PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

May 15, 2009

Agenda ID #8555
Ratesetting

TO PARTIES OF RECORD IN APPLICATION 08-07-009

This is the proposed decision of Administrative Law Judge (ALJ) Jeffrey P. O'Donnell, previously designated as the presiding officer in this proceeding. It will not appear on the Commission's agenda for at least 30 days after the date it is mailed. This matter was categorized as ratesetting and is subject to Pub. Util. Code § 1701.3(c). Upon the request of any Commissioner, a Ratesetting Deliberative Meeting (RDM) may be held. If that occurs, the Commission will prepare and publish an agenda for the RDM 10 days beforehand. When the RDM is held, there is a related ex parte communications prohibition period. (See Rule 8.2(c)(4).)

The proposed decision includes the revenue requirement tables on which rates will be calculated but the tariff sheets showing such rates are not included. The tariff sheets will be included with the final decision.

When the Commission acts on the proposed decision, it may adopt all or part of it as written, amend or modify it, or set it aside and prepare its own decision. Only when the Commission acts does the decision become binding on the parties.

Parties to the proceeding may file comments on the proposed decision as provided in Article 14 of the Commission's Rules of Practice and Procedure (Rules), accessible on the Commission's website at www.cpuc.ca.gov. Pursuant to Rule 14.3, opening comments shall not exceed 15 pages.

Comments must be filed either electronically pursuant to Resolution ALJ-188 or with the Commission's Docket Office. Comments should be served on parties to this proceeding in accordance with Rules 1.9 and 1.10. Electronic and hard copies of comments should be sent to ALJ O'Donnell at jpo@cpuc.ca.gov and assigned Commissioner. The current service list for this proceeding is available on the Commission's website at www.cpuc.ca.gov.

/s/ JANET A. ECONOME for
Karen V. Clopton, Chief
Administrative Law Judge

KVC:sid

Attachment

Decision **PROPOSED DECISION OF ALJ O'DONNELL (Mailed 5/15/2009)**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of San Gabriel Valley Water Company (U337W) for Authority to Increase Rates Charged for Water Service by its Fontana Water Company Division by $12, 859,900 or 26.5% in July 2009, $1,726,300 or 2.8% in July 2010, and $1,679,400 or 2.7% in July 2011.	Application 08-07-009 (Filed July 1, 2008)

Best, Best & Krieger, LLP, by Kendall H. Macvey, Attorney at Law, for City of Fontana; Endeman, Lincoln, Turek & Heater, LLP, by James P. Allen, Attorney at Law and Marvin T. Sawyer, for Fontana Unified School District; Nossaman, LLP, by Martin A. Mattes, Attorney at Law, Timothy J. Ryan, and Daniel A. Dell'Osa; for San Gabriel Valley Water Company; Selina Shek, for the Division of Ratepayer Advocates; interested parties.

Fred Curry, for the Division of Water and Audits and Patrick Hoglund, for the Division of Ratepayer Advocates.

DECISION ADOPTING TEST YEAR 2009/10 REVENUE REQUIREMENT AND RATES FOR THE FONTANA WATER COMPANY DIVISION OF SAN GABRIEL VALLEY WATER COMPANY

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DECISION ADOPTING TEST YEAR 2009/10 REVENUE REQUIREMENT AND RATES FOR THE FONTANA WATER COMPANY DIVISION OF SAN GABRIEL VALLEY WATER COMPANY

1. Summary

By this decision, San Gabriel Valley Water Company is authorized a revenue requirement for its Fontana Water Company Division of $6,993,900, an increase of 14.42% for the 12 months beginning July 1, 2009.[1] The average residential customer with average water use will experience a bill increase of 15.4%.[2] Rates will be adjusted for 2010 and 2011 consistent with the existing water company rate case plan (Decision 07-05-062).

This decision declines to adopt a settlement, included herein as Attachment A, between San Gabriel Valley Water Company and the Commission's Division of Ratepayer Advocates addressing forecast issues. Pursuant to Rule 12.4 of the Commission's Rules of Practice and Procedure, this decision adopts the settlement with several alternative terms. In addition, the reasonableness review of post-2002 plant additions is addressed.

In their comments on the Proposed Decision, the settling parties shall indicate whether they accept the alternative terms. If they do not accept them, they shall indicate the other relief they seek, pursuant to Rule 12.4(c).

The most significant monetary differences between the application as modified by the settlement filed by the settling parties, and the revenue requirement adopted herein are:

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[1] Attachment B contains the summary of earnings, quantities used to calculate the summary of earnings, bill comparisons, rate tables and tariffs.

[2] Residential customers with a 3 /4 x 5/8-inch meter using 23 hundred cubic feet of water per month.

- A reduction in Miscellaneous Expense of $202,300;
- A reduction in ratebase for the proposed ratemaking treatment of Shares in Fontana Unified Water Company from $4,200,000 to $1,585,920;
- A reduction in capitalized expenditures for Mains of $1,000,000 for 2011;
- A ratebase reduction of $537,868 for a retaining wall included in Job No. 4870;
- A ratebase reduction of $1,158,602 for a pipeline installed as Job No. 5111;
- A reduction in the amount included in ratebase for the new Office Complex from $18,124,864 to $15,001,733, allocated between the Fontana Water Company Division and General Office; and
- An increase in General Office rental expense of $156,718.

This proceeding is closed.

2. Background

San Gabriel Valley Water Company (SGV) requests authority in this general rate case (GRC) application to increase its revenue requirement for its Fontana Water Company Division (Fontana Division) by $12,859,900 (26.5%) in July 2009, $1,726,300 (2.8%) in July 2010, and $1,679,400 (2.7%) in July 2011.

A prehearing conference (PHC) was held on September 5, 2008. As a result of the PHC, the assigned Commissioner issued a scoping memo and ruling on September 9, 2008, setting forth the issues, schedule and other matters necessary to move the application forward. Public participation hearings were held on December 3, 2008. The proceeding was divided into two phases. In the

first phase, forecast issues for July 2009 and after were addressed. In the second phase, the reasonableness of post-2002 plant additions was addressed.[3] Evidentiary hearings were held in the first phase on December 8-10, 2008. Opening and reply briefs on the first phase were filed on January 14, 2009 and January 28, 2009, respectively. SGV and the Commission's Division of Ratepayer Advocates (DRA) filed a joint motion to approve a settlement on December 24, 2008 addressing forecast issues. Comments on the settlement were filed on January 21 and 23, 2009, and reply comments were filed on February 13, 2009. Evidentiary hearings were held in the second phase on February 2-4, 2009. Opening and reply briefs on the second phase were filed on March 4, 2009 and March 18, 2009, respectively. On April 20, 2009, a final oral argument was held. The application was submitted on April 29, 2009.

The parties to this proceeding are SGV, DRA, the City of Fontana (COF), and the Fontana Unified School District (FUSD).

3. The Settlement

The settlement between SGV and DRA addresses all forecast issues, but does not address issues related to the reasonableness of post-2002 plant additions.

Rule 12.1(d) of the Commission's Rules of Practice and Procedure provides that:

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[3] Pursuant to Decision (D.) 08-06-024, parties were allowed to address the reasonableness of post-2002 construction projects, except to the extent they were explicitly addressed in D.07-04-046 (the last GRC for the Fontana Division), in this proceeding.

> The Commission will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with law, and in the public interest.

This is the standard of review for this settlement. SGV and DRA are the only parties to the settlement.

SGV provided an application and exhibits that explained its request for a rate increase in detail. DRA provided its analysis of the application indicating that it agreed with some of SGV's estimates and disagreed with others. The settlement indicates that most of the differences were resolved by use of more recent data, correction of calculation errors, one party's acceptance of the other estimates or calculation methodologies, and compromises between the parties. The overall result lies between the initial positions of SGV and DRA. The settlement also resolves some issues raised by the other parties. The settlement, with the alternative settlement terms as discussed later in this decision, is reasonable in light of the whole record.

The settlement with the alternative settlement terms does not violate any statute or Commission decision or rule. Thus, the settlement, with the alternative settlement terms, is consistent with law.

SGV represents the interests of its shareholders. DRA represents the interests of SGV's ratepayers. Thus, the settling parties fairly represent the affected interests. However, COF and FUSD are also ratepayers. Their interests, to the extent they conflict with the settlement, are addressed later in this decision and result in some modifications to the settlement. The settlement, with the alternative settlement terms and the ratebase changes adopted herein as part of the reasonableness review of post-2002 construction projects, result in rates that are sufficient to provide adequate reliable service to customers at reasonable

rates while providing SGV with the opportunity to earn a reasonable return. The alternative settlement terms provide the Commission with sufficient information to carry out its future regulatory obligations with respect to the parties and their interests. Thus, the settlement, with the alternative settlement terms, is in the public interest and is adopted.

There are number of forecast issues that are part of the settlement but are opposed by COF or FUSD. These will be dealt with next. After the forecast issues are addressed, the reasonableness review issues will be addressed.

Rule 12.4 of the Commission's Rules of Practice and Procedure indicates the steps the Commission may take in rejecting a settlement. In this instance, the Commission proposes alternative settlement terms. The alternative terms are included in Sections 6, 8, 9, 10, 14, 15 and 16 of this decision. In their comments on the Proposed Decision, the settling parties shall indicate whether they accept the alternative terms. If they do not accept them, they shall indicate the other relief they seek, pursuant to Rule 12.4(c).

4. Number of Customers

The settlement proposes SGV's customer estimate, which is the number of customers at year-end 2007.

4.1. Positions of Parties

COF agrees that there will be no increase in the number of residential and commercial customers. However, if its recommendations regarding plant additions are not adopted, it recommends that the five-year historical growth be used. COF states the plant additions it opposes are intended to serve growth, and it is inappropriate to allow plant additions to serve growth while projecting that growth will not occur.

COF states that the number of small and large public authority customers grew in 2007 by more than the five-year average. Thus, COF recommends the five-year average growth be used.

FUSD agrees with the positions taken by COF.

4.2. Discussion

The parties agree that there will be no increase in the number of residential and commercial customers during the forecast period. Customer growth may result in plant additions, not vice versa. The assumption in the settlement of no growth in the number of residential and commercial customers is reasonable. COF's recommendations regarding forecast plant additions will be addressed separately on their merits.

As to public authority customers, the record does not indicate the public sector is immune to the financial situation affecting the public at large. It is common knowledge that the current economic downturn is hurting the public. It is reasonable to assume this will result in lower tax revenues for local government. Therefore, it is reasonable to assume the number of public authority customers will not increase during the forecast period. The number of public authority customers in the settlement is reasonable.

5. Sales Per Customer

The settlement proposes SGV's estimated sales per customer.

5.1. Positions of Parties

COF does not oppose the residential sales per customer estimates adopted in the settlement, provided its recommendations regarding plant additions are adopted. Otherwise, it recommends that a five-year average be used.

The commercial sales per customer amount proposed in the settlement is based on a three-year average. COF recommends a five-year average consistent with the rate case plan.

COF does not oppose the small and large public authority sales per customer estimates used in the settlement.

COF states that the sales estimate adopted in the settlement assumed a 20% reduction of sales to CEMTEX based on a March 17, 2008 email from CEMTEX to SGV. COF points out that the email indicated sales would be reduced by 20% in 2008 compared to 2007 and then increase every year from 2009 through 2013. COF recommends that sales be increased to 226,308 hundred cubic feet (ccf) because it is more consistent with the CEMTEX email, although still lower, and reflects the three-year average sales for 2005 through 2007.

SGV estimates sales to California Steel Industries (CSI) at 20% below 2007 sales. COF recommends using the 2007 sales level of 89,621 ccf because SGV did not justify its estimate as used in the settlement.

FUSD agrees with the positions taken by COF.

SGV states that its use of a 20% reduction in sales to CSI is based on the economic slowdown in the building and manufacturing industries that use its steel products. For CEMTEX, SGV argues that its forecast is reasonable due to worsening economic conditions and the standstill in development.

5.2. Discussion

The effect of the economic slowdown is better reflected by using the three-year average commercial sales per customer amount proposed in the settlement than a five-year average. Thus, the settlement forecast is reasonable.

CEMTEX supplies sand, gravel and cement and CSI produces steel products. With the economic slowdown and reduction in construction, it is

reasonable to expect that these customers will have less demand for their products resulting in lower water use. Thus, the settlement forecast usages for these customers are reasonable.

For the above reasons, the sales per customer forecasts included in the settlement are reasonable.

6. Miscellaneous Expense-Litigation Expenses Not Related to Water Quality

SGV's estimate for this portion of administrative and general expenses, which is proposed in the settlement, was estimated based on a five-year average (2003-2007) of recorded costs. DRA did not oppose SGV's estimate prior to the settlement.

6.1. Positions of Parties

COF states that a major portion of the expenses for the five-year period SGV's estimate was based on was primarily due to one case. COF states the case concerned a class action antitrust law suit (Slemmer suit or suit) brought by a group of shareholders of Fontana Union Water Company (FUWC) against FUWC, Cucamonga County Water District, SGV, Kaiser Venture LLC, two of SGV's officers and four other individuals (see Section 8 below). [4] At that time, SGV owned 34.54% of FUWC and two of SGV's officers served as directors and officers of FUWC. COF says this was strictly a shareholder matter, between minority and majority shareholders of FUWC. COF states that this was not a recurring expense, was inappropriate for recovery from ratepayers, and should

[4] FUWC is a water company owned in part by SGV. It serves no customers. Its principal assets are water rights, some of which are used by SGV.

be excluded from the five-year average. COF's proposed adjustment would reduce annual expenses by $202,300 (2007 dollars).

FUSD agrees with the position taken by COF.

SGV says the expenses for the settlement of the Slemmer suit were legitimate expenses to protect the water rights SGV uses to serve its customers and the use of a five-year average has been previously approved by the Commission.

6.2. Discussion

The Slemmer suit was resolved by the settlement reached in that suit. The record does not indicate that similar types of suits are likely to recur on a regular basis. Thus, expenses for the suit should be excluded from the five-year average because the expenses are one-time non-recurring expenses. COF's recommendation of a $202,300 (2007 dollars) reduction in the expense amount adopted in the settlement is adopted. The settlement, without this alternative term, is not in the public interest.

7. Regulatory Commission Expense

The settlement proposes a regulatory commission expense of slightly more than DRA's original estimate and less than SGV's original request.

7.1. Positions of Parties

COF states that the amount should be reduced by $121,000 per year unless SGV provides a full listing of actual costs prior to the Commission's adoption of the settlement agreement.

FUSD agrees with the position taken by COF.

SGV argues that the settlement amount is reasonable.

7.2. Discussion

Regulatory commission costs are a forecast of costs during the forecast period. They are not an amortization of recorded costs. Therefore, COF's recommendation is not adopted. The record demonstrates that the amount specified in the settlement is reasonable and it will be adopted.

8. Ratemaking Treatment of Investments in Shares of Fontana Union Water Company

On February 14, 2002, Dr. Thomas Slemmer and several other persons filed the Slemmer suit in San Bernardino Superior Court (Court) against SGV and other defendants. The plaintiffs claimed treble damages in the range of tens of millions of dollars. The suit alleged the plaintiffs' rights as minority shareholders in FUWC had been violated by the defendants who together owned a majority of the FUWC shares.

Among the plaintiffs' allegations were that the defendants violated federal and state anti-trust laws by settling a lawsuit with West Valley Water District involving access to Lytle Creek surface water that had the effect of prohibiting the plaintiffs in this case from selling the water rights represented by their shares in FUWC to third parties. Another issue was whether the plaintiffs received a reasonable price for 358.6 shares previously acquired by SGV.

The parties entered into a settlement (Slemmer settlement) that was approved by the Court on July 24, 2006. As part of the Slemmer settlement, the suit was dropped, SGV paid $4,200,000 to the plaintiffs and SGV received 179.2 shares of FUWC stock.

8.1. Positions of Parties

As part of the settlement in this proceeding, DRA and SGV agree to the inclusion of the $4,200,000 Slemmer settlement payment in ratebase.

COF states that the Slemmer settlement amount of $4,200,000 divided by the 179.2 shares acquired as a result of the Slemmer settlement amounts to $23,438 per share. COF states that this equates to $9,375 per acre foot of water rights assuming each share conveys 2.5 acre feet of annual water rights. COF represents that the suit was between shareholders of FUWC and not ratepayers. COF also states that SGV was already using essentially all of the water rights of FUWC prior to the litigation. Therefore, COF states that the $4,200,000 cost of the Slemmer settlement should be excluded from ratebase.

FUSD agrees with the position taken by COF.

SGV states that, since the Slemmer settlement resolved issues related to 358.6 shares previously acquired, the correct analysis of the costs per share is $4,200,000 plus $686,350 paid for shares previously acquired divided by 537.8 shares (179.2 shares plus 358.6 shares previously acquired). This equates to $9,086 per share. Assuming a share carries with it water rights to 2.5 acre feet of water per year, the cost per acre foot would be $3,634. SGV states that recent sales of water rights have ranged from $3,540 to $5,534 per acre foot. Thus, SGV states that the Slemmer settlement cost amounts to the purchase of FUWC shares, and the corresponding water rights, at a reasonable price.

8.2. Discussion

The purpose of the $4,200,000 Slemmer settlement amount was to settle the Slemmer suit. It was not an arms length purchase of FUWC shares. Thus, the Slemmer settlement costs are not necessarily indicative of the value of the 179.2 shares acquired or the value of removal of the plaintiffs' claim regarding the 358.6 shares previously acquired. The question is whether any of the $4,200,000 should be recovered from ratepayers by being included in ratebase, as proposed by SGV and the settlement.

