

# APPENDIX A

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

In the Matter of the Application of SAN	)	
GABRIEL VALLEY WATER COMPANY	)	
(U337W) for Authority to Increase Rates	)	
Charged for Water Service in its Los Angeles	)	Application 07-07-003
County Division by \$13,366,100 or 28% in July	)	(Filed July 2, 2007)
2008, \$3,298,100 or 5.4% in July 2009, and	)	
\$1,439,600 or 2.2% in July 2010; and in its	)	
Fontana Water Company division by \$678,200	)	
or 1.5% in July 2008; and in both divisions for	)	
advice letter treatment of a capital project.	)	
_____	)	

**JOINT MOTION OF  
THE DIVISION OF RATEPAYER ADVOCATES  
AND SAN GABRIEL VALLEY WATER COMPANY  
FOR APPROVAL OF SETTLEMENT AGREEMENT**

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January 25, 2008

**BEFORE THE PUBLIC UTILITIES COMMISSION  
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**JOINT MOTION OF  
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In accordance with Rule 12.1 of the Commission’s Rules of Practice and Procedure (“Rules”), the Division of Ratepayer Advocates (“DRA”) and San Gabriel Valley Water Company (“San Gabriel” or “SGV”) (jointly, the “Settling Parties”) hereby respectfully move for Commission approval of the Settlement Agreement that was received into evidence in the above-captioned proceeding as Exhibit 38 and that is attached to this Motion is Appendix A.

The Settlement Agreement, designated as Exhibit 38, was submitted in executed form on December 28, 2007, and was served on all parties on that date, which was within 30 days after the last day of hearing. No objections to the Exhibit have been received. While this motion is submitted later than 30 days after the conclusion of hearings, the Settling Parties respectfully request that the Commission permit a deviation from the deadline for such filings stated in Rule 12.1, in view of the timely submission of the terms of the Settlement Agreement in the form of Exhibit 38 and in order to facilitate timely resolution of this proceeding.

In accordance with the procedural schedule established by the Assigned Commissioner's Scoping Memo and Ruling, issued September 6, 2007, the Settling Parties, convened a conference on November 26, 2007, in Los Angeles, for the purpose of discussing settlement in this proceeding, and provided notice of that conference to all parties. The settlement conference continued through November 29, 2007, with assistance from Administrative Law Judge ("ALJ") Duda as the ALJ neutral and the participation of all active parties, including the City of Fontana and the Fontana Unified School District (the "Fontana Parties"). Additional discussion of settlement terms continued during the following week, when the parties were present in Los Angeles for evidentiary hearings. The principal terms of the Settlement Agreement were described on the record by San Gabriel witness Daniel Dell'Osa on December 5, 2007. *See*, Tr. 90:10-105:21 (Dell'Osa/SGV).

San Gabriel and DRA entered into the Settlement Agreement as the culmination of a process of alternative dispute regulation outlined and encouraged by the Commission's Rate Case Plan to streamline the general rate case process. *See*, Decision ("D.") 07-05-062, at 28-29, and Att. A, at A-11. With the very helpful assistance of ALJ Duda, who served as mediator, the Settling Parties were able to clarify and resolve a large number of issues. This, in turn, allowed all parties to focus their attention on a discrete number of issues that remained unresolved and to create a full record on those remaining issues for the Commission's review and consideration in just a few days of evidentiary hearing.

The Settlement Agreement resolves most of the differences between the positions of San Gabriel and DRA on factual, legal, and policy issues presented in San Gabriel's application and accompanying reports filed July 2, 2007, in San Gabriel's direct testimony served concurrently with the application, in DRA's reports served October 29, 2007, and in San

Gabriel's rebuttal testimony served November 16, 2007. The range of issues that the Settlement Agreement proposes to resolve is very extensive, including the following:

- All issues regarding capital investment projects proposed in San Gabriel's application, except for issues relating to headquarters facilities in the Cities of El Monte and Fontana;
- All issues regarding the calculation of water sales and revenues, except for one issue relating to the sales impact of enhanced water conservation programs
- All issues relating to rate design; and
- All issues regarding operating expenses, except certain issues relating to escalation factors, a balancing account for conservation program expenses, forecasting payroll expenses, and assigning or allocating certain expenses to affiliates.

The remaining issues not addressed by the Settlement Agreement relate to the rate of return on equity and San Gabriel's capital structure. There were no disputed issues regarding San Gabriel's cost of long-term debt.

The issues that the Settlement Agreement would resolve are described and articulated in the evidentiary record submitted through the testimony of witnesses for San Gabriel and DRA. Each resolved issue is summarized in a separate section of the Settlement Agreement, and each such section also explains the resolution of the issue and its rate impact and provides references to the exhibits of record in which the issue is addressed. A comparison exhibit meeting the requirements of Rule 12.1 is appended to the Settlement Agreement as Attachment A.

Rule 12.2 accords all parties opportunity to file comments contesting all or part of the settlement within 30 days of the date the motion for adoption of the settlement is served. The

Fontana Parties are the only parties to this proceeding other than the Settling Parties, and the Settling Parties are informed and have been authorized to state that the Fontana Parties do not intend to file comments contesting any part of the Settlement Agreement. Accordingly, the Settling Parties respectfully advise that ALJ Galvin and the Commission need not defer action on this motion or on a proposed decision in this proceeding in anticipation that comments may be filed.

The Settling Parties respectfully move for approval of the Settlement Agreement attached hereto as Appendix A.

Respectfully submitted,

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**SETTLEMENT AGREEMENT BETWEEN THE DIVISION OF RATEPAYER  
ADVOCATES AND SAN GABRIEL VALLEY WATER COMPANY ON  
CERTAIN ISSUES PRESENTED IN THE PRESENT GENERAL RATE CASE**

**I. GENERAL PROVISIONS**

1. Pursuant to Article 12 of the Rules of Practice and Procedure (“Rules”) of the California Public Utilities Commission (“Commission”), the Division of Ratepayer Advocates (“DRA”) and San Gabriel Valley Water Company (“San Gabriel”), referred to collectively as “the Parties,” have agreed on the terms of this Settlement Agreement which they now submit for review, consideration, and approval by Administrative Law Judge Galvin and the Commission. This Settlement Agreement addresses some, but not all, of the issues and differences presented by the testimony and exhibits submitted into evidence by San Gabriel and DRA, respectively. Specific issues which the Parties agree to resolve through this Settlement Agreement are set forth in Section II below.

2. Because this Settlement Agreement represents a compromise of the Parties’ positions with respect to each issue addressed herein, the Parties have agreed upon the resolution of each issue addressed in the Settlement Agreement on the basis that its approval by the Commission should not be construed as an admission or concession by any Party regarding any fact or matter of law in dispute in this proceeding. Furthermore, consistent with Rule 12.5 of the Commission’s Rules, the Parties intend that the approval of this Settlement Agreement by the Commission should not be construed as a precedent or statement of policy of any kind for or against any Party in any current or future proceeding with respect to any issue addressed in the Settlement Agreement.

3. The Parties agree that no signatory to the Settlement Agreement assumes any personal liability as a result of his or her execution of this document. All rights and remedies of the Parties are limited to those available before the Commission.
4. This Settlement Agreement may be executed in counterparts, each of which shall be deemed an original, and the counterparts together shall constitute one and the same instrument.

II. ISSUES SUBJECT TO SETTLEMENT AGREEMENT

A. CAPITAL ITEMS

1. Advice Letter Projects

ISSUE: Seven capital projects identified in San Gabriel’s previous GRC decision (D.05-07-044) as eligible for addition to rate base by advice letter but not yet constructed are proposed again for inclusion in rate base by San Gabriel in this GRC. DRA proposes that these seven projects be excluded from the authorized rate base but allowed as additions to rate base by advice letter once completed, but only to the extent of the cost estimated for each project in the prior GRC. These projects include the following plant additions:

<u>Identification</u>	<u>Description</u>	<u>Estimated Completion</u>
Plant 11	Well 11D and pumping equipment	2008
Plant B20	Booster station and generator	2009
Plant B27	Booster station and generator	2009
Plant G3	Reservoir and pumping equipment	2009
Plant 1	Well 1F and Reservoir 1B	2009
Plant B14	Reservoir and pumping equipment	2009
Plant G6	Reservoir and pumping equipment	2009

RESOLUTION: Four of the seven projects (Plants 11, B20, B27, and G3) will be included in rate base in this GRC and the other three projects (Plants 1, B14, and G6) will be allowed in rate base by advice letter once they have been completed. The parties agree that completion of Plants 11, B20, B27, and G3 is likely to occur on schedule and that investments in these projects should be included in rate base as part of this GRC. The amounts allowed in rate base for Projects 11, B20, B27, and G3 will be as proposed by San Gabriel in the present GRC. Advice Letters for Projects 1, B14, and G6 will be capped at \$1,455,000, \$2,511,000, and \$1,475,000 respectively, the amounts requested in this GRC. San Gabriel expects to complete Plants 1, B14 and G6 identified above by the end of this rate case cycle, that is, by no later than June 30, 2011.

