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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
(U 133 W) for an order authorizing it to
increase rates for water service by \$58,053,200
or 21.4% in 2013, by \$8,926,200 or 2.7% in
2014; and by \$10,819,600 or 3.2% in 2015.

A.11-07-017

**PROTEST OF CITY OF OJAI, CALIFORNIA TO THE APPLICATION OF GOLDEN
STATE WATER COMPANY FOR AN ORDER AUTHORIZING AN INCREASE IN
RATES IN ITS REGION 1, REGION 2 AND REGION 3 CUSTOMER SERVICE AREAS**

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I. INTRODUCTION

Pursuant to Rules 1.4 and 2.6 of the Rules of Practice and Procedure of the California Public Utilities Commission, the City of Ojai hereby files this protest to Golden State Water's Application 11-07-017 filed on July 21, 2011. The City of Ojai also hereby requests to become a party to this action.

II. GROUNDS FOR PROTEST

Thank you for the opportunity to submit comments from the City of Ojai in the above-referenced matter.

The City of Ojai has been closely following the activities of the Golden State Water Company (GSWC) since a substantial increase was granted by the CPUC in 2007. The City continues to have significant concerns with the rapid escalation of rates and continued concerns with the quality of service. In addition, the City questions the justifications used by Golden State Water in order to drive water rates up faster than at any time in history of the City of Ojai.

The City requests that a local hearing be held within the City of Ojai in order for the PUC to directly hear the concerns of residents regarding this rate application, including the foreseen impacts from the increase in rates. The City further requests that the Division of Ratepayer Advocates also be invited to participate in any local hearing.

The proposed increase would cause residents and businesses to suffer undue economic hardships due to a cost for water that is out of line with surrounding communities. Persons on fixed incomes will suffer and may not be able to afford this dramatic increase in their rates, which will force them to cut other vital living expenses. There is no end in sight to the proposed increases and no market forces in play to keep costs competitive. Local businesses will find themselves at a

competitive disadvantage compared to other businesses in the local area that pay about half the cost for their water.

Even with the approved rate of return taken into consideration, the rates don't measure up to other local water providers. Why are Golden State's operating costs so much higher than other water providers providing service to Ojai residents? How is this possible given the fact the sources for water are the nearly the same? This is particularly troubling in light of recent actions by the PUC to address improper methods used by Golden State in selecting contractors to perform work on the water system in this region that resulted in Golden State having to pay money back to Ojai ratepayers to address the overcharge.

The rate of return afforded to Golden State Water is not realistic in today's marketplace and that action should not be separated from this general rate case due to: a) the severity of the increase; b) the great disparity between water rates paid by local water users; and c) the great volatility currently occurring in financial markets and the greatly diminished returns or profits experienced in the greater marketplace.

The average customer cannot fathom the three-step rate-setting process (rate of return, cost of capital, setting of rates) and does not know when it is appropriate to comment on what step in the process. The rate of return is one matter, the cost of capital another, all combined in the general rate case. There is no way to collectively address the entire rate structure in one case. One cannot challenge the rate of return in the general rate case, nor can one challenge the cost of capital included in the general rate case. This would be like cooking without being able to taste the ingredients until the end, at which point it's too late to change them. The final rate, the end result, is what is most important to the consumer.

In review of the application, it appears that Golden State Water employs a one-size-fits-all approach to setting its rates in each area, even though the service areas

must differ greatly in terms of needs, necessary system improvements, and local conditions. We do not find the information to support the request for these cost increases. When almost every businesses and government entity that is not significantly expanding is cutting office expenses and related costs (and given the fact that Golden State's service to the Ojai area is not significantly expanding both in terms of water use or customers served) how can Golden State justify this expense? Where is the information to quantify the increase in operating costs? Golden State should perform as other corporations have in this recession, by cutting operating costs to remain competitive, rather than increasing them. Can the PUC really be expected to approve rate increases in order to pay for "allocated general office expenses" for a system which is not seeing any significant growth in the number of customers or the amount of water provided? Is it realistic to seek a 32 percent increase in operating expenses from 12/31/10 to the proposed test year, 2013, as stated in the application?

The City requests the PUC consider combining Ojai with another local service area, or creating a new, substantially larger service area, in order to spread the Ojai service area costs among a greater number of water customers. This sharing of costs and revenues would make rates much more equitable for Ojai water customers, would cause no harm to Golden State, and would likely have minimal rate impact on those rate-payers who would 'absorb' the Ojai service area. Simply by taking advantage of the economy of scale, rates might very well be significantly reduced for Golden State's Ojai water customers.

When the PUC is being asked to consider "relief" to the company, should it not also consider the necessary "relief" for the individual customers paying the bills? The PUC is approving the use of the customer's money – it's not Golden State Water's money that is being used here ultimately – it's the consumers. In its application for authorized cost of capital for 2012-2014, Golden State states it has evaluated rates of return that will be required to compensate investors for the "risks associated with GSWC's water utility operations." What risk is being

rewarded? If Golden State does not generate the funds projected, it can apply for a “correction” to the PUC in order to increase rates and thereby ensure revenues come in as were projected to their investors. If customers use too little water, rates are adjusted up. There is almost no risk to the investors, so why reward them with so much gain? The risk should match the gain.

Golden State has a guaranteed return on their investment, so why don't they do more to keep their operating costs down? What the incentive for Golden State to operate efficiently if their rate of return on investment is guaranteed? How are the increases in rates going to improve service to customers?

Golden State needs to develop a better incentive plan that does not penalize water customers for reducing water usage. If customers cut back collectively on water use, Golden State raises the rates to make up for the difference. There is no economic incentive for customers to conserve water and this is not good public policy or environmental policy.

The City of Ojai appreciates the opportunity to comment to the PUC as part of the deliberations, and looks forward to the PUC's conscientious consideration of our remarks.

III. CONCLUSION

For the reasons set forth above, the City of Ojai respectfully protests the Golden State Water Application, and also requests to become a party to this action. The City of Ojai requests public participation hearings and evidentiary hearings. We specifically request that public participation hearings be held within the City of Ojai. We also request an extended calendar for these events to allow sufficient time for meaningful public discovery and participation.

Respectfully submitted,

Dated: August 19, 2011

/s/

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