances.

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[103] TURN recommends using Arden Cordova and Clearlake as control groups because they do not have inclining block rates.

DRA states that the limited amount of WRAM/MCBA data accumulated to date is not adequate to perform a thorough analysis of the WRAM/MCBA, and recommends that a review of the WRAM Options be conducted again in Golden State's next GRC when there will be approximately 5 years of data available. We will not at this time require Golden State's next GRC to again review the WRAM Options because, as discussed above, none of the WRAM Options address the inaccurate forecasts that are resulting in large WRAM balances.

10. Compliance with Water Quality Standards

The Revised Rate Case Plan (RRCP) requires GRC proceedings to review water quality to ensure that water utilities provide water that protects the public health and safety. To improve the Commission's review of water quality, the RRCP requires the presiding officer to appoint a water quality expert to assist the Commission in making specific findings and recommendations concerning a utility's water quality compliance unless good cause exists to forego such appointment. D.07-05-062, Appendix A, Section II.F. The Commission's water quality expert provided the ALJ an informal report addressing Golden State's water quality compliance during the last three years, and the Scoping Memo determined that there was no need for a more extensive report or testimony by the water quality expert.

The Application identifies all California Department of Public Health (CDPH) citations, violations, and compliance orders issued to Golden State's water systems during the last three years.[104] The Application indicates that,

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[104] *See* Minimum Data Requirements, Set E, Volume II.

during the last three years, eight Golden State water systems received citations, notices of violations, and orders for non-compliance with the CDPH drinking water regulatory program. Golden State has been responsive in correcting the violations and compliant with reporting to its customers in its annual Consumer Confidence Reports any contaminants exceeding Maximum Contaminant Level drinking water standards and yet-to-be-set drinking water standards.

The RRCP requires each GRC decision to discuss the utility's district-by-district compliance with water quality standards as required by General Order 103. (Appendix A at A-13.) The following discusses Golden State's district-by-district water quality compliance during the last three years.

10.1. Bacteriological Water Quality Deficiencies - Total Coliform Rule

Golden State reported positive results of bacteriological water quality in five water systems: (1) Arden Cordova[105] (Region 1); Bell Gardens[106] and Culver City[107] (Region 2); and Barstow[108] and Morongo Del Sur[109] (Region 3). All

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[105] Arden Cordova water system exceeded the bacteriological water quality in March 2008. The CDPH issued a Notice of Violation with directives to come into compliance.

[106] The Bell Gardens Water System exceeded the bacteriological water quality on February of 2008. The CDPH issued a Notice of Violation with directives to come into compliance.

[107] The Culver City Water System exceeded the bacteriological water quality by testing positive in 7.9 percent of the total coliform samples in July 2010. This exceeded the maximum contamination limit of 5 percent of the samples collected during any month having total coliform positive results. The CDPH issued a Notice of Violation with directives to come into compliance.

CDPH regulatory enforcement actions concerning Golden State's water systems required Golden State to come into compliance within a specified time. Golden State complied with all CDPH directives and submitted a report to CDPH in compliance with the directives.

10.2. Water Systems that Exceeded Perchlorate Drinking Water Standard

Two water systems (Florence Graham Water System in Region 2 and the Barstow Water System in Region 3) exceeded the perchlorate drinking water standard,[110] and each of these water systems was cited by the CDPH. The CDPH also issued specific directives in each citation to come into compliance with the Safe Drinking Water law.

The Florence Graham Water System exceeded the perchlorate MCL in October 2008 with a perchlorate level of 19 micrograms per liter. The CDPH issued Golden State a Notice of Violation with directives to come into compliance.

The Barstow Water System exceeded the perchlorate MCL in November 2010 with a perchlorate level of 120 micrograms per liter. The CDPH cited Golden State for failing to meet the perchlorate drinking water standard, and directed Golden State to come into compliance. Golden State notified all

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[108] The Barstow Water System exceeded the bacteriological water quality in November 2009. The CDPH issued a Notice of Violation with directives to come into compliance.

[109] The Morongo Del Sur Water System exceeded the bacteriological water quality in July 2010. The CDPH issued a Notice of Violation with directives to come into compliance.

[110] Maximum Contaminant Level (MCL) of six micrograms per liter.

customers in the service area concerning the high perchlorate levels, warning customers not to drink the water until further notice and upon CDPH's approval.

Golden State immediately shut down its wells, and tested the wells and distribution system for perchlorate contaminants after the notification was released. After Golden State identified the source of the perchlorate contamination, the distribution system was flushed and the remaining uncontaminated wells were placed back into service.

DWA followed up with all the federal and state agencies involved with the perchlorate contamination investigation. DWA was informed that the potential perchlorate contamination source was the United States Marine Corps Nebo Supply Base and property where Mojave Pyrotechnics, Inc., stored waste.[111]

DWA approved Golden State's request in Advice Letter No. 1426-W to establish the Barstow Water Alert Memorandum Account, effective January 2011. The groundwater basin perchlorate contamination monitoring, clean up, and remediation effort is ongoing under the lead of the United States Environmental Protection Agency.

10.3. Summary of Primary, Secondary, and Yet-To-Be-Set Drinking Water Standards Exceeded in 2010 Consumer Confidence Reports

The Clearlake Water System (Region 1) reported one contaminant that exceeded a yet-to-be-set drinking water standard. During 2010, the water system exceeded the Boron Notification Level (1,000 micrograms per liter), with an average level of 1,300 micrograms per liter.

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[111] Identification of responsible parties is in the early stages and, to date, no legal action has been taken.

The Culver City, Morongo Del Sur, and Morongo Del Norte water systems (Region 2) exceeded the MCLs for primary, secondary, or yet-to-be-set drinking water standards groups. As noted above, the Culver City Water System reported bacteriological water quality non-compliance.[112] The Morongo Del Sur Water System reported radioactivity exceeding the drinking water standard.[113] The Morongo Del Norte Water System reported presence of radioactivity,[114] and, as noted above, positive results of bacteria in two monthly samples.

The Norwalk Water System (Region 2) exceeded the notification level for 1,4-Dioxane, a yet-to-be set drinking water standard for a contaminant from the Unregulated Contaminant Monitoring Rule group.[115]

The Barstow Water System (Region 3) exceeded primary drinking water standards for the presence of radioactivity and, as noted above, perchlorate.[116]

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[112] The Culver City Water System exceeded the bacteriological water quality by testing positive in 7.9 percent of the total coliform samples in July 2010. This exceeded the MCL of five percent of the samples collected during any month having total coliform positive results.

[113] The Morongo Del Sur water system reported radioactivity presence above its drinking water standard (MCL is 15 picocuries per liter (pCi/L)) at an average level of 19.1 pCi/L and two positive total coliform bacteria monthly samples.

[114] The Morongo Del Norte water system reported the presence of radioactivity at the average level 19 pCi/L which is above its MCL.