**RATE IMPACT:** San Gabriel proposed to include \$10,196,000 in rate base for these seven projects. DRA proposed to allow nothing in rate base at this time, but to allow up to \$8,065,000 in rate base by advice letter once the projects have been completed. The proposed settlement would adopt \$4,785,000 in Test Year rate base for four of the seven projects, and would allow up to a further \$5,441,000 in rate base by advice letter once the three other projects have been completed.

**REFERENCES:** Direct Testimony of Frank A. LoGuidice (Exhibit 9), at 6-16; DRA Report on Results of Operations for Los Angeles County Division (Exhibit 26), at 4-2 to 4-6; Rebuttal Testimony of Frank A. LoGuidice (Exhibit 19), at 4-6; Rebuttal Testimony of Daniel A. Dell'Osa (Exhibit 18), at 3-4 and Attachment A.

## 2. Plant B6

**ISSUE:** This project involves the purchase of land for a reservoir, construction of the reservoir and a chlorination building, and participation in the construction of an enhanced treatment facility. DRA contended that these investments, while needed, should be borne by parties responsible for contamination of the water being treated at Plant B6 and so should be considered contributed plant.

**RESOLUTION:** The estimated cost of buying the land and building the reservoir and the chlorination building will be included in rate base but the estimated cost of participating in the treatment facility project will be removed from rate base. The Parties agree that a new reservoir and chlorination building are needed at Plant B6. Because third parties may be obliged to pay for the treatment project, the parties have agreed to defer ratemaking consideration of that project.

**RATE IMPACT:** San Gabriel proposed to include \$4,340,000 in rate base for investments in Plant B6, which DRA opposed. The proposed settlement would adopt \$2,825,000 in Test Year rate base for purchase of land and construction of the reservoir and chlorination building.

**REFERENCES:** Direct Testimony of Frank A. LoGuidice (Exhibit 9), at 10-11; DRA Report on Results of Operations for Los Angeles County Division (Exhibit 26), at 4-7 to 4-8; Rebuttal Testimony of Frank A. LoGuidice (Exhibit 19), at 6-8; Rebuttal Testimony of Daniel A. Dell'Osa (Exhibit 18), Attachment A.

## 3. Recycled Water Projects

**ISSUE:** These projects provide for the construction of recycled water distribution systems to serve the Whittier Narrows Golf Course and the Central Basin/Montebello area. DRA contended that ratepayers should not be required to pay for these projects.

RESOLUTION: The estimated cost of constructing facilities to deliver recycled water to the golf course will be adopted in Test Year rate base, but the estimated cost of a recycled water system in Montebello and related booster pumps in the Central Basin will be removed. The Parties agree that construction of a recycled water distribution system to serve the golf course will deliver recycled water and will conserve potable water otherwise used for landscape irrigation. The Parties further agree that Central Basin's plans and construction schedules for installation of a recycled water transmission line are uncertain, so deferral of that recycled water project will not prevent its reconsideration at a later date.

RATE IMPACT: The \$362,000 projected cost for delivering recycled water to the golf course and \$20,000 for work on the initial connection to the Montebello system will be included in Test Year rate base. The remaining \$2,300,000 projected investment in the Montebello/Central Basin system will be removed.

REFERENCES: Direct Testimony of Daniel Arrighi (Exhibit 6); DRA Report on Results of Operations for Los Angeles County Division, at 4-18 to 4-23 (Exhibit 26); Rebuttal Testimony of Daniel Arrighi (Exhibit 16), at; Rebuttal Testimony of Daniel A. Dell'Osa (Exhibit 18), at 4 and Attachment A.

#### 4. Plant B24

ISSUE: This project involves plans for the construction of two wells at Plant B24, located in the City of Industry. San Gabriel asserts that the two wells are needed to replace an aging well at Plant B9, located in the City of La Puente. San Gabriel asserts that the well at Plant B9 has declined in production. DRA challenged the need for replacement of the Well at Plant B9.

RESOLUTION: The estimated cost of one new well at Plant B24 will be included in rate base but the estimated cost of a second new well will be removed. DRA agrees to San Gabriel's request for one well because San Gabriel has demonstrated that it is needed to serve the Hacienda Heights area during this rate case cycle.

RATE IMPACT: San Gabriel proposed to include \$950,000 in rate base for two new wells at Plant B24, which DRA opposed. The proposed settlement would adopt \$475,000 in rate base for one new well at that site.

REFERENCES: Direct Testimony of Stephen B. Johnson (Exhibit 15), at 13; DRA Report on Results of Operations for Los Angeles County Division (Exhibit 26), at 4-6 to 4-7, 4-11; Rebuttal Direct Testimony of Stephen B. Johnson (Exhibit 22), at 4; Rebuttal Testimony of Daniel A. Dell'Osa (Exhibit 18), Attachment A.

#### 5. Plant B11

ISSUE: This project involves the construction of a new building to support pumping operations at Plant B11, located in the City of La Puente. DRA considered replacement of the existing building to be unnecessary.

RESOLUTION: The estimated cost for constructing the new building will be removed from the projected rate base.

RATE IMPACT: San Gabriel proposed to include \$500,000 in rate base for the new building at Plant B11, which DRA opposed. The proposed settlement would remove the disputed amount from the Test Year rate base.

REFERENCES: DRA Report on Results of Operations for Los Angeles County Division (Exhibit 26), at 4-12; Rebuttal Direct Testimony of Stephen B. Johnson (Exhibit 22), at 7; Rebuttal Testimony of Daniel A. Dell'Osa (Exhibit 18), Attachment A.

## 6. Security Equipment

ISSUE: This project involves the installation of security features such as fences, walls, cameras, intrusion sensors, and alarms as recommended in a consultant's study commissioned by San Gabriel pursuant to direction from the US Environmental Protection Agency. DRA challenged the support presented for the proposed expenditures and the fact that San Gabriel received authorization for installation of security features in the previous rate case, but did not complete the recommended projects.

RESOLUTION: The budget for installing new security equipment will be reduced and deferred.

RATE IMPACT: San Gabriel proposed to invest \$750,000 in 2007 and again in 2008 for security enhancements, for a total of \$1.5 million, which DRA opposed. Under this Settlement Agreement, San Gabriel commits to invest up to \$500,000 in 2008 to install security equipment and up to \$250,000 in 2009 to install security equipment, which substantially reduces the amount included in rate base in either of the two Test Years.

REFERENCES: Direct Testimony of Frank A. LoGuidice (Exhibit 9), at 17; DRA Report on Results of Operations for Los Angeles County Division (Exhibit 26), at 4-13-15; Rebuttal Testimony of Daniel A. Dell'Osa (Exhibit 18), Attachment A.

## 7. SCADA

ISSUE: This project involves the upgrading of San Gabriel's telephone-based Supervisory Control and Data Acquisition ("SCADA") System to a more reliable radio-based system. DRA challenged the proposal, believing San Gabriel had not justified the expenditure. DRA reconsidered its position after learning that the existing telephone based SCADA system was ineffective because San Gabriel's Los Angeles service area is served by more than one telephone service provider.

RESOLUTION: Funding for the SCADA upgrade will be included in rates as proposed, with the expectation that the upgrade will be implemented within this rate case cycle.

**RATE IMPACT:** San Gabriel proposed to include \$215,000 in 2007 and \$600,000 in 2008 for SCADA upgrade investments. The proposed settlement includes these amounts in rate base for the Test Years.

**REFERENCES:** DRA Report on Results of Operations for Los Angeles County Division (Exhibit 26), at 4-15-16; Rebuttal Testimony of Daniel A. Dell'Osa (Exhibit 18), Attachment A.

## 8. GIS Mapping

**ISSUE:** This project involves the conversion of San Gabriel's atlas sheets and other maps of system facilities from an antiquated manual system of pencil and ink drawings into an electronic Geographic Information System ("GIS") format. DRA challenged the need for San Gabriel to contract out for the services required to convert its mapping system and alleged a lack of documentation to support the estimated cost.

**RESOLUTION:** The requested funding will be allowed but will be deferred by one year. The parties now agree that GIS Mapping services require an outside contract.

**RATE IMPACT:** San Gabriel included \$100,000 in the 2007 capital budget for the General Office division for initial planning and software and \$600,000 for implementation in the 2007 capital budget for the Los Angeles County division. The proposed settlement will defer but allow these amounts in the annual budgets for 2008, consistent with the expected timing of the investments.

**REFERENCES:** Direct Testimony of Frank A. LoGuidice (Exhibit 9), at 16-17; DRA Report on Results of Operations for Los Angeles County Division (Exhibit 26), at 4-24; DRA Report on Results of Operations for General Office Division (Exhibit 29), at 63-65; Rebuttal Testimony of Frank A. LoGuidice (Exhibit 19), at 11; Rebuttal Testimony of Daniel A. Dell'Osa (Exhibit 18), Attachment A.

## 9. Master Plan

**ISSUE:** San Gabriel included in its 2007 capital budget a cost estimate for preparation of its Master Plan for the Los Angeles County division. DRA proposed to allow only the relevant amount invoiced by the contractor.

