

Decision 08-08-031

August 21, 2008

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 \$2,812,100 or 32.61% in 2008; by -\$178,700 or -1.51% in 2009; and by \$109,900 or 0.92% in 2010 in its Arden Cordova Customer Service Area.

Application 07-01-009
(Filed January 5, 2007)

And Related Matters.

Application 07-01-010
Application 07-01-011
Application 07-01-012
Application 07-01-013
Application 07-01-014
Application 07-01-015
(Filed January 5, 2007)

ORDER MODIFYING DECISION (D.) 08-01-043, GRANTING LIMITED HEARING ON THE RATE BASE ISSUE INVOLVING THE LA SERENA PLANT IMPROVEMENT PROJECT, AND DENYING REHEARING OF THE DECISION, AS MODIFIED, IN ALL OTHER RESPECTS

I. INTRODUCTION

Decision (D.) 08-01-043 (“Decision”) involves the general case of Golden State Water Company (“GSWC”) for the test year 2008, 2009, and 2010. This decision grants rate increases for seven districts in the Region 1 service area of GSWC.

Division of Ratepayer Advocates (“DRA”) timely filed an application for rehearing of the Decision. In its rehearing application, DRA argues the following legal error: (1) the findings in the Decision are not supported by the record evidence; (2) the Decision is not supported by the findings; and (3) the Commission imposes unjust and

unreasonable rate burdens in violation of Sections 451 and 454 of the Public Utilities Code.¹ Specifically, DRA challenges the determinations in the Decision regarding the overhead allocation rate;² the overhead pool account; the capital improvements projects involving site erosion control and site paving improvements at the La Serena Plant Site in GSWC's Santa Maria District; the recovery of moneys to install a basin water ion exchange at the Rosina Plant in the Los Osos District; the cost recovery for the increased capacity of the Orcutt Hill Reservoir and the Orcutt Well; Niles Study Upgrades and Improvements in the Simi Valley District; the main extensions in the Los Osos District; and the tank removal in the Simi Valley District.

A response to the rehearing application was filed by GSWC. The company opposes the rehearing application.

We have reviewed each and every allegation raised in DRA's application for rehearing, and believe that limited rehearing is needed to consider whether it is reasonable to include the \$3.7 million of La Serena Plant Improvement Project costs to GSWC's rate base. We also have modified the Decision for purposes of clarification as discussed below. However, rehearing of D.08-01-043, as modified, is denied in all other respects.

II. DISCUSSION

A. The findings in the Decision are supported by the record evidence.

DRA claims that the record does not support the Commission's determinations regarding the following: (1) overhead allocation rate for 2009, (2)

¹ All section references are to the Public Utilities Code, unless otherwise specified.

² In its rehearing application, DRA makes a broad and sweeping statement that the Commission "has [not proceed] in a manner provided by law." DRA made this argument in regards to its allegation regarding the overhead allocation rate for 2009. Specifically, the argument relates to DRA's claims that the record and findings do not support the Commission's determination on this issue. Thus, today's decision addresses this allegation in terms of the specific claims DRA makes regarding the adequacy of the record and the findings of fact.

GSWC's method for zeroing out the overhead pool account, (3) rate recovery to install equipment and enable Basin Water Ion Exchange at the Rosina Plant and to construct two pipelines from the Skyline and Pecho Wells to the Plant, (4) rate recovery to increase capacity of the Orcutt Well and the Orcutt Reservoir, (5) rate recovery for improvements to GSWC's distribution system in the Simi Valley District, (6) rate recovery for the main extensions in the Los Osos District, and (7) rate recovery for removal and destruction of crater tanks in the Simi Valley District. As discussed below, DRA's claims have no merit.