[115] The Norwalk Water System reported the presence of 1,4-Dioxane at an average level of 2.2 micrograms per liter, exceeding its Notification Level of 1 microgram per liter. The contaminant 1,4-Dioxane is a non-enforceable contaminant in the Unregulated Contaminant Monitoring Rule group.

[116] The Barstow Water System reported high perchlorate levels at the average of 120 micrograms per liter, exceeding the MCL of six micrograms per Liter.

11. Comments on Proposed Decision

The proposed decision of ALJ Smith in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on April 8, 2013 by DRA, Golden State, TURN, and jointly by the Cities of Claremont, Placentia, Barstow, Stanton and Cypress. Reply comments were filed on April 15, 2013 by DRA, Golden State and TURN. The comments have been considered and appropriate changes have been made.

12. Assignment of Proceeding

Catherine J.K. Sandoval is the assigned Commissioner and Richard Smith is the assigned ALJ in this proceeding.

Findings of Fact

1. Notice of the Application appeared in the Commission's July 26, 2011 Daily Calendar.

2. Protests to the Application were filed by the Town of Apple Valley on August 18, 2011, the City of Claremont on August 22, 2011, the City of Ojai on August 19, 2011, the City of San Dimas on August 24, 2011, and the Division of Ratepayer Advocates on August 25, 2011.

3. On June 21, 2012, DRA, Golden State, and TURN filed a motion for approval of a settlement agreement that resolves all issues in this proceeding except Golden State's Special Request No. 1, Special Request No. 8, and WRAM.

4. The proposals put forth in the Settlement are the result of arms-length negotiations between the parties.

5. Most of the active parties in this proceeding support or do not oppose the proposals put forth in the Settlement.

6. Since the Settlement was filed the Commission has approved rate base offsets filed in Advice Letter 1495-W for the Simi Valley ratemaking area, Advice Letter 1501-W for the Clearlake, Santa Maria and Simi Valley ratemaking areas, and Advice Letter 1502-W for the Los Osos ratemaking area.

7. Golden State received approval to reflect in rates a rate base offset filed in advice letter 1508-W in its Ojai and Santa Maria ratemaking areas, with rates effective on January 19, 2013.

8. The NSWP will be built.

9. The voters have rejected the Nipomo Mesa Special Assessment tax.

10. The cost of constructing the NSWP is currently estimated to be $23.6 million, and Golden State's share of that cost is estimated to be $1.97 million.

11. The final capital costs and the additional operation and maintenance costs associated with the NSWP or when those costs will be incurred have not yet been determined.

12. Pursuant to the stipulation resolving the Santa Maria Groundwater Adjudication and Litigation, Golden State must pay 31.25 percent of the $650,000 annual cost of managing the Twitchell Reservoir (i.e., $203,125 per year), and $18,750 per year as its share of the $75,000 annual budget for the Nipomo Mesa Management Area committee. The Settlement includes these costs in the revenue requirement for the 2013 Test Year as part of Golden State's other O&M costs.

13. Golden State has received no Water Availability Fee (WAF) payments from Aerojet, and Golden State is uncertain as to when any WAF payments may be received.

14. Golden State customers have reduced overall water consumption under water conservation programs. From 2007 through 2010, water consumption declined by at least 15 percent in areas with conservation rate designs, and more than 70 percent of the customers in those areas reduced their water usage.

15. Water consumption is currently estimated using the consumption forecasting methodology set forth in the Revised Rate Case Plan adopted in D.07-05-062.

16. Golden State's actual sales in 2011 were 15 percent below the adopted level, and Golden State's actual sales have been below the adopted level every year since adoption of the current sales forecasting model in 2004.

17. Large WRAM balances result from inaccurate sales forecasts that over-estimate consumption.

18. Unaccounted for water has been less than 10 percent in most Golden State systems, except for Bay Point and Ojai, where unaccounted for water exceeded 10 percent each year since 2007, and Clearlake, where unaccounted for water exceeded 20 percent each year since 2003 (except in 2007 when it was 19.75 percent).

19. Unaccounted for water in the Clearlake System decreased more than 15 percent from 2006 to 2007.

20. Golden State has been working to replace and repair pipes that have a history of leaking, and has been successful in reducing leaks each year since 2008.

21. The Commission’s water quality expert provided the ALJ an informal report addressing Golden State’s water quality compliance during the last three years, and the Scoping Memo determined that there was no need for a more extensive report or testimony by the water quality expert.

22. The Application identifies all CDPH citations, violations, and compliance orders issued to Golden State's water systems during the last three years.

23. During the last three years, eight Golden State water systems received citations, notices of violations, and orders for non-compliance with the California Department of Public Health's drinking water regulatory program.

24. Golden State complied with all CDPH directives and submitted a report to CDPH in compliance with the directives.

Conclusions of Law

1. The additions to plant addressed by the Settlement, including construction work in progress, are reasonable and justified.

2. The operation & maintenance, and administrative & general expenses agreed-upon in the Settlement, including General Office expenses, cost allocations, insurance, pension and benefits, and overhead rates are reasonable and necessary to provide safe and reliable water service.

3. The Settlement's revenue requirements and rate increases for test and escalation years, including the forecasts of sales, revenue, consumption, and number of customers, are reasonable and justified.

4. The Settlement's overhead rate of 22 percent is reasonable for forecasting purposes.

5. The Settlement satisfies the applicable settlement standards of Rule 12.1(d) and therefore should be provided the same deference the Commission accords settlements generally.

6. The proposals put forth in the Settlement do not contravene or compromise any statutory provision or prior Commission decision, are reasonable, consistent with the law, and in the public interest.

7. Because the proposals put forth in the Settlement are presented as an integrated package of revenue requirement and rate recommendations, all of the proposals put forth in the Settlement should be approved.

8. The resolution of Golden State's special requests addressed by the Settlement is reasonable.

9. Golden State Water Company should be authorized to file, by Tier 1 advice letter, revised tariff schedules, and to concurrently cancel its present schedules for such service. This filing should be subject to approval by the Commission's Division of Water and Audits. The effective date of the revised schedules should be five days after filing.

10. The surcharge to true-up the interim rates should comply with Standard Practice U-27-W.

11. For escalation years 2014 and 2015 Golden State should file Tier 1 advice letters in conformance with GO 96-B proposing new revenue requirements and corresponding revised tariff schedules for each district and rate area in this proceeding. Golden State's advice letters should follow the escalation procedures set forth in the RRCP for Class A Water Utilities adopted in D.07-05-062 and should include supporting workpapers. The revised tariff schedules should take effect on January 1, 2014 and January 1, 2015, respectively and apply to services rendered on and after their effective dates. The proposed revised revenue requirements and rates should be reviewed by the DWA. The DWA should inform the Commission if it finds that the revised rates do not conform to the RRCP, this order, or other Commission decisions, and if so, should reject the filing.

