BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

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In the matter of the Application of the Golden State Water Company (U133W) for an order authorizing it to increase rates for water service by $20,327,339 or 20.12% in 2010; by $2,646,748 or 2.18% in 2011; and by $4,189,596 or 3.37% in 2012 in its Region II Service Area and to increase rates for water service by $30,035,914 or 32.67% in 2010; by $1,714,524 or 1.39% in 2011; and by $3,664,223 or 2.92% in 2012 in its Region III Service Area.	Application 08-07-010 (Filed July 1, 2008)
And Related Matter.	Application 07-01-014 (Filed January 5, 2007)

SUPPLEMENTAL REPLY BRIEF
OF THE DIVISION OF RATEPAYER ADVOCATES

JASON ZELLER
DARRYL GRUEN

Attorneys for the Division of Ratepayer Advocates

California Public Utilities Commission
505 Van Ness Ave.
San Francisco, CA 94102
Phone: (415) 703-4673
Fax: (415) 703-2262

VICTOR CHAN

Analyst for the Division of Ratepayer Advocates

California Public Utilities Commission
505 Van Ness Ave.
San Francisco, CA 94102
Phone: (213) 576-7048

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SUPPLEMENTAL REPLY BRIEF
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I. INTRODUCTION

Pursuant to Rule 13.11 of the Rules of Practice and Procedure of the California Public Utilities Commission and the procedural schedule established in the Assigned Commissioner and Administrative Law Judge Rochester Ruling of January 29, 2010 the Division of Ratepayer Advocates ("DRA") hereby submits its supplemental reply brief in the above-captioned proceeding. DRA's reply brief responds to the arguments advanced by Golden State Water Company ("GSWC", or "Golden State") in its Supplemental Opening Brief. DRA's basic position on the issues in this case is discussed in detail in its Supplemental Opening Brief.

A. Pension Balancing Account

The chief issue facing the Commission regarding GSWC's pension expenses is whether GSWC should be permitted to establish a balancing account to track the difference between the amount included in rates for pension costs and the actual pension expenses recorded on its books? To date, Golden State has not met its burden of proof of establishing the need for this type of accounting treatment and thus granting GSWC's request for a balancing account for pension expenses is inappropriate. DRA explained its opposition to this treatment in its Opening Supplemental Brief, pages 2 – 11. Those arguments will not be restated in this Reply.

Instead DRA will use this Reply Brief to address erroneous or misleading information contained in GSWC's Opening Brief on pensions. To properly understand this issue DRA reiterates the importance of correctly using the applicable terminology that is used to describe pension obligations. Imprecision in how these terms are used may lead to false conclusions regarding how GSWC has recovered its pension costs in the past.

The key terms at issue, which GSWC often uses interchangeably or inappropriately to lead to false conclusions, consist of: (1) pension costs; (2) ERISA minimum funding requirements; and (3) pension plan contributions. A description of each of the three separate and distinct items was presented DRA's witness Ms. Ramas' Supplemental Direct Testimony as follows:

- **Pension Costs -** The pension costs are the amount of pension expense that would be required to be recorded on the Company's books under Financial Accounting Standard 87 (FAS 87). These amounts are determined through actuarial calculations and are derived by the Company's outside actuarial firm to be in compliance with FAS 87.
- **ERISA Minimum Funding Requirements -** This is the minimum amount of funding required to be made to the pension plan's assets. The Company's external actuarial firm will also calculate these amounts on the Company's behalf and the calculations for determining the minimum amount of required funding differs from

the calculation used to derive the pension expense to be recorded on the Company's books.

- **Pension Plan Contributions -** The Pension Plan Contributions are the amounts actually funded to the pension plan assets by the Company. The Company has a broad range of discretion in selecting how much it decides to contribute to its pension plan assets. While the actual contributions must at least equal the ERISA minimum filing requirements, they can be substantially greater at the Company's discretion.[1]

At page 11 of its Opening Brief, GSWC states that the Commission "…requested that GSWC submit an accounting for the period 1990 to the present showing (i) the pension benefit plan contributions authorized in past general rate cases and (ii) actual GSWC contributions." While this statement is correct, it does not fully address what was requested by the Commission. The Ruling also requested "A comparison of ERISA and FAS 87 calculations of employee pension and benefit amounts sought in this proceeding" and stated "To ensure there is no misunderstanding, I am seeking an accounting that will enable all parties to determine when and to what extent Golden State has been able to retain excess authorized contributions, and when and to what extent Golden State has been required to contribute in excess of the contributions authorized in rates." The Company's presentation would have one ignore what the required contributions are. Again, what GSWC is required to contribute are the *ERISA minimum funding requirements*.

For at least the period 1990 to date, GSWC has recovered pension costs in rates based on the FAS 87 accrual methodology (i.e., "*pension cost*") – both DRA and GSWC agree that the pension costs in base rates should continue to be based on this methodology.[2] The actual *pension plan contributions* GSWC made to its pension plan assets for the period 1990 through 2006 was equal to the *ERISA minimum funding*

[1] DRA/Exhibit 133 at 41-42.

[2] DRA/Exhibit 133 at 55; GSWC/220 at 2.

requirements and not the amount of *pension costs* recorded on its books.[3] For the period 2007 through 2009, GSWC decided to make *pension plan contributions* equal to its *pension costs* recorded on its books in that year.[4] Beginning in 2010, GSWC has again changed its funding methodology, electing to make *pension plan contributions* at an amount equal to its preceding year's *pension costs* instead of the then current year *pension cost* level.[5] This decision resulted in GSWC electing to make *pension plan contributions* for both 2009 and 2010 based on the 2009 *pension cost* amount recorded on its books, or $8,583,000.[6] This 2009 *pension cost* amount is substantially higher than each of the prior years presented (i.e., 1990 – 2008) and the forecasted subsequent years presented (i.e., 2010 – 2012)[7] and was dramatically affected by the market volatility that occurred during 2008, which has since largely reversed.

In considering to what degree the Company has recovered its past *pension costs* and *pension plan contributions* in rates the Commission should recognize that GSWC chose (at its own discretion) to make actual *pension plan* contributions: (1) at the *ERISA minimum funding requirement* level for the period 1990 – 2006; (2) at the *pension cost* level for the period 2007 – 2009; and (3) at the *pension cost* level lagged by one year for the period 2010 and going-forward. GSWC's Supplemental Brief states (at page11) that over the last 5 and 10 years it has contributed in excess of the amount authorized in rates by approximately $2.9 million and $3.1 million, respectively. GSWC then proceeds at page 12 of its reply brief to cite these "historical shortfalls" as a basis for the establishment of a two-way balancing account. However, the Commission should keep in mind in evaluating these amounts that during that historic 5-year and 10-year period cited by GSWC it chose to modify its *pension plan contribution* methodology and then

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[3] DRA/Exhibit 133 at 40.

