

Decision 09-12-001 December 3, 2009

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Park Water Company (U314W) for Authority to Increase Rates Charged for Water Service by \$1,479,580 or 5.99% in 2010, \$503,371 or 1.91% in 2011, and \$643,923 or 2.40% in 2012.

Application 09-01-001
(Filed January 2, 2009)

**DECISION AUTHORIZING TEST YEAR 2010 REVENUE REQUIREMENT AND
ADOPTING THE JULY 15, 2009 ALL-PARTY SETTLEMENT**

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**DECISION AUTHORIZING TEST YEAR 2010 REVENUE REQUIREMENT AND
ADOPTING THE JULY 15, 2009 ALL-PARTY SETTLEMENT**

1. Summary

This decision finds the settlement filed on July 15, 2009 (Settlement Agreement) in this proceeding reasonable in light of the whole record, consistent with the law, and in the public interest under Rule 12.1(d) of the Commission's Rules of Practice and Procedure.¹ As a result, we adopt the Settlement Agreement and authorize Park Water Company (Park Water) to increase its rates in 2010, 2011, and 2012. The approved rate increases include capital costs and operations and maintenance expenses for improvement to water quality at Park Water's Well 9D. By this decision, we also authorize Park Water to implement rate changes approved by Advice Letters 210-W and 211-W. As a result, the adopted incremental revenue increase for Test Year 2010 is an additional \$186,923 or 0.70% over present rates and the adopted revenue requirement for Test Year 2010 increases to \$26,828,000. The estimated rate increases for the escalation years based on the terms of the settlement after incorporation of the modifications resulting from Advice Letters 210-W and 211-W are 0.99% for 2011, and 1.40% for 2012. The resulting return on rate base is 9.12%. This proceeding is closed.

2. Background

Consistent with the Commission's Rate Case Plan adopted in Decision (D.) 07-05-062, Park Water Company (Park Water) filed this general rate case application on January 2, 2009. The application requested a revenue increase for

¹ All referenced Rules are the Commission's Rules of Practice and Procedure (http://docs.cpuc.ca.gov/published/RULES_PRACT_PROC/70731.htm).

Test Year 2010 in the amount of \$1,479,580 or an increase of 5.99% above revenues generated by present rates.

In accordance with the escalation year increase methodology adopted by the Rate Case Plan in D.07-05-062, Park Water indicated it would file advice letters setting out its calculations, supporting analysis, and rates for escalation years 2011 and 2012. Consistent with the Rate Case Plan, Park Water also indicated that such filings would be made 45 days prior to the first day of each escalation year. Park Water included estimates of the impact of its proposed escalation methodology for 2011 and 2012 for the purpose of providing customer notification. The estimated revenue increase for 2011 was \$503,371 or 1.91% above the proposed revenue increase for Test Year 2010. The estimated revenue increase for 2012 was \$643,923 or 2.40% above the estimated revenue requirement for 2011. Park Water estimated that the requested increase would produce a return on equity of 10.20% and a return on estimated rate base of 9.12% for Test Year 2010.

On the same date that Park Water filed its application, Park Water submitted prepared testimony and the following exhibits: Revenue Requirements Report for Test Year 2010, General Office Report for Test Year 2010, Park Water's Urban Water Management Report, and Minimum Data Requirements.

The Division of Ratepayer Advocates (DRA) filed a protest against certain aspects of Park Water's application on February 9, 2009. No other person or entity protested this request, sought party-status, or participated in this proceeding. The assigned Administrative Law Judge held a prehearing conference on March 16, 2009. Commissioner John Bohn, the assigned Commissioner, issued a scoping memo on April 1, 2009.

In accordance with the procedural schedule set forth in the scoping memo, DRA served its Report on April 9, 2009. On April 16, 2009, Park Water served supplemental testimony to update the Commission on the status of Park Water's efforts to obtain outside funding for a new treatment plant needed to address arsenic and manganese levels at Well 9D. In response to this April 16, 2009 testimony, DRA served additional testimony. Park Water served additional rebuttal testimony on April 24, 2009.

The parties engaged in settlement negotiations and reached a settlement on all issues immediately prior to the evidentiary hearings scheduled on May 21, 2009. The parties informed the assigned Administrative Law Judge of the settlement and requested that evidentiary hearings be postponed until May 26 so that a final written settlement agreement could be finalized and executed.

The assigned Administrative Law Judge granted these requests and instructed parties to file a motion seeking approval of the Settlement Agreement on or before July 15, 2009 along with a comparison exhibit (Joint Comparison Exhibit) containing a description of the impact of the Settlement Agreement on the requests set forth in Park Water's application and how individual settlement components related to the parties' litigation positions.

Parties filed this motion on July 15, 2009. The Settlement Agreement is attached hereto as Attachment A. On this same date, the parties submitted the Joint Comparison Exhibit. The Joint Comparison Exhibit is attached hereto as Attachment D.

The Commission did not hold any public participation hearings in this proceeding. The assigned Administrative Law Judge decided that, due to the ongoing budget concerns of the State of California and the absence of any requests from the public, no public participation hearings were needed. Notice

to the public of this rate increase conformed with the Rules of Practice and Procedure. In addition, Park Water contacted the city representatives located in all of its service areas and offered to make presentations to city officials on its proposed rate increases. Park Water then met with city officials representing the service areas at issue here except representatives from the City of Compton. Park Water contacted the City of Compton and received no response to its offer to present officials with information on this proceeding. Pursuant to the assigned Administrative Law Judge's May 26, 2009 directive, Park Water again extended an invitation to the City of Compton for Park Water to present an overview of Park Water's rate increase application. The City of Compton did not respond to this second offer. Based on Park Water's efforts to discuss the application with all the city officials in its service territory, the assigned Administrative Law Judge determined that no public participation hearings were needed.