12. An escalation advice letter, including workpapers, should be filed in accordance with GO 96-B no later than 45 days prior to the first day of the

escalation year. To the extent that the pro forma earnings test for the 12 months ending September 30, as adopted in D.04-06-018, exceeds the amount authorized in this decision, the requested increase should be reduced by the utility from the level authorized in this decision to conform to the pro forma earnings test. Except as otherwise specified in the Ordering Paragraphs, advice letters filed in compliance with this decision should be handled as Tier 1 filings, effective on the first day of the test year. Advice letters not in compliance with this decision should be rejected consistent with GO 96-B.

13. Golden State should be authorized to file a Tier 2 advice letter to include in rate base and rates, when abandonment of Bissell Well No. 1 is completed and construction of Bissell Well No. 3 is completed, and Bissell Well No. 3 is used and useful, the actual cost of the plant addition but capped at $3,986,562, including overhead, less all Proposition 50 funding Golden State receives for this project.

14. Golden State should be authorized to file a Tier 2 advice letter to include in rate base and rates, when the Dace Well project is completed and is used and useful, the actual cost of the plant addition but capped at $2,300,000, including overhead.

15. Golden State should be authorized to file a Tier 2 advice letter to include in rate base and rates, when the Wilson Well project is completed and is used and useful, the actual cost of the plant addition but capped at $2,206,831, including overhead.

16. To mitigate rate shock, the revenue increase in 2013 for the Los Osos ratemaking area should be 50 percent (approximately $608,000) of the 2013 increase in revenue requirement of $1.2 million. Golden State should be required to defer cost recovery of the remaining 50 percent in a balancing account accruing interest at a rate equal to Golden State's authorized rate of return, and

to file a Tier 2 advice letter to implement a flat monthly rate surcharge scaled by the capacity factor equivalents for different meter sizes for metered services per Standard Practice U-27 on Los Osos customers, effective January 1, 2014, to amortize the balance over a three-year period.

17. Golden State should be authorized to file a Tier 1 advice letter to establish conservation expenses one-way balancing accounts for each ratemaking area to record conservation expenses for the period from January 1, 2013 through December 31, 2015.

18. Golden State should be authorized to file a Tier 1 advice letter to establish a surcharge, effective five days after filing, to amortize the balance of $2,800 in the Operational Energy Efficiency Program Memorandum Account (OEEPMA). The OEEPMA should be closed when the account is fully amortized.

19. The Conservation Expenses One-Way Balancing Account (CEOWBA) should continue until December 31, 2012, at which time Golden State should be authorized to file a Tier 2 advice letter to establish a surcredit if the account is over-collected or a surcharge if the account is under-collected, effective upon approval of the Tier 2 advice letter, to amortize the balance in the CEOWBA after review of the updated balances. The CEOWBA should be closed upon approval of the Tier 2 advice letter by the DWA.

20. Golden State should be authorized to file a Tier 1 advice letter to establish a surcharge, effective five days after filing, to amortize the balance of $77,628 as of May 31, 2011 in the Bay Point Water Quality Memorandum Account (BPWQMA). The BPWQMA should be closed when the account is fully amortized..

21. The Rate Case Memorandum Account should be closed.

22. No additional amounts other than interest should be added to the balance in the Randall-Bold Balancing Account (RBBA). After the balance in the RBBA is amortized, the RBBA should be closed when the account is fully amortized..

23. Golden State should be authorized to file a Tier 1 advice letter to establish a surcharge, effective five days after filing, to amortize the balance of $180,317 as of September 30, 2011 in the Los Osos Groundwater Adjudication Memorandum Account (LOAMA) over a 12 month period. The LOAMA should be converted to a balancing account and the account should remain open through 2015, with an annual cap of $200,000 for outside services incurred from 2013 through 2015.

24. Golden State should be authorized to file a Tier 2 advice letter to establish a surcharge, effective upon approval of the Tier 2 advice letter by the DWA, to amortize the balance of $868,722 as of September 30, 2011 in the Santa Maria Stipulation Memo Account (SMSMA). No additional amounts should be added to the balance in the SMSMA after December 31, 2012. Golden State should file a Tier 3 advice letter to recover balances incurred after September 30, 2011. The SMSMA should be closed upon approval of the Tier 3 advice letter.

25. Golden State should be authorized to file a Tier 1 advice letter to establish a surcharge, effective five days after filing, to amortize the balance of $1,796,805 as of September 30, 2011 in the Santa Maria Water Rights Memorandum Account (SMWRMA) over a 10 year period. The SMWRMA should be converted to a balancing account and the balancing account should remain open until the balance is fully amortized.

26. The Simi Valley Mandatory Conservation Rationing Implementation Memorandum Account should be closed.

27. Golden State should be authorized to file a Tier 1 advice letter to establish a surcharge, effective five days after filing, to amortize the balance of $574,035 as

of September 30, 2011 in the OSMA over a 12 month period. The OSMA should be converted to a balancing account and the balancing account should continue to track costs related to ongoing litigation matters incurred after September 30, 2011.

28. Golden State should be authorized to file a Tier 1 advice letter to establish a surcredit, effective five days after filing, to amortize the balance of -$1,789 in the Mandatory Conservation Rationing Implementation Memorandum Account (MEMCRIMA). The MEMCRIMA should be closed upon approval of the Tier 2 advice letter by the DWA.

29. No additional amounts other than interest should be added to the balance of $353,972 as of September 30, 2011 in the CPMA. The CPMA should continue to accumulate interest through December 31, 2012. Golden State should be authorized to file a Tier 1 advice letter to establish a surcharge, effective five days after filing, to amortize the balance in the CPMA. The CPMA should be closed when the account is fully amortized.

30. No additional amounts other than interest should be added to the balance of $660,560 as of September 30, 2011 in the Catastrophic Event Memorandum Account (CEMABWA). The CEMABWA should continue to accumulate interest through December 31, 2012. Golden State should be authorized to file a Tier 1 advice letter to establish a surcharge, effective five days after filing, to amortize the balance in the CEMABWA. The CEMABWA should be closed when the account is fully amortized.

31. The Region 3 Mandatory Conservation Rationing Implementation Memorandum Account (R3MCRIMA) should be closed.

32. The City of Torrance Balancing Account (COTBA) should continue until December 31, 2012. Golden State should be authorized to file a Tier 3 advice

letter to establish a surcharge, effective upon approval of the Tier 3 advice letter, to amortize the balance in the COTBA. The COTBA should be closed when the account is fully amortized.

33. The COSMA should remain open to track the effects of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (New Tax Law) for the period April 14, 2011 through December 31, 2012. Beginning January 1, 2013, the impacts of the New Tax Law should be factored into Golden State's base rates as a result of this general rate case. The COSMA should be reviewed by the DWA after Golden State has recorded the tax effects of the New Tax Law in the COSMA to verify that Golden State's calculations accurately incorporate the full impacts of the New Tax Law within the COSMA. After the balance is reviewed, the outstanding COSMA balance should be returned to ratepayers and the account closed after all amounts due to ratepayers are returned.