[4] GSWC/Exhibit 212, Attachment A.

[5] Id. at 4 – 5.

[6] Ibid and Id. at Attachment A.

[7] GSWC/Exhibit 212, Attachment A

chose to modify it once again in 2010. GSWC's contention that it has not been adequately reimbursed by its ratepayers for what it contributed to its pension plan for 2008 and 2009 should not be used as justification or a basis for establishing a two-way balancing account for the recovery of pension costs.

The DRA presented a comparison of the Commission authorized *pension costs* included in rates to the *ERISA minimum funding requirements* over the period 1990 – 2009. This comparison showed that over last 5-year and 10-year period, Commission authorized *pension costs* included in rates exceeded the *ERISA minimum funding requirements* by $545,000 and $370,000 respectively.[8] DRA did not use this information to suggest that the methodology for determining the amount to be included in rates for pensions be changed. Rather, DRA recommends that the costs to be included in rates continue to be based on the FAS 87 *pension cost* methodology. The purpose of presenting the *ERISA minimum funding requirement* amounts for each year was to supplement GSWC's exhibits to ensure that all of the information specifically requested by the Commission in the Ruling was presented in the record.[9] It also demonstrates how GSWC's choice to modify its funding policies affected its recorded pension costs contributions and how that amount compares to what the Commission authorized in rates.

In addressing DRA's comparison of the actual *ERISA minimum funding requirements* to the amount of *pension costs* authorized for recovery in rates, at page 12 of its brief, GSWC states that the "..information provided by DRA is inaccurate and misleading, because the amounts shown in the 'Minimum ERISA Contribution' columns for the years 2008 and 2009 in DRA's Attachment 12 are not reflective of actual minimum ERISA contribution requirements…" This is not true as the amounts are, in fact, the minimum ERISA contribution requirements, which were provided by the Company to the DRA, and which were calculated by GSWC's external actuarial firm.

[8] DRA/Exhibit 133, Attachment 12.

[9] Id. at 40 – 41.

The DRA agrees that the calculation of the *ERISA minimum funding requirement* amount is affected by the actual funding status of the plan and agrees that GSWC's choice to fund in excess of those minimum requirements in 2007 through 2009 affects the calculation of the ERISA minimum funding requirements in each subsequent year. However, this does not in any way make the DRA's presentation "inaccurate" or "misleading" as GSWC contends. The amounts DRA reported are accurate and were calculated by GSWC's own actuarial firm.

While GSWC has made some inaccurate assertions and falsely accused DRA of presenting "inaccurate" information, overall this entire argument is largely irrelevant to the actual issue in dispute. As was noted earlier, the key issue is whether GSWC should be authorized to establish a balancing account for tracking and recovering pension costs. GSWC has not proven that it has historically under-recovered its pension costs to such a degree that the establishment of a pension balancing account is warranted. Additionally, as addressed thoroughly in DRA's Supplemental Opening Brief, the Commission should resist the temptation to establish a pension balancing account for GSWC. Simply put, the more of these types of revenue protection mechanisms (such as a pension cost balancing account) that are established for GSWC without any adjustment to its Return on Equity, the less incentive Golden State has to effectively manage the company since the effect of these balancing accounts is largely to ensure cost recovery regardless of the size of the expenditure. GSWC has failed to meet its burden of proof of establishing the need for this type of protection. Existing revenue estimation techniques have served both the Commission and GSWC well over the past two decades and should be continued.

B. GSWC Has Not Demonstrated the Need for a 1% Equity/Merit Adjustment

GSWC's Supplemental Opening Brief, at pages 20 – 22, provides a description of how GSWC's merit pool is distributed between the employees. GSWC indicates that "Notably, DRA's Supplemental Testimony does not even discuss GSWC's detailed eligibility standards for the 1% Equity Adjustment, let alone take issue with them.[10]" DRA did not take issue with GSWC's description of how it determines eligibility for merit increases and how the merit pool of funds is distributed. Instead DRA observed that the method used by the Company in its filing to calculate the merit adjustment by applying a 1% adder, or 1% merit adjustment, to all salary and wage costs artificially inflated the cost of this program and led to an estimate of expenses that greatly exceed the actual historic merit pool rewards that have been given to both GSWC and its affiliates combined.[11]

Regardless of how employee eligibility is determined and how the funds are distributed to individual employees, the proposed 1% equity adjustment contained is inappropriate and unduly generous. The salaries and wages included in the settlement agreement, which includes the allowance for the application of the DRA labor escalation factors to those salaries and wages, results in adequate salary and wage costs for GSWC. The additional application of a 1% equity adjustment, or 1% adder which GSWC has applied to all salaries and wages, is unnecessary as the DRA labor escalation factors already allow for adequate compensation increases overall. DRA has already addressed this issue in its Opening Brief and will not repeat those same arguments within this Reply.

In its concluding paragraph on this issue, GSWC states that "…the evidence shows that the merit adjustment is necessary to help GSWC attract and retain skilled, highly qualified employees…[12]" GSWC's "evidence" justifying this merit adjustment it long on rhetoric and short on specifics. For example, GSWC did not present any surveys or other evidence it has encountered difficulties in finding qualified personnel to work for the utility. In a time of economic hardship, GSWC needs to offer a compelling justification for this 1% equity adjustment. No such justification appears in its

[10] GSWC Supplemental Opening Brief at 22.

[11] DRA/Exhibit 133 at 61 and GSWC/Exhibit 217 at 2.

[12] GSWC Supplemental Opening Brief at 25.

application or Supplemental Opening Brief. If GSWC feels compelled to confer this type of largesse on its employees it should do so at its shareholders' expense, not via ratepayer service rates.

C. GSWC Has More Office Space Than it Needs and Has Not Configured its Existing Space Efficiently

In its Supplemental Opening Brief, GSWC continues to assert that both the "…GO West and GO East office buildings are and will continue to be fully utilized.[13]" GSWC states that the "…facts unequivocally demonstrate that GSWC is fully utilizing its rented General Office space and will continue to do so."[14] While GSWC may purportedly be "utilizing" all of the owned space at GO East and all of the rented space at GO West, GSWC has shown a remarkable lack of imagination or sound adherence to interior design principles in using its available space. Simply put, GSWC's General Office operations could have adequately operated with the GO East facility and 50% of the space it is renting at the GO West Facility.

