

BEFORE THE PUBLIC UTILITIES COMMISSION OF  
THE STATE OF CALIFORNIA



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In the Matter of the Application of  
Golden State Water Company (U133W)  
for a Certificate of Public Convenience  
and Necessity to Construct and Operate  
a Water System in Sutter County,  
California; and to establish Rates for  
Public Utility Water Service in Sutter  
County, California.

Application 08-08-022  
(Filed August 29, 2008)

**COMMENTS OF  
THE DIVISION OF RATEPAYER ADVOCATES  
ON GOLDEN STATE WATER COMPANY'S ALTERNATE  
INITIAL RATES FOR THE SOUTH SUTTER COUNTY  
CUSTOMER SERVICE AREA**

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Pursuant to Administrative Law Judge Kim's April 24, 2012 Ruling Reopening the Record and Seeking Additional Comments, the Division of Ratepayer Advocates ("DRA") hereby submits its response to Golden State Water Company's ("Golden State") proposal for alternate initial rates for its proposed new South Sutter County service area.

Golden State's proposal includes a discussion about why what it has already proposed to use as proxy rates for South Sutter County (its existing Arden Cordova rates) is a reasonable proposal and will not result in rate shock. Golden State also contends DRA's position to the contrary is based on an inaccurate understanding of Golden State's development plans, and that future customers at Sutter Pointe will not be vulnerable to large rate increases. DRA has already discussed these issues in brief and in its oral argument and sees no value in reiterating its earlier points in this document.

What is new in Golden State's filing is its proposal to use its existing Simi Valley rates as a proxy rate for South Sutter County. Currently Golden State's Simi Valley rate is approximately \$77 per month on average, or \$19 higher than what its Arden Cordova customers pay. Golden State also offers its Los Osos district's \$94 average per month rate as an alternative proxy figure, if the Commission wants to set the South Sutter Pointe service territory's rate at a higher level. According to Golden State, "...setting initial rates equal to the rates in Los Osos will reduce the likelihood of an under-collection during the initial period ...[at Sutter Pointe]." The Los Osos rates appear to be unrealistically high at this time and should not be used as a proxy.

**I HIGHER INITIAL WATER RATES AT SUTTER POINTE WILL LOWER THE LIKELIHOOD OF A REVENUE DEFICIENCY IN THE INITIAL PERIOD OF SERVICE**

In DRA's view, Golden State's existing testimony, Arden Cordova rates would be sufficient if the Commission were to adopt the DRA recommendations to reject the Settlement of the Joint Parties. However, if the Commission approves the Joint Parties' Settlement, Sutter Pointe's initial rates should be set equal to GSWC's Simi Valley rates (\$77 per customers).

Golden State is correct in stating that it is difficult to design cost-based rates for a newly certificated service territory since none of the facilities that will be used to provide water service have been built. Thus, any initial rate proposed by either DRA or Golden State will necessarily be a proxy figure until sufficient development has taken place that cost-based ratemaking can occur. Given the uncertainty associated with the Sutter Pointe application, including the timing and the level of development that will take place in Sutter Pointe, the Commission's receptivity (or lack thereof) to Golden State's novel incremental acquisition approach towards financing and building the infrastructure to service future customers, the uncertainty associated with future construction costs, and the lack of clarity about how the Commission will treat Golden State's request for balancing account treatment for revenue shortfalls that may arise between when Sutter Pointe (may) begin offering water service and the subsequent rate case cycle. In view of these unknowns, it is prudent to use a proxy figure that more accurately reflects the likely cost of providing water service in Sutter Pointe than relying on the current rates at Arden Cordova that reflect a mature, substantially depreciated system. Thus, DRA is receptive to the use of Simi Valley's existing rates as a proxy for future Sutter Pointe rates.

One advantage of using Simi Valley rates is that they more closely reflect the actual cost of serving Sutter Pointe customers than do Arden Cordova rates and thus if the Simi Valley rates are used it is far less likely that Golden State will experience a large revenue undercollection during its initial operations at Sutter Pointe. Collecting revenues that more closely approximate the actual cost of providing service makes it less likely that 1) any type of balancing account will be necessary for the initial period of service for Sutter Pointe; 2) moreover, Simi Valley rates will give prospective home-buyers a more accurate price signal about the ultimate cost of water at Sutter Pointe; 3) higher initial rates will lessen the likelihood of future rate shock to Sutter Pointe customers once their rates are set based on cost-of-service.

## **II GIVEN THE INHERENT RISKS ASSOCIATED WITH SUTTER POINTE THE COMMISSION SHOULD DENY GOLDEN STATE'S REQUEST FOR A BALANCING ACCOUNT**

Although A.08-08-022 represents an important opportunity for Golden State to expand its business operations by opening a new service area and garnering new revenues from a new group of captive ratepayers, Golden State wants to be granted this opportunity at very little or no risk to its shareholders. Thus, it is seeking a variety of revenue protections with this application including its request for balancing account treatment, its novel incremental acquisition approach for building rate base and its request that the Commission fully bless its water wholesale agreement with an unregulated entity, Natomas Mutual Water Company. This agreement includes a price escalation clause for wholesale water that is not tied to any inherent changes in the cost of the raw material and water availability payments that must be paid even if no water is used. This type of no-risk ratemaking is not only harmful to ratepayer interests it also ensures that future Sutter Pointe customers will be paying inappropriately high rates. Compounding this pattern of unmerited generosity by acquiescing in Golden State's request for balancing account treatment for the initial period of service at Sutter Pointe would be tantamount to giving Golden State a carte blanche to a substantial future revenue stream while it incurs little or no risk.

In thinking about whether a balancing account should be granted, it is important to recall the nature of what is involved in developing a new service territory in a green field. As DRA's counsel noted in his oral argument "...utility systems aren't built on a two-by-four by two-by-four basis. They are chunky, they require large initial investments to get started. So in order to drill a well, in order to install mains, in order to build a treatment plant, substantial investments are required."(DRA, Zeller, Tr. p. 575). If Golden State's CPCN is granted, and if the developers determine they are likely to be able to sell 750 to 1000 single family dwelling units in a year, large water-related infrastructure investments will be made even though the economy might collapse two years later leaving few customers to pay for these expensive facilities. To properly redress the risk faced by

Golden State's future customers in the event that only a limited number of homes are sold at Sutter Pointe, it is important to guarantee the initial rates until the community becomes large enough (say 5,000 customers) to fully support the new service territory. This will protect vulnerable Sutter Pointe ratepayers from rate shock and prevent Golden State from enjoying the protection of a balancing account at the expense of the ratepayers.

### **III CONCLUSION**

DRA supports Golden State's proposal to use its existing Simi Valley water rates as a proxy for future water rates at Sutter Pointe. Using these rates will limit the prospect of substantial undercollections and will give future Sutter Pointe home buyers a more realistic sense of their likely future water rates. Given the relative risks and potential benefits the Sutter Pointe CPCN represents for Golden State, the initial rates must be guaranteed until the size of Sutter Pointe Customer Service Area reaches to 5000 customers. Moreover GSWC's request for balancing account treatment for this service territory should be denied.

Respectfully submitted

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