SGV's insurance company, Kemper Insurance Company (Kemper), which also insured FUWC, accepted the obligation to defend SGV and FUWC in the suit. Due to the complexity and risk exposure of the litigation, all of the parties, including SGV, retained outside counsel in addition to the attorneys provided by Kemper. As a result, SGV incurred $938,934 in litigation costs.

Kemper subsequently faced insolvency and decided in mid-2006 to claim that it was not obligated to defend SGV and FUWC or be responsible for any judgments against them. Kemper was part of the Slemmer settlement and paid $6 million into the Slemmer settlement.

SGV stated that the Slemmer settlement suit would prevent further costly litigation and even costlier litigation by third parties who would claim the right to the water supplies. Given this representation by SGV, the Commission finds SGV would have incurred additional costs if the suit had gone to hearing. Still more costs would have been incurred if the verdict in the suit was appealed. Additionally, if SGV lost the suit, it may have had to pay treble damages. Added to the likelihood of additional costs for SGV is Kemper's insolvency and its position that it would or could no longer defray the litigation costs. Without Kemper's participation, SVG would have had to pay a portion of the costs Kemper would have defrayed. Thus, it appears likely that SGV would have incurred significant additional costs absent the Slemmer settlement.

The Slemmer suit was not foreseen in the previous GRC and estimated costs were not included in rates. This means Slemmer suit costs would have been paid for by SGV's shareholders, not ratepayers. Additionally, the Commission did not authorize any balancing account treatment of these costs or any other mechanism that would have provided for recovery of these costs from

ratepayers at a later date. Thus, SGV's shareholders benefited significantly from the Slemmer settlement by avoiding additional costs related to the Slemmer suit.

The record does not indicate that SGV intended to buy the additional water rights it received in the Slemmer settlement prior to the Slemmer settlement. Prior to the Slemmer settlement, SGV and some other owners of FUWC were using the water rights of FUWC to the extent they needed to do so. However, other owners of FUWC were seeking to sell their shares, which could have allowed other entities to use portions of the FUWC water rights. This raises the possibility that SGV could have reduced access to FUWC water rights in the future.

The record does not indicate that a reduction in SGV's access to FUWC's water rights was very likely to occur. SGV's acquisition of additional shares as a result of the Slemmer settlement eliminates this possibility, however remote it may have been. Therefore, the additional 179.2 shares of FUWC stock acquired as a result of the Slemmer settlement have some value to ratepayers. The record shows that the water rights have a value of $3,540-$5,534 per acre foot. Since the risk to ratepayers of SGV losing access to FUWC water rights does not appear to be very high, the acquired water rights will be valued at $3,540 per acre foot. This translates to a stock value of $8,850, or $1,585,920 for the 179.2 shares.

SGV represents that the Slemmer suit was without merit. Thus, the record does not indicate that SGV was at any significant risk of having to pay more for the 358.6 shares previously acquired. This supports the conclusion that there is little if any value to ratepayers of the Slemmer settlement regarding these shares. For SGV to lose the suit, it would have been found to have acted improperly regarding the purchase of the 358.6 shares previously acquired. If that had happened, there would be no reason for ratepayers to pay for the results of

SGV's wrongdoing. As a result, the Slemmer settlement had no significant value to ratepayers regarding the 358.6 shares previously acquired. Therefore, there is no reason to allow an additional portion of the costs of the Slemmer settlement in ratebase.

For the above reasons, $1,585,920 of the Slemmer settlement costs attributable to the value to ratepayers of the additional 179.2 shares of FUWC stock will be allowed in ratebase. None of the other Slemmer settlement costs are allowed in ratebase. The settlement, without this alternative term, is not in the public interest.

9. Treatment of Facilities Fees

D.07-04-046 provided for the collection of facilities fees for new development from developers, builders, and new customers. The facilities fees would be recorded as Contributions in Aid of Construction (CIAC). The decision also required SGV's annual revenue requirement advice letter filings to reflect the revenue requirement reductions caused by an increase in CIAC resulting from collected facilities fees.

9.1. Positions of Parties

COF recommends that SGV provide the most recent facilities fees balance for inclusion as a ratebase offset. If SGV does not do so, COF recommends that Commission reduce ratebase by $2,523,000 as estimated additional fees collected from October 1, 2008 through June 30, 2009. COF recommends that SGV be required to include additional facilities fees collected as an offset to future annual advice letters as provided for in the settlement. COF also alleges SGV does not include interest on facilities fees in its accounting as required by D.07-04-046, and recommends that it be required to do so.

FUSD agrees with the position taken by COF.

SGV states that due to the uncertainty in forecasting facilities fees, no additional facilities fees should be estimated in this GRC and the advice letter process established in Ordering Paragraph 3 of D.07-04-046 should be continued.

9.2. Discussion

D.07-04-046 requires that facilities fees collected must be credited to CIAC at the time the fees are spent for additional plant and earn interest.[5] Thus, facilities fees will offset ratebase additions. However, it is necessary to have a reasonable estimate of facilities fees accounted for as CIAC for the test year.

The facilities fees collected for the 11-month period November 2007 through September 2008 were $3,083,900. That amounts to $280,355 per month. The number of customers adopted herein is based on the number of customers as of December 31, 2007, with the assumption of no customer growth. While the record does not indicate why facilities fees have continued to be collected when customer growth has virtually stopped, some construction must have continued in order for such fees to still be collected. It is not reasonable to assume the amount of facilities fees collected through June 30, 2009 will continue at the same rate as for the 11 months ended September 2008. As the economic downturn has continued, the amount of facilities fees collected can be expected to decline substantially. Therefore, it is reasonable to assume that an additional $1 million in facilities fees will be collected for the nine-month period October 1, 2008 through June 30, 2009. The facilities fees collected through September 2008 and estimated through June 30, 2009 shall be included in ratebase as CIAC. Additionally, the amount of facilities fees to be collected continues to be difficult

[5] D.07-04-046, Ordering Paragraph 69.

to forecast. Therefore, the inclusion of facilities fees in the annual revenue requirement advice letter filings, as provided for in D.07-04-046, will be continued through this GRC cycle. To the extent actual facilities fees vary from the above estimate, they will be addressed through the advice letter filings. The settlement, without these alternative terms, is not in the public interest.

10. Plans for Developing Recycled Water Service

In its application, SGV proposed tariffs for recycled water service and the use of facilities fees for recycled water projects. The settlement provides that such matters will be addressed by a separate application or advice letter.

10.1. Positions of Parties

COF states that it is in negotiations with SGV for a joint venture to provide recycled water. No agreement has been reached. COF states that it will provide the water to be recycled as well as project planning, funding and environmental processing. COF recommends that the project be addressed only through a joint application after agreement has been reached.

FUSD objects to the use of an advice letter because it may not be able to participate in a meaningful manner.

SGV states that Public Utilities Code Section 455.1(d) provides for an advice letter filing for proposing recycled water service.[6]

10.2. Discussion

Section 455.1 provides a process to be followed if an advice letter is filed regarding recycled water service. However, nothing in § 455.1 prohibits the

[6] All section references are to the Public Utilities Code.

Commission from requiring that SGV file an application rather than an advice letter to initiate recycled water service.

Any recycled water project will involve the setting of rates and development of tariffs where none currently exist. As such, the issues involved may be detailed and complex. An application is superior to an advice letter for addressing the project when it comes to fruition because it will allow parties other than SGV to more fully participate in the resolution of the relevant issues. The recycled water project shall be addressed through an application after agreement has been reached. The settlement, without this alternative term, is not in the public interest.

11. Plant F13

SGV refurbished Well F13A in 2008. It plans to refurbish Well F13B in 2011 due to declining efficiency that makes it more expensive to operate.

Reservoirs at the site receive water from the Sandhill Water Treatment Plant (Sandhill). The increased capacity at Sandhill, due to the Sandhill additions discussed later in this decision, means that additional water will be sent to the reservoirs. SGV plans to install a new booster pump and related equipment. SGV states that the additional booster pump capacity is necessary to transfer the resulting additional water from the reservoirs to the Highland Pressure Zone and higher elevations.[7]

The proposed expenditures are $215,000 in 2008, $945,000 in 2009, $300,000 in 2010 and $40,000 in 2011.

The settlement uses SGV's proposal.

11.1. Positions of Parties

Prior to the settlement, DRA recommended that these facilities be deferred and not constructed during this GRC cycle.[8]

COF does not oppose refurbishing the wells. COF states other improvements at Plant F13 facilities are related to Sandhill and are not needed because the upgrades to Sandhill are not needed.

FUSD recommends that Wells F13A and F13B should not be refurbished because they may not be usable due to groundwater pumping restrictions. FUSD also recommends that the new booster pumps be deferred to the next GRC cycle because they are intended to pump water to the Highland Pressure Zone to serve future growth and no growth is predicted during this GRC cycle.

SGV argues that, while the booster station will sometimes pump water from Sandhill, it will also pump water produced at Plant F10 and other wells to higher elevations in SGV's service area to meet customer demands. SGV also argues that there are no groundwater pumping restrictions that would prohibit it from using Wells F13A and F13B.

11.2. Discussion

Contrary to the representations of FUSD, the record does not demonstrate that there are groundwater pumping restrictions that would prohibit SGV from using Wells F13A and F13B. The Plant F13 reservoirs will receive additional water due to the Sandhill project which will cause the large F13 reservoir to be

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[7] SGV's Fontana Division service area is divided into five pressure zones. The pressure zone boundaries are established to maintain acceptable system pressures.

full most of the time. The proposed booster pumps will pump water from the F13 reservoirs to serve customers at higher elevations. Thus, the settlement amount is reasonable.

12. Plant F16

Existing facilities include a below-grade out-of-service reservoir, a 46-year old above-grade operational reservoir and old booster pumps. SGV proposes to replace all facilities at this location with two new reservoirs and booster pumps. SGV states that replacement of these facilities will improve reliability and lower operations and maintenance costs.

The proposed expenditures are $1,555,000 in 2008 and $710,000 in 2009.

The settlement uses SGV's request.

12.1. Positions of Parties

Prior to the settlement, DRA opposed replacement of the existing operational reservoir and agreed with building the new reservoir and installing booster pumps.

COF recommends that two reservoirs with a total capacity of 1.5 million gallons as proposed in SGV's Water System Master Plan (Master Plan), rather than two million gallons as proposed by SGV, be built at a cost of $750,000.[9]

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[8] The GRC cycle includes the test year and the years leading to the next GRC test year. The test year runs from July 1, 2009 to June 30, 2010. This GRC cycle includes test year 2009/2010, and years 2010/2011 and 2011/2012.

[9] In Ordering Paragraph 16 of D.04-07-034, the Commission directed SGV to develop a water management/engineering report to provide more comprehensive guidance for its utility plant and infrastructure construction projects in the Fontana Water Company Division. SGV prepares its Water System Master Plan in compliance with that decision.

COF recommends the booster pumps not be replaced because sufficient facilities already exist.

FUSD agrees with the position taken by COF.

SGV states that because the F16 reservoir and booster station are the primary source of water for reservoir F15 and more than 9,500 customers, they can not be taken out of service for any reason. SGV also states that the site is very small such that, once the proposed improvements have been completed, it will be very costly to put in a reservoir at a later date. SGV also argues that the additional facilities are needed to improve the reliability and sustainability of the facilities at Plant F16.

12.2. Discussion

The settlement provides for two new reservoirs with a combined capacity of 1.5 million gallons, which is the size COF recommends. Therefore, COF's concern regarding the size of the reservoirs has been addressed. The existing booster pumps are sized for the existing reservoir capacity of 0.5 million gallons. Therefore, additional booster pump capacity is needed. The settlement is reasonable in regard to the planned facilities at Plant F16.

13. Plant F17

The two wells located at this facility have treatment facilities to remove perchlorate. SGV states that because the two wells have nitrate concentrations that exceed the maximum contaminant level, it plans to install a nitrate removal facility. SGV also plans to install an emergency generator.

The proposed expenditures are $1,660,000 in 2009.

The settlement uses SGV's request.

13.1. Positions of Parties

Prior to the settlement, DRA recommended that the treatment facilities be deferred until after this GRC cycle.

COF recommends that the proposed new generator be authorized. However, it recommends that SGV continue to blend water from other sources to maintain applicable standards instead of adding a nitrate removal facility.

FUSD agrees with the position taken by COF and adds that SGV will have more than enough water to meet forecasted needs for this GRC cycle even without the wells at Plant F17.

SGV states that the wells pump to a common perchlorate treatment facility and reservoir. SGV states this procedure is not for the purpose of blending down nitrates, and is not adequate to do so. SGV argues that without nitrate treatment, these wells could be lost at any time.

13.2. Discussion

The record demonstrates that the two wells have high nitrate concentrations that have, on occasion, exceeded the maximum allowable contaminant level. The water from these wells is pumped to a common perchlorate treatment facility and reservoir. The wells are at risk of exceeding the maximum allowable nitrate level, which would cause them to be shut down absent nitrate treatment facilities. To the extent the output from these wells blends in the reservoir, it is insufficient to eliminate the need for treatment, especially if the contamination of the wells increases, because blending only works if one of the sources is not polluted. In this case, both wells are at risk of exceeding the maximum allowable nitrate level. Given the importance of meeting all applicable drinking water standards and ensuring adequate sources

of supply, especially during drought conditions, the settlement provisions regarding Plant F17 are reasonable.

14. Plant F21

SGV initially proposed to acquire land adjacent to the Plant F21 site and construct a 1.5 million gallon reservoir, a replacement well with chlorine treatment, an additional well with chlorine treatment, a complete booster pump station with control equipment and site fencing.

The proposed expenditures are $700,000 in 2008, $0 in 2009, $2,885,000 in 2010, and $605,000 in 2011.

SGV proposes advice letter treatment for this project.

The settlement amount excludes the additional well (($605,000) that will not be constructed in this GRC cycle, but retains the rest of the expenditures proposed by SGV.

14.1. Positions of Parties

Prior to the settlement, DRA agreed with the proposed expenditures with the exception of the additional well, which it opposed.

COF states the storage and pumping facilities allowed in the settlement were not reduced due to the removal of the additional well initially proposed. COF recommends that storage and pumping facilities be reduced due to the removal of the additional well. Thus, COF recommends that only $3,000,000 be allowed.

FUSD does not object to the replacement well. FUSD states that the existing well pumps directly into the distribution system and the Juniper Pressure Zone, in which Plant F21 is located, has surplus reservoir capacity. FUSD also states that the primary purpose of the proposed additions is to serve

future growth. For these reasons, FUSD argues that the additional facilities are not needed.

SGV states the reservoir is necessary to allow minimum disinfection contact time before the water enters the distribution system, and the booster pump is necessary to pump water from the reservoir into the distribution system.

SGV states that the additional well is necessary to meet current and future demand.

14.2. Discussion

The issue between the parties is whether the reservoir and booster pump station should be reduced in size because the additional well was deferred in the settlement. The additional well was deferred to the next GRC, not eliminated entirely. If the new reservoir and booster pump station are sized for only the one well, another reservoir or expansion of the planned reservoir will be necessary along with more booster pump capacity when the additional well is drilled. Although the need for the now deferred well is not addressed in this proceeding, it is reasonable to conclude that one will eventually be needed. Storage and pumping capacity have service lives far beyond this GRC cycle. Their design must consider the long term rather than just this GRC cycle. It is reasonable to construct the additional storage and pumping capacity as provided for in the settlement. The settlement provisions regarding Plant F21 are reasonable.

The settlement provides for advice letter treatment of this project. The ratebase offset advice letter to be filed in accordance with the settlement should be filed only after the project is completed, used and useful. The settlement, without this alternative term, is not in the public interest.

15. Plant F23

SGV proposes to construct perchlorate treatment facilities, a reservoir, and a booster pump station.

The proposed expenditures are $2,600,000 in 2009.

SGV has secured $655,000 from the Department of Defense (DOD) towards construction of the perchlorate treatment facility.

SGV proposes advice letter treatment for this project.

The settlement uses SGV's proposal.

15.1. Positions of Parties

Prior to the settlement, DRA recommended that the reservoir be deferred until after this GRC cycle.

FUSD states the Juniper Pressure Zone, in which Plant F23 is located, has surplus reservoir capacity and perchlorate contamination in the existing well has not exceeded applicable standards. Therefore, it opposes SGV's request. FUSD states that if SGV fears losing DOD funding, it should install perchlorate treatment on a well that needs it.

COF supports FUSD's recommendation.

SGV argues that, since perchlorate levels are near the maximum allowable concentration, it makes sense to install treatment facilities.

SGV states the reservoir is necessary to allow minimum disinfection contact time before the water enters the distribution system, and the booster pump in necessary to pump water from the reservoir into the distribution system.

SGV also points out that it will likely lose the DOD funds if the facility is not constructed.

15.2. Discussion

Since the perchlorate level is increasing, treatment will become necessary. It makes sense to install treatment facilities before they are required rather than waiting until the maximum allowable level is exceeded and the well has to be shut down. The availability of funds from the DOD is a factor in support of the construction of the treatment facilities. As to the reservoir, it is necessary to allow sufficient contact time for disinfection of the water before it flows into the distribution system. The settlement provisions regarding Plant F23 are reasonable.

The settlement provides for advice letter treatment of this project. The ratebase offset advice letter to be filed in accordance with the settlement should be filed only after the project is completed, used and useful. The settlement, without this alternative term, is not in the public interest.

16. Mains-Account 343

SGV plans to construct or replace water mains.

