BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

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In the matter of the Application of the GOLDEN STATE WATER COMPANY (U133W) for an order authorizing it to increase rates for water service by $2,911,400 or 29.9% in 2011and by $321,200 or 2.5% in 2012 in its Arden Cordova Service Area; to increase rates for water service by $1,782,400 or33.2% in 2011 and by -$66,200 or -0.9% in 2012 in its Bay Point Service Area; to increase rates for water service by $409,100 or 22.6% in 2011 and by $23,300 or 1.0% in 2012 in its Clearlake Service Area; to increase rates for water service by $1,467,000 or 48.5% in 2011 and by $50,100 or 1.1% in 2012 in its Los Osos Service Area; to increase rates for water service by $1,647,900 or 38.8% in 2011 and by $343,200 or 5.9% in 2012 in its Ojai Service Area; to increase rates for water service by $2,350,700 or 25.2% in 2011 and by $363.200 or 3.1% in 2012 in its Santa Maria Service Area and; to increase rates for water service by $799,500 or 6.5% in 2011 and by $213,000 or 1.6% in 2012 in its Simi Valley Service Area	Application 10-01-009 (Filed January 13, 2010)

PROTEST OF THE DIVISION OF RATEPAYER ADVOCATES

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February 26, 2010

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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

In the matter of the Application of the GOLDEN STATE WATER COMPANY (U133W) for an order authorizing it to increase rates for water service by $2,911,400 or 29.9% in 2011and by $321,200 or 2.5% in 2012 in its Arden Cordova Service Area; to increase rates for water service by $1,782,400 or33.2% in 2011 and by -$66,200 or -0.9% in 2012 in its Bay Point Service Area; to increase rates for water service by $409,100 or 22.6% in 2011 and by $23,300 or 1.0% in 2012 in its Clearlake Service Area; to increase rates for water service by $1,467,000 or 48.5% in 2011 and by $50,100 or 1.1% in 2012 in its Los Osos Service Area; to increase rates for water service by $1,647,900 or 38.8% in 2011 and by $343,200 or 5.9% in 2012 in its Ojai Service Area; to increase rates for water service by $2,350,700 or 25.2% in 2011 and by $363.200 or 3.1% in 2012 in its Santa Maria Service Area and; to increase rates for water service by $799,500 or 6.5% in 2011 and by $213,000 or 1.6% in 2012 in its Simi Valley Service Area	Application 10-01-009 (Filed January 13, 2010)

PROTEST OF THE DIVISION OF RATEPAYER ADVOCATES

I. INTRODUCTION

The Division of Ratepayer Advocates (DRA) protests the Amended Application of Golden State Water Company For An Order Authorizing An Increase In Rates In Its Region I Customer Service Areas (Amended Application), pursuant to Rule 2.6 of the Commission's Rules of Practice and Procedure.

Golden State Water Company (GSWC) has seven Customer Service Areas, and is proposing significant rate increases in all of them. The smallest increase requested for 2011 is 6.5%, while the largest is 48.5%. If granted in full, GSWC's application would

increase rates in the other five service areas between 22.6% and 38.8%. (Amended Application, pp. 19-20.)[1]

Given these major increases in rates, DRA intends to litigate this case broadly, and has already begun extensive discovery. GSWC has identified six "Issues of Controversy" in the Amended Application (pp. 19-22). DRA generally concurs that these are areas of controversy, and intends to address them, but DRA also intends to address additional issues, as described below.[2]

Because some of the identified issues are factual issues, evidentiary hearings are necessary. Given the scope of issues and the size of the proposed rate increases, public participation hearings in the affected communities are also necessary.

There is an additional and unusual issue that is not discussed in GSWC's application. DRA has been informed that Commission staff is investigating whether GSWC violated its procurement policy by awarding contracts to Richardson Engineering without competitive bidding.[3] As a result of these contracting practices, ratepayers may have overpaid for work performed by Richardson Engineering in the areas of capital projects and operations and maintenance, and improper costs may still be included in GSWC's historical rate base numbers in this proceeding.

In its Securities and Exchange Commission (SEC) form 10Q for the quarterly period ending September 30, 2007, GSWC states:

> On February 15, 2007, the CPUC issued a subpoena to GSWC in connection with an investigation of certain work orders and charges paid to a specific contractor used by GSWC for numerous construction projects. The CPUC's investigation focuses on whether these charges were approved in customer rates and whether they were just and reasonable.

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[1] These numbers reflect what GSWC characterizes as the Commission's "traditional" rate case practice. GSWC is proposing to phase in all but the smallest increase over two years, for even higher total increases, ranging from 28.8% to 59.3%.