1. Overhead allocation rate for 2009 (All Districts)

In the Decision, we adopted 26.37% as the 2009 overhead allocation rate for GSWC's Region 1 Districts. (D.08-01-043, pp. 31-32.) DRA contends that the record does not support the Commission adoption of 26.37% as the 2009 overhead allocation rate for GSWC's Region 1 Districts. (Rehrg. App., pp. 2-4.) Specifically, DRA argues that the Commission relied on the settlement in D.07-11-037 and the underlying record for that settlement in A.06-02-023 which DRA alleges were not part of the record in this instant proceeding, A.07-01-009, et al. (Rehrg. App., p. 3.) In the alternative, DRA claims that even if the record underlying D.07-11-037 was part of the record in this proceeding, the Commission fails to explain how the two general rate cases are analogous. (Rehrg. App., p. 3.)

DRA is correct that in making our determination on this issue we looked to D.07-11-037 (see D.08-01-043, pp. 31-32), but DRA is incorrect that we relied on the actual record underlying that decision. Rather, we were guided by D.07-11-037 and the evidence we had before us in the instant proceeding. We acknowledge that the Decision is ambiguous as to what evidence we relied on. Accordingly, we will modify the Decision to make clear what the basis was for adopting 26.37% as the 2009 overhead allocation rate for GSWC's Region 1 Districts.

For purposes of clarification, the Decision is modified to remove the last paragraph in Section 7.15. Capital Budget Overhead on page 32, and replace this paragraph with the following language:

Therefore, in reviewing the various proposals and evidence submitted on this issue, we are not persuaded by either DRA's proposal of 20.82% or GSWC's proposal of 33.14% for 2009. Rather, we believe that the overhead allocation rate should be in the range between 20.82% and 33.14%. We note that in D.07-11-037, we adopted an overhead allocation rate of 26.37% for 2008, albeit for Region II. However, it is a number that was settled upon by DRA and Golden State in D.07-11-037. 26.37% is reasonably in the middle of the range provided by DRA and Golden State in the instant proceeding. The parties in their comments to the proposed decision offered no persuasive reason for not choosing a number that is in between the two proposals.

In addition, we remove the following sentence from the second to the last paragraph in Section 7.15. Capital Budget Overhead on page 32: "Likewise, Golden State's argument that the rates in Region II (A.06-02-023) should be adopted here is not persuasive because the Commission has adopted them in D.07-11-037."

Further, Conclusion of Law No. 25 is deleted, and we add the following new Findings of Fact to the Decision:

34. It is reasonable to adopt an overhead allocation rate of 26.12% for 2007 and 26.37% for 2008.
35. It is reasonable to adopt an overhead allocation rate of 26.37% for 2009 because it is within the range of figures proposed by DRA (20.82%) and Golden State (33.14%).
36. It is reasonable for the Commission to consider the 2008 figure adopted in D.07-11-037 in determining the overhead allocation rate for 2009.

2. Zeroing out the overhead pool account balance

DRA next contends that the record does not support the Commission's authorization of GSWC's method for zeroing out the overhead pool account by charging the entire balance to various capital projects at year end. Specifically, DRA argues that the record does not support the Commission's determination to authorize GSWC's zeroing out methodology without imposing corresponding annual limits on (1) the overhead pool account balance and (2) the amount GSWC may allocate to capital

projects when zeroing out the overhead pool account balance. (Rehrg. App., pp. 4-6.) DRA is merely rearguing evidence and, accordingly, DRA's contention of legal error has no merit.

The record evidence supports our authorization of GSWC's zeroing out methodology. In her prepared testimony, GSWC witness Eva Tang testified why the company's indirect capital costs are entitled to recovery in rates. (See Ex. GSWC (ALL)-18, pp. 3-5 (Tang Rebuttal/GSWC).) Further, this witness also explained why DRA's proposed methodology of requiring GSWC to write off these unallocated expenses each year was unreasonable. (Ex. GSWC (ALL)-18, pp. 3-5 (Tang Rebuttal/GSWC).) Accordingly, record evidence supports our determination and DRA's evidentiary challenge lacks merit.

