PROPOSED RESOLUTION

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS **RESOLUTION W-5010**
Water and Sewer Advisory Branch **January 15, 2015**

R E S O L U T I O N

(RES. W-5010), THIS RESOLUTION REJECTS THE DIVISION OF WATER AND AUDITS DISPOSITION OF GOLDEN STATE WATER COMPANY'S ADVICE LETTER NO. 1558-W REQUEST FOR RATE BASE OFFSET RATE ADJUSTMENTS IN ITS ARDEN CORDOVA, BAY POINT, OJAI AND SANTA MARIA DISTRICTS.

By Advice Letter No. 1558-W filed on February 28, 2014.

SUMMARY

Golden State Water Company (Golden State) requests Commission review of the disposition by the Division of Water and Audits (DWA) of Advice Letter (AL) 1558-W. This resolution rejects DWA's disposition of Golden State's AL 1558-W and authorizes Golden State to supplement AL 1558-W with up-to-date Allowance for Funds Used During Construction (AFUDC) costs.

BACKGROUND

On February 28, 2014, Golden State filed AL 1558-W. AL 1558-W requests to include in rate base and to recover project costs including AFUDC costs totaling $1,340,976 in its Arden Cordova District; $127,923 in its Bay Point District; $2,069,398 in its Ojai District; and $2,261,373 in its Santa Maria District. Golden State filed the advice letter to comply with Ordering Paragraph (OP) Nos. 2a, 2e and 3 in Commission Decision (D.) 10-12-059 resolving the company's 2010 General Rate Case (GRC) for Region 1. Golden State calculated its AFUDC costs by setting the rate equal to its authorized rate of return.

On April 30, 2014, The Office of Ratepayer Advocates (ORA) filed a late protest that raised several issues with AL 1558-W. On May 21, 2014, Golden State filed a response to ORA's protest.

On June 20, 2014, DWA issued a disposition letter containing a number of recommendations and requesting Golden State to supplement its request in AL 1558-W to conform to DWA's recommendations. AL 1558-W was neither rejected, nor approved by DWA. DWA's disposition recommended that (1) Golden State remove expenses for labor from the project

costs, (2) Golden State lower AFUDC costs from 8.9% to 2.0%, and (3) Golden State remove $2,899 in costs booked to the Tanglewood Well #3 project.

On July 20, 2014, Golden State requested Commission review of DWA's disposition. This resolution responds to Golden State's request.

NOTICE

Golden State served AL 1558-W on its General Order (G.O) 96-B service lists for the relevant districts. Notice under G.O. 96-B Water Industry Rule 3.1 is not required since the rate base offset increase is less than ten percent of the revenue requirement last authorized for each district. Golden State posted AL 1558-W on its website in compliance with Water Industry Rule 3.3.

PROTESTS

The Office of Ratepayer Advocates (ORA) filed a late protest on April 30, 2014 that raised several issues with AL 1558-W. ORA argues that material errors or omissions may exist in the advice letter.

Also, ORA claims that the AFUDC capital costs are not correct ORA further argues against recovery of project costs since all of the projects in AL 1558-W may not have been in use when the advice letter was filed.

Finally, ORA argues that the advice letter may have been incorrectly filed as a Tier 2 rate base offset advice letter since the request may be outside the requirements of Industry Rule 7.3.3 and non-compliant with Commission orders in D. 10-12-059 if the calculations included in the work papers are a result of projects not solely completed as described in the settlement.

Golden State filed a timely response on May 21, 2014. The utility supports its argument to use its authorized rate of return as the AFUDC rate by citing Section 5.2 of D. 10-12-059, excerpted in part:

> "During the time that such projects are under development and construction Golden State may accrue an allowance for funds used during construction on the accrued expenditures to offset the cost of financing project construction. This allowance is in lieu of allowing either a forecast of construction work in progress or forecasting an in-service date to include these projects in rates on January 1, 2011."

Had the Commission allowed Golden State to include these projects in construction work in progress, the company argues, they would have been in rate base and would have earned

Golden State's full authorized rate of return. Therefore, the AFUDC which is in lieu of including these projects in rate base needs to be calculated based on Golden State's full authorized rate of return.

Golden State further cites the Commission's Uniform System of Accounts for Class A water utilities (SP U-38-W): "Interest during construction' includes the net cost of borrowed funds used for construction purposes and a reasonable rate upon the utility's own funds when so used." The company states that this defines the rate of return calculation in a Cost of Capital proceeding.

Next, Golden State provided well production data and health department permit numbers to ORA and as-built drawings to DWA to prove that the projects were in use and consistent with D. 10-12-059 and the adopted Settlement Agreement.

Finally, Golden State dismisses ORA's assertion that AL 1558-W may be incorrectly filed as a Tier 2 advice letter by citing Section 8 of Industry Rule 7.3.3 Golden State states that the Commission approved the projects in D. 10-12-059 and authorized Golden State to file a Tier 2 advice letter. Golden State is attempting to comply with OPs 2a, 2e and 3 of D. 10-12-059.

DISCUSSION

After a thorough review of its disposition of AL 1558-W, and consideration of ORA's protest and Golden State's response to the protest, DWA believes that the relief requested in AL 1558-W is in compliance with D.10-12-059 and that Golden State should be authorized to supplement AL 1558-W to put into rates the projects it has completed along with updated AFUDC costs.

In its disposition letter, DWA initially requested Golden State to remove labor expenses from project costs unless Golden State could show that D.10-12-059 did not include such labor expenses in the labor expenses account.