34. The General Office Maintenance Memorandum Account (GOMMA) should remain open to track costs associated with pursuing insurance proceeds and any insurance proceeds received. The GOMMA should accrue carrying costs at Golden State's authorized rate of return.

35. Golden State should be authorized to file a Tier 1 advice letter to establish a surcharge, effective five days after filing, to amortize the balance of $8,234 as of September 30, 2011 in the GRC Memorandum Account (GRCMA). The GRCMA should be closed when the account is fully amortized.

36. Golden State should be authorized to file a Tier 1 advice letter to establish a surcharge, effective five days after filing, to amortize the balance of $5,186 as of September 30, 2011 in the Military Family Relief Program Memorandum Account

(MFRPMA). The MFRPMA should be closed when the account is fully amortized.

37. The Oracle Technical Support Costs Memorandum Account (OTSCMA) should continue until December 31, 2012, at which time Golden State should be authorized to file a Tier 3 advice letter to establish a surcharge, effective upon approval of the Tier 3 advice letter, to amortize the balance in the OTSCMA, after review of the updated balances as of December 31, 2012. The OTSCMA should be closed when the account is fully amortized.

38. Golden State should be authorized to file a Tier 1 advice letter to establish a surcharge, effective five days after filing, to amortize the balance of $1,942,598 in the Pension and Benefits Balancing Account (PBBA) as of December 31, 2011, and excluding the portion of pension costs allocated to affiliates. Golden State should file a Tier 3 advice letter to recover balances incurred after December 31, 2011.

39. The Pressure Reducing Valve Modernization and Energy Recovery Memorandum Account should be closed.

40. The Temporary Interest Rate Balancing Account should remain open until the Commission issues a final decision in A.11-05-004.

41. The Well Study Balancing Account (WSBA) authorized in D.10-11-035 should remain capped at $375,000. When the well replacement study project is complete, the balance in the WSBA should be amortized and the account closed.

42. Golden State should be authorized to file a Tier 1 advice letter to establish a surcharge, effective five days after filing, to amortize the balance of $734,926, as of September 30, 2011, in the Conservation Order Instituting Investigation Memorandum Account over a 12 month period.

43. The Water Conservation Memorandum Account should be closed after the account is fully amortized.

44. Golden State should be authorized to file a Tier 2 advice letter to establish a memorandum account to record other tax effects resulting from implementing the Internal Revenue Service guidelines for the water industry for determining which costs for maintaining, replacing or improving property may be expensed and which costs must be capitalized (Repair Regulations). The memorandum account should track permanent and flow-through tax effects on other tax calculations resulting from implementing the Repair Regulations that may increase or decrease federal income taxes or California Corporation Franchise Taxes in years prior to 2016. The memorandum account should remain open until January 1, 2016, when rates become effective in Golden State's next general rate case proceeding. To the extent that the effects of implementing the Repair Regulations impact Golden State's revenue requirement prior to the approval of the memorandum account, Golden State should treat an equivalent offsetting portion of the temporary difference of implementing the Repair Regulations as a flow-through adjustment with the intent that Golden State be made whole. The final incurred costs should be reviewed in Golden State's next GRC and should be subject to refund.

45. Golden State's General Office Outside Services expense should be increased by $300,000 to implement the Repair Regulations. These costs should be subject to refund.

46. The four Advice Letter Projects shown in Table 18.3 of Exhibit JP-1 should be included in rates and incorporated into the adopted revenue requirement established in this proceeding.

47. The Commission approved rate base offset Advice Letter Nos. 1495-W, 1501-W and 1502-W. The amount of the rate base offsets associated with these advice letters should be incorporated into the rate base that is calculated pursuant to this decision.

48. Golden State filed and the Commission approved Advice Letter No. 1508-W before the effective date of this decision but after the decision tables were prepared. Golden State should be authorized to add the associated revenue requirement and rate base of Advice Letter No. 1508-W to the revenue requirement and rate base approved in this decision.

49. If any additional rate base offset advice letters are filed by Golden State and approved before the effective date of this decision, Golden State should be authorized to add the associated revenue requirement of those rate base offsets to the revenue requirement approved in this decision. .

50. The Settlement's rate design proposal is reasonable and complies with D.10-12-059.

51. The Settlement's resolution of Golden State's request in connection with the First 5 LA Program is reasonable.

52. Golden State's request for approval of its entry into the stipulation resolving the Santa Maria Groundwater Adjudication and Litigation should be approved.

53. Golden State should be authorized to participate in the Nipomo Mesa Management Authority and the Santa Maria Valley Management Area management committee/Twitchell Management Authority.

54. Golden State should be authorized to participate in the construction and maintenance of the Nipomo Supplemental Water Project (NSWP), and to purchase water from the NSWP.

55. Section 851 the Public Utilities Code requires a public utility to obtain Commission authorization before selling, leasing, assigning, mortgaging, or otherwise disposing of, or encumbering property necessary or useful in the performance of its duties to the public.

56. Golden State should be authorized to encumber its water rights in the Santa Maria Valley Groundwater Basin.

57. The Commission should approve Golden State's request to recover its litigation related costs incurred since December 31, 2005, recorded in the Santa Maria Water Rights Memorandum Account, and rate adjustments to cover the costs to implement certain water management programs required under the Stipulation.

58. Golden State is required by the Stipulation to pay a portion of the costs to construct, operate, and maintain the NSWP because the voters rejected the Nipomo Mesa Special Assessment tax.

59. The Stipulation is beneficial to Golden State's customers in the Santa Maria CSA because it secures Golden State's water rights in the Santa Maria Basin, provides mechanisms for ensuring the reliability of those rights, and requires Golden State to bear only its proportional share of the costs that must be incurred in order to preserve those rights.

60. Approval of Golden State's entry into the Stipulation will secure Golden State's right to rely on the Santa Maria Basin for sufficient quantities of water needed to meet current and anticipated future demands of Santa Maria CSA customers.

61. If Golden State is not authorized to participate in the Stipulation, Golden State will be required to undertake additional litigation and incur additional, unbounded, litigation costs without any certainty of a more favorable

outcome than provided by the Stipulation. Approval of Golden State's entry into the Stipulation will limit and provide certainty about litigation costs.

62. Approval of Golden State's entry into the Stipulation provides certainty about Golden State's water rights in the Santa Maria Basin and ensures Golden State customers in the Santa Maria CSA have a reliable water supply.

63. Golden State and its Santa Maria CSA customers will further benefit from the Stipulation because (1) monitoring programs and annual reports required by the Stipulation ensure the long-term integrity of water resources, (2) the Stipulation's partitioning of the Santa Maria Basin into three management areas provides greater flexibility in the management of each area, (3) the costs to manage the Santa Maria Basin's water resources will be shared equitably, (4) the Stipulation's drought and water shortage management plan and allocation scheme equitably limits water allocations in the event of a severe water shortage, and (5) the Stipulation provides for continuing Court jurisdiction to protect and preserve water resources.

