

WATER/RSK/JB5/TS2/jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch**

**RESOLUTION NO. W-4862
January 13, 2011**

R E S O L U T I O N

**(RES. W-4862), GOLDEN STATE WATER COMPANY (GSWC),
REGION III, ORANGE COUNTY CUSTOMER SERVICE AREA (CSA).
ORDER AUTHORIZING SURCHARGE TO RECOVER \$166,378, OR
0.17% OF AUTHORIZED REVENUES, COLLECTED IN THE ORANGE
COUNTY ANNEXATION MEMORANDUM ACCOUNT (OCAMA)
FOR THE PERIOD OF APRIL 2007 THROUGH MARCH 2010.**

SUMMARY

This resolution grants GSWC the authority to recover in rates \$166,378, or 0.17% of authorized revenues, for its Orange County CSA in Region III by adding the following surcharges to each customer's bill in each respective tier: \$0.0053 per hundred cubic feet (Ccf) in Tier 1, \$0.0061 per Ccf in Tier 2 for residential metered customers on Schedule No. R3-1-R, Residential Metered Service, and \$0.0047 per Ccf for non-residential customers on Schedule No. R3-1-NR, Non-Residential Metered Service. These temporary surcharges would be in effect for a 12-month period beginning on the effective date of this Resolution.

BACKGROUND

GSWC, a California corporation, is a Class A utility and a subsidiary of American States Water Company. As one of California's largest Commission-regulated water utilities, it serves approximately 250,000 customers in three regions, which are comprised of nine rate-making areas. GSWC provides retail water service to 42,262 residential, commercial, industrial, and local government customers in Orange County. GSWC operates water systems in four areas: Cowan Heights (2,531 customers), Placentia (11,040 customers), West Orange County (26,980 customers), and Yorba Linda (1,711 customers). All of GSWC's certificated service area lies within the jurisdictional boundaries of the Orange County Water District (OCWD). GSWC relies substantially on water it pumps from the Orange County Groundwater Basin (Basin) to serve its customers. As such, the protection and conservation of the Basin is vitally important to the health, safety, and welfare of GSWC's customers.

On March 20, 2007, GSWC filed Advice Letter (AL) 1240-W to create the OCAMA to track the significant costs associated with efforts to preserve and protect its water rights in the Basin from threat of diminution by others seeking to annex new lands within the OCWD and the associated water demands of those lands. GSWC opposed these annexations and indicated it is working deliberately and diligently with its legal counsel and consultants to ensure that if the proposed annexations go forward they are conditioned on full mitigation of all increased water supply costs and reductions in water supply reliability. GSWC incurred costs for the 36-month period from April 21, 2007 through March 2010. These costs included costs for monitoring of annexation-related activities by the OCWD, submitting comments in the environmental review process, and appearing before the OCWD and the Local Agency Formation Commission regarding annexations and for other administrative costs needed to oppose the proposed annexations and protect the interest of GSWC ratepayers. The Division of Water & Audits (DWA) reviewed the establishment of the OCAMA and approved AL 1240-W on April 21, 2007.

As of March 31, 2010, GSWC has recorded \$166,378 in the OCAMA. On July 15, 2010, GSWC filed AL 1408-W requesting to amortize this amount. Pursuant to GO-96-B, Industry Rule 7.3.3.7, GSWC filed AL 1408-W as a Tier 3 filing. On August 13, 2010, DWA suspended GSWC's AL 1408-W as a resolution was required.

NOTICE AND PROTESTS

On July 15, 2010, GSWC gave public notice of its rate increase request by mailing a notice of this request, in the form of a postcard, to its Orange County customers. On this day, GSWC also filed AL 1408-W with the Commission and served this AL on the Region III Service List. GSWC gave public notice of the rate increase and filed AL 1408-W in accordance with the provisions of GO 96-B.

Thirteen protests were received for GSWC's AL 1408-W. These letters referenced the tough economic times and the hardships of higher rates. Others disagreed with GSWC's authorized rate of return being "guaranteed" through this rate recovery mechanism. We have reviewed these protests and find them unconvincing. As we discuss below, the monies tracked in the OCAMA, which pertain to costs GSWC incurred to oppose annexations within the OCWD, will minimize future supply cost increases due to the availability of purchased water from the Basin and, therefore, it is appropriate for GSWC to recover these costs from its customers.

DISCUSSION

When a utility seeks recovery of costs recorded in a memorandum account, it has the burden to show that: 1) the utility acted prudently when it incurred these costs; 2) the

utility paid reasonable amounts for these costs; 3) the memorandum account costs are not covered by other authorized rates; and 4) it is appropriate for ratepayers to pay for these costs in addition to otherwise authorized rates. (See, e.g., Resolution W-4824, voted by the Commission on April 8, 2010.)