GSWC attempts to justify the expanse of its President and CEO's office -- he has a 420 square foot office and his Executive Assistant has a 165 square foot cubicle – by claiming that the large office allows the CEO to have private meetings with his senior executives and allows for private work space.[15] While this level of spaciousness may be "pleasant" for GSWC's management team, the question at hand is it necessary and should it be the responsibility of Golden State's ratepayers to pay for this level of luxury? DRA submits GSWC could manage quite handsomely with much smaller executive office spaces. Devoting 585 sq. ft. combined to the President and CEO and his executive assistant is both extravagant and unnecessary. GSWC also contends its inefficient use of the approximately 720 square feet outside of the executive offices that holds only 2 employees, some filing cabinets and a "greeting area" is reasonable, stating that the

[13] Id. at 19.

[14] Id. at 15.

[15] Id. at 18 – 19.

"configuration of the area" does not allow it to be used for other purposes.[16] GSWC's argument is simply a bald assertion; no meaningful rationale was offered why this area could not be reconfigured to better utilize the large area of open and unused space.

In deciding this issue, the DRA recommends that the Commission consider the sizing of many of the offices contained at GO East and GO West. The GO East Building has a 420 square foot office for its President/CEO, three 240 square foot offices for senior executives, sixteen offices that range between 162 and 196 square feet and thirteen additional offices that range in size between 100 and 150 square feet.[17] The GO West facility has a 223 square foot office, a 219 square foot office, two 153 square foot offices, and four offices that range between 134 and 138 square feet in size.[18] Before renting the excessive and unnecessary space in GO West, GSWC should have redesigned its existing facilities in GO East and reduced the size of its executive suite. GSWC's ratepayers should pay for the cost of providing reasonably sized office space for its employees; unnecessary expenditures for luxurious, oversized office suites and under-utilized open space cannot be justified.

D. The Purchase Price and Construction Cost of Military Plant Assets Should be Included in Plant to Calculate the Four-Factor Formula

In thinking about the proper treatment of this issue, it is important to be mindful of the reality of GSWC's affiliates' military contracts. To perform these contracts, ASUS and its subsidiaries must maintain and operate extensive water service networks with thousands of individual connections. While only six military contracts are involved in these operations and ASUS does not deal directly with individual customers, it does have the burden of operating numerous large aging water systems. Thus, it is only reasonable that the four factor calculation reflect the full nature of ASUS' and its subsidiaries' obligations under these contracts. In addition, ASUS and its subsidiaries have also

[16] Id. at 18.

[17] DRA/Exhibit 133, Attachment 14.

contracted to build additional water and wastewater facilities on military bases. The new facilities that have been constructed by ASUS and its subsidiaries on those bases since entering into its initial military contracts --as part of various contract extensions—should be reflected deriving the four-factor allocation.

DRA will not repeat the compelling reasons it offered for including these facilities that appeared in its testimonies in this case[19] and in its Supplemental Opening Brief[20]. Neither GSWC's Supplemental testimony nor in its Supplemental Opening Brief have offered a compelling rationale for modifying DRA's position on the proper allocation of military contracts in the four-factor formula. The majority of the assertions made by GSWC in its Supplemental Opening Brief on this issue, at pages 3 through 8, have already been fully addressed in DRA's Supplemental Opening Brief. However, DRA has uncovered several inaccuracies and misleading information in GSWC's Supplemental Opening Brief that it will correct below.

In GSWC's first paragraph on this issue, GSWC states "GSWC contends that the plant assigned to ASUS for purposes of the four-factor allocation should be $1,184,464, representing assets that ASUS directly owns…; DRA argues that this figure should also include the escalated fair market value of the water distribution and wastewater collection systems located on the military bases and beneficially owned by the United States…"[21] GSWC's statement quoted above contains numerous errors. Instead of the $1,184,464 GSWC asserts that ASUS directly owns GSWC does not acknowledge that ASUS does, in fact, own the water and wastewater assets it acquired at the military bases. Additionally, DRA has not recommended that the "escalated fair market value" of the water and wastewater assets, which are in fact owned by ASUS, be included in the four-factor allocation <u>and</u> the assets are not "beneficially owned by the United States" as

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(continued from previous page)
[18] GSWC/Exhibit 211, Attachment A.

[19] DRA/Exhibit 107C at pp. 2-15 – 2-17 and DRA/Exhibit 133 at pp. 3 – 26.

[20] DRA Supplemental Opening Brief at pp. 16 – 25.

[21] GSWC Supplemental Opening Brief at p. 3.

GSWC would have the Commission believe. DRA recommends that what ASUS actually paid to acquire those assets and the actual construction costs for assets added subsequent to the initial acquisition be used to calculate the value of these assets.

Several of ASUS' contracts state that the purchase price of the assets represents the fair market value of the assets, thus the purchase price is not an "escalated" fair market value as GSWC contends. It is clear from the respective contracts the relevant sections of which have been provided into the record[22] that ASUS was acquiring the assets. Payments for the acquisition of the assets have been made over various periods in each of the contracts. The amounts paid and the payment period and terms are contained within the relevant sections of the confidential contracts that have been provided by the DRA in this case.[23] The amounts recommended by DRA for inclusion are the actual purchase price agreed to between the parties entering the contracts. While GSWC contends the assets are "beneficially owned by the United States", the title to the assets has transferred to ASUS through Bills of Sales, as specifically indicated within the contracts themselves. ASUS does own these assets (as evidence by the Bills of Sale) and the assets are maintained and operated by ASUS and its subsidiaries.

In the second paragraph addressing this issue, GSWC asserts that ASUS's "…ownership interest in these assets is significantly limited and does not fairly constitute 'ownership' for purposes of cost allocation in this proceeding…" GSWC then continues indicating that the ownership will revert back to the United States at the end of the contract life. The existence of the repurchase clauses or repurchase provisions and contract expirations 50-years out should not be given any weight in deciding this issue. At this time, and as projected throughout this general rate case term, ASUS and its subsidiaries will own, operate and maintain these assets, are constructing and adding new assets as shown in the various contract extensions, and will continue to do so into the foreseeable future. GSWC also maintains that "…none of the administrative functions

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[22] DRA/Exhibit 133C at Confidential Attachments 2 – 7.

[23] Ibid.

that are typically utilized to deal with the ownership of such infrastructure are impacted by ASUS' interest in the Military Plant."[24] While some of the typical accounting functions may not result from ASUS' ownership of the plant, such as depreciation accounting and property tax payments being made, these accounting functions are but a small or minute portion of the overall administrative functions conducted by GSWC at its General Offices.