64. Golden State's entry into the Stipulation should be authorized because the Stipulation is in the best interest of Golden State and its customers in the Santa Maria CSA.

65. Golden State should be required to file an application at a later date to request recovery of reasonable NSWP-related capital costs, O&M costs, and purchased water costs because the final construction schedule and costs for the NSWP are not yet known and because it is not known when costs of water purchased from the NSWP will be incurred.

66. Golden State should be authorized to recalculate the surcharge levied in the Arden Cordova CSA that amortizes and recovers the balance of the Aerojet Water Litigation Memorandum Account. The recalculated surcharge should

increase by $1.30 per month for flat rate customers (from $5.42 per month to $6.72 per month), and $0.045 per Ccf for metered customers (from $0.155/Ccf to $0.200/Ccf).

67. Under the Aerojet Settlement, recovery of the $17.5 million in Golden State's litigation costs (plus interest) is not guaranteed to be paid by a date certain but is contingent upon the development of certain Aerojet properties.

68. D.05-07-045 ordered that the balance of the unpaid litigation costs in the memorandum account authorized by Res. W-4181 be carried forward with interest at the three-month commercial paper rate, and authorized Golden State to impose a surcharge in the Arden-Cordova customer service area to amortize the balance in the memorandum account during the ensuing 20-year period.

69. D.05-07-045 intended for Arden-Cordova customers to pay the unreimbursed litigation cost balance, including interest charges accruing to the memorandum account, and Arden-Cordova customers are currently paying via surcharge the principal and interest charges accruing to the memorandum account.

70. If Aerojet pays Golden State the agreed-upon $17.5 million in litigation costs (plus interest) within the 20-year life of the memorandum account, the payments will offset the litigation cost principal and interest charges accruing to the account and Arden-Cordova customers will be refunded any over collections.

71. Because recovery of the $17.5 million in litigation costs (plus interest) to be paid by Aerojet to Golden State is contingent upon the development of certain Aerojet properties, D.05-07-045 recognized that the amounts to be recovered from ratepayers depended on how quickly the Aerojet properties were

developed and acknowledged that, under a worst case scenario in which no WAF payments materialized, ratepayers would pay all litigation costs.

72. The WRAMs/MCBAs established for Golden State are functioning as intended because the WRAMs/MCBAs have severed the relationship between sales and revenues and, as a result, have removed most disincentives for Golden State to implement conservation rates and conservation programs.

73. The cost savings resulting from conservation are being passed on to ratepayers because cost savings associated with purchased water, purchased power, and pump taxes (i.e. MCBA over-collections) are being properly returned to ratepayers; and increases in total costs associated with these items are passed through to ratepayers.

74. It is not possible at this time to determine how much of the reduction in water consumption is the result of conservation rates and conservation programs, and how much is due to other factors such as weather or economic conditions.

75. During the time that Golden State's conservation programs have been in effect, the consumption forecasting methodology set forth in the Revised Rate Case Plan adopted in D.07-05-062 has led to significant over-estimates of forecasted water consumption.

76. Large WRAM under-collections are the result of over-estimated sales forecasts but over-estimated sales forecasts result from underestimating reductions in consumption from factors such as weather, the economy, drought declarations, or conservation rates.

77. The sales forecasts must be improved in order to reduce WRAM balances.

78. Neither the Louisville Study nor the American Water Works Association publication describing the Louisville Study is part of the record, and as a result, the Commission is not able to determine if a study similar to the Louisville Study would provide the information needed to improve sales forecasts.

79. Because there is no information in the record on the cost to conduct a study similar to the Louisville Study, we are not able to determine if the benefits of a study similar to the Louisville Study are worth the costs.

80. During the time that Golden State's conservation rates have been in effect, the negotiated consumption forecasts have led to significant over-estimates of forecasted water consumption.

81. Using a more accurate sales forecasting methodology as a starting point could lead to improved negotiated forecasts.

82. A comparison of actual consumption under conservation rates to the forecasts developed with the current RRCP methodology and other methodologies agreed upon through negotiations will help the Commission better determine the reasonableness of future proposed forecasts.

83. We should consider modifications to existing tools that may improve the accuracy of consumption forecasts before undertaking a potentially costly study that has not been sufficiently specified.

84. Golden State should submit with its next rate case application an analysis comparing, beginning in 2007 through the period where then-current data is available, (1) the actual consumption by ratemaking area by year, (2) the consumption forecast by ratemaking area by year using the current RRCP

methodology, and (3) the consumption forecast by ratemaking area by year based on negotiations.[117] The analysis should compare the differences and percent difference between forecasts and actuals, and include graphs that display the comparisons.

85. Golden State and DRA should be required to meet to consider modifications to the RRCP's sales forecasting methodology that would improve the accuracy of Golden State's sales forecasts under conservation rates, and the estimated costs to implement any proposed modifications. In the next GRC, Golden State and DRA, jointly or separately, should be required to report on this effort, including a discussion of any recommended modifications to the RRCP's sales forecasting methodology or the limitations that prevent improvements to the methodology.

86. Any potential modifications to the sales forecasting methodology discussed in this decision that may be proposed by parties in the next GRC should apply only to Golden State.

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[117] The stipulation adopted by D.08-01-043 states that the parties used the five-year average to forecast sales for all classes except residential and commercial and that DRA accepted Golden State's estimate for all classes in all Region I areas except for residential and commercial classes in Arden Cordova, Clearlake, Santa Maria and Simi Valley, which were settled after several discussions.

The settlement adopted by D.10-12-059 states that the parties used the RRCP methodology to forecast sales for Clearlake, and used actual 2009 sales to forecast residential and commercial sales in the other Region I ratemaking areas.

The settlement adopted by D.10-11-035 for Regions II and III does not identify the methodologies used to develop the negotiated forecast but states that the parties updated their respective models using the most recent weather and consumption data then settled on water consumption.

87. Other utilities have not yet reviewed the WRAM Options in their GRCs, as required by D.12-04-048, and, therefore, it is premature to address this issue on an industry-wide basis.

88. Because the WRAMs/MCBAs established for Golden State are functioning as intended, none of the WRAM Options set forth in D.12-04-048 should be adopted at this time.

89. None of the WRAM Options address the inaccurate forecasts that are resulting in large WRAM balances.

90. Adoption of WRAM Options 1, 2, or 4 would tie sales to revenues, and, as a result, would discourage Golden State from offering conservation rates and conservation programs, and undermine efforts to reduce water consumption in the state.

91. WRAM Option 3, TURN's proposal to limit the WRAM surcharge to Tiers 2 and 3, and TURN's proposal for an inclining WRAM surcharge should not be adopted because they would result in even larger WRAM surcharges on customers that exceed Tier 1 usage.

92. WRAM Option 5 should not be adopted because, except for non-general metered customers, all customer classes currently have a WRAM, and there is not sufficient consumption data for non-general metered customers.

93. Golden State has made progress in reducing water losses. Therefore, it is not necessary at this time to consider removing unaccounted for water expenses from the MCBA or to establish a penalty/reward mechanism in connection with unaccounted for water.