The provisions of the Settlement Agreement are summarized below.

3. Summary of Settlement Agreement Provisions

3.1. Increase in Base Rates

Based primarily on the use of updated 2008 recorded data, the stipulated escalation factors, and the retention of billing, Park Water and DRA revised their initial revenue requirement estimates and the resulting Test Year 2010 revenue requirement increase estimates. As a result, the Settlement Agreement adopts an incremental revenue increase for Test Year 2010 of \$328,250 (a 1.33% increase over present rates). After modifications to reflect Advice Letters 210-W and 211-W, the adopted incremental revenue increase for Test Year 2010 is an additional \$186,923 or 0.70% over present rates. The parties agreed to a revenue requirement at proposed rates for Test Year 2010 of \$25,047,644. After

modifications to reflect Advice Letters 210-W and 211-W, the adopted revenue requirement at proposed rates for Test Year 2010 increases to \$26,828,000. The agreed-upon resulting return on rate base is 9.12%.

3.2. Escalation Year Increases for 2011 and 2012

In accordance with the escalation year increase methodology set forth in the Rate Case Plan, Park Water will file an advice letter 45 days prior to the first day of each of the escalation years, 2011 and 2012, setting forth its calculations and supporting analysis for the escalation rate increase. The advice letters will be filed in accordance with Section VII (Escalation and Attrition Advice Letter Procedure) at Appendix A of the Rate Case Plan. The parties' estimates for 2011 and 2012 are summarized in Tables 3 and 4 of the Joint Comparison Exhibit (Attachment D). Based on the terms of the Settlement Agreement and using the memorandum published by the Energy Cost of Service Branch of DRA on May 31, 2009, the parties have estimated a 1.03% rate increase for 2011 and a 1.49% increase for 2012. After modifications to reflect the offset increases approved by the Commission in Advice Letters 210-W and 211-W, the estimated rate increase for 2011 is 0.99% and for 2012 is 1.40%.

3.3. Number of Customers, Water Sales, and Operating Revenue

As set forth in Section 2.0 of the Settlement Agreement, the parties agreed to Park Water's estimates for the number of customers for the Test Year and the escalation years.

No contested issues arose between the parties concerning water sales, except for residential water sales. The parties' different estimates regarding residential customer water sales resulted from the parties' use of different calculation methodologies. After Park Water provided further information

regarding the impact of water conservation on residential water use, DRA agreed to the reasonableness of Park Water's estimate of residential water sales. As a result, the Settlement Agreement adopts the customer unit consumption initially proposed in Park Water's application.

After the parties agreed to Park Water's estimates for unaccounted-for-water of 2%, the number of customers, and the customer unit consumption, the parties agreed to the total water supply proposed in Park Water's application.² The reconciliation of and agreement on water sales also resulted in the parties' agreement on revenues at present rates. The parties agreed to total revenue (Service Charge Revenue, Commodity Charge Revenue, Miscellaneous Revenue, and Deferred Revenue) at present rates of \$24,719,394 and at proposed rates of \$25,047,644.³ In comments filed on the proposed decision issued in this proceeding, Park Water and DRA noted that the Commission approved two advice letters (Advice Letters 210-W and 211-W). These advice letters were effective July 13, 2009, and September 1, 2009, respectively. The advice letters reflect increases in production costs for purchased water. As a result, the revenue requirement contained in the Settlement Agreement has been revised to incorporate these increased amounts. After modifications to reflect these offset increases, the adopted revenue requirement at proposed rates increases to \$26,828,000.

² Attachment D, Joint Comparison Exhibit, Tables 11-13.

³ Attachment D, Joint Comparison Exhibit, Tables 1 and 2.

3.4. Operations & Maintenance Expenses

3.4.1. Forecast Methodology and Escalation

Both parties generally used a five-year average of recorded expenses (2004-2008) to estimate Operations & Maintenance Expenses. DRA's use of 2008 recorded data, updated from the 2008 data available to Park Water at the time it filed its application, accounts for the differences between the parties' initial estimates. The parties agreed to use the updated recorded year 2008 data in applying the five-year averaging methodology to estimate expenses. Consistent with DRA's recommendation, the parties also agreed to update the escalation factors used in the parties' initial estimates by using the escalation factors in DRA's Energy Cost of Service Branch memorandum dated May 31, 2009. The revised and agreed-upon escalation factors are at Attachment D, herein, the Joint Comparison Exhibit, Section 3. These stipulated adjustments along with other agreements discussed below resulted in an agreed-upon total Operations & Maintenance Expenses of \$12,152,552 at proposed rates for Test Year 2010.⁴ After modifications to reflect the offset increases approved by the Commission in Advice Letters 210-W and 211-W, the total adopted Operations & Maintenance Expenses are \$13,930,834.

3.4.2. Billing Frequency

As set forth in Section 3.03 of the Settlement Agreement, Park Water agreed to defer implementing monthly billing. As a result, Park Water's estimated expenses and capital expenditures changed. These changes are set

⁴ Attachment D, Joint Comparison Exhibit, Table 2.

forth in Section 2 and Table 14 of the Joint Comparison Exhibit (Attachment D hereto).

