BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Southern California Water Company (U 133 W) for an Order pursuant to Public Utilities Code Section 851 Approving a Settlement Agreement that will Convey Water Rights in the Culver City Customer Service Area.	Application 02-07-021

NOTICE OF EX PARTE COMMUNICATION OF THE OFFICE OF RATEPAYER ADVOCATES

The Office of Ratepayer Advocates (ORA) submits this Notice in accordance with Rule 7.1 of the CPUC's Rules of Practice and Procedure and the Order Instituting Rulemaking in this Proceeding.

The communication was between Belinda Gatti (advisor to Commissioner Geoffrey Brown), and James Scarff, ORA counsel, and Sung Han, project manager for ORA. The communication was initiated by ORA and occurred at the CPUC headquarters on January 29, 2004 from 10:00 to 10:20 am. The communication was entirely oral and there were no written handouts.

Mr. Scarff stated that ALJ Walker's Proposed Decision erred in concluding that all the funds the company was receiving from the City of Santa Monica qualified under Public Utilities Code §790 for reinvestment in new plant. He noted that the Assignment Payment associated with the Charnock Wellfield did not qualify under § 790 because the assets in question were not sold. SCWC retains title to the assets and § 790 applies only to assets that are sold.

Mr. Han stated that § 790 did not apply since to the sale of the water rights either since these water rights were still necessary and useful to ratepayers.

Mr. Scarff stated that even if the Commission found that some or all of the proceeds of the settlement with the City of Santa Monica could be reinvested pursuant to P.U. Code § 790, the question remained before the Commission as to how this reinvestment would be treated for ratemaking purposes. This is an issue of first impression that the Commission is just beginning to consider in other cases as well. Mr. Scarff said that ORA's position is that at least in the present case, the Commission should treat any reinvestment in rate base using funds from the settlement should be considered Contributions in Aid of Construction for ratemaking purposes. To do otherwise would create a bad precedent and incentive for utilities to sell low cost, depreciated plant in exchange for new plant as a means of increasing rate base without having to obtain additional funds from shareholders. Ratepayers would be no better off, yet would be having to pay higher costs.

Mr. Scarff stated that ORA supported the part of the Proposed Decision that requires SoCal Water to book the $4.2 million the company received from the Potentially Responsible Parties (PRPs or "polluters) for the additional costs of purchased water into the purchased water *balancing* account. As correctly stated in the PD, the company has already been fully compensated for the costs of the

Copies of this Notice can be obtained by calling or sending e-mail to Sue Ann Muniz at (415) 703-2804 (e-mail= sam@cpuc.ca.gov).

Respectfully submitted,

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