94. Golden State has been responsive in correcting violations of the California Department of Public Health's drinking water regulatory program, and compliant with reporting to its customers in its annual Consumer Confidence

Reports any contaminants exceeding Maximum Contaminant Level drinking water standards and yet-to-be-set drinking water standards.

95. Golden State should continue reducing non-revenue and unaccounted for water. However, Golden State should not be penalized for water used by local authorities to fight fires, and possibly other circumstances.

96. An ICBA or other penalty/reward mechanism intended to motivate Golden State to reduce unaccounted for water should not be adopted until the parts of non-revenue and unaccounted for water over which Golden State has control can be identified and quantified.

97. A.11-07-017 should be closed.

O R D E R

IT IS ORDERED that:

1. The joint motion of Golden State Water Company, the Division of Ratepayer Advocates, and The Utility Reform Network to approve the settlement agreement, is granted.

2. Golden State Water Company is authorized to file by Tier 1 advice letter, revised tariff schedules, and to concurrently cancel its present schedules for such service. This filing is subject to approval by the Commission's Division of Water and Audits. The effective date of the revised schedules is five days after filing.

3. The surcharge to true-up the interim rates must comply with Standard Practice U-27-W. The tariff implementing the surcharge may be included in the filing authorized in Ordering Paragraph No. 2 or filed by Tier 1 advice letter after Golden State Water Company calculates the revenue difference between the interim rates and the adopted rates.

4. For escalation years 2014 and 2015, Golden State Water Company (Golden State) must file Tier 1 advice letters in conformance with General Order 96-B proposing new revenue requirements and corresponding revised tariff schedules for each district and rate area in this proceeding. Golden State's advice letters must follow the escalation procedures set forth in the Revised Rate Case Plan (RRCP) for Class A Water Utilities adopted in Decision 07-05-062 and must include supporting workpapers. The revised tariff schedules must take effect on January 1, 2014 and January 1, 2015, respectively and apply to services rendered on and after their effective dates. The proposed revised revenue requirements and rates must be reviewed by the Commission's Division of Water and Audits (DWA). The DWA must inform the Commission if it finds that the revised rates do not conform to the RRCP, this order, or other Commission decisions, and if so, reject the filing.

5. An escalation advice letter, including workpapers, may be filed in accordance with General Order (GO) 96-B no later than 45 days prior to the first day of the escalation year. To the extent that the pro forma earnings test for the 12 months ending September 30, as adopted in Decision 04-06-018, exceeds the amount authorized in this decision, the requested increase must be reduced by the utility from the level authorized in this decision to conform to the pro forma earnings test. Except as otherwise specified in the Ordering Paragraphs below, advice letters filed in compliance with this decision must be handled as Tier 1 filings, effective on the first day of the test year. Advice letters not in compliance with this decision will be rejected consistent with GO 96-B.

6. As provided for in the settlement adopted in this decision, Golden State Water Company (Golden State) is authorized to file a Tier 2 advice letter to include in rate base, when abandonment of Bissell Well No. 1 is completed and

construction of Bissell Well No. 3 is completed, and Bissell Well No. 3 is used and useful, the actual cost of the plant addition but capped at $3,986,562, including overhead, less all Proposition 50 funding Golden State receives for this project.

7. As provided for in the settlement adopted in this situation, Golden State Water Company is authorized to file a Tier 2 advice letter to include in rate base, when the Dace Well project is completed and is used and useful, the actual cost of the plant addition but capped at $2,300,000, including overhead.

8. As provided for in the settlement adopted in this situation, Golden State Water Company is authorized to file a Tier 2 advice letter to include in rate base and rates, when the Wilson Well project is completed and is used and useful, the actual cost of the plant addition but capped at $2,206,831, including overhead.

9. As provided for in the settlement adopted in this situation, the revenue increase in 2013 for the Los Osos ratemaking area will be 50 percent (approximately $608,000) of the 2013 increase in revenue requirement of $1.2 million. Golden State Water Company (Golden State) must defer cost recovery of the remaining 50 percent in a balancing account accruing interest at a rate equal to Golden State's authorized rate of return, and Golden State must file a Tier 2 advice letter to implement a flat monthly rate surcharge scaled by the capacity factor equivalents for different meter sizes for metered services per Standard Practice U-27 on Los Osos customers, effective January 1, 2014, to amortize the balance over a three-year period.

10. As provided for in the settlement adopted in this decision, Golden State Water Company is authorized to file a Tier 1 advice letter to establish conservation expenses one-way balancing accounts for each rate making area to record conservation expenses for the period from January 1, 2013 through December 31, 2015.

11. As provided for in the settlement adopted in this decision, Golden State Water Company is authorized to file a Tier 1 advice letter to establish a surcharge, effective five days after filing, to amortize the balance of $2,800 in the Operational Energy Efficiency Program Memorandum Account (OEEPMA). The OEEPMA must be closed when the account is fully amortized.

12. As provided for in the settlement adopted in this decision, the Conservation Expenses One-Way Balancing Account (CEOWBA) will continue until December 31, 2012, at which time Golden State Water Company is authorized to file a Tier 2 advice letter to establish a surcredit if the account is over-collected or a surcharge if the account is under-collected, effective upon approval of the Tier 2 advice letter, to amortize the balance in the CEOWBA after review of the updated balances. The CEOWBA must be closed upon approval of the Tier 2 advice letter.

13. As provided for in the settlement adopted in this decision, Golden State Water Company is authorized to file a Tier 1 advice letter to establish a surcharge, effective five days after filing, to amortize the balance of $77,628 as of May 31, 2011 in the Bay Point Water Quality Memorandum Account (BPWQMA). The BPWQMA must be closed when the account is fully amortized.

14. As provided for in the settlement adopted in this decision, the Rate Case Memorandum Account is closed.

15. As provided for in the settlement adopted in this decision, no additional amounts other than interest may be added to the balance in the Randall-Bold Balancing Account (RBBA). The RBBA must be closed when the account is fully amortized.

16. As provided for in the settlement adopted in this decision, Golden State Water Company is authorized to file a Tier 1 advice letter to establish a

surcharge, effective five days after filing, to amortize the balance of $180,317 as of September 30, 2011 in the Los Osos Groundwater Adjudication Memorandum Account (LOAMA) over a 12 month period. The LOAMA must be converted to a balancing account and the account must remain open through 2015, with an annual cap of $200,000 for outside services incurred from 2013 through 2015.

17. As provided for in the settlement adopted in this decision, Golden State Water Company (Golden State) is authorized to file a Tier 2 advice letter to establish a surcharge, effective upon approval of the Tier 2 advice letter by the Division of Water and Audits, to amortize the balance of $868,722 as of September 30, 2011 in the Santa Maria Stipulation Memo Account (SMSMA). No additional amounts may be added to the balance in the SMSMA after December 31, 2012. Golden State must file a Tier 3 advice letter to recover balances incurred after September 30, 2011. The SMSMA must be closed upon approval of the Tier 3 advice letter.