In addition, as a result of Park Water's continued reliance on billing and the agreement by the parties on forecast methodology, Park Water and DRA recommended Operations & Maintenance Payroll Expense of \$2,099,689 for Test Year 2010. The parties also agreed to estimates for Purchased Water Expense of \$7,493,237 and Purchased Power Expense of \$208,001 for Test Year 2010. After modifications to reflect the offset increases approved by the Commission in Advice Letters 210-W and 211-W, the adopted Test Year 2010 purchased water expense is \$9,177,045. In addition, the Settlement Agreement reflects the parties' agreement on Chemicals Expense of \$9,172. This amount reflects a deduction for a \$2,209 expense related to Well 9D. After adjusting for the retention of billing, the resolution of the Well 9D issues, updates of recorded expenses and escalation factors, the parties agreed to Operations Other Expense of \$183,442. With the use of the stipulated escalation factors, the parties agreed to Maintenance Other Expense of \$429,068.

3.4.3. Customer Other Expenses

The parties agreed to Customer Other Expense (Excluding Conservation) of \$218,500 for Test Year 2010 using the stipulated escalation factors and adjusting for billing and correcting a calculation error.⁵ The parties agreed to Uncollectible Expense of \$245,467 for Test Year 2010 using an agreed-upon 0.98% for uncollectibles and based on the stipulated 2010 revenue requirement. After modifications to reflect the offset increases approved by the Commission in

⁵ Attachment D, Joint Comparison Exhibit, Table 2.

Advice Letters 210-W and 211-W, the adopted Uncollectible Expense for Test Year 2010 is \$262,914. The parties agreed to Clearings Other Expense of \$187,997 using the stipulated escalation factors and updated 2008 recorded expenses and adjusting for a calculation error. The parties agreed to Clearings Depreciation of \$122,427 based on the stipulated utility plant in service.

3.5. Conservation

As described in Section 3.14 of the Settlement Agreement, the parties agreed to include Park Water's forecast of Conservation Program Expenses totaling \$199,833 for 2010. This total of \$199,833 includes \$24,960 for the Public Information Programs and \$174,873 for all remaining programs, including the WaterSmart Rebate and Retrofit Programs.

The parties also agreed to two capped one-way balancing accounts for conservation expenses. Each of these balancing accounts covers the general rate case period, 2010–2012. One balancing account will be for costs associated with public information programs and capped at approximately \$75,000 (the sum of \$24,960 and the adopted amounts for escalation years 2011 and 2012). The other balancing account will be for all other conservation programs and capped at approximately \$525,000 (the sum of \$174,873 and the adopted amounts for escalation years 2011 and 2012).

These balancing accounts will track the difference between the authorized forecasts as listed above and the actual amounts Park Water spends during 2010–2012. These caps require Park Water to refund to customers any shortfall to the stipulated amounts in its next general rate case. The “one-way” nature of these balancing accounts does not allow Park Water to recover any excess spending over the stipulated amounts. This structure is in the public interest for several reasons. Park Water recently joined the California Urban Water Conservation

Council (CUWCC) and stepped up its conservation efforts consistent with CUWCC's Best Management Practices (BMP). Absent any substantial historical record of expenditures on conservation programs, DRA raised concerns about Park Water's ability to spend the total projected levels of expenditures on these programs. Under these circumstances, the one-way capped balancing account mechanism permits the parties to agree on spending levels considered reasonable for Park Water to meet the CUWCC's BMP and also address DRA's concerns. Also, this one-way capped balancing account mechanism has the advantage that, if Park Water's actual expenses equal or exceed the authorized amount, then no subsequent action is necessary (i.e., a surcharge is not imposed on customers to collect that additional amount).

Park Water also will file a summary report with the Commission, with a copy to DRA, by April 1 of 2010, 2011, and 2012. These reports will provide a comprehensive review of all water conservation activities performed by Park Water or by a third party on Park Water's behalf as further described in Section 3.14 of the Settlement Agreement.

3.6. Administrative & General Expenses

Based on adjustments reflected in the Settlement Agreement due to Park Water's continued reliance on billing, the use of stipulated escalation factors and stipulated payroll and utility plant in service, use of updated 2008 recorded data, and reconciliation of certain forecast methodologies to calculate Test Year expenses, the parties reached agreement on Test Year 2010 Administrative & General Expenses totaling \$6,706,982.⁶ After modifications to reflect the offset

⁶ Attachment A, Settlement Agreement, Section 4.0; Attachment D, Joint Comparison Exhibit, Table 2.

increases approved by the Commission in Advice Letters 210-W and 211-W, the adopted Test Year 2010 Administrative & General Expenses are \$6,714,281. As set forth in the Joint Comparison Exhibit (Attachment D), for Test Year 2010 the parties agreed to Administrative & General Payroll Expense of \$1,744,492. The parties agreed to Office Expense of \$342,897, Injuries & Damages/Insurance of \$832,012, Employee Benefits of \$1,386,946, and Regulatory Commission Expense of \$121,343. The parties also agreed to an Administrative Expense Transferred of \$162,605, Outside Services of \$177,603, Miscellaneous Expense of \$72,910, and Franchise Requirements of \$102,695. Finally, the parties agreed to Uninsured Property Damage of \$269 and a Main Office Allocation of \$2,088,420.⁷

3.7. Taxes Other Than Income Tax

The parties' initial estimates for ad valorem or payroll taxes relied upon the same forecast methodology. Adjusting for the stipulated utility plant in service and payroll and after correcting a calculation error, the parties agree to Ad Valorem Taxes of \$387,635 and Payroll Taxes of \$344,302 for Test Year 2010.⁸

3.8. Income Taxes

No differences existed in the forecast methodologies used by parties to estimate income taxes. However, the parties recalculated the income tax forecasts consistent with the other terms of the Settlement Agreement, including revenue, expenses, and utility plant. The parties agreed to Test Year 2010 California Income Taxes of \$248,966 and Test Year 2010 Federal Income Taxes of

⁷ Attachment D, Joint Comparison Exhibit, Table 2.