The next misleading or incorrect area in GSWC's Supplemental Opening Brief appears on page 5, where GSWC states that "…23 of the cost centers that are subject to the four-factor allocation are potentially impacted by the plant factor, totaling roughly $16.5 million." It then continues "…due to the limited nature of ASUS' interest in the military plant, the administrative and general office functions reflected in these cost centers are not used by ASUS in connection with these assets." First, GSWC listed 22 cost centers totaling the "roughly $16.5 million"[25], not 23. Second, GSWC's statement is misleading because five of the 22 cost centers listed are not being allocated to the ASUS-military operations since the four-factor containing the ASUS-military operations is not even being applied to these costs centers. Thus, no costs from 5 of these 22 cost centers are being allocated to ASUS-military operations. The five cost centers listed by GSWC that are not allocated to ASUS's military operations in deriving the weighted four-factor are: 50 – Regulatory Affairs – Exec, 51 – Rate Cases, 52 – Tariffs & Special Projects, 56 – Regulatory BVES and 87 – PC Computer Operations – GSWC only.[26]

At page 6 of its opening Brief, GSWC continues this line of argument, specifically addressing the regulatory affairs functions and cost centers 50 – 52 and 56. Again, neither GSWC nor DRA are recommending that these cost centers be allocated, in any way, to ASUS' military operations in deriving the weighted four-factor for use in this case. Thus, the four-factor that would include the plant assets acquired by ASUS as part

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[24] GSWC Supplemental Opening Brief at page 5.

[25] GSWC/Exhibit 216 at pp. 6-7.

[26] DRA/ Exhibit 133, Attachment 1.

of the military contracts is NOT being applied to the GO regulatory affairs functions. DRA is mystified and dismayed that GSWC would attempt to mislead the Commission into believing that some of the regulatory affairs department cost are being allocated to ASUS' military operations under DRA's recommendations since this is not DRA's position or recommendation.

Next, GSWC attempts to assert that the water and wastewater assets ASUS' owns at the various military bases do not, in any way, impact the accounting, finance and tax cost centers, the employee development and human resources cost centers, or the information technology cost centers .[27] While the water and wastewater plant and assets owned by ASUS may not be recorded on GSWC's books or depreciated by GSWC, this does not mean that ASUS' ownership of the assets does not affect General Office cost centers or departments. ASUS and its subsidiaries are maintaining those assets, replacing many of the assets, and are constructing and operating additional assets at the military bases, as is evident from the contracts and the numerous contract modifications.[28] GSWC's General Office provides numerous corporate and supportive functions to the GSWC's regional centers, as well as to ASUS' operations, including the military operations. This is addressed by the DRA in its Supplemental Testimony and Supplemental Opening Brief.[29]

Another inaccuracy appears on page 8 of GSWC's Supplemental Opening Brief. In addressing the General Office Risk Management cost center, specifically as it pertains to insurance premiums, GSWC states: "According to DRA's calculation, the Military Plant accounts for $42,632 in premiums for this coverage." It then provides a citation to DRA Supplemental Testimony (Ramas) at Confidential Exhibit 7 for the statement. This is a false statement as DRA provided no such calculation or exhibit containing any calculation of the nature asserted by GSWC. Attachment 7 to the DRA Supplemental

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[27] GSWC Supplemental Opening Brief at pp. 6-7.

[28] The various contracts and contract extension were provided by GSWC to the Commission under seal.

[29] DRA/Exhibit 107 at pp. 2-13 – 2-15; DRA/Exhibit 133 at pp. 17 – 21; DRA Supplemental Opening

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Testimony of Ms. Ramas (DRA Exhibit 133-C, Attachment 7) consists of pages from the Andrews Airforce Base contract. GSWC's argument is unfounded, not based on factual information, definitely not based "DRA's calculations" and would have the Commission ignore other functions performed by the General Office Risk Management department that benefit ASUS and instead GSWC attempts to limit the Commission's review to the cost of insurance only.

The larger question facing the Commission is how to properly allocate common expenses between GSWC's captive ratepayers and ASUS and its subsidiaries for their military contracts and operations. Despite GSWC's protestations to the contrary, the contracts ASUS and its subsidiaries have signed with the military confer most of the characteristics of a traditional water utility on ASUS and its subsidiaries. ASUS and its subsidiaries own the facilities involved and are building new facilities with the attendant overhead associated with new construction. The value of the plant involved in these contracts is substantial and while ASUS does not individually respond to customer complaints and bills on those bases, it does individually respond to leaks, service disruptions and other problems involved in maintaining and operating these facilities. The notion that all of this operations, maintenance and construction activity does not lead to substantial overhead expenses at GSWC's corporate headquarters belies the scope and breadth of ASUS's responsibilities under these contracts. The four-factor formula already readily accounts for those areas where military contracts do not lead to overheads such as regulatory affairs and customer service.

E. Regulatory Expenses

The revised Scoping Memo requests that the parties address two specific questions related to regulatory expenses: (1) "how have regulatory expenses been recovered in the past?"; and (2) "What, if anything has changed?"[30]

(continued from previous page)
Brief at pp. 22-23.

[30] Revised Scoping Memo at Page 5.

In this section of the brief, DRA will address the revised scoping memo in several sections. First, DRA will briefly address whether deferred regulatory expenses have been recovered in the past. Second, DRA will show what has changed to raise the issue of deferred regulatory expense recovery not being allowed at this point. Third, DRA takes issue with GSWC's assertion that the Commission has changed its policy away regarding the treatment of deferred regulatory costs. Fourth, DRA will emphasize that CH2MHILL expenses should not be allowed. Finally, DRA clarifies one of its arguments made in the opening brief. Each of these points are addressed in order.

1. GSWC's Practice of Recovering Deferred Regulatory Expenses Is Not Consistent With How These Expenses Have Been Recovered in Other Proceedings

GSWC's Supplemental Opening Brief states that its "long-standing practice has been to record its regulatory expenses as deferred expenses (in PUC Account 146-Other Deferred Debits) during the preparation and processing of a general rate case and then amortize these costs over the rate case cycle (as Regulatory Expenses-PUC Account 797) once the rate case is approved and new rates are in effect."[31]

DRA has objected to this approach, noting that the Commission has traditionally expected utilities to forecast regulatory expenses on a prospective basis. In a decision over the California American Water Company General Rate Case (Cal Am GRC), the Commission unconditionally concluded "Regulatory expense is included in revenue requirement on a forecasted basis[32] In the Cal Am GRC decision, Cal-Am requested to recover actual costs of litigating the proceeding at hand.[33] However, the Commission denied the utility's request for such costs, stating, "absent a memorandum account, the Commission may not grant a three-year amortization period for regulatory expenses used

[31] GSWC Supplemental Opening Brief at Page 26, GSWC.

[32] D.09-07-021, Conclusion of Law Number 24.

[33] Id. at 72.

in this proceeding".[34] GSWC's approach of requesting deferred regulatory expenses overturns this precedent and undermines the concept of relying on a future test year to set utility rates.