DRA's argument regarding the record is more of allegation that the Commission erred in not adopting its recommendation and failing to be persuaded by the evidence DRA presented. (See generally, Rehrg. App., pp. 4-6.) DRA offers no legal grounds requiring such a reweighing of the evidence, and thus, permitting reconsideration of arguments it has already lost.

Further, DRA is asking the Commission to reweigh the evidence based on what DRA alleges is an inconsistency in the Decision on this issue. DRA's argument has no merit. The Decision does acknowledge DRA's concerns as follows:

Nevertheless, we share some of DRA's concerns. Specifically, we are concerned with ongoing over-allocation to the overhead pool account. In D.06-01-025, we directed Golden State to address this issue. We reiterate our directive and advise Golden State that it must improve the allocation process so that there is less of an annual discrepancy. By July 1, 2008, as part of Golden State's GRC for Region II, Region III and General Office, Golden State must present a better more robust allocation process or risk a Commission audit.

(D.08-01-043, p. 33.) DRA contends that the Commission contradicts itself by finding GSWC's zeroing out methodology to be a fair and straightforward means of addressing the over-allocation issue while also acknowledging these shared concerns with

DRA. (Rehrg. App., p. 5.) However, DRA misinterprets our expression of concern as being contrary to our determination. Our shared concern of over-allocation to the overhead pool account should not be mistaken for agreement with DRA on the ultimate determination of whether to authorize GSWC's zeroing out methodology. We are entitled to authorize GSWC's methodology while at the same time express concern over how the methodology is implemented in the future. Our expression of concern does not constitute legal error.

DRA further argues that the concern should be addressed in the instant proceeding if the Commission deems DRA's concerns valid. (Rehrg. App., p. 5.) However, addressing this matter in the instant proceeding, and prior to the implementation, is premature. Our expression of concern with the threat of an audit should be a sufficient warning to GSWC in terms of implementation.

3. Rosina Plant facility improvements and main extensions (Los Osos District)

DRA next contends that the record does not support the Commission's authorization of rate recovery to install equipment and enable Basin Water Ion Exchange at the Rosina Plant and to construct two pipelines from the Skyline and Pecho Wells to the Plant. However, record evidence exists to support authorization of the project as proposed by GSWC.³ (See Ex. GSW (ALL)-22, pp. 68-78 (Gisler Rebuttal/GSWC).) GSWC witness Ernest Gisler testified that components of this project are needed to provide the operational flexibility to handle nitrate contamination and seawater intrusion problems relating to the Los Osos Groundwater Basin. (Ex. GSW (ALL)-22, pp. 71-72

³ DRA argues that neither GSWC nor the Decision addresses or rebuts evidence that in 2004 the Department of Health Services ("DHS") found no contamination at the Pecho Well. (Rehrg. App., p. 8.) We authorized rate recovery for the Rosina Plant facility upgrades and main extensions after weighing evidence regarding the projects from both DRA and GSWC. The fact that we found GSWC's evidence in support of authorization more convincing does not result in legal error.

(Gisler Rebuttal/GSWC).) Accordingly, record evidence supports our determination and there is no basis for granting rehearing on this issue.⁴

4. Orcutt Well and Orcutt Hill Reservoir (Santa Maria District)

DRA next contends that the record does not support the Commission's authorization of rate recovery to increase capacity of the Orcutt Well and the Orcutt Reservoir. At issue is whether water needs for GSWC customers justify authorization of these projects. DRA's application cites evidence in support of their position that these projects are unwarranted. (Rehrg. App., p. 9.) Again, DRA is merely rearguing evidence and DRA's contention of legal error lacks merit.