⁸ Attachment D, Joint Comparison Exhibit, Table 2.

\$985,103.⁹ After modifications to reflect the offset increases approved by the Commission in Advice Letters 210-W and 211-W, the adopted Test Year 2010 California Income Taxes increase to \$248,504 and the Federal Income Taxes increase to \$979,309.

3.9. Utility Plant in Service

The Settlement Agreement includes grant-funded Utility Plant Additions in both utility plant in service and in Account 266 (Publicly Funded Grant Plant). For Utility Plant Additions, the parties agreed to the plant additions and vehicle replacements proposed by Park Water and the adjustments to printer costs and the office remodel proposed by DRA. The parties agreed to \$4,225,456 for additions to utility plant for Test Year 2010 and \$2,860,200 for Test Year 2011.¹⁰

3.10. Treatment Facility for Well 9D Water

The Settlement Agreement provides that a treatment plant is necessary to address the arsenic and manganese levels at Well 9D. The Settlement Agreement adopts the treatment plant's project cost of \$2,019,000, as proposed in Park Water's application, and \$66,000 in Related Operations & Maintenance Expenses. Because the possibility exists that non-ratepayer sources of funding may become available, Park Water will wait until the end of 2009 before proceeding to build the treatment plant with company funds. Therefore, construction will not begin until 2010.

After the Well 9D project is complete and placed in service, Park Water will seek recovery of the associated revenue requirement and expenditure of

⁹ Attachment D, Joint Comparison Exhibit, Table 6.

¹⁰ Attachment D, Joint Comparison Exhibit, Section 28.

company funds by filing a rate base offset advice letter. A rate base offset advice letter must be authorized by the Commission. Such authorization is appropriate in a general rate case decision. Accordingly, the Commission authorizes a Tier 2 advice letter filing when the Well 9D project is completed, and used and useful consistent with the California Department of Public Health permit requirements. If the project is completed during 2010 with sufficient time to incorporate the rate base offset request into the 2011 escalation year advice letter filing, this rate base offset may be filed in November of 2010.

While Park Water may complete the Well 9D project before the November 2010 filing date for the advice letter, Park Water's completion of this project before this date is unlikely due to the length of time required to permit and construct a treatment plant. Therefore, it is more likely that Park Water will file a rate base offset advice letter at some point during 2011. While this would represent a second rate increase in 2011 (in addition to the 2011 escalation increase), rate base offset advice letters are common practice for the other Class A water utilities and customers are routinely subject to receiving multiple rate increases within a calendar year. Moreover, in this instance, due to the importance of this project to the quality and safety of the water, we find the possibility of a second rate increase reasonable.

The revenue requirement agreed to under the Settlement Agreement will generate a rate increase of 1.33% for 2010. The proposed rate increase associated with the revenue requirement for Well 9D represents an additional increase of 1.66%. Park Water originally requested rate increases of 5.99%, 1.91%, and 2.40% for years 2010, 2011, and 2012. When the agreed-upon rate increase of 1.33% is added to the projected rate increase of 1.66% for the Well 9D treatment plant, the total increase is still less than Park Water's original request for a 5.99% increase

for 2010. This total must also be increased by 0.70% to reflect increases resulting from offset increases in Advice Letters 210-W and 211-W.

Lastly, the establishment of a budget cap is standard procedure when the Commission authorizes rate base offset advice letters in a general rate case decision. The Settlement Agreement contains a budget cap of \$2,019,000 for Well 9D Capital-Related Expenses and \$66,000 for Operations & Maintenance. We find these amounts reasonable, in the public interest, and consistent with Commission policy.

Moreover, pursuant to the Commission's General Order 96-B, the Division of Water and Audits has authority for ministerial review of rate base offset advice letters if the following conditions are met: (1) the offset was previously approved by the Commission in either a decision or resolution; (2) the project scope is consistent with what the Commission approved; and (3) the Commission's approval included a budget cap and the rate base offset request is at or below the budget cap.

This decision will satisfy condition (1) and the project scope and budget cap for conditions (2) and (3). So long as the remainder of these conditions are met by Park Water's advice letter, Park Water is authorized to rely on a Tier 2 advice letter filing to increase its rates to reflect costs associated with Well 9D.

3.11. Depreciation Expenses

Using the stipulated amount for plant in service, the parties agreed to Depreciation Expenses of \$1,509,497 for Test Year 2010.¹¹

¹¹ Attachment D, Joint Comparison Exhibit, Section 29.

3.12. Rate Base

With the retention of billing, the use of a consistent revenue lag system, and the parties' agreement on revenues, expenses and utility plant, the parties agreed upon Working Cash of \$1,003,057 for Test Year 2010. Using the stipulated utility plant in service and bonus depreciation for 2008, the parties agreed upon Deferred Taxes of \$3,945,730 for Test Year 2010. The parties agreed to a total rate base for Test Year 2010 of \$29,743,564.¹²

3.13. Rate Design

As set forth in the Settlement Agreement, the parties agreed to rely on the rate design methods proposed by Park Water. The Settlement Agreement also continues the current conservation rate design trial program authorized by the Commission in D.08-02-036 but includes two adjustments for residential customers: (1) the breakpoints between the increasing block rate tiers are updated to reflect average indoor water use, and (2) the price differential between the tiers is adjusted from 10% to 15%. For non-residential customers, the Settlement Agreement maintains the single quantity rate design due to the infeasibility of developing increasing block rates at this time. Park Water will propose increasing block rates for non-residential customers in its next general rate case.