2. Changes That Prompt Raising Regulatory Expense Recovery as an Issue Now

The second question from the Amended Scoping Memo calls for the parties to address, what, if anything, has changed with regard to how regulatory expenses are recovered.[35] First, DRA has only recently learned for the first time of GSWC's extended history of seeking recovery of deferred regulatory expenses. Second, GSWC claims that Commission policies are changing from allowing recovery of deferred regulatory expenses to not allowing such recovery.[36] Commission policies have not changed in this area. Instead the Commission has rarely allowed utilities to recover deferred regulatory expenses. These two points will be discussed in turn.

a) The Change: DRA Has Recently Learned of GSWC's Assertion that it has an Extended History of Recovering Deferred Regulatory Expenses During Each GRC

GSWC asserts it has a "long-standing process to record its regulatory expenses as deferred expenses during preparation and processing of a general rate case. . ."[37] GSWC then mischaracterizes DRA's position as disagreeing that the applications were on the basis of deferred expenses only because GSWC could not determine whether these regulatory expenses were litigated or settled.[38]

In spite of GSWC's assertion, DRA's position is that GSWC's prior applications did not claim deferred regulatory expenses because GSWC has never provided an

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[34] Id.

[35] Revised Scoping Memo at Page 5.

[36] GSWC Supplemental Opening Brief at Page 27.

[37] GSWC Opening Testimony at Page 26.

[38] Id.

application that requested authorization for *deferred* regulatory expenses. GSWC takes the view that the Commission has historically authorized its requests for deferred regulatory expenses. Yet it fails to cite any decision where it has been granted any memorandum account to track regulatory expenses on a retroactive basis. Furthermore, GSWC is in a position to make this argument because it has consistently failed to communicate with the Commission and with DRA in its applications and testimony that it was actually applying for authorization of *deferred* regulatory expenses. Indeed, DRA first learned of GSWC's practice of claiming deferred regulatory expenses in response to a data request made on September 23, 2008.[39] Although the Data Request had an open ended question regarding recorded regulatory expenses, GSWC's answer used the term "*Deferred* Rate Case Expenses Account".[40]

GSWC claims that Mr. Keith Switzer's testimony demonstrates that "GSWC's recovery of regulatory expenses have been consistently based on amortizing deferred expenses".[41] GSWC's Supplemental Testimony (Switzer) Appendices A through C are examples of past applications that GSWC provided showing the language Golden State used to request recovery of regulatory expenses. Two of the applications used this language: "The projection of regulatory commission expense is based on amortizing the estimate costs of the current rate case over a three year period." The other application discussed "prorating of total expense over a five year period." See Appendix B, Page 2, Item 4; Appendix c, Page 2, Item 4; and Appendix D, Page 2, Item 4. Thus, Mr. Switzer's testimony actually shows that GSWC never used the term "Deferred" to refer to regulatory expenses in any of its applications, instead the quoted language above requests prospective recovery of these expenses. Indeed, each application cited by GSWC omitted the word "deferred" when referring to regulatory expenses.[42] What

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[39] DRA Supplemental Testimony Exhibit 131, Eric Matsuoka, Page 7.

[40] Id.

[41] GSWC Opening Brief at Page 27.

[42] GSWC Supplemental Testimony Appendices C through F provide examples of applications showing the language GSWC used to request recovery of regulatory expenses. Each application said, "The

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DRA's testimony actually stated was that GSWC's prior and current applications and testimonies for regions II and III do not use the term "deferred" to refer to regulatory expenses.[43]

GSWC claims that DRA has specifically recommended and requested that GSWC recover regulatory costs on a deferred basis in this rate case.[44] The contention is incorrect because DRA never made a recommendation using the term "deferred". Just as it has done in the past, GSWC failed to make clear that such expenses were, in fact, deferred. Moreover, if DRA knew that GSWC would make an issue about deferred regulatory cost with one small contract to justify seeking recovery for all their other GRC regulatory expenses, DRA would never have agreed to put these dollars in the test year forecast. Instead, DRA would have insisted that GSWC submit an Advice Letter to recover the costs through a surcharge such as the Commission did with California Water Service Company in Application 07-07-001.[45]

b) GSWC Incorrectly Argues That a Commission Policy Is Changing

GSWC asserts that Commission decision stating that regulatory expenses should be covered over the next rate cycle is a shift from past policy.[46] However, the Commission has stated otherwise regularly. For example, D.04-06-018 cited D.92-03-094 in stating, "It is a well established tenet of the Commission that ratemaking is done on a prospective basis."[47] Another decision stated "absent a previously authorized memorandum or balancing account, the Commission's longstanding,

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projection of regulatory commission expense is based on amortizing the estimated cost of the current rate case over a three year period."

[43] DRA Supplemental Testimony Exhibit 131, Eric Matsuoka, Pages 6 and 7.

[44] GSWC Supplemental Opening Brief at Page 27.

[45] See D. 08-07-008, ordering paragraph 25.

[46] GSWC Supplemental Opening Brief at pages 27 and 28.

[47] See D.04-06-018 at page 26; and Exhibit 131, DRA Supplemental Testimony (Matsuoka) at Pages 3 and 4.

consistent practice is to set rates based on forecasted expenses."[48] GSWC contention to the contrary is simply inaccurate; no such exception exists that applies to recovery of deferred regulatory expenses.[49]

GSWC relies upon the uniform system of accounts to claim that the Commission has previously allowed recovery of deferred regulatory expenses.[50] The Uniform System of Accounts Number 146 provides in part that, "This account shall include all debits . . .and unusual or extraordinary expenses, not included in other accounts, *which are in process of amortization*.[51] Although the section allows the utility to furnish full information as to each deferred debit included in this section,[52] such debits must be in the process of amortization, as provided by Section A of this account. GSWC is not properly applying "deferred debit" from Account 146 to this application because regulatory expenses from the past GRC are not currently being amortized by GSWC. Although it is titled "Other Deferred Debits", Account 146 is consistent with Commission's longstanding policy that no deferred regulatory expenses should be recoverable unless the Commission formally authorizes them to be tracked through a memorandum or balancing account.

3. The Commission Should Deny GSWC's Request to Recover CH2MHILL Costs

DRA maintains that the Commission should disallow expenses for its outside engineering consultant CH2MHILL for several reasons. First, CH2MHILL expenses are non-recurring.[53] Second, GSWC incurred CH2MHILL's expenses in 2007,[54] and GSWC

[48] See D.03-06-036 at Page 4. Also see GSWC Supplemental Opening Testimony (Switzer) at Pages 9 and 10.

[49] Id.