The record evidence supports our determination to authorize rate recovery for both Orcutt projects. The prepared rebuttal testimony of GSWC's witness, Ernest Gisler, supports our determination. (See Ex. GSW (ALL)-22, pp. 100-109 (Gisler Rebuttal/GSWC).) For example, GSWC witness Ernest Gisler testified that the current Orcutt System "would not be able to maintain supply if more than one of the existing wells were to be lost or taken off-line during a period of Max Day Demand." (Ex. GSW (ALL)-22, p. 102 (Gisler Rebuttal/GSWC).) Regarding the Orcutt Reservoir, this witness testified that the one existing storage reservoir in the Orcutt System leaves the system "without redundant storage in case of an emergency or an extended power outage." (Ex. GSW (ALL)-22, p. 105 (Gisler Rebuttal/GSWC).) Accordingly, record evidence supports our determination and there is no basis for granting rehearing on this issue.

⁴ DRA also makes a broad Section 451 allegation in the context of their sufficiency of the evidence claim regarding these costs. Specifically, DRA alleges that the Decision "relies on an improper ratemaking standard, 'proactive treatment of water quality,' instead of reasonableness required by Section 451." (Rehrg. App., p. 8.) The allegation is vague, offered without specific legal grounds of error, and therefore does not comply with the requirements of Section 1732 and Rule 16.1(c) of the Commission's Rules of Practice and Procedure. Section 1732 requires the rehearing applicant to "set forth specifically the ground or grounds on which the applicant considers the decision or order to be unlawful." (Pub. Util. Code, §1732.) Commission Rule 16.1(c) states that "[an application] for rehearing shall set forth specifically the grounds on which the applicant considers the order or decision of the Commission to be unlawful or erroneous, and must make specific references to the record or law." (Code of Regs., tit. 20, §16.1, subd. (c).)

5. Niles study upgrade and improvements (Simi Valley District)

DRA next contends that the record does not support the Commission's authorization of rate recovery for improvements to GSWC's distribution system in the Simi Valley District. Record evidence supports our determination to authorize rate recovery for upgrades and improvements. (See Ex. GSW (ALL)-22, pp. 128-132 (Gisler Rebuttal/GSWC).) According to GSWC witness Ernest Gisler, "[t]he primary goal of the proposed Niles projects is to optimize the amount of groundwater that can be produced in the Simi Valley system." (Ex. GSW (ALL)-22, p. 130 (Gisler Rebuttal/GSWC).) This witness testified that wider distribution mains will allow current and future customer demand to be met with maximum groundwater production and utilization of existing facilities. (Ex. GSW (ALL)-22, pp. 129-130 (Gisler Rebuttal/GSWC).) Further, the witness testified that the proposed improvements will allow optimization of groundwater production in its own facility and, accordingly, increased system reliability for ratepayers through a reduction in purchased water from outside the local area. (Ex. GSW (ALL)-22, p. 130 (Gisler Rebuttal/GSWC).) Accordingly, the Decision has met the requirement of Section 1754(a)(4) and there is no basis for granting rehearing on this issue.

6. Cuesta-by-the-Sea loop closures (Los Osos District)

DRA next contends that the Commission erred in authorizing recovery for main extensions that will improve water circulation and fire flow by connecting dead-end lines in a 'looping' distribution system. However, there is evidence in the record to support authorization of the project in full as proposed by GSWC. (See Ex. GSW (ALL)-22, pp. 30-39 (Gisler Rebuttal/GSWC).) For example, GSWC witness Ernest Gisler testified that seven fire hydrants located on or near the dead-end lines do not currently meet minimum fire flow requirements. (Ex. GSW (ALL)-22, p. 32 (Gisler Rebuttal/GSWC).) According to this witness, improved water circulation resulting from the loop closure project will also prevent water stagnation and loss of chlorine residual in dead-end pips. (Ex. GSW (ALL)-22, p. 30 (Gisler Rebuttal/GSWC).) Thus, DRA's contention that the decision to approve this project is not supported by record evidence

lacks merit. Moreover, it is within our general authority to approve a project we determine, based on our analysis of the record, will protect the health and safety of the public.⁵

