

Decision 12-06-006 June 7, 2012

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Golden State Water Company on Behalf of its Bear Valley Electric Service Division (U913E), for Approval of Booked CEMA Costs and Recovery of Costs in Rates.

Application 11-06-001
(Filed June 1, 2011)

PROPOSED DECISION ADOPTING ALL-PARTY SETTLEMENT AGREEMENT REGARDING COSTS BOOKED INTO BEAR VALLEY ELECTRIC SERVICE DIVISION'S CATASTROPHIC EVENT MEMORANDUM ACCOUNT

1. Summary

In this decision, we adopt an all-party Settlement Agreement and approve recovery of costs booked in the Catastrophic Event Memorandum Account (CEMA) of Bear Valley Electric Service, a division of Golden State Water Company. Bear Valley Electric Service is authorized to recover \$796,080 in costs, accrued interest, and carrying charges booked into the CEMA related to a bark beetle infestation for the period June 30, 2005 through December 31, 2010 and the January 2010 winter storms. Cost recovery shall be implemented through a kilowatt-hour surcharge in ratepayer bills over a 12-month period. Any over- or under-collection shall be accounted for in the Base Rate Revenue Adjustment Mechanism.

2. Procedural Background

On June 1, 2011, Golden State Water Company (GSWC) filed and served Application (A.) 11-06-001 on behalf of its Bear Valley Electric Service Division (Bear Valley Electric) seeking approval of direct costs and accrued interest

booked into Bear Valley Electric's Catastrophic Event Memorandum Account (CEMA) incurred from June 30, 2005 through December 31, 2010 related to mitigation of the bark beetle infestation. GSWC, on behalf of Bear Valley Electric further seeks approval of under-collection of costs and accrued interest related to mitigation of a bark beetle infestation for the period April 3, 2003 through June 30, 2005 and costs and accrued interest booked into the CEMA related to January 2010 wind and snow storms. GSWC seeks recovery of all costs and accrued interest via a per kilowatt hour (kWh) surcharge over a 12-month period and requests that any over- or under-collection be accrued in the Base Rate Revenue Adjustment Mechanism.

The Division of Ratepayer Advocates (DRA) timely filed a protest on July 5, 2011, and GWSC filed a reply on July 14, 2011. On July 27, 2011, DRA filed an amended protest updating its proposed schedule in this proceeding. The assigned Administrative Law Judge (ALJ) convened a prehearing conference on August 4, 2011, and the Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge was issued on August 31, 2011. Pursuant to Rules 3.2(c) and 3.2(d)¹ GSWC submitted compliance filings on June 17, 2011 and August 2, 2011, showing proof of notice to customers of the proposed rate increase.

As stated in the Scoping Memo and Ruling, issues related to the reasonableness of costs and accrued interest incurred in the CEMA, the applicability of various State of Emergency Proclamations regarding the bark beetle infestation and the January 2010 winter storm, the reasonableness of the

¹ All citations to Rules are to the Commission's Rules of Practice and Procedure.

proposed recovery method and timeframe, and the treatment of any over- or under-collection are within the scope of this proceeding. In response to an October 25, 2011 e-mail from DRA advising that all parties had reached a settlement, the assigned ALJ issued a ruling on November 3, 2011 suspending the previously adopted schedule and ordering parties to file and serve status updates on the fifth day of each month until such time a settlement was filed.

Parties filed and served status updates on December 5, 2011 and January 5, 2012. GWSC and DRA properly noticed and convened a settlement conference on January 5, 2012. On January 10, 2012, GWSC, on behalf of Bear Valley Electric, and DRA filed a motion for approval of a proposed all-party Settlement Agreement.² Because the proposed Settlement Agreement is uncontested, there is no need for comments on the Settlement Agreement. In addition, because this Settlement Agreement resolves all material disputed issues, there is no need to convene evidentiary hearings.

3. CEMA and Authority Sought Under Application

A utility may incur charges in a CEMA account in accordance with Public Utilities Code Section 454.9³ and Resolution E-3238.⁴ Under the statute and resolution, a regulated utility has the opportunity to recover reasonable costs to address a catastrophic event provided that the costs are incremental to existing

² On April 22, 2012, the assigned ALJ sent an e-mail to parties to the Settlement Agreement notifying them of a mathematical error. In the original Settlement Agreement, parties agreed to a total settlement amount for recovery of \$796,690; however, addition of the components to that total yielded a total of \$796,080. On April 25, 2012, all parties filed and served an amendment to the Settlement Agreement noting the mathematical error and correcting the total to \$796,080.