18. As provided for in the settlement adopted in this decision, Golden State Water Company is authorized to file a Tier 1 advice letter to establish a surcharge, effective five days after filing, to amortize the balance of $1,796,805 as of September 30, 2011 in the Santa Maria Water Rights Memorandum Account (SMWRMA) over a 10 year period. The SMWRMA must be converted to a balancing account and the balancing account must remain open until the balance is fully amortized.

19. As provided for in the settlement adopted in this decision, the Simi Valley Mandatory Conservation Rationing Implementation Memorandum Account is closed.

20. As provided for in the settlement adopted in this decision, Golden State Water Company is authorized to file a Tier 1 advice letter to establish a

surcharge, effective five days after filing, to amortize the balance of $574,035 as of September 30, 2011 in the Outside Services Memo Account (OSMA) over a 12 month period. The OSMA must be converted to a balancing account and the balancing account will continue to track costs related to ongoing litigation matters incurred after September 30, 2011.

21. As provided for in the settlement adopted in this decision, Golden State Water Company is authorized to file a Tier 1 advice letter to establish a surcredit, effective five days after filing, to amortize the balance of -$1,789 in the Mandatory Conservation Rationing Implementation Memorandum Account (MEMCRIMA). The MEMCRIMA must be closed when the account is fully amortized.

22. As provided for in the settlement adopted in this decision, no additional amounts other than interest may be added to the balance of $353,972 as of September 30, 2011 in the Calipatria Prison Memorandum Account (CPMA). The CPMA will continue to accumulate interest through December 31, 2012. Golden State Water Company is authorized to file a Tier 1 advice letter to establish a surcharge, effective five days after filing, to amortize the balance in the CPMA. The CPMA must be closed when the account is fully amortized.

23. As provided for in the settlement adopted in this decision, no additional amounts other than interest may be added to the balance of $660,560 as of September 30, 2011 in the Catastrophic Event Memorandum Account (CEMABWA). The CEMABWA will continue to accumulate interest through December 31, 2012. Golden State Water Company is authorized to file a Tier 1 advice letter to establish a surcharge, effective five days after filing, to amortize the balance in the CEMABWA. The CEMABWA must be closed when the account is fully amortized.

24. As provided for in the settlement adopted in this decision, the Region 3 Mandatory Conservation Rationing Implementation Memorandum Account is closed.

25. As provided for in the settlement adopted in this decision, the City of Torrance Balancing Account (COTBA) will continue until December 31, 2012. Golden State Water Company is authorized to file a Tier 3 advice letter to establish a surcharge, effective upon approval of the Tier 3 advice letter, to amortize the balance in the COTBA, after review of the updated balances. The COTBA must be closed when the account is fully amortized.

26. As provided for in the settlement adopted in this decision, the Cost of Service Memorandum Account (COSMA) must remain open to track the effects of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (New Tax Law) for the period April 14, 2011 through December 31, 2012. Beginning January 1, 2013, the impacts of the New Tax Law must be factored into Golden State Water Company's (Golden State's) base rates as a result of this general rate case. The COSMA must be reviewed by the Division of Water and Audits after Golden State has recorded the tax effects of the New Tax Law in the COSMA to verify that Golden State's calculations accurately incorporate the full impacts of the New Tax Law within the COSMA. After the balance is reviewed, the outstanding COSMA balance must be returned to ratepayers and the account closed after all amounts due to ratepayers are returned.

27. As provided for in the settlement adopted in this decision, the General Office Maintenance Memorandum Account (GOMMA) must remain open to track costs associated with pursuing insurance proceeds and any insurance

proceeds received. The GOMMA will accrue carrying costs at Golden State Water Company's authorized rate of return.

28. As provided for in the settlement adopted in this decision, Golden State Water Company is authorized to file a Tier 1 advice letter to establish a surcharge, effective five days after filing, to amortize the balance of $8,234 as of September 30, 2011 in the General Rate Case Memorandum Account (GRCMA). The GRCMA must be closed when the account is fully amortized.

29. As provided for in the settlement adopted in this decision, Golden State Water Company is authorized to file a Tier 1 advice letter to establish a surcharge, effective five days after filing, to amortize the balance of $5,186 as of September 30, 2011 in the Military Family Relief Program Memorandum Account (MFRPMA). The MFRPMA must be closed when the account is fully amortized.

30. As provided for in the settlement adopted in this decision, the Oracle Technical Support Costs Memorandum Account (OTSCMA) will continue until December 31, 2012, at which time Golden State Water Company is authorized to file a Tier 3 advice letter to establish a surcharge, effective upon approval of the Tier 3 advice letter, to amortize the balance in the OTSCMA, after review of the updated balances as of December 31, 2012. The OTSCMA must be closed when the account is fully amortized.

31. As provided for in the settlement adopted in this decision, Golden State Water Company (Golden State) is authorized to file a Tier 1 advice letter to establish a surcharge, effective five days after filing, to amortize the balance of $1,942,598 in the Pension and Benefits Balancing Account as of December 31, 2011, and excluding the portion of pension costs allocated to affiliates. Golden State must file a Tier 3 advice letter to recover balances incurred after December 31, 2011.

32. As provided for in the settlement adopted in this decision, the Pressure Reducing Valve Modernization and Energy Recovery Memorandum Account is closed.

33. As provided for in the settlement adopted in this decision, the Temporary Interest Rate Balancing Account must remain open until the Commission issues a final decision in Application 11-05-004.

34. As provided for in the settlement adopted in this decision, the Well Study Balancing Account (WSBA) authorized in Decision 10-11-035 must remain capped at $375,000. When the well replacement study project is complete, the balance in the WSBA must be amortized and the account closed.

35. As provided for in the settlement adopted in this decision, Golden State Water Company is authorized to file a Tier 1 advice letter to establish a surcharge, effective five days after filing, to amortize the balance of $734,926, as of September 30, 2011, in the Conservation Order Instituting Investigation Memorandum Account over a 12 month period.

36. As provided for in the settlement adopted in this decision, the Water Conservation Memorandum Account must be closed after the account is fully amortized.

37. Golden State Water Company (Golden State) is authorized to file a Tier 2 advice letter to establish a memorandum account to record other tax effects resulting from implementing the Internal Revenue Service guidelines for the water industry for determining which costs for maintaining, replacing or improving property may be expensed and which costs must be capitalized (Repair Regulations). The memorandum account must track permanent and flow-through tax effects on other tax calculations resulting from implementing the Repair Regulations that may increase or decrease federal income taxes or

California Corporation Franchise Taxes in years prior to 2016. The memorandum account must remain open until January 1, 2016, when rates become effective in Golden State's next general rate case proceeding. To the extent that the effects of implementing the Repair Regulations impact Golden State's revenue requirement prior to the approval of the memorandum account, Golden State must treat an equivalent offsetting portion of the temporary difference of implementing the Repair Regulations as a flow-through adjustment with the intent that Golden State be made whole. The final incurred costs must be reviewed in Golden State's next general rate case and are subject to refund.