The expenditures initially proposed in the application were $2,770,000 for 2008, $3,400,000 for 2009, $4,900,000 for 2010 and $3,000,000 for 2011.

The settlement proposes to reduce expenditures by $2,000,000 in 2009 and $2,000,000 in 2010.

16.1. Positions of Parties

Prior to the settlement, DRA supported SGV's proposal.

DRA supports the settlement amount, which is $2,000,000 less in 2009 and $2,000,000 less in 2010 than SGV requested, because the main from plant F53 to Plant F19 will not be built since the reservoir and booster pump station at Plant F53 will not be constructed during this GRC cycle.

SGV's application included construction of a water treatment plant at Plant F25. In the settlement, construction at Plant F25 was excluded. COF states that, since the settlement amount includes $1,000,000 for a main to convey contaminated water to Plant F25 for treatment, that amount should be excluded.

COF states that main replacements related to Sandhill should not be built. COF also states that other replacements are not needed because the Master Plan does not indicate system deficiencies. COF agrees that old leaky mains should be replaced. As a result, COF recommends no replacement of mains until 2011.

FUSD agrees with the positions taken by COF. In addition, FUSD states that for each year from 2008 through 2011, SGV describes its mains expenditure as "Miscellaneous." However, for 2011, SGV has an additional mains expenditure identified as $2,000,000 for "Various Locations." FUSD argues that this is merely an attempt to pad the expenditures and should be eliminated.

SGV argues that some of the mains have exceeded their useful lives and need to be replaced. It states that other mains may be too small to supply current demands, including fire flow requirements. SGV also states that changes in the location of water supplies and demand may require main replacement. Additionally, SGV tries to coordinate main replacement with city or county street construction to reduce the cost of replacement. SGV also argues that although some of the mains carry Sandhill water, they also carry water from other sources.

16.2. Discussion

SGV's application included construction of a water treatment plant at Plant F25. In the settlement, construction at Plant F25 was excluded. Since the settlement amount includes $1,000,000 for a main to convey contaminated water

to Plant F25 for treatment, that amount should be excluded from the expenditures for mains in 2011.

Since the settlement amount for 2011 does not contain an extra $2,000,000 for "various" mains, FUSD's concerns regarding this matter have been addressed.

Replacement of mains that have exceeded their useful lives or are under sized is reasonable. It is also reasonable to take advantage of opportunities presented by local government reconstructing roads, etc. to reduce costs. The settlement amount is in line with recent recorded amounts. The settlement amount is reasonable with the above $1,000,000 reduction for 2011. The settlement, without this alternative term, is not in the public interest.

17. Services-Account 345

SGV plans to construct or replace water services, particularly plastic services which leak and are no longer serviceable.

The proposed expenditures are $1,600,000 for 2008, $1,600,000 for 2009, $2,030,000 for 2010 and $1,600,000 for 2011.

The settlement uses SGV's proposal.

17.1. Positions of Parties

Prior to the settlement, DRA supported SGV's proposal.

COF states that SGV has not provided a cost-benefit analysis or otherwise justified replacing services that do not leak. COF recommends that replacement of services be funded at the historical amount of $1,000,000 per year.

FUSD agrees with the position taken by COF.

SGV represents that its budget is based on recent experience for services.

17.2. Discussion

During the 1970's, SGV began using polyethylene pipe in constructing services. By 1995, SGV began experiencing problems with these services. Over time, the pipe becomes brittle and prone to rupture. As a result, SGV no longer uses polyethylene pipe and has begun replacing it when a leak is detected. Additionally, when a leak is found on a particular street where other services were constructed at the same time using polyethylene pipe, it replaces all of the services on the street.

SGV's replacement strategy is reasonable given the problems with polyethylene pipe. It avoids multiple repairs of the same services and future repairs of other services with the same vintage of polyethylene pipe. This, in turn, avoids frequent excavation and patching of the street in the same area and resulting customer complaints. SGV's proposed costs for 2009-2011 are below the costs for 2007, slightly above the costs for 2006 and far below the costs for 2008. The settlement amount is reasonable.

18. Reasonableness Review-Burden of Proof

The following sections address the reasonableness of post-2002 construction projects. For these projects, SGV has the burden of proof. SGV must demonstrate each project is used and useful, needed and constructed at a reasonable cost. In a few cases, need has been addressed to some degree in prior decisions.

For a project to be used and useful, it must be in use providing service to ratepayers. In addition, it must be built to meet the design parameters. Thus, if a project is supposed to perform at a certain level, but performs at a lower level because of inadequate design or construction, only those costs reasonably attributable to the lower performance level will be allowed in ratebase.

In order to demonstrate a project is needed, there must be an affirmative demonstration of the need. Such a demonstration may include, but is not limited to, examples of specific problems that have occurred or will occur, and how the project will provide the remedy. Another way to demonstrate need is to show specific benefits that will not occur without the project, or new governmental requirements that will not be met without the project. Mere claims of need are not sufficient.

Reasonableness of cost may be addressed in a variety of ways. One way is the use of competitive bids. If a project is put out for bid such that a reasonable pool of potential bidders is made aware of the opportunity, the resulting bids provide some indication of market prices. If a project is not put out for bid, then some other means is needed to demonstrate the reasonableness of the cost. Some ways to do this are the use of comparisons to other similar projects or well known publications that provide cost estimates for similar types of work.

The record shows that SGV does not have written guidelines for its use of competitive bidding. Having such guidelines would help ensure SGV uses a competitive bidding process when it is appropriate to do so. Therefore, SGV shall develop such guidelines and include them as an exhibit in the next GRC proceeding filed for either of its divisions. Such guidelines should include, but not be limited to, criteria for determining when competitive bidding should be used and how the competitive bidding process should be carried out.

In evaluating the reasonableness of a project, the applicant must demonstrate that its decisions were what a reasonable person with the necessary education and expertise would have made at the time based on the information that could and should have been available. The best indicator of the

reasonableness of a decision is documentation prepared at the time the decision was made.

In this proceeding, SGV was well aware that the reasonableness of post-2002 projects would be reviewed. However, it made no affirmative showing in the exhibits served with the application regarding most projects. SGV stated at the PHC that its intent was to rebut any reasonableness arguments made by the other parties. At the PHC, a schedule was set for SGV to provide an affirmative showing. SGV was instructed to provide a list of all projects over $100,000. From that list, parties identified the projects they wished to pursue. SGV was then required to provide an affirmative showing on each of the identified projects. Parties then served their prepared testimony regarding the projects they intended to address and SGV provided rebuttal testimony. Subsequently, hearings were held addressing reasonableness. This process provided SGV with more than ample opportunity to meet its burden of proof.

19. Reasonableness Review-Job No. 4761-Plant F16-Install Electrical Panel

SGV installed an electrical panel and two 12-inch check valves at Plant F16. The electrical panel was originally sized for four booster pumps. However, SGV increased its size to accommodate the two additional pumps planned to be installed. The project was placed in service in 2003 at a recorded cost of $396,669.

19.1. Positions of Parties

COF argues that since the proposed booster pumps at Plant F16 are not needed, the increased size of the electrical panel to accommodate the additional pumps should be disallowed. COF proposes to limit the amount in ratebase to SGV's original proposed cost of $200,000.

FUSD joins in COF's argument.

SGV states that the electrical panel was constructed at the same time as the two additional booster pumps at Plant F16. With the additional pumps, there are six booster pumps at Plant F16 and the electrical panel is sized to serve all six. SGV states that the electrical panel has been used to operate the booster pumps since 2003, including frequent running of all booster pumps.

19.2. Discussion

The reasonableness issue for this project is whether the additional panel capacity was needed. The increase in the size of the electrical panel was due to the installation of two new booster pumps at Plant F16. The fact that the panel has been used to operate the booster pumps since 2003, including frequent running of all booster pumps, shows the full capacity of the panel has been frequently used. This supports the need for the extra panel capacity. The recorded cost is reasonable.

20. Reasonableness Review-Job No. 4822-Plant-F53 Acquisition of Land Parcel No. 215

SGV purchased a 2.5 acre parcel of land for construction of a reservoir and booster station at Plant F53. The land was purchased in 2003 at a recorded cost of $162,079.

20.1. Positions of Parties

DRA recommends that, because the project associated with the parcel has been deferred for this GRC cycle, the cost of the parcel should be excluded from ratebase. DRA also asserts that even if SGV seeks to use the land in the next GRC cycle it is uncertain as to whether the project will be needed due to the downturn in the economy.

COF states the land parcel was intended for proposed improvements at Plant F53 that are not warranted. Thus, the parcel is likely to remain vacant for years to come and should not be included in ratebase.

FUSD states land that will not be used during the GRC forecast period should be removed from ratebase. FUSD proposes that the land be put in a memorandum account that would include costs associated with holding of the property for future use. That way, if the land is ever used, SGV would be able to request recognition of those costs.

SGV represents it planned to build the improvements at Plant F53 in 2010. SGV states, pursuant to the settlement, it has deferred the improvements at Plant F53 to the next GRC cycle, which begins in mid-2012, but still intends to build them.

SGV states that the Master Plan includes construction of Plant F53 no later than 2010.

20.2. Discussion

As part of the settlement, SGV withdrew its proposal to make the proposed improvements at Plant F53. Thus, the property will not be used in this GRC cycle. The need for the improvements at Plant F53 is based on the availability of Sandhill and growth in the demand for water, which SGV forecasts Sandhill will help supply. Such growth will not occur during this GRC cycle, and may not occur in the next GRC cycle. However, the property is adjacent to Plant F53 and will become useful when Plant F53 is expanded sometime in the future.

An option would be to treat this property as plant held for future use (PHFU).[10] In order to qualify the utility must have definite plans for its use, including a definite date for such use.[11] In this case, while SGV asserts it has a definite plan, the date is uncertain due to the uncertainty as to when customer growth will resume to a level that would require the expansion of Plant F53. Therefore, treatment as PHFU is inappropriate. However, in order to provide equitable treatment of SGV and its customers regarding this land that may have a future use, SGV is authorized to establish a memorandum account that will list the costs incurred or associated with holding the property for future use.[12] If the property is ultimately used as planned, SGV may request recovery of such costs.

21. Reasonableness Review-Job No. 4870-F7-Plant Drill and Equip Well F7B, Construct Reservoir F7A, Booster Station and Site Improvements

SGV drilled and equipped Well F7B, and installed a water treatment plant, Reservoir F7A and a booster station. The project was placed in service in 2005, 2006 and 2007. SGV estimated the cost (in 2003) at $1,340,000. The recorded cost is $3,407,360.

21.1. Positions of Parties

DRA states that because SGV did not consider lower cost alternatives, costs in excess of SGV's original estimate should be excluded.

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[10] For water utilities, PHFU is not allowed in rate base and earns no return. However, water utilities are allowed to recover expenses associated with the PHFU. See D.94-08-031, in Re California Water Service (1994) 55 CPUC2d 704, 715.

[11] See D.96-04-083, in Re California Water Service (1996) 66 CPUC2d 100,109.

[12] See D.87-03-078, in Re California Water Service (1987) 24 CPUC2d 68, 87.

COF states that SGV should have known of and evaluated the drainage issues with this site before it acquired the site or proceeded with construction. COF also states that SGV has not shown that it considered alternative and less costly approaches to solving the drainage issue. Thus, COF recommends disallowance of the costs in excess of the original estimate of $1,340,000.

FUSD states that SGV should shoulder the costs due to its failure to seek alternatives such as a location that did not have the drainage issues that resulted in increased costs. Thus, FUSD recommends that all costs above the original estimate of $1,340,000 be removed from ratebase.

SGV states the cost estimate was prepared in 2003 for construction in 2004. Actual construction occurred in 2005-2007. SGV explains that during the design stage, it discovered drainage issues not considered in the cost estimate. SGV determined it was necessary to alter the design to prevent runoff from rain storms or a reservoir overflow from damaging adjacent properties. It built a retaining wall and altered site drainage to alleviate the problem. SGV also states that an enclosed building for the pumps, electrical panel and chlorination equipment was needed for security reasons. This too was not in the original estimate.

In addition to the above, SGV states that substantial increases in the costs of labor and materials between 2003 and 2007 contributed to the cost increases.

SGV states that it obtained competitive bids for the various parts of the work and selected the lowest bids.

21.2. Discussion

SGV obtained competitive bids for the various parts of the work and selected the lowest bids. In addition, the project was constructed between 2005 and 2007 rather than in 2004. As a result, costs for materials and labor increased.

However, while building this project SGV discovered that there were drainage issues that were not considered in the original estimate. The drainage issues for this project required the construction of a sizable retaining wall to solve.

It is not reasonable to believe that, when SGV purchased the land to build this project, it did not notice that the land had a substantial slope that would cause drainage issues. The fact that resolution of the drainage issue was not included in the original estimate tends to indicate that SGV was not aware of the issue or chose to ignore it. Either of these alternative explanations indicates imprudent planning. SGV could and should have been aware of the issue. It should have considered alternative locations and, if reasonable alternative locations were not available, alternative ways to address the drainage issue. However, the record does not indicate that SGV did so. That being the case, SGV has had ample opportunity to meet its burden of proof regarding the additional costs of the retaining wall built to address the drainage issues, and has not done so. The cost of the retaining wall ($537,868) is excluded from ratebase.

22. Reasonableness Review-Job No. 4895-Plant F51 Acquisition of Land Parcel No. 221

SGV purchased a parcel of land for construction of three wells, a reservoir and a booster station. The land was purchased in 2004. SGV originally estimated the cost at $350,000. The recorded cost is $382,694.

22.1. Positions of Parties

DRA recommends that, because the project associated with the parcel has been deferred for this GRC cycle, the cost of the parcel should be excluded from ratebase. DRA points out that the project for this parcel, Plant F51, was proposed in the last two GRCs, but has been delayed until SGV decides to pursue the California Environmental Quality Act (CEQA) process.

COF represents that the land was purchased for the addition of water production, storage and pumping facilities at Plant F51. COF states that the land has been vacant since 2004 and has not been used, and that SGV has not included such improvements in this application. Therefore, COF recommends that the parcel be excluded from ratebase.

FUSD states the land will not be used during the GRC forecast period and should be excluded from ratebase. FUSD proposes that the land be put in a memorandum account that would include costs associated with holding of the property for future use. That way, if the land is ever used, SGV would be able to request recognition of those costs.

SGV states that in discussing the facilities planned to be built at Plant F51, the City of Fontana determined that a full environmental review pursuant to CEQA would be required. SGV determined that such a review would delay the project and devoted its resources to other projects. SGV represents the project remains part of its plans to improve its water system and it plans to include the project in its next GRC.

SGV states that the site is located in an area where perchlorate has not been detected and there are few citrus groves that could cause nitrate contamination.

22.2. Discussion

The property will not be used in this GRC cycle. The project for this parcel, Plant F51, was proposed in the last two GRCs. SGV delayed this project because of the CEQA process. SGV stated it will pursue the CEQA process when there is staff time available, and intends to include the project in the next GRC. Given this project's history, it is not at all certain that it will be authorized or built in the next GRC cycle.

While SGV asserts it has a definite plan to use the property, the date is uncertain. Therefore, treatment as PHFU is inappropriate. However, in order to provide equitable treatment of SGV and its customers regarding this land that may have a future use, SGV is authorized to establish a memorandum account that will list the costs incurred or associated with holding the property for future use.[13] If the property is ultimately used as planned, SGV may request recovery of such costs.

23. Reasonableness Review-Job No. 4901-Linden Avenue North of Casmalia Street Install 42-Inch Pipeline

SGV installed 137 feet of 42-inch pipe. The project was placed in service in 2007 at a recorded cost of $3,460,376.

23.1. Positions of Parties

DRA says the pipeline was installed to accommodate improvements to Sandhill.[14] DRA argues that because Sandhill is unable to process more than 20 million gallons of water per day the additional capacity provided by the pipeline is not needed. DRA recommends the costs be excluded from ratebase. DRA offers, as an alternative, the installation of booster pumps on the existing line.

COF says, since the pipeline was installed to accommodate improvements to Sandhill that were not warranted, the pipeline should not have been built. COF further argues that since the pipeline is related to the Sandhill project, its cost should have been included in the $35 million cap imposed on Sandhill in

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[13] See D.87-03-078, in Re California Water Service (1987) 24 CPUC2d 68, 87.

[14] Improvements to Sandhill are addressed in Section 31.

D.07-04-046. COF also states the pipeline should have been included in the April 2005 Master Plan but was not.

COF points out that SGV has no written policy on bidding and that the selected contractor for this project was the last bidder and always got awarded pipeline projects whether bids were solicited or not. For all of the above reasons, COF recommends the costs of the pipeline be disallowed.

FUSD says the usefulness of the pipeline is dependent on the output from Sandhill. FUSD argues that, unless SGV can demonstrate that Sandhill can produce more than 18.7 million gallons per day of water, the pipeline is overbuilt and should be excluded from ratebase.

SGV states that the existing 30-inch pipeline for transporting water from wells in the Lytle Creek Basin and Sandhill to Plant F13 for distribution to its service area had insufficient capacity to deliver full production from both sources even prior to the Sandhill upgrade. SGV also states that the 42-inch pipeline was intended to provide the needed additional capacity for water from wells in the Lytle Creek Basin and upgraded Sandhill. SGV represents that it also provides needed contact time for disinfection of water from both sources.