For other rates and fees, the Settlement Agreement includes Park Water's proposal to update and increase the deposit fee in Tariff Rule No. 7 (Deposits). The existing deposits of \$10.00 (for monthly billing) and \$20.00 (for billing) fail to reflect the average amount billed. As a result, these deposits are not sufficient

¹² Attachment D, Joint Comparison Exhibit, Table 9.

to establish credit, as intended by Tariff Rule No. 7. The proposed customer deposits will be based on twice the average bill, which is consistent with the interpretation of Tariff Rule No. 7 by other Class A water utilities.

The Settlement Agreement adopts Park Water's proposal to increase to \$12.50 the bad check fee in Tariff Rule No. 9 (Rendering and Payment of Bills). The existing bad check fee of \$10.50 does not reflect Park Water's actual bad check cost of \$12.50.

The Settlement Agreement adopts Park Water's proposal to increase the reconnection charge in Tariff Rule No. 11 (Discontinuance and Restoration of Service). The existing reconnection charges of \$40.00 during regular working hours and \$60.00 at other than regular working hours do not reflect Park Water's actual costs of \$73.00 during regular working hours and \$90.00 during other hours. The Settlement Agreement adopts these actual costs as the increased charges for Test Year 2010.

All of these proposed fee increases are reflected in the estimate of miscellaneous revenues.

3.14. Low-Income Assistance Program

Park Water's balancing account for its California Alternative Rates for Water (CARW) program is currently overcollected. Accordingly, the Settlement Agreement provides for: (1) an increase in the existing CARW discount by the overall percentage increase granted in this general rate case; (2) discontinuation of the CARW surcharge for the 2010-2012 rate cycle; and (3) pursuant to an advice letter Park Water will file in January 2010, a refund of the overcollection recorded in the CARW Revenue Reallocation Balancing Account as of December 31, 2009, after adjusting for the estimated CARW discounts during the 2010-2012 rate cycle. The parties agreed that a CARW Revenue Reallocation

Balancing Account is needed to track the balance of collected surcharges and discounts. Once the balance of the CARW Implementation Cost Memorandum Account is transferred to the CARW Revenue Reallocation Balancing Account, the parties agree the CARW Implementation Cost Memorandum Account is no longer necessary or authorized as of January 1, 2010.

3.15. Regulatory Accounts

The Settlement Agreement provides that Park Water continue its Water Revenue Adjustment Mechanism (WRAM) and Modified Cost Balancing Account (MCBA). The WRAM and the MCBA are part of Park Water's conservation rate design trial program. In addition, the Settlement Agreement supports Park Water's request to implement a temporary surcharge to recover the undercollection balance in Park Water's previous Incremental Cost Balancing Accounts (ICBA) from January 1, 2008 - September 15, 2008 (the implementation date of the WRAM and MCBA). The parties agreed that Park Water will withdraw without prejudice, its request to implement an Income Tax Rate Change Memorandum Account at this time.

3.16. Water Quality

The parties recommend the Commission find Park Water in compliance with the California Department of Public Health water quality regulations.

3.17. Cost of Capital and Rate of Return

Park Water's cost of capital and rate of return are being addressed in a separate consolidated Cost of Capital Proceeding, Application 09-05-003, before Administrative Law Judge Douglas Long.

4. Standard of Review – Settlement Agreement

In this application, Park Water bears the burden of proof to show its requests are just and reasonable and the related ratemaking mechanisms are fair. In order for the Commission to approve any proposed settlement, the Commission must be convinced that the parties have a sound and thorough understanding of the application, the underlying assumptions, and the data included in the record. This level of understanding of the application and development of an adequate record is necessary to meet our requirements for considering any settlement. These requirements are set forth in Rule 12.1, which states, in pertinent part:

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.

As discussed below, we find the Settlement Agreement consistent with Rule 12.1.

4.1. Reasonable in Light of the Record as a Whole

As reflected in direct and rebuttal testimony, the parties held both similar and different positions on the various issues involved in this proceeding. The parties reviewed testimony, reports, the responses to the Minimum Data Request, data request responses, and were involved in discussions of the issues presented in the application. The parties also considered the affordability of the rates, Park Water's current financial health, and the Commission's Water Action Plan. The parties conducted settlement negotiations for several weeks after consideration of all testimony and information. The parties fully considered the facts and law relevant to this case before reaching a reasonable compromise on the issues raised in Park Water's application. In agreeing to a settlement, the parties used their collective experience to produce appropriate, well-founded

recommendations. The parties believe the Settlement Agreement balances the various interests affected in this proceeding, reflects appropriate compromises of the parties' litigation positions, and is reasonable. The Commission agrees.

4.2. Consistent With Law and Prior Commission Decisions

The parties are aware of no statutory provisions or prior Commission decisions that would be contravened or comprised by the Commission's adoption of the Settlement Agreement. The issues resolved in the Settlement Agreement are within the scope of the proceeding. If adopted, the Settlement Agreement would result in reasonable rates for Park Water's customers.

4.3. The Public Interest

We find that the rate changes proposed by the Settlement Agreement are reasonable and provide adequate funding to Park Water to ensure safe and reliable provision of water service. While the Settlement Agreement will result in a rate increase for all customer classes of approximately 1.33%,¹³ the Settlement Agreement represents a favorable outcome for ratepayers by authorizing a level of revenues that will permit Park Water to continue to provide the high level of service expected by its customers and the Commission based upon historical spending and trends, customer and system growth and required improvements, and other cost drivers.