[50] GSWC Rebuttal Testimony of Keith Switzer, at Page 8.

[51] Uniform System of Accounts, Account 146, Section A.

[52] Uniform System of Accounts, Account 146, Section B.

[53] Exhibit 102, DRA Original Testimony (Matsuoka) at Page 26.

[54] Exhibit 131, DRA Supplemental Testimony (Matsuoka) at Page 6.

did not present a previous authorized memorandum or balancing account to retroactively seek recovery for this expense.[55]

GSWC points out that the proposed decision granted recovery of $200,000 in Region II and $250,000 in Region III for these costs. As already stated, DRA disagrees with that holding. However, if the Commission allows GSWC to recover any of these costs in the final decision in this case, DRA respectfully requests that the decision incorporate a break-down and line-item explanation of the costs that Commission allows GSWC to recover. Absent such a detailed explanation, the Commission's rationale for authorizing these expenses will remain unclear.

4. GSWC Mischaracterizes DRA's Arguments

GSWC has falsely alleged that DRA mischaracterizes GSWC's accounting for regulatory expenses.[56] Instead, DRA's position is that GSWC has been wrongly booking all regulatory commission expenses for A.08-07-010 in Account Number 146 in a manner that is inconsistent with the Uniform System of Accounts and past Commission practice.[57]

GSWC acknowledges that it "books all of its regulatory costs to Account 146 pending the final decision of the Commission as to the authorized amount to recover in rates."[58] DRA has objected to this practice because Account 146 measures assets, not expenses.[59] In other words, by booking regulatory expenses into Account 146, GSWC is improperly recording these expenses as regulatory assets instead of merely as overhead costs which is what they actually are.

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[55] Exhibit 102, DRA Original Testimony (Matsuoka) at Page 26.

[56] GSWC Supplemental Testimony (Switzer) at Page 30.

[57] Exhibit 131, DRA Supplemental Testimony (Matsuoka) at Page 10.

[58] GSWC Opening Brief , p. 30.

[59] See Uniform System of Accounts Page 16. Page 16 classifies Account 146, entitled "Other Deferred Debits", under the broader category of "Assets and Other Debits". "Other debits" are really a kind of asset. Therefore, Account 146 only measures assets. For further discussion on this point, See DRA Supplemental Testimony (Matsuoka) Exhibit 131, Pages 10 and 11.

GSWC responds that "if incurred costs exceed the amount authorized by the Commission, then GSWC does not amortize that portion. Instead, those additional costs are immediately expensed and written off."[60] However, DRA maintains that Account 146 is used to recover only those projected expenses that the Commission adopts based upon what a utility requests in each application. In this application, GSWC is not booking projected expenses, but only ones already incurred.

Rather than improperly recording all of its regulatory expenses into Account 146, which measures regulatory assets, GSWC should await guidance from the upcoming decision for A.08-07-010 as to whether any regulatory expenses are justified, and if so, how much.

If the Commission follows its past practice when it issued a final decision in this case it will authorized GSWC to recover regulatory costs *on a going-forward basis* for 2010 and the subsequent two years—it will not authorize the recovery of already incurred expenses.[61] GSWC is actually recording regulatory commission expenses in account 146 *prior* to Commission authorization is inconsistent with the provisions of the Uniform System of Accounts. The Uniform System of Accounts provides that GSWC should record regulatory commission expenses in account 146 only *after* Commission approval or direction.[62]

5. Conclusion

DRA recommends that the Commission authorize total regulatory expenses of $704,000 for region II, and $712,800 for region III.[63] DRA also recommends that the Commission observe existing policy that only projected expenses be recoverable. Next, DRA recommends that the Commission recognize that GSWC has not been authorized to recover deferred regulatory expenses in the past. Fourth, DRA recommends that the

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[60] GSWC Supplemental Opening Brief at Page 30.

[61] GSWC Opening Brief at Page 30.

[62] See Uniform System of Accounts Section 797B.

[63] DRA and GSWC have settled upon the amount that General Office should recovery in regulatory

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Commission deny GSWC's recovery of CH2MHILL costs from 2007 in Regions II and III.

F. Exhibit 121

1. Background

The Revised Scoping Memo requested that parties address the effect of Exhibit 121 on water supply sufficiency issues. Exhibit 121 is a September 12, 2008 e-mail from Cindy Forbes of the California Department of Public Health ("CDPH") that was addressed to Victor Chan of DRA. The substance of this e-mail consists of Ms. Forbes' answers to DRA's questions regarding California Code of Regulations Title 22, Section 64554(c).[64]

After the Commission issued the Revised Scoping Memo, DRA requested and received clarification of CDPH's interpretation of Section 64554(c).[65] By contrast GSWC waited until well after the rebuttal testimony was due to request permission from the Commission to submit the guidance it received from CDPH on this issue.[66] DRA has earlier noted its objection to allowing GSWC's letter from CDPH into the record and reiterates that position here.[67]

This section of the supplemental reply brief rebuts GSWC's position on when the Commission should impose firm capacity requirements. First, given that GSWC conceded DRA's interpretation of California Code of Regulations Title 22, Section 64554(c) is correct,[68] there is no legal requirement for systems with existing permits or non-groundwater sources to meet maximum day demand with the highest capacity source offline. Second, Commission General Order 103A provides no

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expenses.

[64] See attachment A of DRA's supplemental opening brief.

[65] See attachment B of DRA's supplemental opening brief.

[66] Attachment C of DRA's supplemental opening brief is the tardy letter from CDPH to GSWC.

[67] Attachment D of DRA's supplemental opening brief articulates the reasons for the objection in detail.

[68] GSWC supplemental opening brief, Page 38.

justification for GSWC's interpretation of the firm capacity rule. Third, several additional considerations refute GSWC's final argument that its view of firm capacity is good practice. Finally, this section will emphasize that systems such as Norwalk, Florence-Graham and Apple Valley South need not meet Maximum Day Demand with the highest capacity source offline. Each of these points are discussed in turn.

2. GSWC Requests a Broad Policy Shift Regarding the Definition of Firm Capacity With No Legal Basis

CCR Title 22, Section 64554(c) applies only to those systems that exclusively rely on groundwater, or to newly proposed groundwater only systems that need new initial permits. The regulation states that these types of systems must be capable of meeting maximum day demand with the highest capacity source offline. Therefore, systems with existing permits or systems which have non-groundwater sources of supply do not have to be able to meet maximum daily demand (MDD) with an alternative source if the primary source is not online.

GSWC confusingly contends that CDPH will enforce standards set forth in Section 64554(c) to all systems in the event any problem arises due to the lack of Firm Capacity in a given system.[69] However, this position implies that systems must provide potable drinking water with the highest capacity source offline even though no rule requires this. CDPH may require a system to have an additional source of capacity, but only if the system fails to provide drinking water that is pure, wholesome, and potable at all times.[70] Therefore, no legal basis exists to support GSWC's view of firm capacity.