**RESOLUTION:** The project has been completed and its cost is known. The requested funding will be allowed to the extent of costs actually incurred.

**RATE IMPACT:** San Gabriel included \$200,000 in its 2007 capital budget for the General Office division for this project; DRA proposed to allow \$92,673. The proposed settlement will allow the actual cost incurred, approximately \$107,200.

REFERENCES: DRA Report on Results of Operations for Los Angeles County Division (Exhibit 26), at 4-16 to 4-17; Rebuttal Testimony of Daniel A. Dell'Osa (Exhibit 18), Attachment A.

#### 10. Mains

ISSUE: This issue concerns the estimation of annual investments for construction and replacement of water mains, excluding the recycled water projects addressed in item 3 above.

RESOLUTION: DRA challenged the amount of San Gabriel's budget. The parties agree that funding for potable water main projects will be reduced and deferred.

RATE IMPACT: San Gabriel budgeted \$7,000,000 in 2007, \$5,437,000 in 2008, and \$4,750,000 in 2009 for construction and replacement of mains. DRA proposed to allow slightly less than \$4 million in each year. The settlement will budget \$5 million for each of the three years, excluding the referenced recycled water projects.

REFERENCES: Direct Testimony of Frank A. LoGuidice (Exhibit 9), at 23; DRA Report on Results of Operations for Los Angeles County Division (Exhibit 26), at 4-20; Rebuttal Testimony of Daniel A. Dell'Osa (Exhibit 18), Attachment A.

#### 11. Conservation Program Costs

ISSUE: DRA did not object to San Gabriel's plans to pursue enhanced water conservation programs. However, San Gabriel proposed to capitalize the cost of these programs, while DRA proposed to expense the costs and have a "one-way" balancing account approach, by which amounts not expended in any year would be refunded to ratepayers.

RESOLUTION: The estimated annual program costs will be treated as a normal operating expense consistent with DRA's position. The Parties agree to brief the issue of whether these costs shall be subject to a "one-way" balancing account issue.

RATE IMPACT: The estimated annual cost of \$652,000 will be included in Test Year revenue requirement and not in rate base.

REFERENCES: DRA Report on Results of Operations for Los Angeles County Division (Exhibit 26), at 3-19 to 3-23; Rebuttal Testimony of Daniel Dell'Osa (Exhibit 18), at 35-36 and Attachment A.

#### 12. Air Conditioners

ISSUE: San Gabriel included funds in its capital budgets to replace air conditioning units at a number of facilities where booster pumps and electrical equipment generate substantial heat. DRA objected to allowing funds for all but one of them.

RESOLUTION: The Parties agree that funding for two air conditioning units included in the 2007 construction budget will be removed, but funding for all other sites will be allowed as proposed in the budgets for 2008 and 2009.

RATE IMPACT: \$30,000 of the amount budgeted for air conditioner replacements in 2007 will be removed from rate base. The remaining \$111,000 San Gabriel plans to spend to replace eight other air conditioning units will remain in forecast utility plant. The Parties agree that based on current projections these expenditures are necessary.

REFERENCES: DRA Report on Results of Operations for Los Angeles County Division (Exhibit 26), at 4-13; Rebuttal Testimony of Frank A. LoGuidice (Exhibit 19), at 9-10; Rebuttal Testimony of Daniel A. Dell'Osa (Exhibit 18), Attachment A.

### 13. Automated Meters

ISSUE: San Gabriel included \$950,000 in its 2009 General Office division capital budget to deploy Automated Meter Reading ("AMR") technology, which DRA opposed.

RESOLUTION: The 2009 capital budget item was removed, but San Gabriel will file an advice letter in 2009 to reflect AMR investment up to \$600,000 in Los Angeles County division rates once the investment has been made. The advice letter shall reflect actual investment made in AMR. By this mechanism, the investment in AMR technology will not result in increased rates until such investments actually have been made.

RATE IMPACT: Up to \$600,000 will be added to rate base by advice letter in 2009, once the equipment has been purchased. Only the actual costs of the equipment shall be added to rate base.

REFERENCES: Direct Testimony of Frank A. LoGuidice (Exhibit 9), at 17-18; DRA Report on Results of Operations for General Office Division (Exhibit 29), at 55-56; Rebuttal Testimony of Frank A. LoGuidice (Exhibit 19), at 10-11; Rebuttal Testimony of Daniel A. Dell'Osa (Exhibit 18), Attachment A.

### 14. Transportation Equipment

ISSUE: This issue concerns the estimate of annual expenditures for additional and replacement vehicles for both the Los Angeles County and General Office divisions.

RESOLUTION: The parties agree on the expenditures to be budgeted for years 2007 through 2009, including exclusion of an adjustment for the trade-in value of the chairman's vehicle and adjusting the cost of such vehicle to the cost of the President's vehicle. The parties further agree that future GRC estimates of expenditures for transportation equipment shall be based on the projected replacement of specific vehicles, vehicle age, use, condition, and mileage. The Parties consider these estimates reasonable and agree that the method selected for future estimates should reduce future controversy concerning this subject.

RATE IMPACT: The adopted estimates, slightly lower than what San Gabriel proposed, are as follows: For the Los Angeles County division, \$155,000 in 2007, \$171,000 in 2008, and \$215,000 in 2009, and for the General Office division, \$78,000 in 2007, \$52,000 in 2008, and \$78,000 in 2009.

REFERENCES: Direct Testimony of Frank A. LoGuidice (Exhibit 9), at 22-23; DRA Report on Results of Operations for Los Angeles County Division (Exhibit 26), at 4-24 to 4-27; DRA Report on Results of Operations for General Office Division (Exhibit 29), at 68-71; Rebuttal Testimony of Frank A. LoGuidice (Exhibit 19), at 12-13; Rebuttal Testimony of Daniel A. Dell'Osa (Exhibit 18), Attachment A.

#### 15. Office Equipment

ISSUE: This issue concerns an estimate of expenditures for new and replacement office equipment, including printers and software, to serve General Office functions.

RESOLUTION: San Gabriel forecast spending \$255,000 in 2008 and \$85,000 in 2009 on specific equipment purchases. The parties agreed to include \$150,000 in 2008 and \$100,000 in 2009 plant additions. DRA acknowledges the need for some office equipment expenditures. The parties consider the agreed amounts as reflecting a reasonable compromise.

RATE IMPACT: The settlement estimates will diminish rate base by approximately \$90,000 for the Test Years below San Gabriel's forecast.

REFERENCES: Direct Testimony of David M. Batt (Exhibit 7), at 42-43; DRA Report on Results of Operations for General Office Division (Exhibit 29), at 65-68; Rebuttal Testimony of David M. Batt (Exhibit 17), at 19-22; Rebuttal Testimony of Daniel A. Dell'Osa (Exhibit 18), Attachment A.

#### 16. Working Cash

ISSUE: DRA disputed the accuracy of San Gabriel's estimate of lag days for certain expenses, specifically purchased power and water assessments, in its calculation of Working Cash. DRA also objected to San Gabriel's inclusion of a \$3,000 minimum bank balance in Working Cash.

RESOLUTION: DRA accepted San Gabriel's lag day estimates and San Gabriel accepted the exclusion of the minimum bank balance. The parties agree that this outcome represents a fair result.

RATE IMPACT: Adopting San Gabriel's estimates of expense lag days rather than those of DRA avoids a substantial reduction in Test Year rate base, while exclusion of the minimum bank balance reduces rate base slightly.

REFERENCES: Direct Testimony of David M. Batt (Exhibit 7), at 32-35; DRA Report on Results of Operations for Los Angeles County Division (Exhibit 26), at 6-1 to 6-2; DRA Report on Results of Operations for General Office Division (Exhibit 29), at 47; Rebuttal Testimony of David M. Batt (Exhibit 17), at 2-5.

17. Construction Work in Progress

ISSUE: San Gabriel forecast Construction Work in Progress (“CWIP”) based on the average end-of-year balance for the period 2002 to 2006, but DRA reduced the forecast by replacing the high value for 2005 with the lower value for 2004.

RESOLUTION: The parties agree to use an estimate of \$5.5 million for Test Year CWIP, as compared with San Gabriel’s estimate of \$6,125,300 and DRA’s estimate of \$4,921,000. The parties agree that this outcome provides a reasonable estimate of CWIP for the two Test Years.

RATE IMPACT: The resolution of this issue reduces Test Year rate base by approximately \$600,000 from San Gabriel’s forecast.

REFERENCES: DRA Report on Results of Operations for Los Angeles County Division (Exhibit 26), at 6-3 to 6-4; Rebuttal Testimony of David M. Batt (Exhibit 17), at 5-6.

C. CUSTOMERS, USAGE, AND RATE DESIGN

1. Number of Customers (Industrial-Large)

ISSUE: San Gabriel forecast 64 large industrial customers for the Test Year, while DRA forecast 66.

RESOLUTION: The parties agree on a forecast of 65 large industrial customers for this rate case as a compromise of their positions.