Numerous Commission decisions endorse settlements and support the public policy favoring settlement of disputes that are fair and reasonable in light

¹³ The percentage of 1.33% is increased by 0.70% as a result of the two advice letters, Advice Letter 210-W and 211-W, approved by the Commission.

of the whole record.¹⁴ The Commission's support of this public policy furthers many worthwhile goals, including reducing the expense of litigation, conserving the scarce resources of the Commission, and allowing parties to reduce the risk that litigation will produce unacceptable results.¹⁵ Furthermore, the provisions of the Settlement Agreement and the Joint Comparison Exhibit show that the settled values fall within or below the litigation positions initially established by the parties. Thus, from reviewing the Settlement Agreement, the Joint Comparison Exhibit, and the process used to arrive at these mutually acceptable outcomes, the Commission concludes that the requirements of Rule 12.1 and Public Utilities Code Section 451 have been met.

5. Comments on Proposed Decision

The proposed decision of the Administrative Law Judge in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3. Comments were filed by DRA and Park Water. Based on these comments, we have modified certain portions of the decision.

6. Assignment of Proceeding

John Bohn is the assigned Commissioner and Regina DeAngelis is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. Subsequent to filing the application herein, Park Water filed and the Commission approved two production cost offset increase advice letters. The

¹⁴ D.88-12-083 and D.91-05-029.

¹⁵ D.92-12-019.

increased unit costs of production authorized in the offset increase advice letters are not reflected in the settlement between Park Water and DRA in this proceeding. If the increases in production costs authorized by the approval of the production cost offset increase are not incorporated into the settlement results, the rate increase authorized by the Commission in Advice Letters 210-W and 211-W will effectively be undone. The increased unit costs of production for purchased water and replenishment fees used to calculate the approved expense offset increase should be incorporated into the summary of earnings herein.

2. Based on the updated 2008 recorded data, the stipulated escalation factors, and the retention of billing, Park Water and DRA revised their initial revenue requirement estimates and the Settlement Agreement adopts an incremental revenue increase for Test Year 2010 of \$328,250 (a 1.33% increase over present rates). After modifications to reflect the offset increases approved by the Commission in Advice Letters 210-W and 211-W, the adopted incremental revenue increase for Test Year 2010 is \$186,923 (an additional 0.7% increase over present rates).

3. The parties agreed to a revenue requirement for Test Year 2010 of \$25,047,014. The agreed-upon resulting return on rate base is 9.12%. After modifications to reflect the offset increase approved by the Commission in Advice Letters 210-W and 211-W, the adopted revenue requirement for Test Year 2010 is \$26,828,000.

4. Park Water will file an advice letter to implement rate changes consistent with the Settlement Agreement effective on or after January 1, 2010.

5. Park Water will file advice letters in accordance with Section VII (Escalation and Attrition Advice Letter Procedure), at Appendix A of the Rate Case Plan.

6. The parties' estimates for 2011 and 2012 are summarized in Tables 3 and 4 of the Joint Comparison Exhibit (Attachment D). Based on the terms of the Settlement Agreement and using the memorandum published by the Energy Cost of Service Branch of DRA on May 31, 2009, the parties agreed to a 1.03% rate increase for 2011 and 1.49% for 2012. After modifications to reflect the offset increases approved by the Commission in Advice Letters 210-W and 211-W, the estimated rate increase for 2011 is 0.99% and 1.40% for 2012.

7. As set forth in Section 2.0 of the Settlement Agreement, the parties agreed to Park Water's estimates for the number of customers for the Test Year and the escalation years.

8. No contested issues arose between the parties concerning water sales, except for residential customers.

9. The parties' different estimates regarding residential customer sales resulted from the parties' use of different calculation methodologies.

10. After Park Water provided further information regarding the impact of conservation on residential water use, DRA agreed to the reasonableness of Park Water's estimate of residential water sales. The Settlement Agreement adopts the customer unit consumption proposed in Park Water's application.

11. Based on the agreed-upon estimates for unaccounted-for-water of 2%, number of customers, and customer unit consumption, the parties agreed to the total water supply proposed in Park Water's application.

12. The reconciliation of and agreement on water sales also resulted in the parties' agreement on revenues at present rates.

13. The parties agreed to total revenue (Service Charge Revenue, Commodity Charge Revenue, Miscellaneous Revenue, and Deferred Revenue) at present rates of \$24,719,394 and at proposed rates of \$25,047,644. After modification to

reflect the offset increases approved by the Commission in Advice Letters 210-W and 211-W, the adopted total revenue at present rates is \$26,641,077 and at proposed rates is \$26,828,000.

14. Both parties generally used a five-year average of recorded expenses (2004-2008) to estimate operations & maintenance expenses.

15. DRA's use of 2008 recorded data, updated from the 2008 data available to Park Water at the time it filed its application, accounts for the differences between the parties' initial estimates.

16. The parties agreed to use the updated recorded year 2008 data in applying the five-year averaging methodology to estimate expenses.

17. Consistent with DRA's recommendation, the parties agreed to update the escalation factors used in the parties' initial estimates by using the escalation factors in DRA's Energy Cost of Service Branch memorandum dated May 31, 2009.

18. The revised and agreed-upon escalation factors are set forth in the Joint Comparison Exhibit (Attachment D at Section 3). These stipulated adjustments along with other agreements discussed below resulted in an agreed-upon total Operations & Maintenance Expenses of \$12,152,552 for Test Year 2010. After modifications to reflect the offset increases approved by the Commission in Advice Letters 210-W and 211-W, the total Operations & Maintenance Expenses are \$13,930,834.

19. As set forth in Section 3.03 of the Settlement Agreement (Attachment A), Park Water will defer implementing monthly billing.

20. Due to Park Water's agreement to continue to rely on billing and the agreement by the parties on forecast methodology, Park Water and DRA

recommend Operations & Maintenance Payroll Expense of \$2,099,689 for Test Year 2010.

21. The parties agreed to estimates for purchased water expense of \$7,493,237 and purchased power expense of \$208,001 for Test Year 2010. After modifications to reflect the offset increases approved by the Commission in Advice Letters 210-W and 211-W, the adopted purchased water expense is \$9,177,045.