D. 10-12-059 does not explicitly state the method of determining Golden State's authorized labor costs or its ordered cost caps. D.10-12-059 adopts a settlement between ORA and Golden State. The settlement sets forth settled amounts for labor expenses and for capital projects, with specific cost caps established for the later. The settlement leading to D.10-12-059 does not bar the recovery of labor costs sought by AL 1558. Absent a specific finding or order by the Commission on the authorized labor costs including overhead for capital projects, DWA does not have the authority to exclude such costs from advice letter projects.

Golden State provided invoices to support various design and construction costs for services performed by contractors and consultants. DWA reviewed these invoices for reasonableness and compliance with D. 10-12-059.

DWA's recommendation to eliminate project costs based on a designation as either design or construction as specified in the work papers submitted with Golden State's 2010 GRC contradicts D. 02-07-011, which states:

> "There is no requirement of the utility to spend exactly, or only, the projected amount on each rate base or expenditure component used to set rates…We leave the fine-tuning of a utility's operation to the discretion of its management. Management discretion is exercised in allocating total dollars for capital and expense items to those areas where the capital and expense is most necessary, as dictated by constantly evolving priorities."

Golden State should not be restricted to such categorization of its actual costs despite the method employed in its estimate. We find under the unique circumstances of this case that all of the projects listed in AL 1558-W, are within the scope authorized in D. 10-12-059.

Golden State provided invoices to support various miscellaneous costs incurred related to the AL 1558-W-W projects. DWA initially disallowed $2,899 in its disposition letter as a result of its reasonableness review. Golden State argued that a $2,000 PG&E invoice disallowed by DWA as a double-counted expense is actually a legitimate credit previously paid. We agree and allow Golden State to include the $2,000 in recoverable expenses. The remaining $899 in various miscellaneous costs are unsupported and should be removed from costs sought to be recovered for the Tanglewood Well #3.

D.10-12-059 does not specify an exact rate to be used as AFUDC nor does it state that the AFUDC rate should be set at the authorized rate of return requested by Golden State. Instead, the Commission states that Golden State may accrue an AFUDC "to offset the cost of financing project construction." (P. 11) However, since D.10-12-059 was adopted, DWA has authorized Golden State to receive AFUDC costs set at the authorized rate of return in *ten* previous advice letters implementing capital projects authorized by D.10-12-059. Thus, using the rate of return here is consistent with prior Commission practice.

In its disposition letter, DWA argues that AFUDC costs should be lowered to 2% to reflect short term borrowing costs. DWA does not explain why it chooses to deviate from its previous interpretation of reasonable AFUDC costs. We find no compelling reason to deviate from this practice for this advice letter or others that may be filed under the order D.10-12-059.
As such, we find it reasonable to set the AFUDC rate equal to Golden State's authorized rate of return.

Since nearly a year has passed since the capital projects were first placed in service and AL 1558-W was filed, Golden State has been unable to return a return on its investment. As such, it is reasonable to authorize Golden State to earn AFUDC through the date when this resolution becomes effective.

COMPLIANCE

There are no outstanding Commission orders for compliance in Golden State's Arden-Cordova, Bay Point, Ojai or Santa Maria Districts.

COMMENTS

Public Utilities Code Section 311(g)(1) generally requires that resolutions must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Accordingly, the draft resolution was mailed to ORA and Golden State for comments.

Comments were received from Golden State Water Company only. The utility requests that Ordering Paragraph No. 2 be changed to allow the utility to file a Tier 1 advice letter, instead of a Tier 2 advice letter, to supplement its original filing. DWA has considered the utility's request and believes that a Tier 2 advice letter is the appropriate vehicle to address the issues contained in this resolution. As such, no changes have been made to this resolution.

FINDINGS AND CONCLUSIONS

1. Absent a specific finding or order by the Commission on the authorized labor costs including overhead for capital projects, DWA does not have the authority to exclude such costs from advice letter projects.

2. Golden State's labor costs submitted in AL 1558-W should be approved as the settlement leading to D.10-12-059 does not bar such recovery.

3. All of the projects listed in AL 1558-W are within the scope authorized in D. 10-12-059.

4. $899 in various miscellaneous costs are unsupported and should be removed from costs sought to be recovered for the Tanglewood Well #3.

5. It reasonable to set the AFUDC rate equal to Golden State's authorized rate of return for the projects submitted in AL 1558-W.

6. Golden State should be authorized to supplement AL 1558-W to put into rates the projects it has completed along with updated AFUDC costs.

7. It is reasonable to authorize Golden State to earn AFUDC through the time this resolution becomes effective.

THEREFORE IT IS ORDERED THAT:

1. The Division of Water and Audits disposition of Advice Letter 1558-W is rejected. Golden State Water Company is authorized to file a supplement to Advice Letter 1558-W to put into rates projects it has completed along with updated Allowance for Funds Used During Construction costs through the effective date of this resolution.

2. Golden State Water Company shall file as a Tier 2 Advice Letter filing a supplement to Advice Letter 1558-W within 10 days of the effective date of this resolution.

3. Golden State Water Company shall remove $899 from its requested costs for the Tanglewood Well #3 project in any supplement filed to Advice Letter 1558-W.

4. This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on January 15, 2015; the following Commissioners voting favorably:

Timothy J. Sullivan
Executive Director

CERTIFICATE OF SERVICE

I certify that I have by either electronic mail or postal mail, this day, served a true copy of Proposed Resolution No. W-5010 on all parties in these filings or their attorneys as shown on the attached lists.

Dated December 12, 2014, at San Francisco, California.

/s/ JENNIFER PEREZ
Jennifer Perez

Parties should notify the Division of Water and Audits, Third Floor, California Public Utilities Commission, 505 Van Ness Avenue, San Francisco, CA 94102, of any change of address to ensure that they continue to receive documents. You must indicate the Resolution number on which your name appears.

GOLDEN STATE WATER COMPANY
ADVICE LETTER NO. 1558-W-W
SERVICE LIST

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