RATE IMPACT: The effect of increasing the forecast by one Industrial-Large customer will be to increase San Gabriel’s Test Year revenue forecast (and so diminish the allowed increase in revenue requirement) by approximately \$18,000 for Test Year 2008-2009.

REFERENCES: Los Angeles County Division Report on Operations (Exhibit 2), at 2; DRA Report on Results of Operations for Los Angeles County Division (Exhibit 26), at 2-2 and 2-6; Rebuttal Testimony of Frank A. LoGuidice (Exhibit 19), at 1-2; Rebuttal Testimony of Daniel A. Dell’Osa (Exhibit 18), at 12-14.

## 2. Consumption per Customer (Industrial-Small and Large and Public Authority-Large)

ISSUE: San Gabriel and DRA differed in their forecasts of water use per customer for three classes of customers – Industrial-Small, Industrial-Large, and Public Authority-Large. San Gabriel’s forecasts applied regression analysis, whereas DRA’s forecast was based on simple arithmetic averages.

RESOLUTION: The parties agree on forecasting average annual usage of 769 ccf for the Industrial-Small, 14,451 ccf for Industrial-Large, and 8,813 ccf for Public Authority-Large customer classes, respectively, for the Test Year. The parties agree that this outcome reflects a reasonable result given prior water use for these classes of customers.

RATE IMPACT: The effect of applying the settlement forecasts of average usage for these three customer classes, in comparison with San Gabriel’s estimates, will be to increase the Test Year revenue forecast (and so diminish the allowed increase in revenue requirement) by approximately \$45,000 for Test Year 2008-2009.

REFERENCES: Los Angeles County Division Report on Operations (Exhibit 2), at 4-6 to 4-11, 4-13; DRA Report on Results of Operations for Los Angeles County Division (Exhibit 26), at 2-2 to 2-4 and 2-7; Rebuttal Testimony of Frank A. LoGuidice (Exhibit 19), at 2-4.

## 3. CARW Participation Rate

ISSUE: San Gabriel and DRA differed in their forecasts of the rate of participation by San Gabriel’s residential customers in the California Alternative Rates for Water (“CARW”) program, which offers discounted rates for customers of low income.

RESOLUTION: Based on the gradual increase in the CARW participation rate, which currently has reached 12.5%, San Gabriel projected a 15% participation rate for this GRC cycle. DRA, wanting to amortize an over-collection in the CARW balancing account due to the initial assumption of a 30% participation rate, recommends assuming a 10% rate. The parties agreed to apply a 12.5% participation rate for the Test Year. The parties agree that this outcome is reasonable, because it matches current participation in the CARW program.

RATE IMPACT: The effect of applying the agreed upon participation rate will be to increase San Gabriel’s present Test Year revenue forecast by approximately \$21,000 for Test Year 2008-2009.

REFERENCES: Direct Testimony of Daniel A. Dell’Osa (Exhibit 8), at 59-60; DRA Report on Results of Operations for Los Angeles County Division (Exhibit 26), at 9-2; Rebuttal Testimony of Daniel A. Dell’Osa (Exhibit 18), at 37-38.

#### 4. Bad Check Charges and Reconnection Fees

ISSUE: San Gabriel proposed to increase its bad check charge, last revised in 1980, from \$5.00 to \$25.00, and to increase its service reconnection fees from \$10.00 to \$25.00 for regular service hours and from \$15.00 to \$40.00 for reconnections requested and performed outside regular working hours.

RESOLUTION: DRA objected only to the magnitude of the proposed increase in the bad check charge, supporting instead an increase to \$20.00. San Gabriel agrees to DRA's adjustment.

RATE IMPACT: The proposed fee increases will not affect revenue requirement and will have a minor impact on San Gabriel's other rates.

REFERENCES: Direct Testimony of Daniel A. Dell'Osa (Exhibit 8), at 64-65; DRA Report on Results of Operations for Los Angeles County Division (Exhibit 26), at 9-1 to 9-2; Rebuttal Testimony of Daniel A. Dell'Osa (Exhibit 18), at 39.

### D. EXPENSES

#### 1. Payroll Taxes

ISSUE: San Gabriel's and DRA's estimates of payroll tax expenses differ significantly due to differences in estimates of payroll expense, but the payroll tax estimates also differed because the parties calculated different base amounts for calculating Social Security tax ("FICA") and Federal and State Unemployment Insurance ("FUI/SUI") taxes.

RESOLUTION: San Gabriel initially proposed to escalate the current base amounts for FICA and FUI/SUI from their levels in 2007 (\$97,500 and \$7,000, respectively) to the forecast years 2008 and 2009. By the date DRA filed its report, the Internal Revenue Service had announced an increase to \$102,000 in the FICA base amount for 2008, and DRA applied that base amount for FICA along with the \$7,000 FUI/SUI base amount without escalation to both forecast years. On rebuttal, San Gabriel adopted the more current FICA base amount but still escalated that amount to 2009. San Gabriel accepts DRA's position, using the two latest base amounts for both forecast years without escalation.

RATE IMPACT: Adopting the current base amounts for both forecast years will slightly reduce the Test Year allowance for payroll taxes.

REFERENCES: Direct Testimony of Daniel A. Dell'Osa (Exhibit 8), at 54; DRA Report on Results of Operations for General Office Division (Exhibit 29), at 11-12; Rebuttal Testimony of Daniel A. Dell'Osa (Exhibit 18), at 33-34.

## 2. Income Taxes

ISSUE: San Gabriel's and DRA's estimates of income tax expenses differ significantly due to differences in estimated rate base, cost of capital, revenues, and other factors, but the only issue related specifically to income tax is the treatment of revenue collected subject to refund pursuant to D.05-07-044, Ordering Paragraph 12, pending determination of the tax benefit to San Gabriel provided by the American Jobs Creation Act of 2004. The Commission decided in D.07-04-046 that the tax benefit is available to San Gabriel and the amount of the benefit (\$318,856 for years 2005 through 2008) is not disputed, but the issue is how the tax benefit should be passed through to customers.

RESOLUTION: DRA proposed to apply the entire amount of the tax benefit to reduce federal taxable income in the Test Year. San Gabriel proposed instead that the tax benefit be refunded to customers through a billing surcredit over a three-year period, because it has nothing to do with income tax calculations for the Test Year. The parties agree to the adoption of a surcredit based on the quantity charge, but the surcharge shall be calculated to accomplish the refund over just one year. The parties believe this outcome flows through the tax benefit to customers as contemplated by D.05-07-044 and D.07-04-046 without complicating the determination of Test Year rates.

RATE IMPACT: The surcredit to which the parties have agreed will not affect Test Year revenue requirements or rates, but will reduce customer bills on a pro rata basis by a total of \$318,856 during the Test Year.

REFERENCES: Direct Testimony of Daniel A. Dell'Osa (Exhibit 18), at 55; DRA Report on Results of Operations for Los Angeles County Division (Exhibit 26), at 7-3; Rebuttal Testimony of David M. Batt (Exhibit 17), at 6; Rebuttal Testimony of Daniel A. Dell'Osa (Exhibit 18), at 34.

## 3. Ad Valorem Taxes

ISSUE: San Gabriel increased its estimate of the composite ad valorem tax rate by 2% per year, while DRA did not recognize any increase in the tax rate.

RESOLUTION: The parties agreed to recognize a 1% increase. The agreed increase is consistent with the average increase in the Los Angeles County division's composite ad valorem tax rate over the past five years.

RATE IMPACT: The allowance for ad valorem taxes in rates will be slightly lower than San Gabriel estimated.

REFERENCES: Direct Testimony of Daniel A. Dell'Osa (Exhibit 8), at 54-55; DRA Report on Results of Operations for General Office Division (Exhibit 29), at 54; DRA Report on Results of Operations for Los Angeles County Division (Exhibit 26), at 7-1; Rebuttal Testimony of Daniel A. Dell'Osa (Exhibit 18), at 32, 33.

#### 4. Escalation Factors

ISSUE: San Gabriel and DRA both applied standard DRA escalation factors to increase various expenses from recorded year to Test Year amounts, but San Gabriel originally used the March 2007 factors, while DRA used the June factors. In its rebuttal testimony, San Gabriel converted to using the October 2007 factors.

RESOLUTION: Each party continues to apply its latest chosen version of the DRA escalation factors to items of expense not settled upon at a specific amount, but the parties agree not to object if the Commission chooses to apply a later, more current version of the DRA factors.

RATE IMPACT: Minor in the case of any particular account but possibly significant overall, and impossible to predict at this time.

REFERENCES: Direct Testimony of Daniel A. Dell'Osa (Exhibit 8), at 44; DRA Report on Results of Operations for Los Angeles County Division (Exhibit 26), at 3-4; Rebuttal Testimony of Daniel A. Dell'Osa (Exhibit 18), at 14.

#### 5. Utilities and Rents

ISSUE: DRA proposed to adjust San Gabriel's estimate of Utilities and Rents expense based on an alleged lack of support for the asserted increase in electric use expenses. On rebuttal, San Gabriel discovered it had not correctly carried the detail number forward to the summary in its direct showing, by which some \$612,000 of expense had been overlooked. Upon review, DRA acknowledges the accuracy of San Gabriel's corrected estimate of this category of expense, which consists primarily of purchased power costs for operating water treatment facilities at Plant B6 located in the City of Baldwin Park.