23.2. Discussion

The record shows that, on some occasions when water was available from both Sandhill and the Lytle Creek well fields, one or both sources had to be cut back to avoid exceeding the capacity of the 30-inch pipe line. The record also shows that, on some occasions, flow rates in the 30-inch pipeline had to be reduced to achieve sufficient disinfection contact time for Lytle creek water treated at Sandhill. The 42-inch pipe was necessary even without the Sandhill upgrades. Thus, the project was necessary and is reasonable.

24. Reasonableness Review-Job No. 4982-Cherry Avenue South of Foothill Boulevard-Install 24-Inch and 16-Inch Pipelines

SGV installed 137 feet of 42-inch pipe, 1,582 feet of 24-inch pipe, and 1,235 feet of 16 inch pipe. The project was placed in service in October 2007 at a recorded cost of $762,638.

24.1. Positions of Parties

COF represents the pipeline was intended to transport water from Plant F7. COF states the fact that the pipeline was not included in the April 2005 Master Plan indicates the existing system is capable of producing the desired pressure during the next five years and available fire flows are adequate for residential purposes and most commercial/industrial purposes without the project. COF recommends this project be disallowed or the amount allowed reduced.

FUSD agrees with the position taken by COF.

SGV states the existing pipeline did not have sufficient capacity to transport the full production from Plant F7. SGV states that the existing facilities were installed in 1926, 1952, 1953 and 1968. SGV also represents the new pipeline is needed to transport water from sources other than Plant F7 when the wells and booster pumps at Plant F7 are not available. Additionally, since San Bernardino County planned to reconstruct Cherry Avenue at that time, SGV avoided the cost of removing and replacing new or near new pavement that would have been incurred if SGV deferred the project.

24.2. Discussion

The age of the existing facilities indicates that they were nearing the end of their useful lives of about 50 years. In addition, such older pipelines would be

more susceptible to damage due to the reconstruction of the road over the pipelines by San Bernardino County. The fact that San Bernardino County planned to reconstruct Cherry Avenue at that time provided the opportunity for cost savings.

The existing pipeline did not have sufficient capacity to transport the full production from Plant F7. The additional capacity of the new facilities allows SGV to transport the full capacity of Plant F7, as well as water from sources other than Plant F7 when Plant F7 is not available. For these reasons, the project is reasonable.

25. Reasonableness Review-Job No. 5025-Sierra Avenue North of Baseline Avenue-Install 24-Inch Pipeline, Services and Fire Hydrant

SGV installed 4,789 feet of 24-inch pipe, 85 feet of 12-inch pipe, 21 one-inch services, four 2-inch services and five 6-inch fire hydrants. The project was placed in service in 2006 at a recorded cost of $1,169,948.

25.1. Positions of Parties

COF represents the replacement of the pipeline was appropriate. However, COF argues the new pipeline is a larger diameter than needed because replacement was not identified by system modeling or included in the April 2005 Master Plan, which did not indicate system deficiencies. COF recommends the cost be reduced by the difference between the material costs for the original pipe size and the 24-inch pipe installed. COF recommends an exclusion of $110,000 from ratebase.

FUSD agrees with the position taken by COF.

SGV states the City of Fontana informed it in 2005 of plans to widen and reconstruct Sierra Avenue and install storm drains. SGV states that since its

six-inch and eight-inch facilities under Sierra Avenue were not deep enough, they would have to be replaced. SGV states that the use of larger pipe enhanced its ability to transport lower cost water from the northeastern part of its service area.

SGV states a 24-inch pipe was chosen because it would keep the velocity of water in the pipe, at the current maximum day water requirement, at 5.2 feet per second. Use of a 16-inch pipe would yield a velocity of 11.6 feet per second. SGV states that the desired velocities are five to ten feet per second. Use of the 24-inch pipe results in velocities within the desired range.

25.2. Discussion

The higher the velocity of water flowing in a pipe, the greater its resistance to flow. Greater resistance to flow means more power is needed to pump the water through the pipe, resulting in higher energy costs. Use of the 24-inch pipe results in velocities within the desired range resulting in lower pumping costs. SGV's choice of 24-inch pipe is reasonable. The project is reasonable.

26. Reasonableness Review-Job No. 5089-Baseline Avenue East of Cypress Avenue - Install 24-Inch Pipeline, Services and Fire Hydrants

SGV installed 2,308 feet of 24-inch pipe, 183 feet of 12-inch pipe, 37 feet of 8-inch pipe, 21 one-inch services and four 6-inch fire hydrants. The project was placed in service in 2007 at a recorded cost of $498,203.

26.1. Positions of Parties

COF represents the replacement of the pipeline was appropriate. However, COF argues the pipeline is larger diameter than needed because replacement was not identified by system modeling or included in the April 2005 Master Plan, which did not indicate system deficiencies. COF recommends the

cost be reduced by the difference between the material costs for the original pipe size and the 24-inch pipe installed. COF estimates the disallowance at $53,000.

FUSD agrees with the position taken by COF.

SGV states the City of Fontana informed it in 2005 of plans to reconstruct a sewer and storm drain in Baseline Avenue. SGV states that since its existing eight-inch facilities under the street were not deep enough, they would have to be replaced. SGV states that the use of larger pipe enhanced its ability to transport lower cost water from the northeastern part of its service area.

SGV states a 24-inch pipe was chosen because it would keep the velocity of water in the pipe, at the current maximum day water requirement, at 5.2 feet per second. Use of a 16-inch pipe would yield a velocity of 11.6 feet per second. Use of the 24-inch pipe results in velocities within the desired range.

26.2. Discussion

Use of the 24-inch pipe produces velocities within the desired range resulting in lower pumping costs. SGV's choice of 24-inch pipe is reasonable and the project is reasonable.

27. Reasonableness Review-Job No. 5111-Walnut Avenue West of Sierra Avenue- Install 24-Inch Pipeline

SGV installed 5,379 feet of 24-inch pipe, 673 feet of 8-inch pipe and one 6-inch fire hydrant. The project was placed in service in 2006 at a recorded cost of $1,158,602.

27.1. Positions of Parties

COF recommends the costs be excluded from ratebase because the pipeline is not a replacement, was not put out for competitive bid and was not included in the April 2005 Master Plan. COF points out that there is no

documentation as to the need for the pipeline, the size of the pipeline or any explanation as to how the fact that the City of Fontana was doing work on the street justifies the project.

FUSD recommends that the costs be excluded from ratebase because the project was not put out for competitive bid and was not included in the April 2005 Master Plan.

SGV states that upon learning of the City of Fontana's plans to pave and reconstruct curbs and gutters on Walnut Avenue, it decided to install the pipeline. The pipeline was designed to deliver a reliable water supply to the F16 reservoir, which is the primary water source for the F15 reservoir that supplies water to more than 9,500 customers in the northern part of SGV's service area. SGV states that it had no specific plan for the pipeline before it decided to build it, but had the intention of doing so.

27.2. Discussion

In this case, SGV explained that the City of Fontana's decision to pave and reconstruct curbs and gutters on Walnut Avenue was not anticipated in the Master Plan. SGV states the pipeline was designed to deliver a reliable water supply to the F16 reservoir, which is the primary water source for the F15 reservoir that supplies water to more than 9,500 customers in the northern part of SGV's service area.

The fact that this project was not in the Master Plan does not mean that it was necessarily unreasonable. However, the fact that the project was not included in the Master Plan tends to support a conclusion that it was not needed. SGV has the burden of showing the project was needed and the cost was reasonable. SGV provided no documentation addressing the need for the project.

When constructing a pipeline, whether a replacement or a new installation, coordination with the local government that will be doing street work in the same area may reduce costs. However, that is not sufficient justification for the project.

General claims that a project will enhance reliability without a convincing demonstration that it will do so is not sufficient to meet the burden of proof. SGV provided no demonstration of how this project will increase reliability or whether an increase in reliability is even needed. Since SGV has had ample opportunity to meet its burden of proof regarding this project and has not done so, it is excluded from ratebase.

28. Reasonableness Review-Job No. 5199-Plant F13-Recoat Interior and Exterior of Reservoir F13(L)

This project included recoating of the interior and exterior of Reservoir F13(L), constructing baffling inside the five million gallon reservoir and installing a rain gutter and down spout. The interior of the reservoir had not been recoated since it was built in 1982. The project was placed in service in 2007 at a recorded cost of $1,637,249.

28.1. Positions of Parties

DRA states that SGV did not seek competitive bids for this work and has not explained any steps it may have taken to mitigate costs. DRA's estimate is $100,000 for recoating and $300,000 for the baffling. The recoating estimate is based on SGV's estimate in the forecast phase of this proceeding of $100,000 to recoat the reservoir at Plant F20.

COF states SGV has not provided justification for the baffling or a detailed cost breakdown. COF states the project was not an emergency and could have been planned for and put out for bid. However, the project was not put out for

competitive bid. COF recommends disallowing all but $400,000 of the cost as recommended by DRA.

FUSD states that since SGV did not get bids for recoating the interior of the reservoir, all costs above $500,000 should be excluded from ratebase.

SGV states the $100,000 estimated cost to recoat the F20 reservoir is for cleaning, priming and recoating. This would be a minimal recoating because the reservoir cannot be taken out of service long enough for the more extensive recoating until a second reservoir is constructed at the site.

SGV states that the F13 reservoir had not been recoated since 1982. The recoating involved removal of the original coal tar exterior coating. The removal of the original coating required special handling and disposal because it contained solvents and other petroleum products. SGV had the work preformed by the company that originally constructed the tank because the company was familiar with the tank's construction and was able to perform the work at the time it was needed.

SGV represents it was allowed by the California Department of Public Health to utilize less than half of the reservoir's capacity because it did not provide sufficient disinfection contact time.[15] The baffling increases the disinfection contact time because it prevents water from flowing through the reservoir directly from the inlet to the outlet without sufficient mixing with the other water in the tank. Because of the baffling, SGV was able to restore use of more than 2.5 million gallons of storage.

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[15] Disinfection contact time is the amount of time necessary for the disinfectant added to the water to inactivate contaminants before the water reaches the customer.

28.2. Discussion

No party alleges the recoating, rain gutter or downspouts were unnecessary. The baffling resulted in restoration of the use of more than 2.5 million gallons of storage. Therefore, the work performed was needed. The question is whether the cost was reasonable.

The use of a competitive bidding process would tend to support the reasonableness of the resulting cost. However, SGV did not put the project out for bid.

The work was performed by a company that was familiar with the tank's construction and was able to perform the work at the time it was needed. This tends to support the qualifications of the contractor to perform the work.

A proposed project included in SGV's application is the recoating of the F20 reservoir. The F20 reservoir is the same size as the F13(L) reservoir. The estimated cost to recoat its exterior, with minimal surface preparation, is $100,000. The recoating was intended as a temporary measure until another reservoir can be built allowing the F20 reservoir to be taken out of service for a more thorough recoating. Although the F20 project was not included in the settlement, DRA's initial position in the forecast phase of this proceeding did not oppose the estimated cost. The recorded cost of recoating the exterior of the F13(L) reservoir is $125,000, exclusive of removal of the original coating. Since the recoating of the F13(L) reservoir is not intended as a temporary measure, the cost of recoating the F13(L) reservoir compares favorably with the forecasted cost of recoating the F20 reservoir, which DRA did not oppose. This favorable comparison supports the overall reasonableness of the estimated costs.

The work was needed, was performed by a qualified contractor and the costs were reasonable. Overall the project and its costs are reasonable.

29. Reasonableness Review-Job No. 5205 and Job No. 5316-Systemwide-Install Services, Plastic Service Replacement 2007 and 2008

These two projects were placed in service in 2007 and 2008. The recorded costs were $2,381,169 for 2007 and $4,018,551 for 2008.

29.1. Positions of Parties

COF states that city officials did not direct SGV to increase service replacements. COF argues SGV did not seek bids for this work even though the work in aggregate is several million dollars. COF recommends reduction of the amount to the five-year average of $1,000,000.

FUSD states that because SGV did not obtained bids for this work, all of the costs should be excluded from ratebase.

SGV represents that replacing plastic services is necessary to avoid repeated costly repairs and water leakage. SGV also represents the number of leaking service connections and connections likely to leak increased dramatically in September 2007, requiring it to hire outside contractors to install 993 service connections that year. SGV represents that its efforts to coordinate its replacements with the City of Fontana's street repair program contributed to the increase in replacements in 2008.

29.2. Discussion

As discussed previously for proposed service replacements, SGV's replacement strategy is reasonable given the problems with polyethylene pipe. It avoids multiple repairs of the same services and future repairs of other services with the same vintage of polyethylene pipe. This, in turn, avoids frequent excavation and patching of the street in the same area and resulting customer complaints. In addition, it reduces water leaks. Waiting longer to replace pipes

known to cause problems just means that SGV will be called upon to make more unplanned repairs. SGV's expenditures for these projects are reasonable.

30. Reasonableness Review-Headquarters Office Complex (Office Complex)

SGV's Office Complex consists of a 26,381 square foot administrative office building (Building A) and a 14,293 square foot operations, maintenance and warehouse building (Building B). Total project costs are $18,124,864, which SGV proposes to include in ratebase for the Fontana District and the General Office (GO).

30.1. Positions of Parties

DRA points out that SGV's calculation of the proportion of office space dedicated to the GO is simply the amount of space dedicated to the GO divided by total space. DRA says this method allocates all common space, such as copy areas, bathrooms and hallways, to the Fontana Division. DRA recommends that common space should be allocated to both GO and the Fontana Division. As a result, DRA recommends that the allocation of costs to the GO be calculated as the amount of space dedicated to only the GO divided by the total space excluding common spaces. This yields an allocation to the GO of 34.1% rather than SGV's allocation of 30.0%.

DRA says Building B should be allocated only to the Fontana Division because none of its space is used for GO personnel or functions.

For construction costs not attributable to a specific building, DRA recommends that the allocation to GO be calculated as the ratio of space allocated only to GO use to the space allocated to only GO or Fontana use (i.e. excluding common areas) in both buildings. This yields an allocation to the GO of 20.1%.

DRA represents that Building A is larger than it needs to be. DRA points out that SGV did not perform a space allocation study as part of its design in order to determine space needs for the building. DRA calculated the necessary square footage of office space based on the California Department of General Services State Administrative Manual that provides maximum square footage recommendations for office space. DRA also utilized industry standards for non-personnel office space and SGV's recommended sizes for some areas such as restrooms, storage space and copy areas. DRA concluded that the necessary square footage is 16,910 square feet or 64.1% of the 26,381 square foot space actually built.

DRA agrees with the size of Building B except for the vehicle service garage and associated office space (2,340 square feet). DRA states that the cost of the garage portion of Building B is $461,240, which yields a revenue requirement of $84,000 per year. DRA states that the cost of outsourcing all vehicle maintenance would be approximately $40,000 per year. Therefore, DRA concludes that the cost of SGV 's increased garage space is greater than the cost of outsourced vehicle maintenance. As a result, DRA recommends that only 11,910 square feet of Building B be allowed in rate base.

DRA says SGV retained Earl Construction Corporation (Earl) as the general contractor without soliciting competitive bids for the general contractor and incurred higher costs as a result.

To estimate appropriate costs for the Office Complex, DRA used the RS Means Square Foot Cost 2008 Edition. DRA points out that SGV used R S Means Cost Guidelines in estimating costs for some facilities in the forecast phase of this proceeding. Overall, DRA found that the appropriate cost of the Office Complex

at the size actually built would be $10,488,618, of which DRA recommends including $7,856,990 in ratebase.

DRA recommends that, if the Commission orders the sale of the old building site, the sale should not be to an affiliate of SGV because of the attempt in the last GRC to overcharge for the land the Office Complex sits on.

COF states the Office Complex is larger than it needs to be. COF says that previously all Fontana Division employees were located in approximately 13,020 square feet of office space.

COF states that SGV has not justified the 25% employee growth factor it used in determining its space requirements.

COF states Building A includes an excessively large break room and lobby and that some offices are 250-300 square feet in size.

COF states that Building B is significantly larger than the current facilities and SGV has not justified the need for the additional size.

COF states that there are costs included in the project costs ($22,205) that were incurred by SGV's affiliate, between September, 2002 and March 31, 2004, prior to SGV's acquisition of the property on December 31, 2004. COF recommends that these costs be disallowed.

COF states that SGV has not updated the cost to refurbish the existing facilities, that would comprise an alternative to the Office Complex.

COF represents that SGV has not come up with a plan for disposing of the existing facilities.

COF states that SGV did not perform any studies to determine the size of the Office Complex based on the space needed or any cost-benefit analysis of alternatives. COF also states SGV has no written policy regarding solicitation of competitive bids for construction projects.

Based on the above, COF recommends that no more than $6,000,000, the amount presented as the estimated cost in the last two Fontana District GRCs (A.02-11-044 and A.05-08-021), be allowed in ratebase for the Fontana District and GO. COF also recommends that SGV be required to sell its existing facilities and use the profits from the sale to offset the costs of the Office Complex.

FUSD states that because Building A was built to accommodate 65 people rather than the 34 actual employees, it is too large. In addition, FUSD states the inclusion of GO employees as an afterthought to occupy the excess space does not change the fact that Building A was imprudently overbuilt.

FUSD states that in the 2005 GRC, SGV stated the space needed was 12,625 quare feet of office space and 9,250 square feet of warehouse space. This included an allowance for 25% growth in office space. This is about half of the office space and 65% of the warehouse space actually built.

FUSD states that SGV should have reevaluated alternatives such as refurbishing the existing facilities or changing the design when the cost of constructing the Office Complex escalated, but did not do so.

