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

In the matter of the application of: Alco Water Service, (U-206), (Alco) a California Corporation, for an order 1) authorizing it to increase rates for water service by \$3,709,633 or 62.6% in test year 2010, 2) authorizing it to increase rates on July 1, 2011 by \$1,752,844 or 18.2% and July 1, 2012 by \$1,016,639 or 8.9% in accordance with Decision 08-11-035, and 3) adopting other related rulings and relief necessary to implement the Commission's ratemaking policies.

A.10-02-006
(Filed February 1, 2010)

**JOINT MOTION OF THE DIVISION OF RATEPAYER ADVOCATES,
THE CITY OF SALINAS, AND ALISAL WATER CORPORATION
(DBA: ALCO WATER SERVICE)
TO APPROVE SETTLEMENT AGREEMENT
(SETTLEMENT AGREEMENT ATTACHED)**

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September 15, 2010

I. INTRODUCTION

Pursuant to Rule 12.1 of the California Public Utilities Commission's ("Commission") Rules of Practice and Procedure and the direction of the Administrative Law Judge ("ALJ") Douglas Long, the Division of Ratepayer Advocates ("DRA"), the City of Salinas ("City") and Alisal Water Corporation, dba Alco Water Service, ("Alco") (collectively "the Parties") hereby respectfully submit this Motion to approve the settlement agreement ("Settlement") resolving many of the issues in Alco's General Rate Case ("GRC") Application ("A.")10-02-006. The proposed Settlement is attached to this Motion as Attachment A. The initial deadline for submitting the Settlement was August 9, 2010. However, in e-mail to the Parties, ALJ Long granted an extension to file the Settlement on or before September 15, 2010.

While the terms set forth in the Settlement are acceptable to the City staff, the Salinas City Council has not yet independently considered the Settlement. The Salinas City Council will consider the final Settlement at its regular meeting of September 22, 2010, after which City staff will inform the Commission, DRA and Alco of the City Council's determination on the matter. To ensure timely filing of this Motion, however, the City staff are joining in the submittal of this Motion as of the date shown above.

The Parties believe that the Settlement fulfills the criteria that the Commission requires for approval of such settlements. As explained in Section IV, the Settlement is reasonable in light of the whole record, consistent with the law, and in the public interest. For these reasons, the Commission should grant this Motion and adopt the proposed Settlement.

II. PROCEDURAL BACKGROUND

Alco is a Class B water utility that provides potable water service to portions of the City of Salinas, California. Alco filed its GRC Application, A.10-02-006, on February 1, 2010 pursuant to the Commission's order in D.08-11-035¹ and D.09-04-

¹ Decision Authorizing Alco Water Service to Issue \$8,000,000 of Debt and Equity, November 6, 2008.

035². Alco's Application requested an order authorizing rate increases in 2010-2012, and included a series of special requests for consideration by the Commission. DRA filed a protest to the Application on March 3, 2010 and the City of Salinas filed its protest on March 10, 2010.

A telephonic pre-hearing conference was held on March 26, 2010. On April 2, 2010, ALJ Long issued the Assigned Commissioner's Scoping Memo and Ruling which set the dates for Intervenor testimony, rebuttal testimony, settlement conference, evidentiary hearings, and briefing. DRA served its Report on the Results of Operations ("Report") with respect to Alco's Application on May 28, 2010. The City did not file any different or additional testimony but did concur with the DRA's Report. The Commission held two separate Public Participation Hearings in Salinas on June 3, 2010.

On June 16 and June 17, 2010, the Parties engaged in settlement discussions, properly noticed as required in the Commission's Rules. On July 2, 2010, the Parties filed a joint case management statement and settlement conference report, which generally indicated the areas in which the Parties had reached mutual agreements. The Commission held evidentiary hearings on disputed issues on July 8 and July 9, 2010.

The initial deadline for submitting the Settlement was August 9, 2010. On July 29, 2010 ALJ Long authorized an extension of time to file the proposed partial settlement agreement on or before August 31, 2010. On August 26, 2010, Alco sought and ALJ Long granted another extension of time to file the proposed partial settlement agreement on September 15, 2010.

The Settlement Agreement which includes a statement of the issues raised by the application and includes a discussion of the resolutions accomplished by agreements among the Parties. It was made final on September 15, 2010 and is submitted herein as Attachment A. The Parties now respectfully request the Commission ratify and adopt the Attachment A.

² Decision on Investigation into the Water and Service Quality of Alco Water Company, April 16, 2009.

III. OVERVIEW OF THE SETTLEMENT AGREEMENT

The Settlement Agreement addresses issues related to the GRC revenue requirement and rate design for test year 2010 and escalation years 2011 and 2012 for Alco's operations in its certificated service area in and around Salinas, California. The Settlement Agreement addresses all significant elements of Alco's revenue requirement, including number of customers, sales and supply, rate design, operations and maintenance expenses, administrative and general expenses, allocated expenses, utility plant additions, depreciation expense and reserve, various taxes, the net-to-gross multiplier, and Alco's ten special requests.