22. The Settlement Agreement (Attachment A) reflects the parties' agreement on Chemicals Expense of \$9,172. This amount reflects a deduction for a \$2,209 expense related to Well 9D.

23. After adjusting for the retention of billing, the resolution of the Well 9D issues, updates of recorded expenses, and escalation factors, the parties agreed to Operations Other Expense of \$183,442.

24. With the use of the stipulated escalation factors, the parties agreed to Maintenance Other Expense of \$429,068.

25. The parties agreed to Customer Other Expense (Excluding Conservation) of \$218,500 for Test Year 2010 using the stipulated escalation factors and adjusting for billing and correcting a calculation error.

26. The parties agreed to Uncollectible Expense of \$245,467 for Test Year 2010 using an agreed-upon 0.98% for uncollectibles and based on the stipulated 2010 revenue requirement. After modifications to reflect the offset increases approved by the Commission in Advice Letters 210-W and 211-W, the Adopted Uncollectible Expense for Test Year 2010 is \$262,914.

27. The parties agreed to Clearings Other Expense of \$187,997 using the stipulated escalation factors and updated 2008 recorded expenses and adjusting for a calculation error.

28. The parties agreed to Clearings Depreciation of \$122,427 based on the stipulated utility plant in service.

29. As described in Section 3.14 of the Settlement Agreement, the parties agreed to include Park Water's forecast of conservation program expenses totaling \$199,833 for 2010. This total of \$199,833 includes \$24,960 for the public information programs and \$174,873 for all remaining programs, including the WaterSmart Rebate and Retrofit Programs.

30. The parties agreed to two capped one-way balancing accounts for conservation expenses. These balancing accounts will track the difference between the authorized forecasts as listed above and the actual amounts Park Water spends during 2010-2012. These caps require Park Water to refund to customers any shortfall to the stipulated amounts in its next general rate case.

31. The "one-way" nature of these balancing accounts does not allow Park Water to recover any excess spending over the stipulated amounts.

32. Park Water recently joined the CUWCC and stepped up its conservation efforts consistent with CUWCC's BMP. Absent any substantial historical record of expenditures on conservation programs, DRA raised concerns about Park Water's ability to spend the total projected levels of expenditures on these programs.

33. Under these circumstances, the one-way capped balancing account mechanism will allow the parties to agree on spending levels considered reasonable for Park Water to meet the CUWCC's BMP, while still addressing DRA's concern.

34. Based on adjustments reflected in the Settlement Agreement, the parties reached agreement on Test Year 2010 Administrative & General Expenses totaling \$6,706,982. After modifications to reflect the offset increases approved

by the Commission in Advice Letters 210-W and 211-W, the adopted Test Year 2010 Administrative & General Expenses are \$6,714,281.

35. For Test Year 2010 the parties agreed to Administrative & General Payroll Expense of \$1,744,492.

36. The parties agreed to Office Expense of \$342,897, Injuries and Damages/Insurance of \$832,012, Employee Benefits of \$1,386,946, and Regulatory Commission Expense of \$121,343.

37. The parties agreed to Administrative & General - Administrative Expense Transferred of (\$162,605), Outside Services of \$177,603, Miscellaneous Expense of \$72,910, and Franchise Requirements of \$102,695.

38. The parties agreed to Uninsured Property Damage of \$269 and a Main Office Allocation of \$2,088,420.

39. The parties agreed to Ad Valorem Taxes of \$387,635 and Payroll Taxes of \$344,302 for Test Year 2010.

40. The parties agreed to Test Year 2010 California Income Taxes of \$248,966 and Test Year 2010 Federal Income Taxes of \$985,103. After modifications to reflect the offset increases approved by the Commission in Advice Letters 210-W and 211-W, the adopted Test Year 2010 California Income Taxes are \$248,504 and the Federal Income Taxes are \$979,309.

41. The Settlement Agreement includes grant-funded Utility Plant Additions in both utility plant in service and in Account 266 (Publicly Funded Grant Plant).

42. For Utility Plant Additions, the parties agreed to the plant additions and vehicle replacements proposed by Park Water and the adjustments to printer costs and the office remodel proposed by DRA.

43. The parties agreed to \$4,225,456 for Plant Additions for Test Year 2010 and \$2,860,200 for Test Year 2011.

44. The Settlement Agreement provides that a treatment plant is necessary to address the arsenic and manganese levels at Well 9D. The Settlement Agreement adopts the treatment plant's Project Cost of \$2,019,000, as proposed in Park Water's application, and \$66,000 in Operations & Maintenance expenses.

45. After the Well 9D project is complete, used and useful, and placed into service consistent with the California Department of Public Health permit requirement, Park Water will seek recovery of the associated revenue requirement and expenditure of company funds by filing a Tier 2 rate base offset advice letter.

46. Due to the importance of the Well 9D project to the quality and safety of the water, we find the possibility of a second rate increase in 2011 reasonable.

47. When the agreed-upon rate increase of 1.33% is added to the projected rate increase of 1.66% for the Well 9D treatment plant, the total increase is still less than Park Water's original request of 5.99% for 2010. After modifications to reflect the offset increases approved by Advice Letters 210-W and 211-W, the total adopted increase of 0.70% when added to the project rate increase of 1.66% for Well 9D is still less than Park Water's original requested increase.

48. The Settlement Agreement (Attachment A) contains a budget cap of \$2,019,000 for capital-related expenses and \$66,000 for Operations & Maintenance for Well 9D.