FUSD recommends that the entire cost of the Office Complex less the $4.9 million refurbishment cost should be excluded from ratebase for the Fontana District and the GO.

SGV claims that the Office Complex was built at a reasonable size and cost and will be fully utilized by the Fontana Division or GO employees.

30.2. Discussion

The need for the Office Complex was addressed in D.07-04-046. In Section IX.B.7(b) of that decision, the Commission stated:

> "While we do not doubt that more office space is needed by San Gabriel, it has not convinced us that its proposed size is reasonable."

The Commission also stated in Section IX.B.7(b):

> "In its next rate case, costs should be reviewed for prudence and the facility's size evaluated to determine whether the entire facility is used and useful."

In addition, the Commission stated in Section IX.B.7(b):

> "San Gabriel shall remove from rate base the existing HQ facilities…once it is no longer used and useful or upon inclusion of the New Headquarters building in ratebase, whichever comes sooner."

In Finding of Fact 51, the Commission found:

> "In regard to the new office/warehouse, San Gabriel should remove the facilities that are to be replaced from ratebase immediately upon the occupation of a new headquarters building."

Thus, the Commission has found that the Office Complex is needed to provide some amount of office space, but has not determined that the size as previously proposed or as constructed is reasonable.

The issues between the parties concern the size of the Office Complex, the resulting cost and treatment of the existing office facilities.

SGV's breakdown of costs is as follows:

Project Cost Breakdown[16]

Component	Total Cost	Cost Attributable to Building A (72%)[17]	Cost Attributable to Building B (28%)
Construction costs for the buildings	$11,254,094	$ 8,099,514	3,154,580
Site work	3,517,490	2,532,593	984,897
Design fee	1,217,211	876,392	340,819
Subtotal	$15,988,795	$11,508,499	$4,480,296
Permits, fees, etc.	$ 749,347	539,530	209,817
Overheads	502,144	361,544	140,600
AFUDC[18]	884,578	636,896	247,682
Total[19]	$18,124,864	$13,046,468	$ 5,078,396

30.2.1. Contractor Costs

DRA says that SGV retained Earl as the general contractor without soliciting competitive bids for the general contractor. This is true. DRA then

[16] Exhibit SG-8, Attachments S and T.

[17] $8,099,514/$11,254,094.

[18] Allowance for Funds used During Construction.

[19] The cost of the land on which the Office Complex sits is already in rates and is not included in this table.

compares the general manager costs for the Office Complex to a building constructed by the same contractor for the City of Fontana, and concludes the general costs for the city building were less than for the Office Complex. SGV demonstrated the tasks performed for each of the two projects were different and that costs for comparable tasks were comparable. SGV's explanation is persuasive and no disallowance based on the choice of general contractor is appropriate. The rest of the construction costs resulted from a competitive bidding process where the lowest reasonable bids were selected. Therefore, there is no reason for a disallowance on that basis.

30.2.2. Building A-Reasonable Costs and GO Allocation

The Office Complex was originally designed, according to SGV, to accommodate current employees from the Fontana Division plus enough space for a 25% increase in employees by buildout.[20] This is based on the assumption that the number of customers will increase by 50% through buildout. Since the Office Complex should last 40 years or more, this is a reasonable assumption.

The number of current Fontana Division employees to be located in Building A is 35. Allowing sufficient space for a 25% increase in employees will increase this number by nine to 44 employees. Therefore, using SGV's design criteria, Building A should have been designed to accommodate 44 employees. However, as discussed below, Building A is large enough to accommodate about 64 employees. This is an 83% increase over the current number of Fontana Division employees rather than 25%.

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[20] Buildout will occur when the utility's service area is completely occupied with customers such that no additional growth can occur.

In D.08-06-022 in Application (A.) 07-07-003, the Commission determined that it would be reasonable to move 27 GO employees to Building A to relieve overcrowding in the GO facilities, but left the allocation of space and costs to this proceeding. The decision recognized the fact that Building A will have sufficient room to accommodate the additional GO employees, but did not determine that Building A should be built to accommodate the GO employees. SGV now plans to temporarily relocate 25 GO employees to Building A, which will leave space for an additional four employees unused, in addition to the 35 current Fontana Division employees. Thus, Building A has sufficient space for 64 employees (25+4+35).

Building A should have been designed to accommodate the needs of the Fontana Division. It should not have been designed with the intent of relocating GO employees and the record does not indicate that it was. Therefore, the reasonableness of the size of Building A should be assessed against the needs of the Fontana Division.

Building A and Building B have different functions. The record does not indicate that growth in the number of employees in Building B would overflow to Building A. Therefore, SGV should have designed Building A to accommodate the existing 35 employees plus an additional 25% (nine employees) for a total of 44 employees according to its own employee growth projections. Since Building A was actually built to accommodate 64 employees, it was built too large and the decision to do so was unreasonable.

The costs of Building A that would have been incurred if it had been built to accommodate 44 employees should be included in ratebase for the Fontana Division. However, as described below, all costs attributable to the space utilized temporarily by nine GO employees will be allocated to the GO until such

time as the space is needed for Fontana Division employees. There is no reason to handle Building A differently simply because SGV chose to build it too large for Fontana Division needs and to temporarily relocate GO employees to occupy some of the extra space.

The per-employee space allocations in Building A are significantly larger than the general guidelines for maximum space allowances provided in the State Administrative Manual. For example, for clerical employees, the allowance is 75 square feet. In contrast, SGV allocated 200 square feet for customer service representatives. For a technical professional, the allowance is 100 square feet. In contrast, SGV allocated 160 square feet for senior inspectors and 200 square feet for central control operators. While the maximum space allowances specified in the State Administrative Manual do not govern what is allowable for a water company, they demonstrate that SGV's space allocations are at least ample. For the purpose of determining reasonable Building A costs, SGV's per- employee space allocations, while ample, are reasonable.

If SGV had designed Building A to accommodate only a 25% allowance for Fontana Division employee growth (44 employees), it would have space for nine GO employees until the forecast growth occurs. Such space could be utilized to temporarily accommodate nine GO employees until the additional space is needed for the Fontana Division. In that case, the additional 16 GO employees would have to be located elsewhere.

If Building A had been properly designed to meet the needs of the Fontana Division, it would have had room for 44 employees instead of 64 employees. Accordingly, the layout of Building A would have been different and the amount of space not directly used as office space, such as restrooms, conference rooms, etc., would be correspondingly smaller. It is reasonable, given the ample space

SGV allocated to the various functions in the actual Building A design, to expect that the space allocated for common facilities (lobby, restrooms, meeting rooms, etc.) would have been reduced in proportion to the significantly lower employee count. Therefore, Building A should have been 68.8 % (44/64) of the size it currently is. However, the building site would not have been appreciably different. Therefore, the reasonable cost of Building A, excluding site related costs, is 68.8% of the costs or $6,837,873, a reduction of $3,100,896.[21] The resulting total reasonable cost for Building A, including site-related costs, is $13,046,468 less $3,100,896 or $9,945,572.

The record does not indicate that GO employees will use the facilities other than office space, such as rest rooms, conference rooms, parking, etc. any differently than Fontana Division employees. Thus, the Building A related costs attributable to the 9 GO employees are 20.5% (9/44) of the total reasonable costs of Building A or $2,034,322. These costs will be included in the GO ratebase and excluded from the Fontana Division ratebase. The remaining reasonable Building A related costs, $7,911,251, will be included in the Fontana Division ratebase.

30.2.3. Reasonable Costs for the Remaining 16 GO Employees

The extra space in Building A will never be needed by the Fontana Division and was not constructed for the purpose of temporarily relocating GO employees. Therefore, it should not be treated as utility property. However,

[21] Total Building A costs, less site-related costs, are $9,938,769.

there remains the issue of what costs should be allowed for the remaining 16 relocated GO employees.

The record does not indicate that GO employees need to be located in the Fontana Division. Indeed, they are not currently located there, and will move to Building A only because it will have sufficient space to accommodate them. Therefore, they could have been relocated elsewhere. SGV has not indicated that it has plans to construct a new GO office building in the next few years. It would not be reasonable to expand Building A just to temporarily accommodate GO employees. Therefore, it is reasonable to assume that space would have to be rented for these 16 GO employees. Since SGV has chosen to relocate the GO employees to Building A, a reasonable rent will be allowed for the space the 16 GO employees will occupy.

The record does not indicate what rental office space would cost. However, there is no basis for assuming the cost would be as much as the cost of including the excess space in Building A in ratebase. This is especially true of the first few years in ratebase, because the return and resulting income taxes will be the largest due to the fact that the amount in ratebase has not accrued much depreciation.

If SGV had gone into the rental market for office space, it is reasonable to assume that space would have been rented in an older building, and the rent would have been market–based, but the record does not include such information. As a proxy for rental costs, the revenue requirement for an equivalent amount of space in an older building will be used for this GRC cycle only.

The record does not indicate the cost of an equivalent amount of space in an older building. However, the record does indicate that SGV estimated the cost of the Office Complex as $6,000,000 in 2005. Thus, based on SGV's own cost

estimates, it is reasonable to conclude that an equivalent facility could have been built in 2005 or before for $6,000,000.

While the SGV claims the current facilities are larger than the size assumed in the $6,000,000 estimate, the record does not indicate that the Office Complex size the $6,000,000 estimate was based on would not be sufficient for temporary use by GO employees. Additionally, if the Office Complex had been constructed before 2005, it could have been constructed at a lower cost resulting in more square footage for the $6,000,000 amount. Overall a $6,000,000 estimated cost for a comparable older office complex is reasonable.

SGV's estimated cost for the Office Complex is approximately $18,000,000. Thus, the cost of a comparable older office complex would be about one third ($6,000,000/$18,000,000) of the actual cost of the office complex. Therefore, it is reasonable to assume an older building comparable to Building A, built in 2005 or before, would cost one-third as much.

The reasonable cost for Building A, based on the needs of the Fontana Division, is $9,945,572. Therefore, the cost for a comparable older building is one third of that amount or $3,315,191. Since the Building A reasonable cost is for 44 employees, the portion of the comparable older building attributable to 16 GO employees would be $1,205,524 ($3,315,191 x 16/44). This amount will be used to develop a proxy for the cost of renting space for the 16 GO employees.

The revenue requirement, to be used as a proxy for the rent, should include a return on the cost of the building and depreciation. The return will be $126,580 ($1,205,524 x 10.5%).[22] Assuming a 40-year life, depreciation will be

[22] 10.5% is the return on equity included in the settlement.

$30,138 ($1,205,524 x 2.5%). The total is $156,718 which amounts to $816 per employee per month.

Since the cost of the land on which the Office Complex sits is included in ratebase and is not reduced due to the disallowance discussed above, no return on land is included in the rent calculation. Since no disallowance of operations and maintenance (O&M) costs or administrative and general (A&G) costs is made due to the disallowance of part of the Building A costs, such costs are already in rates. To avoid double counting such costs, no O&M or A&G costs are included in the rent calculation. Additionally, no income taxes on the rent are included because that is the responsibility of the landlord, and depend on the landlord's overall financial situation. Therefore, the reasonable proxy for annual rent for the 16 GO employees is $156,718.

In the next GRC, SGV shall provide information on the historical (2009-2011) costs and forecast costs of rental office space throughout SGV's service territories, not just the Fontana Division, of a type suitable for the 16 GO employees addressed herein. This information can be used to determine future rent costs for the 16 GO employees.

30.2.4. Building B-Reasonable Costs

DRA agrees with the size of Building B except for the vehicle service garage and associated office space. DRA states that the revenue requirement associated with the cost of the increased garage space will be greater than the savings that would result from elimination of outsourced vehicle maintenance. As a result, DRA recommends that 2,340 square feet of Building B be excluded from rate base.

Current garage space for vehicle maintenance accommodates one vehicle. SGV's design accommodates two vehicles. Since SGV has two personnel

performing vehicle maintenance, each person could be working on a separate vehicle. Therefore, it is reasonable to have sufficient garage space for two vehicles. SGV has not proposed to outsource vehicle maintenance in this proceeding and the record does not indicate that it would be cost-effective to do so. Therefore, DRA's recommendation is not adopted and the reasonable costs for Building B are $5,078,396.

30.2.5. Affiliate Costs Not Properly Attributable to SGV

SGV acquired the land for the Office Complex on December 31, 2004 from its unregulated affiliate. However, prior to that time, SGV recorded $22,205 in costs for a survey, demolition of an existing structure and asbestos abatement of the land. Since these costs were incurred before SGV acquired the land, they are attributable to the unregulated affiliate, are not recoverable from ratepayers and are excluded from recoverable costs.

30.2.6. Reasonable Office Complex Costs

The reasonable costs for Building A for the Fontana District are $7,911,251 for Building A and $5,078,396 for Building B.[23] As discussed above, $22,205 attributable to SGV's regulated affiliate are excluded. The resulting reasonable costs for the Fontana District are $12,967,441. In addition, as discussed above, $2,034,322 shall be included in the GO ratebase for reasonable Building A space for nine GO employees and $156,718 shall be included in the GO expenses as a proxy for rent for the remaining 16 GO employees.

[23] All numbers are rounded to the nearest whole number.

30.2.7. Treatment of Old Office Site

In Finding of Fact 51 of D.07-04-046, the Commission found: "In regard to the new office/warehouse, San Gabriel should remove the facilities that are replaced from ratebase immediately upon the occupation of a new headquarters building." In Section IX.B.7(b) of the decision, the Commission indicated that the existing facilities with the exception of half of the land where Plant F25 is located would no longer be used and useful and should be excluded from ratebase. SGV has indicated it will do that.

COF recommends that SGV be required to sell its existing facilities and use the profits from the sale to offset the costs of the new facilities.

Public Utilities Code Sections 789.1 and 790 require that the proceeds from the sale of water utility property that was once used and useful in providing service to customers shall be reinvested in utility infrastructure that goes into ratebase. Any proceeds not reinvested in utility infrastructure within eight years are to be allocated to ratepayers. Given these requirements, requiring SGV to use the proceeds to offset the cost of the Office Complex is not an option. COF's recommendation is not adopted.

31. Reasonableness Review-Sandhill

Sandhill is a water treatment plant that began operation in 1965 to treat water from Lytle Creek. By 1969, it was capable of treating up to 20 million gallons of water per day (mgd). However, it was not approved for treating water from the State Water Project (SWP).

During storms, periods of heavy snow melt and periods of high recreational use, Lytle Creek water has high turbidity.[24] Sandhill's limited ability to handle high turbidity caused it to have to be shut down during periods of high turbidity because it could not meet federal and state turbidity requirements.

After subsequent upgrades, Sandhill was authorized to treat SWP water in 2002. However, it was required to blend Lytle Creek water with SWP water such that the mixture contained at least 20% Lytle Creek water. As a result, when Sandhill was unable to supply sufficient Lytle Creek water, the SWP water could not be used.

In A.05-08-021, SGV proposed to upgrade Sandhill and expand capacity to 29 mgd at a cost of $35 million. The planned upgrades would allow Sandhill to treat 100% Lytle Creek water, 100% SWP water or any combination of the two. The need for the upgrade, including cost-effectiveness, was addressed in D.07-04-046. In Section IX.B.1(c), of that decision, the Commission stated:

> "We find the Sandhill treatment facility to be needed and building it is reasonable."

In Finding of Fact 42, the Commission stated:

> "The Sandhill plant is cost-effective and it is reasonable to construct it."

Thus, the Commission has found that the Sandhill project is needed.

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[24] Turbidity is the amount of solids, in this case primarily China clay, suspended in the water.

31.1. Positions of Parties

DRA states the construction contract was not awarded to the lowest bidder and SGV has been unable to provide any documents that demonstrate that the lowest bidder was not qualified as it claims. For this reason, DRA recommends the removal of $4,944,000 from total costs.

DRA recommends a disallowance of 33.9% of any otherwise reasonable costs from ratebase because only 66.1% of Sandhill capacity will be used and useful. DRA bases this recommendation in part on its determination that the modifications will only be useful to treat Lytle Creek water for turbidity for 37 days per year more than would have been the case without the modifications. The other basis for its recommendation is a December 15, 2008, press release by the California Department of Water Resources that SWP water deliveries could be permanently reduced by 50%. DRA also recommends that SGV be allowed to include more of the costs in ratebase in future GRCs if it shows that it will have sufficient water supplies to utilize more Sandhill capacity.

COF states the actual costs of Sandhill are over $40 million and approaching $60 million if related projects are included. COF argues that Sandhill has never operated at 29 mgd and is physically incapable of doing so as currently constructed. COF also argues that Lytle Creek water is insufficient to provide reliable and consistent supply to make the 29 mgd capacity used and useful.

COF alleges the pretreatment facility has a capacity of 20 mgd.

COF states that water demands, when surface water is available, are considerably below plant capacity and only limited water will be available when demand increases.

COF states that costs for production of treated water are greater than for other sources. COF states that use of SWP water to supplement Lytle Creek water is not economical and the amount available is limited and should not be considered a reliable source.

COF argues that the construction costs are excessive because SGV did not use competitive bidding and the costs are 40% higher per gallon per day than other recently constructed adjacent filtration plants.

COF argues costs in excess of the $35 million cap should automatically be disallowed as violating the cap.

For the above reasons, COF recommends a maximum of $17,000,000 of the costs be allowed in ratebase. If Sandhill capacity and demand increases in the future, COF recommends that an additional portion of the costs be considered for inclusion in ratebase in future GRCs if SGV demonstrates that the costs are reasonable.