An extensive record supports the attached Settlement Agreement. Alco and DRA have submitted extensive testimony, including, but not limited to, direct testimony offered by three of Alco's executives, and direct testimony of DRA's analysts regarding the specific items of the Settlement Agreement. The tables embedded in the Settlement Agreement, attached hereto as Attachment A, set forth: (1) the original positions of the Parties on the various issues; (2) the differences between the Parties' positions; and (3) the settlement terms. Attachment B is a spreadsheet showing the Adopted Quantities for years 2010 through 2012. Attachment C is a Summary of Earnings at Present and Proposed Rates for year 2010. Attachment D is a spreadsheet showing the Weighted Average Depreciated Rate Base for year 2010 and 2011. Attachment B through D, together with the tables included in Attachment A, provide the comparison exhibit required by the Commission's Rule 12.1(a).

IV. THE SETTLEMENT AGREEMENT IS REASONABLE, CONSISTENT WITH THE LAW, AND ITS ADOPTION WILL SERVE THE PUBLIC INTEREST

Rule 12.1(d) requires that Commission approval of a settlement be based upon a finding that "the settlement is reasonable in light of the whole record, consistent with law, and in the public interest." The Settlement Agreement meets these requirements.

A. The Settlement Agreement Is Reasonable In Light Of The Whole Record

The testimony and reports of Alco and DRA support the reasonableness of the

Settlement Agreement. Following extensive discovery and the settlement negotiations, the Parties reached a reasonable compromise on a significant number of issues that were in dispute. The settlement negotiations were accomplished at arms' length.

The revenue requirements set forth in the Settlement Agreement indicate substantial adjustments by the Parties, but those adjustments do not place at risk the utility's ability to provide adequate service to its customers. While the Parties expect minimal customer growth during the GRC years, they do anticipate that expenses will increase. One of the major factors driving the rate increase agreed to in the Settlement Agreement is capital expenditures. For capital investment projects, the Parties agreed to eliminate or defer several projects while agreeing to the originally proposed or adjusted costs for other capital projects. In addition to the agreement on capital projects discussed above, the Parties made significant adjustments to certain operation and maintenance expenses, administrative and general expenses, and other revenue-related items.

B. The Settlement Agreement Is Consistent With The Law

The Parties are aware of no statutory provision or prior Commission decision that would be contravened or compromised by the proposed Settlement Agreement. The issues resolved in the Settlement Agreement are within the scope of the proceeding.

C. The Settlement Agreement Is In The Public Interest

The Settlement Agreement provides Alco with adequate resources to provide reliable water service while allowing Alco to earn a reasonable rate of return on its investments. The Settlement Agreement's public benefits are consistent with the Commission's policy objectives set forth in the Water Action Plan. The Parties have worked to develop a record supporting the objectives in the Water Action Plan, such as maintaining the highest standard of water quality, promoting water infrastructure investment, and setting rates to balance investment, conservation, and affordability.

In addition, Commission approval of the proposed Settlement Agreement will provide speedy resolution of uncontested issues, will save unnecessary litigation expense, and will conserve Commission resources. The Commission has acknowledged that

“[t]here is a strong public policy favoring the settlement of disputes to avoid costly and protracted litigation.”³ The Settlement Agreement satisfies the Commission’s standards for approving settlements presented to it.

V. CONCLUSION

For the reasons state above, the Parties respectfully request that the Commission conclude that the Settlement Agreement is reasonable in light of the whole record, consistent with the law, and in the public interest. On that basis, the Parties jointly request that the Commission adopt the Settlement Agreement in its entirety as a complete resolution of the issues set forth therein.

Respectfully submitted,

/s/ LINDA BARRERA

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Dated: September 15, 2010

³ Re PG&E, D.88-12-083, 30 CPUC 2d 189, 221.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of **JOINT MOTION OF THE DIVISION OF RATEPAYER ADVOCATES, THE CITY OF SALINAS, AND ALISAL WATER CORPORATION (DBA: ALCO WATER SERVICE) TO APPROVE SETTLEMENT AGREEMENT (SETTLEMENT AGREEMENT ATTACHED)** to the official service list in **A.10-02-006** by using the following service:

E-Mail Service: sending the entire document as an attachment to all known parties of record who provided electronic mail addresses.

U.S. Mail Service: mailing by first-class mail with postage prepaid to all known parties of record who did not provide electronic mail addresses.

Executed on **September 15, 2010** at San Francisco, California.

/s/ Imelda Eusebio

Imelda Eusebio

N O T I C E

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address and/or e-mail address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.

Service List
A.10-02-006

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