We find that GSWC acted prudently in incurring the costs recorded in the OCAMA. GSWC incurred these costs in order to protect its water rights in the Basin, which is a low-cost source of water supply GSWC relies on in order to meet the water demand of its customers. To maintain this low-cost water source in the Basin, GSWC secured qualified experts in the water rights/adjudication field to represent the utility in protecting its water rights in the Basin from threat of diminution by others seeking to annex new lands within the OCWD. By doing this, GSWC protected the interests of its ratepayers in two ways. First, GSWC minimized increased supply expenses. OCWD manages a non-adjudicated basin, and water purveyors are allocated a Basin Production Percentage (BPP) each fiscal year rather than a fixed amount that would be available in an adjudicated basin. If additional lands were successfully annexed, the amount of groundwater available to all purveyors would be reduced through a lower BPP, and this action would result in GSWC having to increasingly rely on more expensive purchased water from other Municipal Water District (MWD) purveyors. Second, by opposing these annexations, GSWC maintained its historic groundwater pumping rights/amounts.

With respect to the second item above relating to the reasonableness of the costs incurred, we find that GSWC paid reasonable amounts for the professional services it procured in fighting the annexations. DWA Staff reviewed the invoices from both legal and water resource consultants and monitored on a monthly basis that the utility was being charged reasonable amounts for these consulting services.

With respect to the third item above, to date GSWC has not sought any rate relief/coverage for any of the costs recorded in the OCAMA. All costs recorded in the OCAMA are not part of any existing base rate expense component. Accordingly, GSWC has not recovered the costs in the OCAMA in other authorized rates.

Finally, with respect to the fourth item above, as a matter of policy, ratepayers should pay for the costs in the OCAMA, in addition to otherwise authorized rates. By successfully preventing the annexations to the Basin, GSWC (a) minimized increased supply expenses by preserving its water supply, including historic ground water pumping rights, and (b) preserved its ability to continue providing adequate and reasonably priced service to its customers. Accordingly, for all the reasons discussed above, we find that GSWC has made an adequate showing allowing for recovery of the costs recorded in the OCAMA. We authorize GSWC to recover in rates the \$166,378 balance in the OCAMA. This \$166,378 will not cause GSWC to earn more than its

authorized rate of return. GSWC is permitted to transfer \$166,378 from its OCAMA to a balancing account for recovery.

Consistent with Public Utilities Code Section 792.5, GSWC shall track revenues collected under the surcharges authorized in this resolution in a balancing account and account for any over or under collection in its next GRC.

The monthly bill for a residential customer on Schedule No. R3-1-R with a 5/8" x 3/4" meter using 17 Ccf would increase during the 12-month amortization period by \$0.09 or 0.18% from \$49.31 to \$49.40. The monthly bill for a non-residential customer on Schedule No. R3-1-NR with a 5/8" x 3/4" meter using 85 Ccf would increase during the 12-month amortization period by \$0.40 or 0.22% from \$181.87 to \$182.26.

COMMENTS

Public Utilities Code Section 311(g) (1) generally requires that resolutions must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Accordingly, the draft resolution was mailed to the utility and protestants and made available for public comment on December 14, 2010. Comments were received on December 30, 2010 from Golden State Water Company noting their approval of the resolution as is.

FINDINGS AND CONCLUSIONS

1. On March 20, 2007, Golden State Water Company filed Advice Letter 1240-W to create the Orange County Annexation Memorandum Account. This account tracks Golden State Water Company's costs associated with efforts to preserve and protect its water rights in the Orange County Groundwater Basin.
2. The Division of Water and Audits reviewed the establishment of the Orange County Annexation Memorandum Account and approved Advice Letter 1240-W on April 21, 2007.
3. Golden State Water Company incurred costs for the 36-month period from April 21, 2007 through March 2010, in the Orange County Annexation Memorandum Account. These costs included costs for monitoring of annexation-related activities by the Orange County Water District, submitting comments in the environmental review process, and appearing before the Orange County Water District and the Local Agency Formation Commission regarding proposed annexations and for other administrative costs needed to oppose the proposed annexations and protect the interest of Golden State Water Company's ratepayers.