[2] DRA will have greater certainty on the scope of issues to be addressed once the Commission issues a final decision in A.08-07-010, GSWC's application for rate increases in its Region II and Region III Customer Service Areas. At the time of preparation of this Protest, a Proposed Decision has been issued in that proceeding.

[3] DRA believes this to be an informal or pre-formal investigation.

> In June 2007, GSWC received notification from the CPUC that it was instituting an audit. The purpose of the audit will be to examine for the period 1994 to the present, GSWC's policies, procedures, and practices throughout all of its Regions regarding the granting or awarding of construction contracts or jobs. Management cannot predict the outcome of the investigation or audit at this time. (Id., p. 18.)

DRA's understanding is that this audit is ongoing. Accordingly, it is not necessary at this time for this proceeding to attempt to identify the improper costs associated with the Richardson Engineering contracts, as DRA assumes that this issue will be addressed by the Commission once the audit is completed.

However, this proceeding should acknowledge this open issue in three ways. First, any recovery in rates of any costs related to Richardson Engineering contracts (or any other improper contracting practices) should expressly be made conditional and subject to refund, pending the results of the Commission's audit.[4] Second, to the extent that the Commission does not address this issue in another proceeding within a reasonable time frame, DRA reserves the right to seek to reopen this proceeding in order to recover any improper costs charged to ratepayers. Third, the credibility of GSWC on historical rate base issues and related forecasts would appear to be questionable, particularly since it appears that GSWC has failed to disclose this issue and the ongoing audit in its Amended Application.

II. PROCEDURAL BACKGROUND

GSWC filed its original Application on January 13, 2010. Subsequently, it filed an Amended Application on January 27, 2010. Pursuant to direction from the assigned Administrative Law Judge (ALJ), counsel for DRA and GSWC stipulated to dates for DRA's Protest, any reply by GSWC to DRA's Protest, and the Prehearing Conference (PHC).

[4] This includes legal costs incurred for civil litigation, such as wrongful termination suits alleging retaliation against whistleblowers who reported the improper contracting processes, and legal costs for representing GSWC in the Commission's audit and related investigation..

DRA's Protest is due on Friday, February 26, 2010, GSWC's reply (if any) to DRA's Protest is due on March 8, 2010, and the Prehearing Conference is set for March 3, 2010, at 1:30 p.m.

III. ISSUES

GSWC has identified the following "issues of controversy:"

A. Phased-in revenue increases.

GSWC proposes that instead of one rate increase in 2011, their rate increase would be phased in over two years. The revenue shortfall from 2011 would be recovered, with interest calculated at the 90-day commercial paper rate, in 2012. (Amended Application, p. 19.)

Using the Arden Cordova Customer Service Area as an example, under the Commission's traditional approach, GSWC would be seeking a 29.9% rate increase for 2011, plus 2.5% for 2012, but under GSWC's phased-in approach, GSWC would get a 21.2% rate increase for 2011, plus another 17.6% in 2012, for a total increase of 38.8%.

DRA has a number of concerns about this approach. Given that GSWC will have another GRC for 2013, ratepayers will have no respite from GSWC's constant escalation of rates. GSWC does not appear to have done any customer surveys to determine if customers would actually prefer two major rate increases, or one huge one. Finally, if the Commission were to consider adopting this proposal, the basis for GSWC's calculations needs to be examined.

B. Removal of balancing account trigger.

The commission recently authorized GSWC to seek recovery of the Water Revenue Adjustment mechanism/Modified Cost Balancing Account (WRAM/MCBA) only when the amounts in the balancing accounts reach 2.5% of the annual authorized revenue requirement for the ratemaking area. GSWC now seeks to amortize the account balance annually, removing the Commission-ordered 2.5% trigger threshold. (Amended Application, p. 20.)

DRA opposes this proposal to modify a recent Commission decision and remove the existing Commission-ordered 2.5% trigger threshold, and notes that modifications to Commission decisions are subject to the provisions of Pub. Util. Code section 1708.

C. New meter readers and trucks.

GSWC is seeking Commission approval to switch from bi-monthly to monthly billing for certain Customer Service Areas. To accommodate that change, GSWC is seeking to hire additional meter readers (according to the Amended Application) or water distribution operators (according to the cited testimony), and to procure related equipment (according to the Amended Application), which appear to be trucks (according to the cited testimony). (Amended Application, p. 21.)

Based on DRA's preliminary review of the application it appears that neither the water distribution operators nor the trucks are necessary as shown in the GSWC's testimony by Kenneth Petersen.