38. Golden State Water Company's General Office Outside Services expense is increased by $300,000 to implement the Repair Regulations. These costs are subject to refund.

39. As provided for in the settlement adopted in this decision, the four Advice Letter Projects shown in Table 18.3 of Exhibit JP-1 must be included in rates and incorporated into the adopted revenue requirement established in this proceeding.

40. The amount of the rate base offsets associated with rate base offset Golden State Water Company's Advice Letter Nos. 1495-W, 1501-W and 1502-W is incorporated into the rate base that is calculated pursuant to this decision.

41. Golden State Water Company (Golden State) is authorized to add the associated revenue requirement and rate base of Golden State's Advice Letter No. 1508-W to the revenue requirement and rate base approved in this decision.

42. Golden State Water Company is authorized to add the associated revenue requirement of any additional rate base offset advice letters filed by Golden State and approved before the effective date of this decision to the revenue requirement approved in this decision. Golden State Water Company is

authorized to enter into the stipulation resolving the Santa Maria Groundwater adjudication and litigation in *Santa Maria Valley Water Conservation District v. City of Santa Maria, et al.* (and related actions), Lead Case No. CV 770214, Superior Court of the State of California, County of Santa Clara.

43. Golden State Water Company is authorized to participate in the Nipomo Mesa Management Authority and the Santa Maria Valley Management Area management committee/Twitchell Management Authority.

44. Golden State Water Company is authorized to participate in the construction and maintenance of the Nipomo Supplemental Water Project (NSWP), and to purchase water from the NSWP.

45. Because the final construction schedule and costs for the Nipomo Supplemental Water Project (NSWP) are not yet known and because it is not known when costs of water purchased from the NSWP will be incurred, Golden State Water Company must file an application at a later time to request recovery of reasonable NSWP-related capital costs, Operation and maintenance costs, and purchased water costs.

46. Golden State Water Company is authorized to encumber its water rights in the Santa Maria Valley Groundwater Basin, pursuant to § 851.

47. Golden State Water Company is authorized to recalculate the surcharge levied in the Arden Cordova Customer Service Area that amortizes and recovers the balance of the Aerojet Water Litigation Memorandum Account to increase the surcharge by $1.30 per month for flat rate customers (from $5.42 per month to $6.72 per month), and by $0.045 per hundred cubic feet (Ccf) for metered customers (from $0.155/Ccf to $0.200/Ccf) as reflected in the attached tariff sheets (Appendix F).

48. Golden State Water Company must submit with its next rate case application an analysis comparing, beginning in 2007 through the period where then-current data is available, the actual consumption by ratemaking area by year, the consumption forecast by ratemaking area by year using the current revised rate case plan methodology, and the consumption forecast by ratemaking area by year based on negotiations.[118] The analysis should compare the differences and percent difference between forecasts and actuals, and include graphs that display the comparisons.

49. Golden State Water Company (Golden State) and the Division of Ratepayer Advocates (DRA) must meet to consider modifications to the sales forecasting methodology set forth in the Revised Rate Case Plan (RRCP) adopted in Decision 07-05-062 that would improve the accuracy of Golden State's sales forecasts under conservation rates, and the estimated costs to implement any proposed modifications. In the next general rate case, Golden State and DRA must, jointly or separately, report on this effort, including a discussion of

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[118] The stipulation adopted by D.08-01-043 states that the parties used the five-year average to forecast sales for all classes except residential and commercial and that DRA accepted Golden State's estimate for all classes in all Region I areas except for residential and commercial classes in Arden Cordova, Clearlake, Santa Maria and Simi Valley, which were settled after several discussions.

The settlement adopted by D.10-12-059 states that the parties used the RRCP methodology to forecast sales for Clearlake, and used actual 2009 sales to forecast residential and commercial sales in the other Region I ratemaking areas.

The settlement adopted by D.10-11-035 for Regions II and III does not identify the methodologies used to develop the negotiated forecast but states that the parties updated their respective models using the most recent weather and consumption data then settled on water consumption.

any recommended modifications to the sales forecasting methodology set forth in the RRCP and any limitations that prevent improvements to the methodology.

50. Application 11-07-017 is closed.

This order is effective today.

Dated _____, at San Francisco, California.

Attachment 1 -Appearances

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FOR: TURN

(END OF ATTACHMENT 1)

Attachment 2 - Acronyms and Abbreviations

A&G	Administrative and general
AL	Advice Letter
ALJ	Administrative Law Judge
BMP	Best Management Practice
BPWQMA	Bay Point Water Quality Memorandum Account
Ccf	Hundred cubic feet
CCWC	Chaparral City Water Company
CDPH	California Department of Public Health
CEMABWA	Catastrophic Event Memorandum Account
CEOWBA	Conservation Expenses One-Way Balancing Account
COSMA	Cost of Service Memorandum Account
COTBA	City of Torrance Balancing Account
CPMA	Calipatria Prison Memorandum Account
CSA	Customer Service Area
CUWCC	California Urban Water Conservation Council
CWIP	Construction work in progress
DRA	Division of Ratepayer Advocates
DWA	Division of Water and Audits
GO	General Order
GOMMA	General Office Maintenance Memorandum Account
GRC	General rate case
GRCMA	General Rate Case Memorandum Account
ICBA	Incremental Cost Balancing Account
IRC	Internal Revenue Code
LOAMA	Los Osos Groundwater Adjudication Memorandum Account
MCBA	Modified Cost Balancing Account
MCL	Maximum Contaminant Level
MEMCRIMA	Mandatory Conservation Rationing Implementation Memorandum Account
MFRPMA	Military Family Relief Program Memorandum Account
NSWP	Nipomo Supplemental Water Project
O&M	Operations and maintenance
OEEPMA	Operational Energy Efficiency Program Memorandum Account
OSMA	Outside Services Memorandum Account
OTSCMA	Oracle Technical Support Costs Memorandum Account
PBBA	Pension and Benefits Balancing Account

pCi/L	Picocuries per liter
PHC	Prehearing conference
PPH	Public participation hearing
R^2	R squared (the coefficient of determination)
R3MCRIMA	Region 3 Mandatory Conservation Rationing Implementation Memorandum Account
RBBA	Randall-Bold Balancing Account
Res.	Resolution
RIRCMA	Rate Case Memorandum Account
RRCP	Revised Rate Case Plan (adopted in D.07-05-062)
SB	Senate Bill
SMSMA	Santa Maria Stipulation Memo Account
SMWRMA	Santa Maria Water Rights Memorandum Account
TURN	The Utility Reform Network
WAF	Water Availability Fee
WRAM	Water Revenue Adjustment Mechanism
WSBA	Well Study Balancing Account

(END OF ATTACHMENT 2)

ATTACHMENT 3
Adopted Settlement Agreement

APPENDIX A
Summary of Earnings