RESOLUTION: The parties agree to base the Test Year estimate of Utilities and Rents expense on the amount recorded for year 2006 and they further agree that only one half of the normal escalation of the 2006 expense should be allowed in calculating the Test Year amount. The settlement corrects a calculation error.

RATE IMPACT: Correction of the error in San Gabriel's original calculation of Utilities and Rents expense increases the total for recorded year 2006 by about \$612,000, and applying half of the standard DRA factors to escalate the total 2006 amount to the Test Year would add a further \$21,000.

REFERENCES: General Division Report on Operations (Exhibit 1), Tables 4A, 4B; Los Angeles County Division Report on Operations (Exhibit 2), Tables 4A, 4B, 5A, 5B; Direct Testimony of Daniel A. Dell'Osa (Exhibit 8), at 50; DRA Report on Results of Operations for Los Angeles County Division (Exhibit 26), at 3-15 to 3-16, 3-26; Rebuttal Testimony of Daniel A. Dell'Osa (Exhibit 18), at 26.

## 6. Health Insurance

ISSUE: San Gabriel based its forecast of health insurance costs on recorded expenses and known premium rate increases through July 2007, a projection of new employees eligible for coverage, and a projected 12.22% premium rate increase in 2008 and 2009. DRA challenged various elements of San Gabriel's analysis, resulting in substantially lower estimates for 2007, but accepted the 12.22% rate of increase for 2007, 2008, and 2009.

RESOLUTION: The Parties agree that the rate of change in health insurance costs varies widely from year to year but the trend is generally upward. As a compromise, the parties agree to calculate health insurance expense by applying San Gabriel's known rate of 22.48% for Year 2007 and its projected premium rate of 12.22% for Years 2008 and 2009 without considering the utility's projection of new employees eligible for coverage.

RATE IMPACT: San Gabriel projected Test Year health insurance expense as \$837,400 for the Los Angeles County division and \$476,945 for the General Office, as contrasted with DRA's estimates of \$578,600 and \$380,247, respectively. The settlement amounts for fiscal Test Year 2008-2009 are \$735,172 for the Los Angeles County division and \$420,005 for the General Office division. Thus, the settlement amount of this expense is more than \$150,000 less than San Gabriel proposed for Test Year 2008-2009.

REFERENCES: Direct Testimony of Robert W. Nicholson (Exhibit 10), at 6-7; DRA Report on Results of Operations for General Office Division (Exhibit 29), at 25-27; DRA Report on Results of Operations for Los Angeles County Division (Exhibit 26), at 3-14; Rebuttal Testimony of Robert W. Nicholson (Exhibit 20), at 18.

## 7. Umbrella Insurance

ISSUE: The umbrella insurance policy covers general liability, automobile liability, and property damage. San Gabriel based its Test Year estimate of this expense on the latest information received from its insurance broker. DRA noted that one umbrella policy covers San Gabriel and all its affiliates and challenged the percentage of the premium allocated to San Gabriel. San Gabriel responded that San Gabriel pays only the premium applicable to its own separate coverage, which is separately invoiced to it, and objected to DRA's applying an allocation to San Gabriel's premium.

RESOLUTION: The parties now agree on the full cost of the overall umbrella insurance policy for 2006 of \$943,091, but disagree as to the appropriate allocation of that cost to San Gabriel, with San Gabriel relying on the amount of the premium invoiced to and paid by San Gabriel, which is 65% of the total policy premium, while DRA relies on its own allocation factors supporting a 55% allocation to San Gabriel. The Parties will address the issue of allocation of costs resulting from the umbrella insurance policy in briefs.

RATE IMPACT: DRA's agreement on the overall premium in 2006 increases their Test Year estimate for umbrella insurance to \$312,726 for the Los Angeles County division, compared to San Gabriel's estimate of \$372,269.

REFERENCES: Direct Testimony of Robert W. Nicholson (Exhibit 10), at 9; DRA Report on Results of Operations for General Office Division (Exhibit 29), at 48-50; Rebuttal Testimony of Robert W. Nicholson (Exhibit 20), at 13-16.

#### 8. Worker's Compensation Insurance

ISSUE: San Gabriel based its Test Year estimate of this expense on a five-year average, while DRA's estimate was based on the most recent recorded year, 2006.

RESOLUTION: The parties now agreed to split the difference between their estimates evenly. The Parties agree that Worker's Compensation insurance expense fluctuates substantially from year to year. As a result, the parties agree that a compromise between the two parties' estimates produces a fair result.

RATE IMPACT: The settlement estimate reduces the amount included in Test Year revenue requirement by about \$30,000, as compared with San Gabriel's estimate.

REFERENCES: Direct Testimony of Robert W. Nicholson (Exhibit 10), at 9; Direct Testimony of Daniel A. Dell'Osa (Exhibit 8), at 51; DRA Report on Results of Operations for General Office Division (Exhibit 29), at 21-22; Rebuttal Testimony of Robert W. Nicholson (Exhibit 20), at 16; Rebuttal Testimony of Daniel A. Dell'Osa (Exhibit 18), at 25.

#### 9. Employee Pensions and Other Employee Benefits

ISSUE: Aside from the effects of different estimates of payroll expense, which are not considered here, DRA recommended certain specific adjustments to San Gabriel's Test Year estimates of expenses for employee pensions and other benefits, including dental insurance, life insurance, and long-term disability coverage.

RESOLUTION: The parties agree to split the difference evenly between their estimates of these categories of expense. The parties agree that this outcome provides for a reasonable result given the amount in controversy as well as prior expenses for these items incurred by San Gabriel.

RATE IMPACT: The total variance between San Gabriel's and DRA's estimates of these pension and benefits expenses for the Los Angeles County Division and the General Office combined was about \$100,000 for Test Year 2008-2009. Therefore, the settlement estimates of these expenses represent a reduction of approximately \$50,000 in the Test Year revenue requirement proposed by San Gabriel.

REFERENCES: Direct Testimony of Robert W. Nicholson (Exhibit 10), at 6-9; DRA Report on Results of Operations for General Office Division (Exhibit 29), at 23-25, 27-32; Rebuttal Testimony of Robert W. Nicholson (Exhibit 20), at 16-20.

10. Outside Services, Bank Charges, Diesel Fuel and Postage

ISSUE: In the areas of outside services (including outside services subaccounts under such accounts as office supplies and maintenance and also Account 798 for outside services employed) as well as postal expense, bank charges, and diesel fuel expense, DRA recommended adjustments to San Gabriel's Test Year estimates based on different forecasting methods, policy positions, or detailed analysis of particular expense items.

RESOLUTION: The parties agree to split the difference between their estimates of expenses in the outside services, bank charges, and diesel fuel categories on a 60/40 basis (in each instance deducting 40% of the difference from San Gabriel's estimate), while agreeing to DRA's estimate of postal expense. This agreement applies to the relevant expense categories in both the General Office and the Los Angeles County divisions.

RATE IMPACT: The total variance between San Gabriel's and DRA's estimates of outside services expenses, bank charges, and diesel fuel expenses for the Los Angeles County Division and the General Office Division combined was about \$104,000 for Test Year 2008-2009. Therefore, the settlement estimates of these expenses represent a reduction of approximately \$42,000 in the Test Year revenue requirement proposed by San Gabriel. The adoption of DRA's estimate of postal expense results in a further reduction of about \$20,000.

REFERENCES: Direct Testimony of David W. Batt (Exhibit 7), at 45-46; Direct Testimony of Daniel A. Dell'Osa (Exhibit 8), at 49-50, 52; DRA Report on Results of Operations for General Office Division (Exhibit 29), at 13-15, 32-34, 45-48; DRA Report on Results of Operations for Los Angeles County Division (Exhibit 26), at 3-2, 3-16 to 3-18, 3-26, Rebuttal Testimony of David W. Batt (Exhibit 17), at 8-9, 16-17; Rebuttal Testimony of Daniel A. Dell'Osa (Exhibit 8), at 24, 28-29.

11. Regulatory Commission Expense.

ISSUE: San Gabriel estimated Regulatory Commission expense as \$250,000 per year, based on the expense of its Fontana division's last GRC. DRA proposed to allow only \$86,100 per year.

RESOLUTION: The parties agree to an estimate of \$148,000 per year. This estimate was based on more recent information, including progress of the current rate case and forecast remaining costs.

RATE IMPACT: San Gabriel's revenue requirement is reduced by \$102,000 below its original estimates.

REFERENCES: Direct Testimony of David W. Batt (Exhibit 7), at 45-46; Direct Testimony of Daniel A. Dell'Osa (Exhibit 8), at 49-50, 52; DRA Report on Results of Operations for General Office Division (Exhibit 29), at 13-15, 32-34, 45-48; DRA Report on Results of Operations for Los Angeles County Division (Exhibit 26), at 3-2, 3-16 to 3-18, 3-26, Rebuttal

Testimony of David W. Batt (Exhibit 17), at 8-9, 16-17; Rebuttal Testimony of Daniel A. Dell'Osa (Exhibit 8), at 24, 28-29.