3. Water Systems with Existing Permits or Water Systems with Non-Groundwater Sources of Supply Must Have All Sources of Capacity Counted

GO 103A Section II.2.B.3.a, entitled "Potable Water System Capacity" provides that:

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[69] GSWC supplemental opening brief, Page 39;

[70] Cal. Public Health & Safety Code Sections 116270(e), 116350, and 116540.

> "A system's facilities shall have the capacity to meet the source capacity requirements as defined in the Waterworks Standards, CCR Title 22, Section 64554, or its successor. If, at any time, the system does not have this capacity, the utility shall request a service connection moratorium until such time as it can demonstrate the source capacity has been increased to meet system requirements."

The only time GO 103A applies is when a utility is proposing a new groundwater only system that will be unable to meet maximum daily demand if the primary source is not operating. It is inapposite to any of GSWC's existing districts.

4. GSWC's View That Firm Capacity Is Good Practice Is Invalid on a Number of Grounds

Given that DRA's interpretation of Section 64554(c) is correct, GSWC's entire argument for the Commission to shift its policy boils down to its view that enhancing its Firm Capacity capabilities is a good practice.[71] However, this view must not sway the Commission for numerous reasons. First, Commission precedent is already against adopting GSWC's view of firm capacity. Second, GSWC's request to adopt its view of firm capacity at a policy level would prevent the Commission from evaluating whether the facts of a particular system merit an additional source. Third, even if the Commission agreed to adopt GSWC's view of firm capacity, this GRC is not the proper procedural vehicle to do so. Finally, a Commission policy of firm capacity would be too expensive for ratepayers. Each of these reasons shall be discussed in turn.

a) GSWC's View of Firm Capacity Has Never Been Accepted by the Commission.

The Commission has rejected GSWC's request to adopt its view of firm capacity before.[72] The new rules have very limited application; GSWC has not offered any new reasons as to why the Commission should change from existing precedent to adopt its view of firm capacity as a policy.

[71] GSWC supplemental opening brief, Page 39.

[72] D.06-01-025, Pp. 47-48.

b) Granting GSWC's Request Would Unnecessarily Constrain Future Commission's Ability to Consider All Facts of a Specific System Before Determining Whether Each System Reliably Meets Demand

CDPH already employs its independent judgment through system inspections to determine when a system does not provide adequate potable water and requires improvements such as additional capacity sources.[73] Traditionally, DRA has supported system improvements when CDPH has formally said they are necessary. However, if the Commission were to adopt a broad policy that supports an expanded firm capacity requirement the Commission would – in effect -- require additional sources of capacity for systems even when CDPH did not think it was necessary. For this reason, adopting a policy supporting firm capacity preempts the ability for the Commission to consider CDPH's judgment on a case by case basis. What GSWC is proposing – in essence—is Commission authorization of its plan to build redundant capacity; something that is both unnecessary and potentially quite costly to its customers.

GSWC should maintain its systems in a manner consistent with its Urban Water Management Plans and system specific Water Master Plans. Regular system review and maintenance minimizes the chances of an existing source of supply going offline. Therefore, a broad policy requiring supplemental firm capacity would prevent the Commission from considering whether a minimal risk of losing sources of capacity justifies requiring additional ones.

In the unlikely and rare event a source actually does go offline most systems have redundant capacity already available such as emergency connections to other neighboring water purveyors or storage. GSWC's existing districts have rarely failed to provide adequate water even in the rare circumstance that a source of capacity goes offline. A policy requiring firm capacity in all cases prevents the Commission from considering

[73] As an example, see California Department of Health Services Division of Drinking Water Annual Inspection Report, Attachment 6 to Rebuttal Testimony of Ernest A. Gisler, submitted April 6, 2009.

whether the consequences of a source temporarily being unavailable justifies requiring additional permanent sources and their attendant expenses.

In short, a broad policy of firm capacity precludes the Commission from considering relevant facts about each system, and exercising sound judgment about whether each system needs additional sources of capacity.

c) A Commission Policy of Firm Capacity Would Be Too Expensive For Ratepayers

The Commission has already recognized that GSWC's request to establish a policy of firm capacity would create a substantial increase in rates for ratepayers.[74] Even CDPH's letter in response to GSWC recognizes funding limitations to firm capacity related improvements.[75] Throughout its testimony and its brief, GSWC has failed to recognize this fundamental point. The need to avoid excessive and unnecessary capital expenditures is another reason that agencies such as the Commission and CDPH should exercise careful judgment on a case by case basis before requiring expensive investment in additional supply redundancy.

d) Even If the Commission Agreed to Adopt GSWC's View of Firm Capacity, This GRC Would Not Be the Proper Procedural Vehicle to Do So.

The Commission institutes rulemaking proceedings in order to, "adopt, repeal, or amend rules, regulations, and guidelines for a class of public utilities or of other regulated entities".[76] If the Commission decided to open such a rulemaking it would be in a position to consider the merits of a revised firm capacity rule. The instant case is not the proper forum to make this kind of policy determination.

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[74] D.06-01-025, P. 47.

[75] See attachment C of DRA's supplemental opening brief, page 2.

[76] State of California Public Utilities Commission Rules of Practice and Procedure, Rule 6.1(a).

5. Firm Capacity Does Not Apply to Norwalk, Florence-Graham and Apple Valley South Systems

Because a requirement to have a supplemental source of firm capacity should not be adopted as a policy, none of the specific systems under review in this proceeding should be required to have a supplemental source of firm capacity. Moreover, the particular systems at issue in this proceeding either have non-groundwater sources of supply or existing permits, which means they are not required to meet MDD with the primary source offline. For example, DRA's testimony noted that the Norwalk and Florence Graham systems use both groundwater and non-groundwater sources of supply.[77] DRA testimony also pointed out that Apple Valley South System is not in the process of being granted an initial permit.[78] Therefore, contrary to its assertion,[79] GSWC has failed to demonstrate that improvements to these systems are necessary.

6. Conclusion

GSWC provides no legal or regulatory requirement that systems with existing permits, or systems with non-groundwater sources of supply must meet MDD with the primary source offline. Moreover, DRA has offered numerous reasons why the Commission should not adopt GSWC's view of firm capacity as a policy. Finally, a policy of firm capacity should not apply to the systems of Norwalk, Florence-Graham and Apple Valley South.