49. Pursuant to the Commission's General Order 96-B, the Water and Audits Division has authority for ministerial review of rate base offset advice letters if the following conditions are met: (1) the offset was previously approved by the Commission in either a decision or resolution; (2) the project scope is consistent with what the Commission approved; and (3) the Commission's approval

included a budget cap and the rate base offset request at or below the budget cap.

50. Because this decision approves the use of a rate base offset and a project scope and budget cap, Park Water should be authorized to rely on an advice letter filing to increase its rates to reflect costs associated with Well 9D.

51. The parties agreed to a forecast methodology and Depreciation Expenses of \$1,509,497 for Test Year 2010.

52. The parties agreed upon Working Cash of \$1,003,057 for Test Year 2010.

53. The parties agreed upon Deferred Taxes of \$3,945,730 for Test Year 2010.

54. The parties agreed to a total rate base for Test Year 2010 of \$29,743,564.

55. The parties agreed to rely on the rate design methods proposed by Park Water, including continuation of the current conservation rate design trial program authorized by the Commission in D.08-02-036 with the addition of two adjustments for residential customers.

56. The Settlement Agreement includes Park Water's proposal to update and increase the deposit fee in Tariff Rule No. 7 (Deposits) to twice the average bill, which is consistent with the interpretation of Tariff Rule No. 7 by other Class A water utilities.

57. The Settlement Agreement adopts Park Water's proposal to increase to \$12.50 the bad check fee in Tariff Rule No. 9 (Rendering and Payment of Bills).

58. The Settlement Agreement adopts Park Water's proposal to increase the reconnection charge in Tariff Rule No. 11 (Discontinuance and Restoration of Service) to Park Water's actual costs of \$73.00 during regular working hours and \$90.00 during other hours.

59. Park Water's balancing account for its CARW program is currently overcollected.

60. The Settlement Agreement provides for: (1) an increase in the existing CARW discount by the overall percentage increase granted in this general rate case; (2) discontinuation of the CARW surcharge for the 2010-2012 rate cycle; (3) transfer of the balance in the CARW Implementation Cost Memorandum Account to the CARW Revenue Reallocation Balancing Account; (4) pursuant to an advice letter Park Water will file in January 2010, a refund of the overcollection recorded in the CARW Revenue Reallocation Balancing Account as of December 31, 2009; and (5) deletion of the CARW Implementation Cost Memorandum Account from Park Water's tariffs.

61. The Settlement Agreement provides that Park Water continue its WRAM and MCBA.

62. The Settlement Agreement supports Park Water's request to implement a temporary surcharge to recover the undercollection balance in Park Water's previous ICBA from January 1, 2008 - September 15, 2008 (the implementation date of the WRAM and MCBA).

63. The parties agreed that Park Water will withdraw, without prejudice, its request to implement an Income Tax Rate Change Memorandum Account at this time.

64. The parties recommend the Commission find Park Water in compliance with the California Department of Public Health water quality regulations.

65. Park Water's cost of capital and rate of return are being addressed in the separate consolidated Cost of Capital Proceeding, A.09-05-003.

Conclusions of Law

1. Park Water and DRA have demonstrated that the Settlement Agreement and the related ratemaking mechanisms are just and reasonable.

2. It is reasonable to find that the parties have a sound and thorough understanding of the application, the underlying assumptions, and the data included in the record.

3. The requirements for Commission approval of a settlement are set forth in Rule 12.1, which states, in pertinent part 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.

4. It is reasonable to find the Settlement Agreement consistent with Rule 12.1, reasonable in light of the whole record, consistent with the law and prior Commission decisions, and in the public interest.

O R D E R

IT IS ORDERED that:

1. The all-party Settlement Agreement, attached hereto as Attachment A, is adopted.

2. The attached all-party Settlement Agreement is reasonable in light of the whole record, consistent with law and in the public interest.

3. It is reasonable to incorporate the Commission-approved Advice Letters 210-W and 211-W into the revenue requirement calculation approved by this Commission in today's settlement.

4. Park Water Company shall file a Tier 1 Advice Letter to modify water rates for service, consistent with the revised tariff schedules attached to this order (Attachment B) and to concurrently cancel its present rate schedules. Park Water is also authorized to file a Tier 1 advice letter to revise Tariff Rules 7, 9, and 11, consistent with the settlement. The rate changes shall be effective on or after January 1, 2010. Park Water is authorized to file an advice letter (Tier 1) in

February of 2010 to request authorization to refund the balance in the California Alternative Rates for Water (CARW) Revenue Reallocation Balancing Account, consistent with the settlement.

5. In accordance with the escalation year increase methodology set forth in the Rate Case Plan, Park Water Company shall file an advice letter no later than 45 days prior to the first day of each of the escalation years, 2011 and 2012, setting forth its calculations and supporting analysis for the escalation rate increase. Advice Letters filed in compliance with this decision shall be handled as Tier 1 filings, to be effective on the first day of the escalation year.

6. Park Water Company shall file a Tier 2 advice letter to increase rates to reflect costs associated with Well 9D. This increase must only occur after Well 9D is complete, used and useful, and placed into service consistent with the California Department of Public Health permit requirements.

7. Park Water Company shall file a report with the Commission's Division of Water and Audits, with a copy to Division of Ratepayer Advocates, by April 1 of 2010, 2011, and 2012. These reports shall provide a comprehensive review of all water conservation activities performed by Park Water Company or by a third party on Park Water Company's behalf as further described in Section 3.14 of the Settlement Agreement, attached hereto as Attachment A.

8. As set forth in the Settlement Agreement, Park Water Company will propose increasing block rates for non-residential customers in its next general rate case.

9. Application 09-01-001 is closed.

This order is effective today.

Dated December 3, 2009, at San Francisco, California.

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