## 12. Los Angeles County Division Expenses

ISSUE: With respect to several categories of operating and administrative expense for the Los Angeles County division, San Gabriel and DRA differed in their estimating methods but agreed to resolve their differences by reaching a compromise measured by revenue impacts. These categories of expense included purchased power, chemicals, transportation, utilities and rents, and miscellaneous expenses.

RESOLUTION: The parties agree to compromise their positions on these categories of Los Angeles County division expense by an even division of their differences. Purchased power expense, which accounted for nearly half the variance in estimates covered by all these expense categories, is subject to recovery through a balancing account, so any inaccuracy in the Test Year estimate of this expense will be rectified through balancing account adjustments. The other expense categories at issue involved much smaller differences between the parties.

RATE IMPACT: The total variance between San Gabriel's and DRA's estimates of these categories of expense for the Los Angeles County Division was about \$250,000 for Test Year 2008-2009. Therefore, the settlement estimates of these expenses represent a reduction of approximately \$125,000 in the Test Year revenue requirement proposed by San Gabriel.

REFERENCES: Direct Testimony of Daniel A. Dell'Osa (Exhibit 8), at 47, 49, 50, 52; DRA Report on Results of Operations for Los Angeles County Division (Exhibit 26), at 3-5 to 3-6, 3-12 to 3-13, 3-15 to 3-16, 3-19; Rebuttal Testimony of Daniel A. Dell'Osa (Exhibit 8), at 16, 23, 26-27.

## 13. Administrative Expense Transferred

ISSUE: Administrative expenses (salaries, fringe benefits, and office supplies) allocated to construction projects or affiliates are taken out of expense through Account 812 and then transferred to plant or affiliates. There was no dispute regarding direct labor costs assigned to construction, which are tracked to Account 100-3 and closed to the appropriate plant account. DRA criticized San Gabriel's procedures for allocating indirect capitalized labor and proposed increased allocations in both the General Office and Los Angeles County divisions. The parties also disagreed about the appropriate assignment of overheads to affiliates.

RESOLUTION: For purposes of settlement, the parties agree to recalculate the "indirect labor" overhead assignments to construction projects by DRA's method, based on the adopted capital budget for each Test Year. The Parties do not agree on the dollar amount of administrative expense transferred to affiliates. Instead, the Parties intend to address this issue involving transferring administrative expenses to affiliates in briefs.

RATE IMPACT: Not material.

REFERENCES: Direct Testimony of Daniel A. Dell'Osa (Exhibit 8), at 52; DRA Report on Results of Operations for General Office Division (Exhibit 29), at 34-40; Rebuttal Testimony of David W. Batt (Exhibit 17), at 9-12.

#### 14. General Office Audit

ISSUE: Based on DRA's audit of San Gabriel's General Office division, DRA recommended several accounting adjustments: disallowance of the cost and depreciation of a luxury vehicle provided to the company's Chairman to the extent the cost exceeded that of a standard sedan; disallowance of the cost of data recovery due to a server hard drive failure; partial disallowance of expenses for an annual executive conference and an annual awards luncheon; and expensing of certain "stale" job orders in the Los Angeles County division's CWIP account. DRA recommended that a further audit be ordered to review areas not yet examined due to staffing and time limitations.

RESOLUTION: San Gabriel agrees to the proposed partial disallowance of the cost and depreciation of the Chairman's vehicle, while DRA withdraws its recommendations to disallow costs for the annual executive conference and the annual service awards luncheon. DRA accepts San Gabriel's explanation for the "stale" job orders, agreeing that the recorded amounts should be transferred from CWIP to appropriate plant accounts. In connection with resolution of other issues, DRA withdraws its objection to recovery of the data recovery expense. San Gabriel agrees to cooperate with DRA if it wishes to conduct a further audit of San Gabriel's General Office accounts, which does not require a Commission order.

RATE IMPACT: Of all the audit issues, the one with the greatest impact on rates was the partial disallowance of costs related to the Chairman's vehicle, which will reduce Test Year rate base.

REFERENCES: DRA Audit Report on the Results of Limited Examination of the General Office (Exhibit 28), at 1-1 to 5-1; Rebuttal Testimony of David W. Batt (Exhibit 17), at 22-27.

### E. OTHER ISSUES

#### 1. Water Quality Litigation Memorandum Account

ISSUE: San Gabriel sought in its application to amortize (and recover in rates) the balance of defense-related litigation costs recorded in its Water Quality Litigation Memorandum Account, in part because it was uncertain whether Water Division would approve a then-pending advice letter seeking recovery of those costs accrued through 2004. DRA preferred to have San Gabriel file a further advice letter to amortize the remaining defense-related costs.

RESOLUTION: Water and Audits Division recently authorized San Gabriel to begin amortizing the relevant memorandum account balance. In view of that development, San Gabriel agrees to DRA's proposal that recovery of further costs recorded in the defense-related component of the Water Quality Litigation Memorandum Account be sought by advice letter.

RATE IMPACT: None.

REFERENCES: Direct Testimony of Daniel A. Dell'Osa (Exhibit 8), at 62-63; DRA Report on Results of Operations for Los Angeles County Division (Exhibit 26), at 8-1 to 8-3; Rebuttal Testimony of Daniel A. Dell'Osa (Exhibit 18), at 39-40.

2. Flow-through of ratepayers' share of net proceeds of contamination settlements

ISSUE: In direct testimony, San Gabriel provided detailed information about payments it has received in partial compensation for its claims for damages associated with groundwater contamination affecting Los Angeles County division wells, presented its position that deferred income taxes related to such compensation should be deducted in calculating net proceeds to be allocated between ratepayers and shareholders, and provided such a calculation. Administrative Law Judge Galvin subsequently ruled that because the propriety of including deferred income taxes in the calculation of net proceeds is at issue in an application for rehearing of D.07-04-046 in San Gabriel's recent Fontana Water Company division GRC, that issue would not be considered in this proceeding.

RESOLUTION: San Gabriel submitted a recalculation of the net proceeds of contamination settlements related to Los Angeles County division, with such recalculation excluding consideration of deferred income taxes. That recalculation was provided as Attachment E to the Rebuttal Testimony of David M. Batt (Exhibit 17). The Parties agree to San Gabriel's recalculation based on the understanding that a decision in this GRC will not consider deferred income taxes in the allocation of net proceeds of contamination settlements unless the Commission grants San Gabriel's application for rehearing of Decision 07-04-046 prior to the issuance of a decision in this GRC.

RATE IMPACT: None.

REFERENCES: Direct Testimony of David M. Batt (Exhibit 7), at 15-27 and Attachments H, I, J, K and N; DRA Report on Results of Operations for Los Angeles County Division (Exhibit 26), at 8-6; Rebuttal Testimony of David M. Batt (Exhibit 7), at 8 and Attachment E.

3. Reinvestment of net proceeds of sales and condemnations of real property

ISSUE: In direct testimony, San Gabriel provided detailed information about payments it has received in compensation for sales and condemnations of its real property and documented the reinvestment of the net proceeds from those transactions in utility plant consistent with Public Utilities Code Section 790. DRA issued a data request seeking justification for projects in which such proceeds had been reinvested. DRA recommended removal of \$1,271,516 from 2006 recorded utility plant. San Gabriel's rebuttal provided detailed job cost worksheets and supporting justification for each of the projects and noted that D.04-07-046, *mimeo.* at 87, found San Gabriel's detailed records of this type sufficient to document such reinvestments.

RESOLUTION: San Gabriel further determined that only about \$48,000 of the \$1,271,516 in reinvested net proceeds had not previously been subject to Commission staff audit (conducted with respect to such proceeds received through 2004). On that basis, DRA withdraws its recommendation to remove \$1,271,516 from 2006 recorded utility plant in consideration for San Gabriel’s acknowledgement that DRA is entitled to audit whether the utility plant into which such proceeds have been reinvested since 2004 qualifies under Section 790 as “necessary or useful.”

RATE IMPACT: None.

REFERENCES: Direct Testimony of David M. Batt (Exhibit 7), at 5-10 and Attachments B and C; DRA Report on Results of Operations for Los Angeles County Division (Exhibit 26), at 8-5 to 8-6; Rebuttal Testimony of David M. Batt (Exhibit 7), at 6-8 and Attachment D.

F. COMPARATIVE EXHIBIT

A comparative exhibit, setting forth the original positions of the parties on various elements of revenue requirement as presented in San Gabriel’s application and DRA’s reports and also setting forth the current positions of the parties as modified to reflect the settlement terms stated herein and the differences between those current positions on the various revenue requirement elements, is appended to this Settlement Agreement as Attachment A.