7. Crater tanks removal (Simi Valley District)

DRA next contends that the record does not support the Commission's authorization of rate recovery for removal and destruction of crater tanks in the Simi Valley District. According to DRA, the project could be completed at a significantly lesser expense than as proposed by GSWC. (Rehrg. App., p. 11.) However, record evidence exists to support authorization of the project as proposed by GSWC in order to complete the entire scope of the work necessary to remove the tanks and restore the site. (See Ex. GSW(SV)-3, pp. 126-134 (Simi Valley Workpapers/GSWC); Ex. GSW (ALL)-22, pp. 125: 22-26 to 126: 2-3, p. 128: 1-18 (Gisler Rebuttal/GSWC).) The fact that we found GSWC's evidence of the project costs convincing, rather than accepting DRA's argument and recommended rate recovery value, does not result in legal error. In addition, record evidence supports the Decision's stated concern regarding the imminent failure of these tanks due to deterioration. (Ex. GSW(ALL)-8, p. 114 (Gisler/GSWC).) Moreover, it is within our general authority to approve a project we determine, based on our analysis of the record, will protect the health and safety of the public.⁶

⁵ See e.g., Section 768 of the Public Utilities Code which provides in pertinent part: "The commission may, after a hearing, require every public utility to construct, maintain, and operate its line, plant, system, equipment, apparatus, tracks, and premises in a manner so as to promote and safeguard the health and safety of its . . . customers, and the public. . . . The commission may establish uniform or other standards of construction and equipment, and require the performance of any other act which the health or safety of its . . . customers, or the public may demand. . . ." See also *Hartwell Corp. v. Superior Court* (2002) 27 Cal. 4th 256, 272, which provides that the Commission has "the authority to adopt a policy on water quality and to take the appropriate actions, if any, to ensure water safety."

⁶ See discussion above regarding Section 768.

B. The Decision will be modified to include additional findings of fact.

DRA maintains that the Decision does not contain adequate findings and conclusions as required by Section 1705. Specifically, DRA claims the Commission failed to make findings to support its decision to (1) adopt a 2009 overhead allocation rate of 26.37% for GSWC's Region 1 Districts, and (2) authorize rate recovery to install equipment and enable Basin Water Ion Exchange at the Rosina Plant and to construct two pipelines from the Skyline and Pecho Wells to the Plant.

1. Overhead allocation rate for 2009 (All Districts)

A review of the Findings of Fact shows that there are no specific findings regarding the overhead allocation rate for 2009. However, as discussed above in Section A.1 and implemented below in Ordering Paragraph No. 1.c., we have addressed this issue by modifying the Decision to add Findings of Fact No. 35 and No. 36. Accordingly, with the addition of these findings, DRA's contention lacks merit.

2. Rosina Plant facility improvements and main extensions (Los Osos District)

A review of the Findings of Fact shows that there is a finding regarding the capital projects for each CSA as requested by GSWC, including the Rosina Plant facility improvements and main extensions, but the finding is not clear regarding the reasonableness of the projects. Accordingly, Finding of Fact No. 27 is modified as follows:

Golden State proposes a number of capital projects for each CSA. For the reasons discussed in this decision, we find reasonable and approve the capital projects for each CSA as proposed by Golden State with the exception of the request for costs associated with installation of services in the Ojai CSA.

C. A limited rehearing is granted on the issue of whether the \$3.7 million associated with the La Serena plant should be included in GSWC'S rate base.

DRA maintains that the Decision violates Section 454(a) by not addressing the reasonableness of what DRA alleges is \$3.7 million that may have been included in rate base without prior Commission review. The \$3.7 million is apparently project costs associated with GSWC's La Serena plant, and is separate from the \$107,000 of La Serena project costs for which the Decision authorized recovery. Specifically, the \$107,000 of costs authorized by the Decision is part of GSWC's 2007 capital budget and includes \$43,000 for landscaping and \$64,000 for site paving at the La Serena plant location. According to DRA, GSWC only sought recovery in this case for the \$107,000 of La Serena project costs and has improperly withheld presenting for rate review the \$3.7 million of La Serena capital costs. (Rehrg. App., pp. 6-7.)