FUSD states that there are limitations on the amount of water SGV can take from Lytle Creek and the SWP, and other water sources would not be cost-effective. FUSD also represents the maximum amount of water that can flow to Sandhill through the pipeline that provides the water is 18.7 mgd, which is close to the capacity of Sandhill without the upgrade. FUSD points out that the pretreatment facility has a capacity of 20 mgd. Therefore, the additional capacity is not used and useful.

FUSD argues that the construction costs are excessive because SGV did not use competitive bidding. For example, the costs are as much as 57% higher per gallon per day than a recently constructed upgrade at another nearby filtration plant built by the same contractor.

FUSD recommends that all costs associated with the expansion of Sandhill capacity be excluded from ratebase. FUSD estimates the costs to be removed as $16.7 million for the expansion plus $4,944,000 due to the lack of competitive bids, for a total of $21,644,000.

SGV argues that its selection of R C Foster (Foster) as general manager was reasonable, the resulting costs were reasonable and the upgrades are used and useful.

31.2. Discussion

As discussed above, the Commission determined in D.07-04-046 that the Sandhill upgrade is needed, and cost-effective. Thus, questions related to the need for the project and its cost-effectiveness are not appropriate for this proceeding and will not be addressed herein.

There are pipeline projects that are related in part to the Sandhill upgrade because they are or will be capable of transporting water from Sandhill. They were not subject to the $35 million cap on Sandhill costs and are addressed separately in this decision on their merits.[25]

The questions raised by the parties address:

1. The reasonableness of the costs;

2. The amount of Lytle Creek water that is available to be treated by the plant; and

3. How much Lytle Creek water the plant is physically capable of treating.

These issues will be addressed in sequence.

The parties recommend disallowances of certain costs because Foster was not selected by competitive bid.

SGV explains that it was aware that Black & Veach Corporation (B&V) had recently designed and managed construction of a similar plant for West Valley Water District (WVWD) to treat both Lytle Creek and SWP water. B&V had also designed a water treatment facility for Cucamonga Valley Water District (CVWD) to treat SWP water. SGV discussed B&V's performance with WVWD and CVWD. Based on these discussions and B&Vs overall experience, SGV chose B&V to design the Sandhill modifications.

SGV had B&V obtain proposals from experienced contractors to do the construction with B&V functioning as the general contractor. SGV ultimately decided not to use B&V as the general contractor because it and B&V could not reach agreement on contract terms and conditions. SGV then sent a request for proposal to Foster with whom SGV had a track record of successful water treatment projects. Foster's bid for construction was slightly higher than the bid submitted by B&V, and Foster accepted the contract elements B&V rejected.[26] SGV then awarded the construction contract to Foster.

SGV's selection process for general contractor initially focused on B&V because of its successful completion of very similar nearby projects. When it could not reach agreement with B&V, SGV went to Foster because of its successful experience with Foster. Ultimately, Foster's bid was slightly higher than B&V's. While this process is not strictly a competitive bid process, it did

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[25] See Sections 11, 16 and 23.

[26] Foster's bid was for construction to be done by a joint venture of it and Coletta Corporation.

result in consideration of comparable bids from two well qualified contractors. While not a perfect process, it appears reasonable. Thus, there is no reason to believe the choice of the general contractor without a competitive bid process resulted in unreasonable costs.

In D.07-04-046, the Commission imposed a cap on rate base additions of 10%, but exempted Sandhill from the cap. The cap for Sandhill was set separately at $35 million. The cap was set to limit annual additions to plant. In the case of Sandhill, the amount in ratebase was to be increased by advice letter each year and the cap provided an overall limit for the GRC cycle. The decision does not indicate that the cap was intended as a permanent overall cap on the Sandhill upgrades.

The next issue between the parties is whether there will be sufficient water available to run Sandhill at a full capacity of 29 mgd. This is an issue related to the need for the upgrades, which was addressed in D.07-04-046. However, it will be discussed herein.

Lytle Creek water comes to Sandhill from the Southern California Edison Company (SCE) afterbay below its power house on Lytle Creek. The afterbay is fed by a penstock from SCE's powerhouse. The penstock is a 36-inch diameter pipe. SGV represents the penstock was designed to handle up to 40 mgd to the afterbay. In addition, SCE has a contractual obligation to deliver up to 38 mgd to the afterbay.[27] From the afterbay, 6.7 mgd is diverted to other water providers.

DRA, COF and FUSD have argued that SCE cannot provide sufficient water to the afterbay for Sandhill to operate at its design capacity of 29 mgd

[27] As a practical matter, since Sandhill could not previously handle more than 17 mgd from the afterbay, there has been no need for SCE to supply the greater amount.

because historical data on flows through the penstock did not indicate it could do so. However, the record shows that stream flows in Lytle Creek have been sufficient to do so on some occasions, but SCE has not diverted all of the water it could to the penstock. Overall, the record shows that 29 mgd can be made available in the afterbay for SGV's use when the water in Lytle Creek is sufficient.

DRA, COF and FUSD have argued that Sandhill is not physically capable of treating 29 mgd. Specifically, they argue that 29 mgd cannot be brought to the plant through the 36-inch pipe from the afterbay. They also argue that the pretreatment facilities within the plant have a capacity of only 20 mgd.

The 36-inch diameter pipe from the afterbay to Sandhill is gravity fed which means that there are no pumps to increase the flow. Therefore, the amount of flow, assuming water is available at the afterbay, is a function of the available head. The available head is the difference in elevation between the surface of the water in the afterbay and the surface of the water where it is delivered to Sandhill. Working against the flow in the pipe is the headloss. This is the effect of the amount of resistance to flow in the pipe system expressed in equivalent feet of head. Head loss is caused by the roughness of the inside surface of the pipe. Other sources of head loss include any place where the direction of the pipe flow changes such as a bend, any fittings such as a valve or meter, changes in diameter, the shape of the inlet to the pipe and the shape of the outlet from the pipe. The amount of the head loss increases as the flow rate increases. The maximum possible flow in the pipe is achieved when the available head equals the headloss. All of the parties provided calculations of the available head and the head loss. The record shows general agreement

among the parties on most of the inputs to the calculation of head loss. However, there is disagreement as to the available head.

COF and FUSD measured the available head as the difference in elevation between the surface of the water in the afterbay and the surface of the water in the influent equalization reservoir. This provides an available head of 3.77 feet. With this amount of available head, only about 22 mgd could be provided to the pretreatment facilities. However, since the pretreatment facilities can only treat 20 mgd, COF and FUSD assert the plant's capacity would be limited to 20 mgd.

However, the influent equalization reservoir is only needed to blend Lytle Creek water with other sources such as SWP water. Water from the afterbay can be directly fed to the pretreatment facilities resulting in an available head of over 10 feet, which is more than sufficient to allow 20 mgd to the pretreatment facilities. At the same time, nine mgd of Lytle Creek water can be diverted toward the original diatomaceous earth filters. This water would be mixed with up to eight mgd of water that has been pretreated. This would reduce the turbidity of the mixture allowing it to be treated in the diatomaceous earth filters. The resulting 17 mgd of water from the diatomaceous filters would then be mixed with the 12 mgd of pretreated water not sent to the diatomaceous filters. The result would be 29 mgd. Therefore, Sandhill is physically capable of treating 29 mgd of Lytle Creek water if sufficient water is available.

As discussed above, the Commission determined in D.07-04-046, the upgrade of Sandhill was reasonable. The upgraded Sandhill water treatment plant is in service providing water to SGV. On those occasions when the flows in Lytle Creek are sufficient, up to 29 mgd can be made available to SGV in the SCE afterbay. Sandhill is capable of treating up to 29 mgd of Lytle Creek water when available. Thus, Sandhill is used and useful and its costs are reasonable.

32. Water Quality

Based on its review of SGV's testimony and exhibits and other information provided by SGV regarding water quality, DRA represents that SGV was in compliance with all state and federal drinking water standards in 2008. No party opposes this conclusion. Based on DRA's review, the Commission finds that SGV meets all applicable drinking water quality standards.

33. Customer Service

Based on its review of SGV's testimony and exhibits and other information provided by SGV regarding customer service, DRA represents that SGV's customer service was sufficient. No party opposes this conclusion. DRA also recommends that SGV focus on reducing leaks and take the necessary steps to maintain customer service during its transition to the Office Complex. Based on DRA's review, the Commission finds that SGV's customer service was sufficient and concurs in DRA's recommendations.

34. Master Plan

In Ordering Paragraph 16 of D.04-07-034, the Commission directed SGV to develop a water management/engineering report to provide more comprehensive guidance for its utility plant and infrastructure construction projects in the Fontana Division. In compliance with this requirement, SGV provided its Master Plan as Exhibit SG-3 in this proceeding. Various parties have referred to it extensively in this proceeding. No party has alleged that it is not in compliance with the Commissions requirements. The Master Plan is in compliance with the Commission's requirements.

35. Balancing and Memorandum Accounts

SGV has been authorized to maintain a number of balancing and memorandum accounts. The accounts are as follows:

- Water Quality Litigation Memorandum Account—This account contains balances related to water quality litigation costs. SGV requests authority to amortize the balance in the account as of the effective date of this decision, over a one-year period through a surcharge.

- Water Quality Memorandum Account—SGV has received grants totaling $190,280 from the United States Environmental Protection Agency for exchanging resin at the Plant F17 well head treatment facility. SGV requests authority to amortize the balance in the account as of the effective date of this decision. SGV plans to file an advice letter to amortize the balance, including interest, over a one-year period. SGV also requests authority to continue to record in its Water Quality Memorandum Account future costs incurred, proceeds received from polluters and grants received from governmental agencies related to water quality, including but not limited to capital costs, and operations and maintenance costs of needed wellhead treatment facilities that cannot reasonably be forecasted for the test years and are not included in the GRC.

- Facilities Fees Memorandum Account—This memorandum account tracks facilities fees collected by SGV. On November 15 of 2007 and 2008, SGV made advice letter filings to update the Fontana Division's rate base to include investment during the preceding calendar year in the Sandhill plant upgrade less facilities fees recorded in the memorandum account. SGV asks for authority to continue to file advice letters to adjust rates for facilities fees revenues.

- Public Utilities Code Section 790 Memorandum Account—This account contains the proceeds from involuntary conversions and sales of utility property to private property owners consistent with Section 790, the Commission's gain on sale requirements as set forth in D.06-05-041 and D.07-09-021, and D.07-04-046 in the last Fontana GRC.

- Operation and Maintenance Costs for Plant F10 Treatment Facility—SGV has accounted for all costs incurred and recoveries received from third parties, specifically its O&M costs for operating of the wellhead treatment facility and the recovery of those costs from the county of San Bernardino through December 2007 pursuant to an agreement resolving SGV's claims related to groundwater contamination by volatile organic compounds originating at a county-owned facility. Those costs continue to be incurred and recovered from the county.

35.1. Discussion

SGV's request to amortize the balance in the Water Quality Litigation Memorandum Account as of the effective date of this decision, over a one-year period through a surcharge is unopposed and granted.

SGV's request to file an advice letter to amortize the balance in the Water Quality Memorandum Account as of the effective date of this decision, including interest, is unopposed and granted. SGV is also authorized to continue to record in its Water Quality Memorandum Account future costs incurred, proceeds received from polluters and grants received from governmental agencies related to water quality, including but not limited to capital costs, and operations and maintenance costs of needed wellhead treatment facilities that cannot reasonably be forecasted for the test years and are not included in the GRC.

SGV's request for authority to continue to file advice letters to adjust rates for facilities fees revenues is unopposed and granted.

36. Comments on the Proposed Decision

The proposed decision of ALJ Jeffrey P. O'Donnell in this matter was mailed to the parties in accordance with § 311 of the Public Utilities Code and comments are allowed pursuant to Rule 14.3 of the Commission's Rules of

Practice and Procedure. Opening comments were filed on _____, and reply comments were filed on _____.

37. Assignment of Proceeding

John A. Bohn is the Assigned Commissioner and Jeffrey P. O'Donnell is the assigned ALJ in this proceeding.

Findings of Fact

The Settlement

1. SGV and DRA are the only parties to the settlement.

2. SGV provided an application and exhibits that explained its request for a rate increase in detail.

3. DRA provided its analysis of the application indicating that it agreed with some of SGV's estimates and disagreed with others.

4. The overall settlement result lies between the initial positions of SGV and DRA and the settlement resolves some issues raised by the other parties.

5. The settlement with the alternative settlement terms does not violate any statute or Commission decision or rule.

6. SGV represents the interests of its shareholders.

7. DRA represents the interests of SGV's ratepayers.

8. The settlement with the alternative settlement terms results in rates that are sufficient to provide adequate reliable service to customers at reasonable rates while providing SGV with the opportunity to earn a reasonable return.

9. The settlement with the alternative settlement terms provides the Commission with sufficient information to carry out its future regulatory obligations with respect to the parties and their interests.

Number of Customers

10. The parties agree that there will be no increase in the number of residential and commercial customers during the forecast period.

11. The assumption in the settlement of no growth in the number of residential and commercial customers is reasonable.

12. As to public authority customers, the record does not indicate the public sector is immune to the financial situation affecting the public at large.

13. It is common knowledge that the current economic downturn is hurting the public.

14. It is reasonable to assume the current economic downturn will result in lower tax revenues for local government.

15. It is reasonable to assume the number of public authority customers will not increase during the forecast period.

Sales Per Customer

16. The effect of the economic slowdown is better reflected by using the three-year average commercial sales per customer amount adopted in the settlement than a five-year average.

17. CEMTEX supplies sand, gravel and cement and CSI produces steel products.

18. With the economic slowdown and reduction in construction, it is reasonable to expect that CEMTEX and CSI will have less demand for their products resulting in lower water use.

Miscellaneous Expense-Litigation Expenses Not Related to Water Quality

19. The Slemmer suit was resolved by a settlement.

20. The record does not indicate that suits similar to the Slemmer suit are likely to recur on a regular basis.

Regulatory Commission Expense

21. Regulatory commission costs are a forecast of costs during the forecast period, not an amortization of recorded costs.

Ratemaking Treatment of Investments in Shares of Fontana Union Water Company

22. On February 14, 2002, Dr. Thomas Slemmer and several other persons filed the Slemmer suit in San Bernardino Superior Court against SGV and other defendants claiming treble damages in the range of tens of millions of dollars.

23. The Slemmer suit alleged the defendants violated federal and state anti-trust laws by settling a lawsuit with West Valley Water District involving access to Lytle Creek surface water that had the effect of prohibiting the plaintiffs from selling the water rights represented by their shares in FUWC to third parties.

24. Another issue in the Slemmer suit was whether the plaintiffs received a reasonable price for 358.6 shares previously acquired by SGV.

25. The Slemmer settlement was approved by the Court on July 24, 2006.

26. As part of the Slemmer settlement, the suit was dropped, SGV paid $4,200,000 to the plaintiffs and SGV received 179.2 shares of FUWC stock.

27. The purpose of the $4.2 million Slemmer settlement amount was to settle the Slemmer suit.

28. The Slemmer settlement was not an arms length purchase of FUWC shares.

29. The Slemmer settlement costs are not necessarily indicative of the value of the 179.2 shares acquired or the value of removal of the plaintiffs claim regarding the 358.6 shares previously acquired.

30. Kemper accepted the obligation to defend SGV and FUWC in the Slemmer suit.

31. Due to the complexity and risk exposure of the litigation, all of the parties, including SGV, retained outside counsel in addition to the attorneys provided by Kemper.

32. SGV incurred $938,934 in litigation costs for the Slemmer suit.

33. Kemper faced insolvency and decided in mid-2006 to claim that it was not obligated to defend SGV and FUWC or be responsible for any judgments against them.

34. Kemper was part of the Slemmer settlement and paid $6 million into it.

35. SGV would have incurred additional costs if the Slemmer suit had gone to hearing and more costs if the verdict in the Slemmer suit was appealed.

36. If SGV lost the Slemmer suit, it may have had to pay damages, and additional costs due to Kemper's insolvency and Kemper's position that it would or could no longer defray the litigation costs.

37. SGV would have incurred significant additional costs absent the Slemmer settlement.

38. Because the Slemmer suit was not foreseen in the previous GRC, estimated costs were not included in rates and the costs would have been paid for by SGV's shareholders, not ratepayers.

39. SGV's shareholders benefited significantly from the Slemmer settlement.

40. The record does not indicate that SGV intended to buy the additional water rights it received in the Slemmer settlement prior to the Slemmer settlement.

41. Prior to the Slemmer settlement, SGV and some other owners of FUWC were using the water rights of FUWC to the extent they needed to do so.

42. Since other owners of FUWC were seeking to sell their shares, which could have allowed other entities to use portions of the FUWC water rights, it is possible that SGV could have reduced access to FUWC water rights in the future although the record does not indicate that this possibility was very likely to occur.

43. SGV's acquisition of additional FUWC shares as a result of the Slemmer settlement eliminates the possibility that SGV could have reduced access to FUWC water rights in the future.

44. The additional 179.2 shares of FUWC stock SGV acquired as a result of the Slemmer settlement have some value to ratepayers.

45. The record shows that the FUWC water rights have a value of $3,540-$5,534 per acre foot.

46. SGV represents that the Slemmer suit was without merit.

47. Since the record does not indicate that SGV was at any significant risk of having to pay more for the 358.6 FUWC shares previously acquired, there is little if any value to ratepayers of the Slemmer settlement regarding these shares.

48. For SGV to lose the Slemmer suit, it would have been found to have acted improperly regarding the purchase of the 358.6 shares of FUWC previously acquired and there would be no reason for ratepayers to pay for the results of SGV's wrongdoing.