Respectfully submitted,

Respectfully submitted,

DIVISION OF RATEPAYER  
ADVOCATES

SAN GABRIEL VALLEY WATER  
COMPANY

By: 

By: \_\_\_\_\_

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Dated: December 27, 2007

Dated: December \_\_\_\_, 2007

RESOLUTION: San Gabriel further determined that only about \$48,000 of the \$1,271,516 in reinvested net proceeds had not previously been subject to Commission staff audit (conducted with respect to such proceeds received through 2004). On that basis, DRA withdraws its recommendation to remove \$1,271,516 from 2006 recorded utility plant in consideration for San Gabriel's acknowledgement that DRA is entitled to audit whether the utility plant into which such proceeds have been reinvested since 2004 qualifies under Section 790 as "necessary or useful."

RATE IMPACT: None.

REFERENCES: Direct Testimony of David M. Batt (Exhibit 7), at 5-10 and Attachments B and C; DRA Report on Results of Operations for Los Angeles County Division (Exhibit 26), at 8-5 to 8-6; Rebuttal Testimony of David M. Batt (Exhibit 7), at 6-8 and Attachment D.

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DIVISION OF RATEPAYER  
ADVOCATES

SAN GABRIEL VALLEY WATER  
COMPANY

By: \_\_\_\_\_

By: Michael L. Whitehead

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Dated: December \_\_\_\_, 2007

Dated: December 27, 2007

**San Gabriel Valley Water Company  
Los Angeles County Division  
SUMMARY of EARNINGS**

(Dollars in Thousands)

	TY 2008-09 SGVWC Application	SGVWC Current	Difference	DRA Current	TY 2008-09 DRA Report
1 Operating Revenues	\$61,099.5	\$56,650.3	\$6,780.6	\$49,869.7	\$47,820.0
Operating Expenses					
2 Purchased Water & Assessments	\$7,642.8	\$6,912.5	(\$40.6)	\$6,953.1	\$7,768.8
3 Purchased Power	\$3,830.9	\$3,776.3	\$0.0	\$3,776.3	\$3,721.2
4 Chemicals	\$2,855.1	\$2,855.1	\$0.0	\$2,855.1	\$2,855.1
5 Payroll	\$5,362.2	\$5,330.1	\$1,407.4	\$3,922.7	\$3,922.7
6 Materials & Supplies	\$608.4	\$575.5	\$0.0	\$575.5	\$543.1
7 Transportation	\$792.4	\$720.3	\$0.0	\$720.3	\$648.2
8 Pensions & Benefits:					
8a Vacation	\$539.3	\$347.4	\$347.4	\$0.0	\$0.0
8b Holiday	\$341.2	\$225.4	\$225.4	\$0.0	\$0.0
8c Sick Leave	\$209.5	\$118.7	\$118.7	\$0.0	\$0.0
8d Pension	\$479.1	\$450.0	\$0.0	\$450.0	\$420.9
8e Health Insurance	\$837.4	\$735.2	\$0.0	\$735.2	\$578.6
8f Dental Insurance	\$55.1	\$52.7	\$0.0	\$52.7	\$50.2
8g Uniform	\$21.2	\$21.2	\$0.0	\$21.2	\$21.2
8h Life Insurance	\$27.2	\$27.0	\$0.0	\$27.0	\$26.8
8i Long Term Disability	\$24.0	\$22.1	\$0.0	\$22.1	\$20.2
8j Materials and Supplies	\$12.9	\$12.9	\$0.0	\$12.9	\$12.9
Subtotal - Pension & Benefits	\$2,546.9	\$1,988.3	\$667.3	\$1,321.1	\$1,130.8
9 Uncollectibles @ 0.0877%	\$53.6	\$49.7	\$6.0	\$43.7	\$41.9
10 Franchise Fees @ 0.9734%	\$594.8	\$551.4	\$66.0	\$485.4	\$465.5
11 Other O&M Expense:					
11a Utilities and Rents	\$128.3	\$721.7	\$0.0	\$721.7	\$121.0
11b Outside Services	\$632.9	\$607.7	\$0.0	\$607.7	\$569.9
11c Miscellaneous	\$393.5	\$343.9	\$0.0	\$343.9	\$294.3
12 Conservation	N/A	\$652.0	\$0.0	\$652.0	\$652.0
13 Other A & G Expense:					
13a Property Insurance	\$14.8	\$12.5	\$0.0	\$12.5	\$8.1
Injuries and Damages (13b through 13d):					
13b Insurance	\$230.7	\$230.7	\$36.9	\$193.8	\$126.0
13c Workers Compensation	\$212.0	\$205.3	\$0.0	\$205.3	\$198.4
13d Materials and Supplies	\$5.5	\$5.2	\$0.0	\$5.2	\$4.8
14 Regulatory Commission	\$250.0	\$148.0	\$0.0	\$148.0	\$86.1
15 Miscellaneous	\$17.6	\$17.1	\$0.0	\$17.1	\$17.6
16 Outside Services	\$260.3	\$260.3	\$0.0	\$260.3	\$260.3
17 Utilities and Rents	\$19.9	\$19.9	\$0.0	\$19.9	\$19.9
18 Administrative Expense Transferred	(\$520.6)	(\$561.6)	\$44.6	(\$606.2)	(\$606.2)
19 Bank Charges	\$67.8	\$64.1	\$0.0	\$64.1	\$61.9
Subtotal	\$26,002.1	\$25,508.4	\$2,209.8	\$23,298.6	\$22,582.3
20 Allocated Common	\$4,142.2	\$3,486.7	\$224.3	\$3,262.4	\$3,029.2
21 LA Division Direct Payroll-GO	N/A	N/A	\$875.3	\$875.3	\$875.3
Total Operating Expense	\$30,144.3	\$28,995.2	\$1,558.9	\$27,436.3	\$26,486.7
22 Depreciation	\$4,233.2	\$4,085.8	\$1.3	\$4,084.5	\$3,825.3
23 Ad Valorem Taxes	\$2,255.0	\$1,421.0	\$0.4	\$1,420.6	\$1,978.5
24 Payroll Taxes	\$529.5	\$500.8	\$183.5	\$317.3	\$317.3
Total Expense before Income Taxes	\$37,162.0	\$35,002.7	\$1,744.0	\$33,258.7	\$32,607.8
Net Revenue Before Income Taxes	\$23,937.5	\$21,647.5	\$5,036.5	\$16,611.0	\$15,212.2
25 State Income Tax	\$1,605.6	\$1,413.8	\$568.6	\$845.2	\$726.7
26 Federal Income Tax	\$6,757.5	\$6,083.5	\$2,180.9	\$3,902.6	\$3,601.0
Total Expenses	\$45,525.1	\$42,500.0	\$4,493.5	\$38,006.5	\$36,935.4
Net Operating Revenues	\$15,574.4	\$14,150.3	\$2,287.1	\$11,863.2	\$10,884.6
27 Rate Base	\$141,735.8	\$128,773.2	\$1,268.6	\$127,504.6	\$116,701.6
Return on Rate Base	10.99%	10.99%		9.3%	9.3%

**Note: San Gabriel's revised figures reflect the use of October 2007 escalation factors. The use of particular escalation factors remains in dispute.**

**San Gabriel Valley Water Company  
Los Angeles County Division  
AVERAGE DEPRECIATED RATE BASE**

(Dollars in Thousands)

<u>Description</u>	<u>San Gabriel Application</u>	<u>San Gabriel Revised</u>	<u>Difference</u>	<u>DRA Revised</u>	<u>DRA Recommended</u>
<b><u>Test Year 2008-2009</u></b>					
Utility Plant	\$248,539.8	\$238,055.2	\$64.5	\$237,990.7	\$227,903.9
Depreciation Reserve	\$51,785.8	\$54,237.6	\$0.9	\$54,236.7	\$51,475.8
Net Utility Plant	\$196,754.1	\$183,817.6	\$63.5	\$183,754.1	\$176,428.1
Less:					
Advances	\$2,855.0	\$2,855.0	\$0.0	\$2,855.0	\$2,855.0
Contributions	\$47,238.6	\$47,238.6	\$0.0	\$47,238.6	\$47,238.6
Accumulated Deferred Income Taxes	\$13,818.0	\$13,716.7	\$1.1	\$13,715.6	\$13,887.9
Deferred Investment Tax Credit	\$193.6	\$193.6	\$0.0	\$193.6	\$193.6
Subtotal	\$132,648.8	\$119,813.7	\$63.7	\$119,750.0	\$112,253.0
Plus:					
Materials and Supplies	\$649.0	\$653.8	\$2.4	\$651.4	\$601.5
Operational Cash Requirement	\$29.7	\$26.7	\$0.0	\$26.7	\$29.7
Working Cash-Lead Lag	\$897.8	\$1,188.8	(\$90.5)	\$1,279.3	(\$1,895.5)
Tax on Advances and Contributions	\$583.8	\$583.8	\$0.0	\$583.8	\$583.8
Net Common Plant Allocation	\$6,926.7	\$6,506.2	\$1,292.8	\$5,213.4	\$5,129.1
Average Rate Base	\$141,785.8	\$128,773.2	\$1,268.6	\$127,504.6	\$116,701.6
<b><u>Test Year 2009-2010</u></b>					
Utility Plant	\$269,643.2	\$253,812.9	\$143.5	\$253,669.4	\$239,054.6
Depreciation Reserve	\$57,652.4	\$59,898.7	\$3.1	\$59,895.6	\$56,764.4
Net Utility Plant	\$211,990.7	\$193,914.1	\$140.3	\$193,773.8	\$182,290.2
Less:					
Advances	\$3,281.4	\$3,281.4	\$0.0	\$3,281.4	\$3,281.4
Contributions	\$48,701.4	\$48,701.4	\$0.0	\$48,701.4	\$48,701.4
Accumulated Deferred Income Taxes	\$14,864.5	\$14,701.1	(\$0.5)	\$14,701.6	\$15,061.7
Deferred Investment Tax Credit	\$181.9	\$181.9	\$0.0	\$181.9	\$181.9
Subtotal	\$144,961.6	\$127,048.3	\$140.8	\$126,907.5	\$115,063.8
Plus:					
Materials and Supplies	\$697.2	\$695.7	\$1.9	\$693.8	\$627.7
Operational Cash Requirement	\$29.7	\$26.7	\$0.0	\$26.7	\$29.7
Working Cash-Lead Lag	\$907.9	\$1,280.5	\$232.1	\$1,048.4	(\$1,805.7)
Tax on Advances and Contributions	\$584.3	\$584.3	\$0.0	\$584.3	\$584.3
Net Common Plant Allocation	\$8,173.6	\$6,982.0	\$1,618.2	\$5,363.8	\$5,202.0
Average Rate Base	\$155,354.4	\$136,617.5	\$1,993.0	\$134,624.5	\$119,701.8