³ All section references are to the California Public Utilities Code.

⁴ The CEMA was authorized in Resolution E-3238, effective September 6, 1991.

allowances in rates. More specifically, Resolution E-3238 ordered that the CEMA could record costs for “(a) restoring utility services to customers; (b) repairing, replacing, or restoring damaged utilities, and (c) complying with governmental orders in connection with events declared disasters by competent state or federal authority.”⁵

3.1. Bark Beetle CEMA Costs

On March 7, 2003, Governor Davis issued a State of Emergency Proclamation for the Counties of Riverside, San Bernardino, and San Diego because of widespread bark beetle infestation. In response to the Emergency Proclamation, the Commission issued Resolution E-3824 on April 3, 2001, which ordered Bear Valley Electric and other electric utilities to work with the California Department of Forestry and Fire Protection to “take all reasonable and necessary actions to implement the provision of the Governor’s State of Emergency Proclamation to mitigate the increased fire hazard by removing dead, dying, or diseased trees that may fall or contact distribution and transmission lines within their rights of way . . .” The Commission authorized utilities to book bark-beetled related costs into the CEMA to track each utility’s actions to comply with the Commission’s order to fight the bark beetle infestation.

In Resolution E-3976, dated April 13, 2006, the Commission approved GSWC’s request for recovery of \$340,117 in costs (plus accrued interest) for bark-beetle infested tree removal and related costs that were incurred during the period April 3, 2003 through June 30, 2005. The Commission authorized collection of these amounts through a per kWh surcharge over a 12-month period. GSWC implemented a surcharge pursuant to Advice Letter 210-E, but

⁵ Resolution E-3238 at 5.

the surcharge did not collect \$66,426 of the costs approved to be recovered within the 12-month period authorized by Resolution E-3976.

In this application, GSWC seeks approval of Bear Valley Electric's bark beetle mitigation costs from July 1, 2005 through April 30, 2007, totaling \$414,442. In addition, GSWC seeks approval of bark beetle mitigation carrying costs booked in the Bear Valley Electric CEMA through December 31, 2010 totaling \$138,448 (\$66,426 attributable to the under-collection noted above, \$18,006 in interest on the under-collected amount, and \$54,016 in interest on bark beetle costs booked in the CEMA since July 2005).

3.2. January 2010 CEMA Costs

In January 2010, a severe storm struck in Bear Valley Electric's service territory resulting in downed transmission and distribution poles and damaged transformers and causing widespread loss of electrical service. The storm was declared a local emergency by San Bernardino County and a state of emergency by Governor Schwarzenegger.

Bear Valley Electric's employees took all necessary actions to respond to customer calls and restore power as a result of the storm, but the volume and extent of service outages required overtime hours for existing employees and the need to contract with outside crews to restore service. GSWC seeks approval of \$307,159 in direct costs associated with the January 2010 storm and \$610 in CEMA-booked 2010 storm-related interest costs through December 31, 2010.

4. All-Party Settlement Agreement

The proposed Settlement Agreement conforms to Rules 12.1-12.7. In particular, we find that the proposed Settlement Agreement complies with Rule 12.1(d): it is reasonable in light of the whole record, is consistent with the law, and is in the public interest, as discussed below.

DRA had an opportunity to fully review GSWC's application, CEMA records, and data. We are confident that parties have addressed concerns and found a reasonable compromise in the provisions of the Settlement Agreement. As such, we adopt the Settlement Agreement without modification. The amount or recovery approved is summarized in Table 1 below, which includes GSWC's original position and the amounts agreed upon for settlement purposes:

Table 1: Summary of Settlement

Issues	GSWC Position	Settlement
Bark Beetle Direct Costs	\$412,442	\$412,442
Bark Beetle Under-Collection	\$66,426	\$66,426
Carrying Costs on Bark Beetle Under-Collection	\$18,006	\$0
Carrying Costs on Bark Beetle Direct Costs	\$54,016	\$42,016
2010 Storm Direct Costs	\$307,159	\$275,196
Carrying Costs on 2010 Storm Direct Costs	\$610	\$0
Total	\$858,659	\$796,080

GWSC and DRA agree to a total recovery of \$796,080, which results in a reduction of \$62,579 from the initial request of \$858,659. Parties agree that recovery shall be implemented through a per kWh surcharge in ratepayer bills over a 12-month period. GSWC will file for authorization to implement the surcharge rate in a Tier 1 advice letter with the Commission's Energy Division within thirty days of Commission approval of the Settlement.