In order to consider whether DRA's contention of legal error has merit, it is important to understand the greater factual and procedural context of the entire La Serena plant project as described in the record. The landscaping and site paving projects authorized in this decision are part of a larger La Serena Plant Improvement Project.⁷

In D.00-12-063 we authorized projects in the 2000 and 2001 capital budgets related to the La Serena Plant Improvement Project as follows:

2000 Capital Budget

1. La Serena Reservoir Seismic Improvements Project - \$42,000
2. La Serena Plant Complete Electric Upgrades - \$104,000

2001 Capital Budget

1. La Serena Automation and Telemetry - \$35,000

⁷ The data and treatment for costs associated with the La Serena Improvements Projects for capital budget years 2001-2006 described herein is provided in GSWC's data response. (Ex. DRA (ALL)-17, GSWC Data Resp. to AMX-26, Resp. 1 (March 20, 2007); see also Ex. DRA(SM)-1, DRA Report on the Results of Operations of GSWC Region 1: Santa Maria District for Test Year 2008 and Escalation Years 2009 and 2010, pp. 4-6 to 4-10.)

Since D.00-12-063, we have not approved any specific capital projects for the La Serena Plant Improvement Project. However, GSWC has made the following capital investments at La Serena:

2003 Capital Budget

1. La Serena Complete Electric upgrade w/ SCADA - \$250,000
 2. La Serena Booster D, Magna Drive, Yard Piping - \$65,000
 3. La Serena Seismic Improvements - \$30,000
- (These projects closed to the plant in 2006 for \$345,781)

2004 Capital Budget

1. La Serena Tank closed to plant in 2006 for \$300,960

2005 Capital Budget

1. La Serena Improvements - total GWO \$1,867,000 (includes \$287,000 - amounts deposited by the developers to help pay for the tank, booster, and electrical upgrades). As of 12/31/2006 \$1,811,147 had been closed to the plant, recorded CWIP was \$5,961, and GSWC forecasted an additional \$49,892 to be spent and closed in 2007.

2006 Capital Budget

1. La Serena Plant Upgrades 2006 (\$1,100,000). As of 12/31/2006 \$1,062,327 had been closed to the plant, recorded CWIP was \$2,936, and GSWC forecasted an additional \$34,737 to be spent and closed in 2007.

Accordingly, as noted by DRA,⁸ the La Serena Plant Improvement Project has developed a total budget of \$3,794,741.² Of this total, \$3,701,215¹⁰ is already closed to the GSWC plant account. As described above, we have authorized only \$181,000 of these costs in D.00-12-063.¹¹

⁸ Ex. DRA(SM)-1, DRA Report on the Results of Operations of GSWC Region 1: Santa Maria District for Test Year 2008 and Escalation Years 2009 and 2010, pp. 4-6 to 4-10.

² (\$42,000 + \$104,000 + \$35,000 + \$345,781 + \$300,960 + \$1,867,000 + \$1,100,000 = \$3,794,741) This total includes \$287,000 paid by the developers.

¹⁰ (\$42,000 + \$104,000 + \$35,000 + \$345,781 + \$300,960 + \$1,811,147 + \$1,062,327 = \$3,701,215)

¹¹ (\$42,000 + \$104,000 + \$35,000 = \$181,000)

The briefs of the parties and the record are not clear regarding whether, in addition to the \$107,000 of landscaping and site paving costs included in GSWC's 2007 capital budget, the \$3.7 million of La Serena Plant Improvement Project costs was before us for review and authorization in this proceeding. For example, GSWC witness Ernest Gisler's prepared testimony provides detailed descriptions of and needs for projects in each CSA for capital budget years 2007-2009, including the \$107,000 of landscaping and site paving costs for 2007, but does not similarly address the costs associated with the remainder of the La Serena Plant Improvement Project which were apparently budgeted in capital years prior to 2007. (See Ex. GSW(ALL)-8, pp. 9-143 (Gisler/GSWC).) Ultimately, based on review of the record, we were under the impression that only the \$107,000 of landscaping and site paving costs was before us for consideration. Accordingly, the Decision authorized the \$107,000 of costs but did not address the remainder of the \$3.7 million of La Serena Plant Improvement Projects costs.