4. On July 15, 2010, Golden State Water Company filed Advice Letter 1408-W requesting authority to recover in rates \$166,378, or 0.17% of authorized revenues, collected in the Orange County Annexation Memorandum Account for its Orange County Customer Service Area in Region III.
5. Amortization of the Orange County Annexation Memorandum Account requested by Golden State Water Company was reviewed using criteria the Commission considers in determining whether to authorize a utility to recover costs recorded in a memorandum account.
6. We find that Golden State Water Company acted prudently in incurring the costs recorded in the Orange County Annexation Memorandum Account.
7. Golden State Water Company incurred these costs in order to protect its water rights in the Basin, which is a low-cost source of water supply Golden State Water Company relies on in order to meet the water demand of its customers. To maintain this low-cost water source in the Basin, Golden State Water Company secured qualified experts in the water rights/adjudication field to represent the utility in protecting its water rights in the Basin from threat of diminution by others seeking to annex new lands within the Orange County Water District.
8. DWA Staff reviewed the invoices from both legal and water resource consultants and monitored on a monthly basis that the utility was being charged reasonable amounts for these consulting services.
9. We find that Golden State Water Company paid reasonable amounts for the professional services it procured in fighting the above annexations.
10. Golden State Water Company has not sought rate relief for any of the costs recorded in the Orange County Annexation Memorandum Account, and none of the costs recorded in this account are part of any existing base rate expense component. Accordingly, the costs in the Orange County Annexation Memorandum Account are not covered by rates we have previously authorized.
11. Golden State Water Company minimized increased supply expenses by preserving its water supply, including historic ground water pumping rights, and preserved its ability to continue providing adequate and reasonably priced service to its customers.
12. As a matter of policy, we find that ratepayers here should pay for the costs recorded in the Orange County Annexation Memorandum Account, in addition to otherwise authorized rates.

13. Pursuant to Public Utilities Code Sections 311(g) (1), this resolution was subject to at least 30 days public review and comment prior to a vote of the Commission. This resolution was mailed to the utility and protestants on December 14, 2010.
14. The surcharges herein would allow Golden State Water Company to recover in rates the \$166,378 in revenues from its Orange County Customer Service Area by adding the following surcharges to each customer's bill in each respective tier: \$0.0053 per hundred cubic feet (Ccf) in Tier 1, \$0.0061 per Ccf in Tier 2 for residential metered customers on Schedule No. R3-1-R, and \$0.0047 per Ccf for non-residential customers on Schedule No. R3-1-NR. This recovery of \$166,378 will not cause GSWC to earn more than its authorized rate of return.
15. Golden State Water Company is permitted to transfer \$166,378 from its Orange County Annexation Memorandum Account to a balancing account for recovery.
16. Consistent with Public Utilities Code Section 792.5, Golden State Water Company shall track revenues collected under the surcharges authorized in this resolution in a balancing account and account for any over or under collection in its next General Rate Case.
17. D.03-06-072 (Appendix A, p. 3) and Standard Practice U-27-W authorize memorandum account amortization surcharges to be spread over one year for undercollections of less than 5% of a utility's gross revenues. Consistent with these authorities, Golden State Water Company may assess a 12-month surcharge for recovery of the costs in the Orange County Annexation Memorandum Account.
18. The following tariff schedules attached to Advice Letters 1408-W should be supplemented as authorized by this resolution: 1) Schedule R3-1-R, Residential Metered Service, and 2) Schedule R3-1-NR, Non-Residential Metered Service.

THEREFORE IT IS ORDERED THAT:

1. Golden State Water Company is permitted to transfer \$166,378 from its Orange County Annexation Memorandum Account to a balancing account for recovery. Golden State Water Company is authorized to earn interest on the balance in this balancing account at the 90-day commercial paper rate.
2. Golden State Water Company is authorized to recover in rates the \$166,378 in revenues from its Orange County Customer Service Area by adding the following surcharges to each customer's bill in each respective tier: \$0.0053 per hundred cubic feet (Ccf) in Tier 1, \$0.0061 per Ccf in Tier 2 for residential metered customers on

Schedule No. R3-1-R, and \$0.0047 per Ccf for non-residential customers on Schedule No. R3-1-NR.

3. Golden State Water Company is authorized to file supplemental tariff sheets to Advice Letter 1408-W, reflecting the surcharges authorized in Ordering Paragraph 2 above in its tariff schedules a) Schedule R3-1-R, Residential Metered Service, and b) Schedule R3-1-NR, Non-Residential Metered Service, and concurrently to cancel its presently effective tariff schedules a) Schedule R3-1-R, Residential Metered Service, and b) Schedule R3-1-NR, Non-Residential Metered Service. The effective date of the revised rate schedules shall be five days after filing these supplemental tariff sheets.
4. Golden State Water Company shall track revenues collected pursuant to the surcharges authorized in Ordering Paragraph 2 above in a balancing account and account for any over or under collection in its next General Rate Case.
5. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on January 13, 2011; the following Commissioners voting favorably thereon:

/s/ PAUL CLANON
Paul Clanon
Executive Director

MICHAEL R. PEEVEY
President
TIMOTHY ALAN SIMON
NANCY E. RYAN
Commissioners