In addition, the parties agree that Bear Valley Electric may use the Base Rate Revenue Adjustment Mechanism to account for any over- or under-collection resulting from the recovery authorized in this proceeding. This would occur once the 12-month amortization period has expired and all collections under the authorized surcharge have been booked.

4.1. Settlement is Reasonable in Light of the Whole Record

As stated in the motion requesting approval and adoption of the proposed Settlement Agreement, parties thoroughly analyzed facts and relevant Commission decisions pertinent to this proceeding. DRA thoroughly reviewed Bear Valley Electric's CEMA accounts and evaluated what portions of Bear Valley Electric's CEMA costs are incremental and thus recoverable.

The proposed CEMA costs, interest and carrying costs contained in the proposed Settlement Agreement strike a balance between the two parties' positions and are well within the range of cost recovery initially sought by GSWC on behalf of Bear Valley Electric. We find that the proposed Settlement Agreement is reasonable in light of the whole record.

4.2. Settlement is Consistent with the Law

We find that the proposed Settlement Agreement is consistent with the law and our prior decisions. The disaster declarations issued by Governors Davis and Schwarzenegger constitute events declared to be a disaster by a competent state or federal authority for the purposes of Section 454.9. Bear Valley Electric's use of the CEMA for recording costs incurred between June 30, 2005 and April 30, 2007, plus interest accrued through December 31, 2010, related to the bark beetle infestation, and costs related to restoring service in response to the January 2010 storms was appropriate under Section 454.9 and Resolution E-3238. Furthermore, the proposed costs, interest, carrying costs, cost recovery mechanism, and accrual of over- or under-collected amounts in the proposed Settlement Agreement are consistent with previous Commission decisions and direction.

4.3. Settlement is in the Public Interest

We agree with parties that approval of the proposed Settlement Agreement is in the public interest. We evaluate the Settlement Agreement as a whole, and conclude that it serves the public interest by expeditiously resolving issues that would otherwise be litigated. The rate increase that will occur as a result of recovery of costs booked into the CMEA appears reasonable and justified, and the proposed Settlement Agreement will result in a rate increase that is less than the 2.14% increase over current rates originally proposed by GSWC in its application.

5. Categorization and Need for Hearing

The August 31, 2011 Scoping Memo confirmed the preliminary categorization of this Application as Ratesetting and preliminarily determined that hearings may be necessary. All parties to this proceeding have signed the Settlement Agreement; therefore, the determination made in ALJ Resolution 176-3275 regarding hearings should be changed because no hearings are needed.

6. Comments on Proposed Decision

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Section 311(g)(2) of the Public Utilities Code and Rule 14.6(c)(2) of the Commission's Rules of Practice and Procedure, the otherwise applicable 30-day comment period for public review and comment is waived.

7. Assignment of Proceeding

Catherine J.K. Sandoval is the assigned Commissioner and Melissa K. Semcer is the assigned ALJ in this proceeding.

Findings of Fact

1. GSWC, on behalf of its Bear Valley Electric Service Division, and DRA filed an all-party Settlement Agreement that resolves all disputes regarding the reasonableness of costs incurred in the CEMA related to mitigation of the bark beetle infestation for the time period June 30, 2005 through April 30, 2007, along with interest accrued through December 31, 2010, and the January 2010 wind and snow storms.

2. Bear Valley Electric incurred bark beetle costs in response to a declared state of emergency, and in compliance with a governmental order, to remove dead, dying and diseased trees and vegetation from the utility right-of-ways.

3. The January 2010 winter storms resulted in downed transmission and distribution poles and damaged transformers and caused widespread loss of electrical service. The storm was declared a local emergency by San Bernardino County and a state of emergency by Governor Schwarzenegger. Bear Valley Electric incurred costs in order to restore electric service to customers.