DRA's rehearing application suggests that either (1) GSWC may have already included the \$3.7 million of costs in rate base without prior Commission approval, or (2) the Decision improperly authorizes rate base treatment, either directly or by inference, for the \$3.7 million without specifically ruling on the reasonableness of those costs. (See Rehr. App., pp. 6-7.) Neither of DRA's suggestions is correct. We did not rule on the reasonableness of the \$3.7 million of La Serena Plant Improvement Project costs in any prior decision, nor do we authorize rate base treatment, either directly or by inference, of the \$3.7 million in this decision. GSWC's Reply Brief indicated, and we accept, that the \$3.7 million of costs are not yet included in rate base. (GSWC Reply Brief, dated August 20, 2007, pp. 3-5.)

We hereby grant limited rehearing in order to consider whether it is reasonable to include the \$3.7 million of La Serena Plant Improvement Project costs to GSWC's rate base. Based on review of the record, as stated above, we were under the impression that only the \$107,000 of landscaping and site paving costs was before us for consideration. Limited rehearing will allow us to consider costs associated with the entire La Serena Plant Improvement Project in full context.

III. CONCLUSION

THEREFORE, IT IS HEREBY ORDERED that:

1. D.08-01-043 is modified as follows:
 - a. The last paragraph in Section 7.15. Capital Budget Overhead on page 32 is deleted and replaced by the following paragraph:

Therefore, in reviewing the various proposals and evidence submitted on this issue, we are not persuaded by either DRA's proposal of 20.82% or GSWC's proposal of 33.14% for 2009. Rather, we believe that the overhead allocation rate should be in the range between 20.82% and 33.14%. We note that in D.07-11-037, we adopted an overhead allocation rate of 26.37% for 2008, albeit for Region II. However, it is a number that was settled upon by DRA and Golden State in D.07-11-037. 26.37% is reasonably in the middle of the range provided by DRA and Golden State in the instant proceeding. The parties in their comments to the proposed decision offered no persuasive reason for not choosing a number that is in between the two proposals.
 - b. The third sentence from the first full paragraph on page 32 beginning with the words "[I]ikewise, Golden State's argument . . ." is deleted.
 - c. Conclusion of Law No. 25 is deleted, and the following new Findings of Fact are added:
 34. It is reasonable to adopt an overhead allocation rate of 26.12% for 2007 and 26.37% for 2008.
 35. It is reasonable to adopt an overhead allocation rate of 26.37% for 2009 because it is within the range of figures proposed by DRA (20.82%) and Golden State (33.14%).
 36. It is reasonable for the Commission to consider the 2008 figure adopted in D.07-11-037 in determining the overhead allocation rate for 2009.
 - d. Finding of Fact No. 27 is modified as follows:

Golden State proposes a number of capital projects for each CSA. For the reasons discussed in this decision, we find reasonable and approve the capital projects for

each CSA as proposed by Golden State with the exception of the request for costs associated with installation of services in the Ojai CSA.

2. A limited rehearing of D.08-01-043 is granted in order to consider whether it is reasonable to include the \$3.7 million of La Serena Plant Improvement Project costs to GSWC's rate base.

3. Except for the limited rehearing granted on the above issue, rehearing of D.08-01-043, as modified herein, is denied in all other respects.

This order is effective today.

Dated August 21, 2008, at San Francisco, California.

MICHAEL R. PEEVEY
President
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
TIMOTHY ALAN SIMON
Commissioners