Treatment of Facilities Fees

49. Facilities fees will offset ratebase additions.

50. The facilities fees collected for the 11-month period November 2007 through September 2008 were $3,083,900, or $280,355 per month.

51. The number of customers adopted herein is based on the number of customers as of December 31, 2007, with the assumption of no customer growth.

52. It is not reasonable to assume the amount of facilities fees collected through June 30, 2009 will continue at the same rate as for the 11 months ended September 2008.

53. As the economic downturn has continued, the amount of facilities fees collected can be expected to decline substantially.

54. It is reasonable to assume that an additional $1 million in facilities fees will be collected for the nine-month period October 1, 2008 through June 30, 2009.

Plans for Developing Recycled Water Service

55. The settlement provides that tariffs for recycled water service and the use of facilities fees for recycled water projects will be addressed by a separate application or advice letter.

56. Since any recycled water project will involve the setting of rates and development of tariffs where none currently exist, the issues involved may be detailed and complex.

57. An application is superior to an advice letter for addressing a recycled water service project when it comes to fruition because it will allow parties other than SGV to more fully participate in the resolution of the relevant issues.

Plant F13

58. There are no groundwater pumping restrictions that would prohibit SGV from using Wells F13A and F13B.

59. The Plant F13 reservoirs will receive additional water due to the Sandhill upgrade, which will cause the large F13 reservoir to be full most of the time.

60. The proposed booster pumps at Plant F13 will pump water from the F13 reservoirs to serve customers at higher elevations.

Plant F16

61. The settlement provides for two new reservoirs at Plant F16 with a combined capacity of 1.5 million gallons, which is the size COF recommends.

62. Since the existing booster pumps at Plant F16 are sized for the existing reservoir capacity of 0.5 million gallons, additional booster pump capacity is needed.

Plant F17

63. The record demonstrates that the two Plant F17 wells have high nitrate concentrations that have, on occasion, exceeded the maximum allowable contaminant level.

64. The water from the Plant F17 wells is pumped to a common perchlorate treatment facility and reservoir.

65. The Plant F17 wells are at risk of exceeding the maximum allowable nitrate level, which would cause them to be shut down absent nitrate treatment facilities.

66. To the extent the output from the Plant F17 wells blends in the reservoir, it is insufficient to eliminate the need for treatment, especially if the contamination of the wells increases, because blending only works if one of the sources is not polluted.

67. Both Plant F17 wells are at risk of exceeding the maximum allowable nitrate level.

Plant F21

68. The additional well at Plant F21 was deferred to the next GRC, not eliminated entirely.

69. If the new reservoir and booster pump station at Plant F21 are sized for only the one well, another reservoir or expansion of the planned reservoir will be

necessary along with more booster pump capacity when the additional well is drilled.

70. Although the need for the now deferred Plant F21 well is not addressed in this proceeding, it is reasonable to conclude that one will eventually be needed.

71. Since storage and pumping capacity have service lives far beyond this GRC cycle, their design must consider the long term rather than just this GRC cycle.

72. It is reasonable to construct the additional Plant F21 storage and pumping capacity as provided for in the settlement.

Plant F23

73. Since the perchlorate level at Plant F23 is increasing, treatment will become necessary.

74. It makes sense to install treatment facilities at Plant F23 before they are required rather than waiting until the maximum allowable level is exceeded and the well has to be shut down.

75. The availability of funds from the DOD is a factor in support of Plant F23 construction.

76. The Plant F23 reservoir is necessary to allow sufficient contact time for disinfection of the water before it flows into the distribution system.

Mains-Account 343

77. The settlement excluded SGV's proposed construction of a water treatment plant at Plant F25.

78. Since the settlement amount for mains includes $1,000,000 for a main to convey contaminated water to Plant F25 for treatment, that amount should be excluded from the expenditures for mains in 2011.

79. Since the settlement amount for mains for 2011 does not contain an extra $2,000,000 for "various" mains, FUSD's concerns regarding this matter have been addressed.

80. Replacement of mains that have exceeded their useful lives or are undersized is reasonable.

81. It is reasonable to take advantage of opportunities presented by local government reconstructing roads, etc. to reduce costs of installing mains.

Services-Account 345

82. During the 1970's, SGV began using polyethylene pipe in constructing services.

83. By 1995, SGV began experiencing problems with polyethylene services because the pipe becomes brittle and prone to rupture over time.

84. SGV no longer uses polyethylene pipe for services and has begun replacing it when a leak is detected.

85. When a leak in a service is found on a particular street where other services were constructed at the same time using polyethylene pipe, SGV replaces all of the services on the street.

86. SGV's replacement strategy for polyethylene services is reasonable given the problems with polyethylene pipe.

87. SGV's replacement strategy for polyethylene services avoids multiple repairs of the same services and future repairs of other services with the same vintage of polyethylene pipe, which avoids frequent excavation and patching of the street in the same area and resulting customer complaints.

88. SGV's proposed costs for polyethylene services for 2009-2011 are below the costs for 2007, slightly above the costs for 2006 and far below the costs for 2008.

Reasonableness Review-Burden of Proof

89. In evaluating the reasonableness of a project, the applicant must demonstrate that its decisions were what a reasonable person with the necessary education and expertise would have made at the time based on the information that could and should have been available.

90. SGV does not have written guidelines for its use of competitive bidding.

91. Having competitive bidding guidelines will help ensure SGV uses a competitive bidding process when it is appropriate to do so.

Reasonableness Review-Job No. 4761-Plant F16-Install Electrical Panel

92. The increase in the size of the Plant F16 electrical panel was due to the installation of two new booster pumps at Plant F16.

93. The fact that the Plant F16 electrical panel has been used to operate the booster pumps since 2003, including frequent running of all booster pumps, shows the full capacity of the panel has been frequently used.

Reasonableness Review-Job No. 4822-Plant F53-Acquisition of Land Parcel No. 215

94. As part of the settlement, SGV withdrew its proposal to make proposed improvements at Plant F53.

95. Land Parcel No. 215 will not be used in this GRC cycle.

96. The need for the improvements at Plant F53 is based on the availability of Sandhill and growth in the demand for water, which SGV forecasts Sandhill will help supply.

97. Growth in the demand for water will not occur during this GRC cycle, and may not occur in the next GRC cycle.

98. Land Parcel No. 215 is adjacent to Plant F53 and will become useful when Plant F53 is expanded sometime in the future.

99. In order for land to qualify as PHFU, the utility must have definite plans for its use, including a definite date for such use.

100. While SGV asserts it has a definite plan to use Land Parcel No. 215, the date is uncertain due to the uncertainty as to when customer growth will resume to a level that would require the expansion of Plant F53.

Reasonableness Review-Job No. 4870-Plant F7-Drill and Equip Well F7B, Construct Reservoir F7A, Booster Station and Site Improvements

101. It is not reasonable to believe that, when SGV purchased the land for Job No. 4870, it did not notice that it had a substantial slope that would cause drainage issues.

102. The fact that resolution of the drainage issue was not included in the original estimate for Job No. 4870 tends to indicate that SGV was not aware of the issue or chose to ignore it, either of which indicates imprudent planning.

103. SGV could and should have been aware of the drainage issue with Job No. 4870, and should have considered alternative locations and alternative ways to address the drainage issue.

104. The record does not indicate that SGV was aware of the drainage issue with Job No. 4870, or considered alternative locations and alternative ways to address the drainage issue.

Reasonableness Review-Job No. 4895-Plant F51 Acquisition of Land Parcel No. 221

105. Land Parcel No. 221 will not be used in this GRC cycle.

106. The project for Land Parcel No. 221, Plant F51, was proposed in the last two GRCs.

107. SGV delayed the Plant F51 project because of the CEQA process.

108. Given the Plant F51 project's history, it is not at all certain that it will be authorized or built in the next GRC cycle.

Reasonableness Review-Job No. 4901-Linden Avenue North of Casmalia Street Install 42-Inch Pipeline

109. On some occasions when water was available from both Sandhill and the Lytle Creek well fields, one or both sources had to be cut back to avoid exceeding the capacity of the existing 30-inch pipeline for transporting water from wells in the Lytle Creek Basin and Sandhill to Plant F13.

110. On some occasions, flow rates in the existing 30-inch pipeline for transporting water from wells in the Lytle Creek Basin and Sandhill to Plant F13 had to be reduced to achieve sufficient disinfection contact time for Lytle Creek water treated at Sandhill.

Reasonableness Review-Job No. 4982-Cherry Ave. South of Foothill Blvd.-Install 24-Inch and 16-Inch Pipelines

111. The age of the existing facilities associated with Job No. 4982 indicates that they were nearing the end of their useful lives of about 50 years and would be more susceptible to damage due to the reconstruction of the road over the pipelines by San Bernardino County.

112. The fact that San Bernardino County planned to reconstruct Cherry Ave. at that time provided the opportunity for cost savings for Job No. 4982.

113. The existing pipeline associated with Job No. 4982 did not have sufficient capacity to transport the full production from Plant F7.

114. The additional capacity of the Job No. 4982 facilities allows SGV to transport the full capacity of Plant F7, as well as water from sources other than Plant F7 when Plant F7 is not available.

Reasonableness Review-Job No. 5025-Sierra Avenue North of Baseline Avenue - Install 24-Inch Pipeline, Services and Fire Hydrant

115. Use of the 24-inch pipe for Job No. 5025 results in velocities within the desired range resulting in lower pumping costs.

Reasonableness Review-Job No. 5089-Baseline Avenue East of Cypress Avenue - Install 24-Inch Pipeline, Services and Fire Hydrants

116. Use of the 24-inch pipe for Job No. 5089 results in velocities within the desired range resulting in lower pumping costs.

Reasonableness Review-Job No. 5111 - Walnut Avenue West of Sierra Avenue - Install 24-Inch Pipeline

117. The City of Fontana's decision to pave and reconstruct curbs and gutters on Walnut Avenue, the Job No. 5111 location, was not anticipated in the Master Plan.

118. The Job No. 5111 project was not included in the Master Plan.

119. SGV provided no documentation addressing the need for the Job No. 5111 project.

120. Coordination with the local government that will be doing street work in the same area may reduce costs, but is not sufficient justification for the Job No. 5111 project.

121. General claims that the Job No. 5111 project will enhance reliability without a convincing demonstration that it will do so is not sufficient to meet the burden of proof.

122. SGV provided no demonstration of how the Job No. 5111 project will increase reliability or whether an increase in reliability is needed.

Reasonableness Review-Job No. 5199-Plant F13-Recoat Interior and Exterior of Reservoir F13(L)

123. Since the installation of Reservoir F13(L) baffling resulted in restoration of the use of more than 2.5 million gallons of storage, it was needed.

124. SGV did not put the Job No. 5199 project out for bid.

125. Job No. 5199 work was performed by a company that was familiar with the tank's construction and was able to perform the work at the time it was needed.

126. A project included in the application is the recoating of the F20 reservoir, which is the same size as the F13(L) reservoir.

127. The estimated cost to recoat the F20 reservoir's exterior, with minimal surface preparation, is $100,000.

128. The recoating of the F20 reservoir was intended as a temporary measure until another reservoir could be built allowing the F20 reservoir to be taken out of service for a more thorough recoating.

129. The recorded cost of recoating the exterior of the F13(L) reservoir is $125,000, exclusive of removal of the original coating.

130. Since the recoating of the F13(L) reservoir is not intended as a temporary measure, the cost of recoating the F13(L) reservoir compares favorably with the cost of recoating the F20 reservoir, which DRA did not oppose.

131. The Job No. 5199 work was needed, was performed by a qualified contractor and the costs were reasonable.

Reasonableness Review-Job No. 5205 and Job No. 5316-Systemwide-Install Services, Plastic Service Replacement 2007 and 2008

132. SGV's replacement strategy for plastic services is reasonable due to the problems with polyethylene pipe.

133. SGV's replacement strategy for plastic services avoids multiple repairs of the same services and future repairs of other services with the same vintage of polyethylene pipe, avoids frequent excavation and patching of the street in the same area and resulting customer complaints, and reduces water leaks.

134. Waiting longer to replace plastic services known to cause problems means that SGV would be called upon to make more unplanned repairs.

Reasonableness Review Headquarters Office Complex

Contractor Costs

135. SGV retained Earl as the general contractor to construct the Office Complex without soliciting competitive bids.

136. A comparison of the general manager costs for the Office Complex and a building constructed by the same contractor for the City of Fontana demonstrates the tasks performed for each of the two projects were different and that costs for comparable tasks were comparable.

137. The construction costs for the Office Complex, other than for the general contractor, resulted from a competitive biding process where the lowest reasonable bids were selected.

Building A-Reasonable Costs and GO Allocation

138. Since the Office Complex should last 40 years or more, it is reasonable to allow space for a 25% increase in employees by buildout.

139. The number of current Fontana Division employees to be located in Building A is 35.

140. Building A should be designed to accommodate 44 employees.

141. Building A is built to accommodate about 64 employees, which is an 83% increase over the current number of Fontana Division employees.

142. Building A was not designed with the intent of relocating GO employees.

143. The reasonableness of the size of Building A should be assessed against the needs of the Fontana Division.

144. Building A and Building B have different functions.

145. The record does not indicate that growth in the number of employees in Building B would overflow to Building A.

146. SGV should have designed Building A to accommodate the existing 35 employees plus an additional 25% (nine employees) for a total of 44 employees according to its own employee growth projections.

147. Since Building A was actually built to accommodate 64 employees, it was built too large and the decision to do so was unreasonable.

148. Building A, sized to accommodate 44 employees, should be included in ratebase for the Fontana Division, with all costs attributable to the space utilized by nine GO employees allocated to the GO.

149. While the maximum space allowances specified in the State Administrative Manual do not govern what is allowable for a water company, they demonstrate that SGV's space allocations are at least ample.

150. Since Building A should have been built to accommodate 44 employees and SGV allocated ample space to the various functions in the actual Building A design, the space allocated for common facilities (lobby, restrooms, meeting rooms, etc.) should be reduced in proportion to the significantly lower employee count.

151. If Building A had been built to accommodate 44 employees, it would have space to temporarily accommodate nine GO employees until the additional space is needed for the Fontana Division, and the additional 16 GO employees would have to be located elsewhere.

152. Building A should have been 68.8 % (44/64) of the size it currently is, while the building site would not have been appreciably different.

153. The cost of Building A, excluding site related costs, should be reduced to 68.8% of the costs or $ $6,837,873, a reduction of $3,100,896.

154. The reasonable cost for Building A, including site-related costs is $13,046,468 less $3,100,896 or $9,945,572.

155. The record does not indicate the nine GO employees will use the facilities other than office space, such as rest rooms, conference rooms, parking, etc. any differently than Fontana Division employees.

Reasonable Costs for the Remaining 16 GO Employees

156. Since the remaining 16 GO employees do not need to be located in the Fontana Division, are not currently located there, and will move to Building A only because it will have sufficient space to accommodate them, they could have been relocated elsewhere.

157. SGV has not indicated that it has plans to construct a new GO office building in the next few years.

158. Since it would not be reasonable to expand Building A just to temporarily accommodate GO employees, it is reasonable to assume that space would have to be rented for the 16 GO employees.

159. Since SGV has chosen to relocate the GO employees to Building A, a reasonable rent should be allowed for the space the 16 GO employees will occupy.

160. The record does not indicate what rental office space would cost and there is no basis for assuming the rental cost for the 16 GO employees would be as much as the cost of including the excess space in Building A in ratebase.

161. If SGV had gone into the rental market for office space, it is reasonable to assume that space would have been rented in an older building, and the rent would have been market–based, but the record does not include such information.

162. The revenue requirement for an equivalent amount of space in an older building can be used as a proxy for rental costs for the remaining 16 GO employees in this GRC cycle.

163. The record does not indicate the cost of an equivalent amount of space for the remaining 16 GO employees in an older building.

164. Since SGV estimated the cost of the Office Complex as $6 million in 2005, it is reasonable to conclude that an equivalent facility could have been built in 2005 or before for $6 million, or one-third of the $18 million actual cost of the Office Complex.

165. The cost of a facility, built in 2005 or before, equivalent to Building A and designed to accommodate 44 employees would be about one-third of the reasonable costs for Building A or $3,315,191 ($9,945,572/3).

166. Since the Building A reasonable cost is for 44 employees, the cost attributable to the 16 GO employees would be $1,205,524 ($3,315,191 x 16/44).

167. The revenue requirement, to be used as a proxy for the rent, should include a return on the cost of the building in the amount of $126,580 ($1,205,524 x 10.5%), and depreciation in the amount of $30,138 ($1,205,524 x 2.5%), assuming a 40-year life.

168. The total for the rent proxy is $156,718 which amounts to $816 per employee per month.

169. Since the cost of the land on which the Office Complex sits is not reduced due to the Building A disallowance, no return on land is included in the rent proxy.

170. Since no disallowance of O&M costs or A&G costs is made due to the Building A disallowance, no O&M or A&G costs are included in the rent proxy.

171. No income taxes on the rent should be included in the rent proxy because taxes are the responsibility of the landlord.

Building B-Reasonable Costs

172. Current garage space for vehicle maintenance accommodates one vehicle.

173. SGV's design for Building B accommodates two vehicles.

174. Since SGV has two personnel performing vehicle maintenance, each person could be working on a separate vehicle.

175. It is reasonable to have sufficient garage space in Building B for two vehicles.

176. SGV has not proposed to outsource vehicle maintenance in this proceeding and the record does not indicate that it would be cost-effective to do so.