Conclusions of Law

1. The disaster declarations issued by Governors Davis and Schwarzenegger constitute events declared to be a disaster by competent state or federal authorities for the purposes of Section 454.9.

2. Bear Valley Electric's use of the CEMA for recording and recovering bark beetle-related costs incurred between June 30, 2005 and April 30, 2007 (plus interest accrued through December 31, 2010) and costs incurred as a result of the January 2010 storms is appropriate under Section 454.9 and Resolution E-3238.

3. The costs, interest, and carrying costs adopted in the Settlement Agreement related to mitigation of the bark beetle infestation and the January 2010 winter storm are reasonable and should be approved.

4. It is reasonable for Bear Valley Electric to recover costs related to the bark beetle infestation for the period January 30, 2005 through April 30, 2007 (plus interest accrued through December 31, 2010) and costs related to the January 2010 storms via a per-kWh surcharge amortized over a 12-month period.

5. It is reasonable to implement the per-kWh surcharge to recover costs booked into the CEMA via a Tier 1 advice letter filed within thirty days of the effective date of this decision.

6. It is reasonable for Bear Valley Electric to book any over- or under-collection of approved CEMA costs into the Base Rate Revenue Adjustment Mechanism.

7. The provisions of the Settlement Agreement are reasonable and should be approved.

8. The all-party Settlement Agreement complies with Article 12 of the Commission's Rules of Practice and Procedure and is reasonable in light of the whole record, consistent with the law, and is in the public interest.

9. Customers were properly noticed of the proposed rate increase pursuant to Rule 3.2 (c) and 3.2(d).

10. The designation of this proceeding should be changed so that hearings are no longer necessary.

11. An order in this proceeding should be effective immediately.

12. Application 11-06-001 should be closed.

O R D E R

IT IS ORDERED that:

1. The January 10, 2010 Joint Motion, as amended on April 25, 2012, of Golden State Water Company, on behalf of its Bear Valley Electric Service

Division (Bear Valley Electric), and the Division of Ratepayer Advocates for Approval and Adoption of Proposed Settlement Agreement is approved without modification and includes the following key provisions:

- a. Bear Valley Electric, a division of Golden State Water Company, shall recover \$412,442 on Catastrophic Event Memorandum Account-booked direct costs related to the bark beetle infestation for the period January 1, 2005 through April 30, 2007.
- b. Bear Valley Electric, a division of Golden State Water Company, shall recover \$42,016 in carrying costs on Catastrophic Event Memorandum Account-booked bark beetle direct costs for the period January 1, 2008 to December 31, 2010.
- c. Bear Valley Electric, a division of Golden State Water Company, shall recover \$66,426 in under-collection resulting from approval of Advice Letter 210-E, which authorized amortized recovery of \$350,703 in costs and accrued interest for bark beetle infested tree removal and related costs that were incurred during the period April 3, 2005 through June 30, 2005.
- d. Bear Valley Electric, a division of Golden State Water Company, shall recover \$0 in carrying costs on the \$66,426 under-collection.
- e. Bear Valley Electric, a division of Golden State Water Company shall recover \$275,196 on Catastrophic Event Memorandum Account-booked direct costs related to the January 2010 storms.
- f. Bear Valley Electric, a division of Golden State Water Company shall recover \$0 on Catastrophic Event Memorandum Account-booked carrying costs related to the January 2010 storms.
- g. Bear Valley Electric, a division of Golden State Water Company is authorized to recover the total amount \$769,080 by means of a kilowatt-hour surcharge implemented over a twelve-month period.

- h. The kilowatt-hour surcharge shall be implemented in accordance with a Tier 1 advice letter, which shall be filed by Bear Valley Electric, a division of Golden State Water Company, within thirty (30) days after issuance of this decision.
 - i. Bear Valley Electric, a division of Golden State Water Company, must book any over- or under-collection of the cost recovery authorization pursuant to this decision into the Base Rate Revenue Adjustment Mechanism.
 2. A hearing is not needed in this proceeding.
 3. Application 11-06-001 is closed.

This order is effective today.

Dated June 7, 2012, at San Francisco, California.

MICHAEL R. PEEVEY
President
TIMOTHY ALAN SIMON
MICHEL PETER FLORIO
CATHERINE J.K. SANDOVAL
MARK J. FERRON
Commissioners