**Note: San Gabriel's revised figures reflect the use of October 2007 escalation factors. The use of particular escalation factors remains in dispute.**

San Gabriel Valley Water Company  
**SUMMARY of ALLOCATION of COMMON EXPENSES**  
 and RATE BASE ITEMS to  
Los Angeles County Division @ 52.83%  
 (Dollars in Thousands)

	San Gabriel Application	San Gabriel Revised	Difference	DRA Revised	DRA Recommended
<u>Operating Expenses</u>					
Payroll Expense	\$1,740.8	\$1,730.6	(\$54.9)	\$1,785.5	\$1,587.6
Operation & Maintenance	\$50.2	\$50.6	\$4.0	\$46.6	\$42.9
Customer Accounts Expense	\$267.1	\$255.8	\$2.9	\$252.9	\$249.8
Administration & General	\$1,810.5	\$1,042.4	\$177.3	\$865.1	\$799.4
Payroll Taxes	\$139.9	\$155.0	\$40.6	\$114.4	\$115.4
Total	\$3,868.6	\$3,234.3	\$169.8	\$3,064.5	\$2,795.1
Bank Charges	\$67.8	\$64.1	\$0.0	\$64.1	\$61.9

Rate Base-Related Expenses

	Test Year 2008-2009		Test Year 2009-2010	
Depreciation	\$255.3	\$236.8	\$0.0	\$236.8
Ad Valorem Taxes	\$18.3	\$15.7	\$0.0	\$15.7
Total	\$273.6	\$252.4	\$0.0	\$252.4
Depreciation	\$290.0	\$252.7	\$0.0	\$252.7
Ad Valorem Taxes	\$20.0	\$18.0	\$0.0	\$18.0
Total	\$309.9	\$270.7	\$0.0	\$270.7

Total Test Year 2008-2009  
 Allocated Common expense  
 (excl. Bank Charges)

	\$4,142.2	\$3,486.7	\$169.8	\$3,316.9	\$2,992.8
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Rate Base

	Test Year 2008-2009		Test Year 2009-2010	
Utility Plant	\$8,715.6	\$8,242.4	\$1,304.3	\$6,938.1
Less: Reserve for Depreciation	\$1,788.9	\$1,736.2	\$11.4	\$1,724.8
Net Common Plant Allocation	\$6,926.7	\$6,506.2	\$1,292.8	\$5,213.4
Utility Plant	\$10,142.5	\$8,854.2	\$1,668.6	\$7,185.6
Less: Reserve for Depreciation	\$1,968.9	\$1,872.2	\$50.4	\$1,821.8
Net Common Plant Allocation	\$8,173.6	\$6,982.0	\$1,618.2	\$5,363.8

**Note:** San Gabriel's revised figures reflect the use of October 2007 escalation factors. The use of particular escalation factors remains in dispute.

San Gabriel Valley Water Company  
**SUMMARY of ALLOCATION of COMMON EXPENSES**  
 and RATE BASE ITEMS to  
 Fontana Water Company Division @ 47.17%  
 (Dollars in Thousands)

	San Gabriel Application	San Gabriel Revised	Difference	DRA Revised	DRA Recommended
<u>Operating Expenses</u>					
Payroll Expense	\$1,554.3	\$1,545.2	(\$9.0)	\$1,594.2	\$1,417.5
Operation & Maintenance	\$44.8	\$45.2	\$3.6	\$41.6	\$38.3
Customer Accounts Expense	\$238.5	\$228.4	\$2.6	\$225.8	\$223.1
Administration & General	\$1,616.6	\$930.7	\$158.3	\$772.4	\$713.8
Payroll Taxes	\$124.9	\$138.4	\$36.3	\$102.1	\$103.1
Total	\$3,579.1	\$2,887.8	\$151.7	\$2,736.1	\$2,495.8
Bank Charges	\$60.5	\$58.5	\$1.3	\$57.2	\$55.3
<u>Rate Base-Related Expenses</u>					
Depreciation	\$227.6	\$211.4	\$0.0	\$211.4	\$165.9
Ad Valorem Taxes	\$16.4	\$14.0	\$0.0	\$14.0	\$10.6
Total	\$244.3	\$225.4	\$0.0	\$225.4	\$176.5
<u>Test Year 2008-2009</u>					
Depreciation	\$258.9	\$225.6	\$0.0	\$225.6	\$168.9
Ad Valorem Taxes	\$17.8	\$16.1	\$0.0	\$16.1	\$10.7
Total	\$276.7	\$241.7	\$0.0	\$241.7	\$179.7
<u>Test Year 2009-2010</u>					
<u>Rate Base</u>					
Utility Plant	\$7,781.8	\$7,359.3	\$1,164.5	\$6,194.8	\$6,115.5
Less: Reserve for Depreciation	\$1,597.2	\$1,550.2	\$10.2	\$1,540.0	\$1,535.9
Net Common Plant Allocation	\$6,184.6	\$5,809.1	\$1,154.3	\$4,654.8	\$4,579.6
<u>Test Year 2008-2009</u>					
Utility Plant	\$9,055.9	\$7,905.6	\$1,489.8	\$6,415.8	\$6,259.6
Less: Reserve for Depreciation	\$1,757.9	\$1,671.6	\$45.0	\$1,626.6	\$1,615.0
Net Common Plant Allocation	\$7,297.9	\$6,234.0	\$1,444.8	\$4,789.2	\$4,644.6
<u>Test Year 2009-2010</u>					

**Note:** San Gabriel's revised figures reflect the use of October 2007 escalation factors. The use of particular escalation factors remains in dispute.

**San Gabriel Valley Water Company  
Fontana Water Company Division  
Escalation Year 2008-2009  
Incremental Rate Impact**

	<u>San Gabriel Application</u>	<u>San Gabriel Revised</u>	<u>Difference</u>	<u>DRA Revised</u>	<u>DRA Recommended</u>
<b><u>Expenses</u></b>					
This GRC	\$3,823,400	\$3,113,175	\$197,313	\$2,915,862	\$2,672,290
Adopted Rates (escalated)	\$3,326,097	\$3,326,097	\$0	\$3,326,097	\$3,326,097
Subtotal	\$497,303	(\$212,922)	\$197,313	(\$410,235)	(\$653,807)
<b><u>Rate Base</u></b>					
This GRC	\$6,184,600	\$5,809,134	\$1,154,314	\$4,654,820	\$4,579,626
Adopted Rates (escalated)	\$4,589,100	\$4,589,100	\$0	\$4,589,100	\$4,589,100
	\$1,595,500	\$1,220,034	\$1,154,314	\$65,720	(\$9,474)
Rate of Return	10.99%	10.99%		9.30%	9.30%
N-T-G Multiplier	1.744536	1.744536		1.744536	1.744536
Subtotal	\$305,850	\$233,907	\$223,244	\$10,663	(\$1,537)
Total Estimated Required Increase	\$803,153	\$20,985	\$420,557	(\$399,572)	(\$655,344)
Adopted 2008-2009 metered sales (Ccf)	20,791,181	20,791,181		20,791,181	20,791,181
Estimated Proposed Surcharge (\$/Ccf)	\$0.039	\$0.001		(\$0.019)	(\$0.032)
Current 2007-2008 Revenue (AL 350)	\$44,753,200	\$44,753,200		\$44,753,200	\$44,753,200
Estimated Proposed Increase	1.8%	0.0%		-0.9%	-1.5%

**Note: San Gabriel's revised figures reflect the use of October 2007 escalation factors. The use of particular escalation factors remains in dispute.**