Affiliate Costs Not Properly Attributable to SGV

177. Prior to SGV's December 31, 2004 acquisition of the land for the office complex from its unregulated affiliate, SGV recorded $22,205 in costs for a survey, demolition of an existing structure and asbestos abatement of the land.

Reasonableness Review-Sandhill

178. SGV's selection process for general contractor initially focused on B&V because of its successful completion of very similar nearby projects.

179. When SGV could not reach agreement with B&V, it went to Foster because of SGV's successful experience with Foster.

180. Foster's bid was slightly higher than B&V's.

181. The amount in ratebase for Sandhill was to be increased by advice letter each year and the $35 million cap provided an overall limit for the GRC cycle.

182. Lytle Creek water comes to Sandhill from the SCE afterbay below SCE's power house on Lytle Creek.

183. The afterbay is fed by a penstock from SCE's powerhouse that is designed to deliver up to 40 mgd to the afterbay.

184. SCE has a contractual obligation to deliver up to 38 mgd to the afterbay.

185. As a practical matter, since Sandhill could not previously handle more than 17 mgd from the afterbay, there has been no need for SCE to supply a greater amount of water to the afterbay.

186. From the afterbay, 6.7 mgd is diverted to other water providers.

187. The record shows that stream flows in Lytle Creek have been sufficient to supply 38 mgd to the afterbay on some occasions, but SCE has not diverted all of the water it could to the penstock.

188. When sufficient flows are available in Lytle Creek, 29 mgd can be made available in the afterbay for SGV's use.

189. Sandhill is physically capable of treating 29 mgd of Lytle Creek water if sufficient water is available in Lytle Creek.

190. The upgraded Sandhill water treatment plant is in service providing water to SGV.

Water Quality

191. SGV meets all applicable drinking water quality standards.

Customer Service

192. SGV's customer service is sufficient.

Master Plan

193. SGV's Master Plan is in compliance with the Commission's requirements.

Conclusions of Law

The Settlement

1. Rule 12.1(d) provides that the Commission will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with law, and in the public interest.

2. The settlement, with the alternative settlement terms, is reasonable in light of the whole record.

3. The settlement, with the alternative settlement terms, is consistent with law.

4. The settlement, with the alternative settlement terms, is in the public interest.

5. The settlement, with the alternative settlement terms, should be adopted.

6. To the extent elements of the settlement are modified, other elements of the settlement that are based on the modified elements should be modified accordingly.

Number of Customers

7. The number of customers in the settlement is reasonable.

Sales Per Customer

8. The sales per customer forecasts included in the settlement are reasonable.

Miscellaneous Expense-Litigation Expenses Not Related to Water Quality

9. Expenses for the Slemmer suit should be excluded from the five-year average because the expenses are one-time non-recurring expenses.

10. COF's recommendation of a $202,300 (2007 dollars) reduction in the Miscellaneous Expense-Litigation Expenses Not Related to Water Quality amount adopted in the settlement should be adopted. The settlement, without this alternative term, is not in the public interest.

Regulatory Commission Expense

11. The settlement amount for regulatory commission expenses is reasonable.

Ratemaking Treatment of Investments in Shares of Fontana Union Water Company

12. Since the risk to ratepayers of SGV losing access to FUWC water rights does not appear to be very high, the acquired water rights should be valued at $3,540 per acre foot, which translates to a stock value of $8,850, or $1,585,920 for the 179.2 shares.

13. Since the Slemmer settlement had no significant value to ratepayers regarding the 358.6 FUWC shares previously acquired by SGV, there is no reason to allow an additional portion of the costs of the Slemmer settlement in ratebase.

14. $1,585,920 of the Slemmer settlement costs attributable to the value to ratepayers of the additional 179.2 shares of FUWC stock should be allowed in ratebase and none of the other costs related to the Slemmer suit should be allowed in ratebase. The settlement, without this alternative term, is not in the public interest.

Treatment of Facilities Fees

15. D.07-04-046 provided for the collection of facilities fees from developers, builders, and new customers.

16. D.07-04-046 requires that facilities fees collected must be credited to CIAC at the time the fees are spent for additional plant, and earn interest.

17. The amount of facilities fees included in the settlement should be increased by the facilities fees collected through September 2008 and by $1,000,000 forecasted to be collected between October 2008 and June 30, 2009. The settlement, without this alternative term, is not in the public interest.

18. The inclusion of facilities fees in the annual revenue requirement advice letter filings, as provided for in Ordering Paragraph 3 of D.07-04-046, should be continued through this GRC cycle.

Plans for Developing Recycled Water Service

19. Section 455.1 provides a process to be followed if an advice letter is filed regarding recycled water service.

20. Nothing in § 455.1 prohibits the Commission from requiring that SGV file an application rather than an advice letter to initiate recycled water service.

21. The recycled water project should be addressed through an application after agreement has been reached. The settlement, without this alternative term, is not in the public interest.

Plant F13

22. The settlement amount for Plant F13 is reasonable.

Plant F16

23. The settlement is reasonable in regard to the planned facilities at Plant F16.

Plant F17

24. Given the importance of meeting all applicable drinking water standards and ensuring adequate sources of supply, especially during drought conditions, the settlement provisions regarding Plant F17 are reasonable.

Plant F21

25. The settlement provisions regarding Plant F21 are reasonable.

26. SGV should be authorized to file a ratebase offset advice letter for the project proposed for Plant F21 only after it is completed, used and useful. The settlement, without this alternative term, is not in the public interest.

Plant F23

27. The settlement provisions regarding Plant F23 are reasonable.

28. SGV should be authorized to file a ratebase offset advice letter for the project proposed for Plant F23 only after it is completed, used and useful. The settlement, without this alternative term, is not in the public interest.

Mains-Account 343

29. The settlement amount for mains is in line with recent recorded amounts, and is reasonable with a $1,000,000 reduction for 2011. The settlement, without this alternative term, is not in the public interest.

Services-Account 345

30. The settlement amounts for polyethylene services are reasonable.

Reasonableness Review-Burden of Proof

31. Since SGV has the burden of proof it must demonstrate each project is used and useful, needed and constructed at a reasonable cost.

32. SGV should develop competitive bidding guidelines and include them as an exhibit in its next GRC proceeding for either of its divisions. The guidelines should include, but not be limited to, criteria for determining when competitive bidding should be used and how the competitive bidding process should be carried out.

33. SGV has had more than ample opportunity to meet its burden of proof regarding the reasonableness of post-2002 plant additions in this proceeding.

Reasonableness Review-Job No. 4761-Plant F16-Install Electrical Panel

34. The Job No. 4761 recorded cost is reasonable.

Reasonableness Review-Job No. 4822-Plant F53-Acquisition of Land Parcel No. 215

35. Treatment of Land Parcel No. 215 as PHFU is inappropriate and it should not be included in ratebase.

36. In order to provide equitable treatment of SGV and its customers regarding Land Parcel No. 215 that may have a future use, SGV should be authorized to establish a memorandum account that will list the costs incurred or associated with holding the property for future use. If the property is ultimately used as planned, SGV may request recovery of such costs.

Reasonableness Review-Job No. 4870-Plant F7-Drill and Equip Well F7B, Construct Reservoir F7A, Booster Station and Site Improvements

37. Since SGV has not met its burden of proof regarding the costs of the Job No. 4870 retaining wall, the costs of the retaining wall ($537,868) should be excluded from ratebase.

Reasonableness Review-Job No. 4895-Plant F51 Acquisition of Land Parcel No. 221

38. Treatment of Land Parcel No. 221 as PHFU is inappropriate and it should not be allowed in ratebase.

39. In order to provide equitable treatment of SGV and its customers regarding Land Parcel No. 221 that may have a future use, SGV is authorized to establish a memorandum account that will list the costs incurred or associated with holding the property for future use. If the property is ultimately used as planned, SGV may request recovery of such costs.

Reasonableness Review-Job No. 4901-Linden Avenue North of Casmalia Street Install 42-Inch Pipeline

40. The Job No. 4901 project was necessary even without the Sandhill upgrades and is reasonable.

Reasonableness Review-Job No. 4982-Cherry Avenue South of Foothill Boulevard - Install 24-Inch and 16-Inch Pipelines

41. The Job No. 4982 project is reasonable.

Reasonableness Review-Job No. 5025-Sierra Ave. North of Baseline Avenue - Install 24-Inch Pipeline, Services and Fire Hydrant

42. SGV's choice of 24-inch pipe for Job No. 5025 is reasonable.

43. The Job No. 5025 project is reasonable.

Reasonableness Review-Job No. 5089-Baseline Avenue East of Cypress Avenue - Install 24-Inch Pipeline, Services and Fire Hydrants

44. SGV's choice of 24-inch pipe for Job No. 5089 is reasonable.

45. The Job No. 5089 project is reasonable.

Reasonableness Review-Job No. 5111-Walnut Avenue West of Sierra Avenue - Install 24-Inch Pipeline

46. For the Job No. 5111 project, SGV has not met its burden of proof and Job No. 5111 should be excluded from ratebase.

Reasonableness Review-Job No. 5199-Plant F13-Recoat Interior and Exterior of Reservoir F13(L)

47. The Job No. 5199 project and its costs are reasonable.

Reasonableness Review-Job No. 5205 and Job No. 5316-Systemwide-Install Services, Plastic Service Replacement 2007 and 2008

48. SGV's expenditures for the Job No. 5205 and Job No. 5316 projects are reasonable.

Reasonableness Review-Headquarters Office Complex

49. In D.07-04-046, the Commission stated: "While we do not doubt that more office space is needed by San Gabriel, it has not convinced us that its proposed size is reasonable."

50. In D.07-04-046, the Commission stated: "In its next rate case, costs should be reviewed for prudence and the facility's size evaluated to determine whether the entire facility is used and useful."

51. In D.07-04-046, the Commission stated: "San Gabriel shall remove from rate base the existing HQ facilities…once it is no longer used and useful or upon inclusion of the New Headquarters building in ratebase, whichever comes sooner."

52. In Finding of Fact 51 of D.07-04-046, the Commission stated: "In regard to the new office/warehouse, San Gabriel should remove the facilities that are to be replaced from ratebase immediately upon the occupation of a new headquarters building."

53. In D.07-04-046, the Commission found that the Office Complex is needed to provide some amount of office space, but did not determine that the proposed size is reasonable.

Contractor Costs

54. No disallowance for the Office Complex, based on the choice of general contractor, is appropriate.

Building A-Reasonable Costs and GO Allocation

55. In D.08-06-022, the Commission determined that it would be reasonable to move 27 GO employees to Building A to relieve overcrowding in the GO facilities, but left the allocation of space and costs to this proceeding.

56. D.08-06-022 recognized that Building A will have sufficient room to accommodate the additional 27 GO employees, but did not determine that Building A should be built to accommodate them.

57. Since the Building A related costs attributable to the nine GO employees are 20.5% (9/44) of the total reasonable costs of Building A or $2,034,322, these

costs should be included in the GO ratebase and excluded from the Fontana Division ratebase.

58. Reasonable Building A related costs of $7,911,251 should be included in the Fontana Division ratebase.

Reasonable Costs for the Remaining 16 GO Employees

59. Since the extra space in Building A will never be needed by the Fontana Division and was not constructed for the purpose of temporarily relocating GO employees, it should not be treated as utility property.

60. The reasonable proxy for annual rent for the 16 GO employees is $156,718.

61. In the next GRC, SGV should be required to provide information on the historical (2009-2011) costs and forecast costs of rental office space throughout SGV's service territories, not just the Fontana Division, of a type suitable for the 16 GO employees addressed herein.

Building B-Reasonable Costs

62. The reasonable costs for Building B are $5,078,396.

Affiliate Costs Not Properly Attributable to SGV

63. $22,205 in recorded costs for the Office Complex was incurred before SGV acquired the land, are attributable to its unregulated affiliate, are not recoverable from ratepayers and should be excluded from rate base.

Reasonable Office Complex Costs

64. The reasonable costs of the Office Complex for the Fontana District are $12,967,441.

65. $2,034,322 should be included in the GO ratebase for reasonable Building A space for nine GO employees and $156,718 should be included in the GO expenses as a proxy for rent for 16 GO employees.

Treatment of Old Site

66. Sections 789.1 and 790 require that the proceeds from the sale of water utility property that was once used and useful in providing service to customers shall be reinvested in utility infrastructure that goes into ratebase. Any proceeds not reinvested in utility infrastructure within eight years are to be allocated to ratepayers.

Reasonableness Review-Sandhill

67. The need for the Sandhill upgrade, including cost-effectiveness, was addressed in D.07-04-046.

68. In D.07-04-046, the Commission stated: "We find the Sandhill treatment facility to be needed and building it is reasonable."

69. In Finding of Fact 42 of D.07-04-046, the Commission stated: "The Sandhill plant is cost-effective and it is reasonable to construct it."

70. In D.07-04-046, the Commission found that the Sandhill project is needed.

71. Since SGV's process for selecting a general contractor for Sandhill resulted in consideration of comparable bids from two well qualified contractors, it is reasonable.

72. In D.07-04-046, the Commission imposed a cap for Sandhill of $35 million.

73. D.07-04-046 does not indicate that the $35 million cap for Sandhill was intended as a permanent overall cap on the Sandhill upgrades.

74. Sandhill is used and useful and its costs are reasonable.

Customer Service

75. SGV should focus on reducing leaks and take the necessary steps to maintain customer service during its transition to the Office Complex.

Master Plan

76. In Ordering Paragraph 16 of D.04-07-034, the Commission directed SGV to develop a water management/engineering report to provide more comprehensive guidance for its utility plant and infrastructure construction projects in the Fontana Division.

Balancing and Memorandum Accounts

77. SGV's request to amortize the balance in the Water Quality Litigation Memorandum Account as of the effective date of this decision, over a one-year period through a surcharge is unopposed and should be granted.

78. SGV's request to file an advice letter to amortize the balance in the Water Quality Memorandum Account as of the effective date of this decision, including interest, is unopposed and should be granted.

79. SGV should be authorized to continue to record in its Water Quality Memorandum Account future costs incurred, proceeds received from polluters and grants received from governmental agencies related to water quality, including but not limited to capital costs, and operations and maintenance costs of needed wellhead treatment facilities that cannot reasonably be forecasted for the test years and are not included in the GRC.

80. SGV's request for authority to continue to file advice letters to adjust rates for facilities fees revenues is unopposed and should be granted.

O R D E R

IT IS ORDERED that:

1. The joint motion of San Gabriel Valley Water Company and the Division of Ratepayer Advocates to approve a settlement agreement, included herein as Attachment A, is denied and the settlement agreement with seven alternative

terms is adopted. The alternative terms are addressed in Sections 6, 8, 9, 10, 14, 15 and 16 of this decision, and in Conclusions of Law 10, 14, 17, 21, 26, 28 and 29.

2. For matters other than those addressed in Ordering Paragraph 1, San Gabriel Valley Water Company's application is granted only to the extent specified in this decision and is otherwise denied.

3. San Gabriel Valley Water Company is authorized to file by compliance advice letter the revised tariff schedules attached to this order as Attachment ____, and to concurrently cancel its present schedules for such service. This filing shall be subject to approval by the Commission's Division of Water and Audits. The effective date of the revised schedule shall be July 1, 2009 and shall apply only to service rendered on or after that date.

4. Escalation advice letters for July 2010 and July 2011, including workpapers, may be filed in accordance with General Order 96-B no later than 45 days prior to the first day of the escalation year. To the extent that the *pro forma* earnings test for the 12 months ending September 30, as adopted in D.04-06-018, exceeds the amount authorized in this decision, the requested increase shall be reduced by the utility from the level authorized in this decision to conform to the *pro forma* earnings test. Advice letters filed in compliance with this decision shall be handled as Tier 1 filings, effective on the first day of the test year. Advice letters not in compliance with this decision shall be rejected consistent with General Order 96-B.

5. San Gabriel Valley Water Company shall develop competitive bidding guidelines and include them as an exhibit in its next general rate case proceeding. Such guidelines shall include, but not be limited to, criteria for determining when competitive bidding should be used and how the competitive bidding process should be carried out.

6. The inclusion of facilities fees in the annual revenue requirement advice letter filings, as provided for in Ordering Paragraph 3 of D.07-04-046, shall be continued through this general rate case cycle.

7. If, after it reaches an agreement with the City of Fontana, San Gabriel Valley Water Company decides to provide recycled water service, it shall do so through an application.

8. As provided for in the settlement, San Gabriel Valley Water Company is authorized to file ratebase offset advice letters for the projects proposed for Plant F21 and Plant F23 only after each project is completed, used and useful.

9. San Gabriel Valley Water Company is authorized to establish a memorandum account for Land Parcel Nos. 215 and 221 that will list the costs incurred or associated with holding the property for future use. If the properties are ultimately used as planned, San Gabriel Valley Water Company may request recovery of such costs.

10. In the next general rate case, San Gabriel Valley Water Company shall provide information on the historical (2009-2011) costs and forecast costs of rental office space throughout its service territories, not just the Fontana Division, of a type suitable for the 16 General Office employees addressed herein.

11. Application 08-07-009 is closed.

This order is effective today.

Dated _____, at San Francisco, California.

INFORMATION REGARDING SERVICE

I have provided notification of filing to the electronic mail addresses on the attached service list.

I will cause a Notice of Availability of the filed document to be served upon the service list to this proceeding by U.S. mail. The service list I will use to serve the Notice of Availability of the filed document is current as of today's date.

Dated May 15, 2009, at San Francisco, California.

/s/ FANNIE SID

Fannie Sid

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