G. La Serena Facilities and New Development: The Commission Should Follow its Previous Policy of Making Developers Pay For System Upgrades Required to Serve New Communities

Given the variety of positions and figures advanced by GSWC regarding the La Serena facilities issue it is difficult to discern what GSWC's actual posture is; however, one thing that is unambiguous is that Golden State wants its ratepayers to cover more of

[77] DRA Supplemental Testimony of DRA Exhibit 121 of Golden State Water Company for Test Year 2010 and Escalation Years 2011 and 2012, Application A.08-07-010, Pat Esule, Pages 3 and 4.

[78] Id.

the cost of constructing the facilities that were built to serve the new developments in this service territory. In GSWC's Supplemental Opening Brief it states that it has collected $287,000 in a special facilities fee for the La Serena facilities which exceeds the corrected amount of $266,214; however, as DRA noted in its Supplemental Opening Brief neither of these figures is correct. GSWC's Supplemental Opening Brief states:

> "GSWC itself acknowledged that at the time the special facility fees were assessed it made assessments on each individual development based on similar cumulative fire flow calculations. This decision was made by GSWC's field office on an ad hoc basis prior to the implementation of the La Serena plant improvements and without full knowledge of all of the events and circumstances associated with the new developments and La Serena project."[80]

What then does GSWC expect the Commission to believe about how it developed and financed the La Serena project? Did the field office make the initial assessment incorrectly and collect less than it should have because it did not take into account the cumulative effect of the various developments that were built throughout the past decade? Apparently so, since its Supplemental Opening Brief acknowledges problems with how its field office performed the assessments.

As the new developments proceeded over the decade GSWC modified the La Serena plant to expand storage for operational control, fire flow and peak demand needs and it expanded its booster capacity to enhance fire protection according to Mr. Gisler's original testimony,

> Historically, the area served by the La Serena Plant was not densely populated and experienced slow growth. New houses were built individually, rather than as part of a larger development. Thus, GSWC did not need to construct additional facilities to serve the existing area; rather, GSWC's focus was primarily maintenance of existing facilities.

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[79] GSWC supplemental opening brief, Page 40.

[80] Ibid. p. 34.

> Between 2000 and 2004, several new developments were built in the surrounding area. The development included three small residential developments and a 650-student elementary school (project specifics below). In order to meet the increased demand resulting from these new developments, GSWC modified the La Serena Plant (discussed in detail below) to increase storage for operational control, peak demand and fire flow and an increase in booster capacity to enhance fire protection. [81]

GSWC now contends that it has assessed special facilities fees for each individual development on supposedly corrected fire flow calculations that are not longer based on the cumulative fire flows of the new developments. However, DRA's Supplemental Opening Brief noted Mr. Gisler's Supplemental Testimony still makes an error in calculating the fire flow standard for the elementary school from 1,500 gallons per minute for three hours to two hours thereby reducing the storage requirement from 270,000 to 180,000 gallons. The system without the La Serena plant had 120,000 gallons for fire flow needs. This error alone reduced the proportion of the capacity of the new tank needed for the new developments' fire flow needs from the actual figure of 44.83% to 27%.

The other fundamental error involved with the La Serena facilities is the overall cost of the new facilities themselves. GSWC's request in its original testimony stated that the La Serena tank cost $400,000. DRA demonstrated (and the PD acknowledged) that the actual cost of the tank was $985,979; however, the cost of the tank does not encompass the entire La Serena facility. Upgrades to the booster pumps and storage were also required to make the facility fully operational. Neither the new tank nor the other upgrades would have been required but for the new developments. The overall cost of the new tank and other upgrades was $3.7 million. In DRA's view all of this total should be charged to the developers. However, if the Commission finds this is inappropriate it could allocate the cost of these upgrades as follows: 44.83% of the $3.7 million cost of

[81] GSWC, Gisler, Exh. Prepared Testimony, p. 3.

the La Serena upgrades should be charged to developers since that level of storage was clearly necessitated by the construction of the new developments with the balance being attributable to ratepayers.

DRA is troubled by the changing justifications, calculations and rationales offered by GSWC for charging the bulk of the La Serena upgrades to its customers. Even assuming *arguendo* that the upgrades do benefit La Serena customers whose homes and businesses antedated the La Serena upgrades, the allocation percentage proposed by GSWC is inappropriate and improperly charges far too much of the upgrade expenses to existing customers. DRA's approach is the only supportable position for this issue.

II. CONCLUSION

GSWC's Supplemental Testimony and Supplemental Opening Brief provide little basis for modifying the Commission's original proposed decision in this proceeding. Instead, what one sees is a combination of less than compelling rationales, e.g. the need to pay employees a bonus during a serious recession when no recruitment challenges have been demonstrated, changing arguments and late-filed exhibits (firm capacity and La Serena) and poorly conceived justifications that not only run contrary to established Commission practices but sound public policy (regulatory expenses and pension costs). If the Commission decides to reward GSWC with additional revenues it needs a more compelling set of justifications than has been provided by the applicant. Existing Commission practices have served the water industry and its ratepayers well over the past century. GSWC has failed to offer a cogent, defensible set of reasons or new evidence that support modifying those traditions. GSWC's requests for additional revenues should be denied.

Respectfully submitted,

/s/ JASON ZELLER

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Jason Zeller
Staff Counsel

/s/ DARRYL GRUEN

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Darryl Gruen
Staff Counsel

Attorneys for the Division of Ratepayer Advocates

California Public Utilities Commission
505 Van Ness Ave.
San Francisco, CA 94102
Phone: (415) 703-4673
Fax: (415) 703-2262

May 13, 2010

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of **"SUPPLEMENTAL REPLY BRIEF OF THE DIVISION OF RATEPAYER ADVOCATES "** to the official service list in **A.08-07-010 and A.07-01-014** by using the following service:

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

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Executed on May 13, 2010 at San Francisco, California.

/s/ ROSCELLA V. GONZALEZ

Roscella V. Gonzalez

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Charity.Schiller@bbklaw.com;
WWynder@AWAttorneys.com;
acastro@ci.cypress.ca.us;
asewell@desertdispatch.com;
djg@cpuc.ca.gov;
grosendo@gswater.com;
hsm@cpuc.ca.gov;
jadarneylane@gswater.com;
jgaron@gswater.com;
jjz@cpuc.ca.gov;
jkarp@winston.com;
jonathan.reeder@wachovia.com;
kduran@ci.san-dimas.ca.us;
kendall.macvey@bbklaw.com;
kstaples@verizon.net;
kswitzer@gswater.com;
lrr@cpuc.ca.gov;
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mlm@cpuc.ca.gov;
pschmiege@schmiegelaw.com;
sbeserra@sbcglobal.net;
tgoularte@gswater.com;
vcc@cpuc.ca.gov;
wmiliband@awattorneys.com;