D. Fire sprinkler service charge.

GSWC proposes to add a special monthly service charge for those customers who only need a larger size meter to accommodate a fire sprinkler system. (Amended Application, p. 21.)

DRA is analyzing this issue to determine if GSWC's proposal is consistent with Commission policy, particularly Standard Practice U-7-W. DRA may not oppose this proposal, but needs to complete its review and analysis before finalizing that determination.

E. Recalculation of water litigation surcharge.

GSWC has recalculated the surcharge for the amortization of the Water Litigation Memorandum Account for the Arden Cordova Customer Service Area, and requests Commission approval for their revised surcharge. (Amended Application, p. 22.)

DRA disagrees with GSWC's recalculation of the surcharge. Based on DRA's preliminary review of the application, this proposal may result in inappropriate costs being shifted to ratepayers, and may be inconsistent with prior Commission decisions.

F. Extension of memorandum account.

GSWC requests an extension of the Santa Maria Adjudication Memorandum Account to track costs associated with the Santa Maria groundwater dispute adjudication. GSWC claims that it will incur costs relating to this adjudication during the test years. (Amended Application, p. 22.)

DRA opposes this request, as the Commission only authorized recovery of legal costs, and GSWC is seeking recovery of Administrative and General costs in addition to legal costs.

DRA has also identified potential issues in the following areas: forecast of sales and operating revenue, estimated Operations and Maintenance and Administrative and General expenses, capital additions, depreciation, rate base and customer service and service quality. DRA is continuing to analyze the Amended Application in greater depth, and is actively propounding discovery on GSWC. Accordingly, DRA may assert additional issues discovered subsequent to the filing of this Protest, and the issues in controversy will become more clearly defined.

IV. CATEGORIZATION AND PROPOSED SCHEDULE

GSWC proposed that this proceeding be categorized as ratesetting, and stated that it expected hearings to be necessary. (Amended Application, pp. 24-25.) Resolution ALJ 176-3247, dated January 21, 2010, preliminarily categorized this proceeding as ratesetting, and determined that evidentiary hearings are needed. DRA agrees with this determination of category and need for evidentiary hearings.

GSWC proposed a schedule for this proceeding. (Amended Application, Exhibit J.) While this proposed schedule was attached to GSWC's Amended Application, which was filed and served on January 27, the proposed schedule assumes that the application was filed on January 4. This may have been an oversight on GSWC's part, as other dates in their proposed schedule are also no longer workable due to the passage of time. DRA's proposed schedule is based on current dates, incorporates GSWC's proposed schedule for reference, and is found below.

PROPOSED SCHEDULE

	GSWC	DRA
Application Filed	January 4, 2010	January 27, 2010
Prehearing Conference	Jan. 14-Mar. 22	March 3, 2010
Public Participation Hearings Held	Jan. 14-Mar. 22	Mar. 4-April 27
GSWC Updates Application	Feb. 18, 2010	March 15, 2010
DRA Testimony	April 12, 2010	May 18, 2010
Intervenor Testimony	April 12, 2010	May 18, 2010
Rebuttal Testimony	April 27, 2010	June 2, 2010
ADR Begins	April 29, 2010	June 7, 2010
ADR Ends	May 10, 2010	June 15, 2010
Evidentiary Hearings Start	May 10, 2010	June 21, 2010
Evidentiary Hearings End[5]	May 14, 2010	June 24, 2010
Opening Briefs	June 14, 2010	August 9, 2010
Motion for Interim Rates	June 14, 2010	August 9, 2010
Status Conference	June 14, 2010	August 10, 2010
Reply Briefs	June 28, 2010	August 24, 2010
Water Division Technical Conference	July 6, 2010	August 30, 2010
Proposed Decision	Sept. 1, 2010	Oct. 29, 2010
Comments on Proposed Decision	Sept. 21, 2010	Nov. 18, 2010
Reply Comments on Prop. Decision	Sept. 27, 2010	Nov. 23, 2010
Final Decision	Oct. 11, 2010	Dec. 8, 2010

[5] Counsel for DRA is unavailable from June 26 through July 5, 2010.

V. CONCLUSION

DRA urges the Commission to look very carefully at GSWC's application. The requested rate increases requested range from significant to extraordinary, particularly in light of low inflation in the overall economy, the current severe economic downturn and GSWC's lack of substantive justification for many of the its requested increases.

Respectfully submitted,

/s/ PETER V. ALLEN

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February 26, 2010

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of "**PROTEST OF THE DIVISION OF RATEPAYER ADVOCATES"** to the official service list in **A.10-01-009** by using the following service:

[**X**] **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 **February 26, 2010** at San Francisco, California.

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