Decision **PROPOSED DECISION OF ALJ ROCHESTER** (Mailed 10/20/2010)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Golden State Water Company (U 133 W) for an order authorizing it to increase rates for water service by $20,327,339 or 20.12% in 2010; by $2,646,748 or 2.18% in 2011; and by $4,189,596 or 3.37% in 2012 in its Region II Service Area and to increase rates for water service by $30,035,914 or 32.67% in 2010; by $1,714,524 or 1.39% in 2011; and by $3,664,223 or 2.92% in 2012 in its Region III Service Area.	Application 08-07-010 (Filed July 1, 2008)
And Related Matter.	Application 07-01-014

(See Attachment F for List of Appearances.)

DECISION ADOPTING THE 2010, 2011, AND 2012 REVENUE REQUIREMENT, RATES, AND GENERAL OFFICE ALLOCATION FOR REGIONS II AND III, AND RESOLVING THE REGION I LA SERENA PLANT IMPROVEMENT PROJECT COSTS OF GOLDEN STATE WATER COMPANY

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DECISION ADOPTING TEST YEARS 2010, 2011, AND 2012 REVENUE REQUIREMENT, RATES, AND GENERAL OFFICE ALLOCATION FOR REGIONS II AND III, AND RESOLVING THE REGION I LA SERENA PLANT IMPROVEMENT PROJECT COSTS OF GOLDEN STATE WATER COMPANY

1. Summary

This decision authorizes a revenue requirement for Region II of Golden State Water Company (Golden State) of $124,375,300 a 23.46% increase for the 12 months beginning January 1, 2010. This decision also authorizes a revenue requirement for Region III of Golden State of $119,267,300, a 30.63% increase for the 12 months beginning January 1, 2010.

The overall increases include the effect of passing through the purchased water, purchased power and pump taxes expense of $39,739,000 for Region II and $31,863,100 for Region III. The purchased water, purchased power and pump taxes expense account for 31.95% of the overall revenue requirement in Region II and 26.71% of the overall revenue requirement in Region III. The supply expense for purchased water, purchased power and pump taxes is a direct pass through to customers and was estimated in Golden State's application, but calculated for this decision based on current costs. The purchased water cost accounts for the majority of the supply expense. The actual purchased water cost is $7,674,400 higher for Region II and $4,325,200 higher for Region III, than forecasted in the application.

Under the adopted rates, the average residential customer with average water use will experience a bill increase of 18.84% in Region II and 29.99% in Region III. Rates will be adjusted for 2011 and 2012 consistent with the existing water company rate case plan. (Decision 07-05-062.)

Pub. Util. Code § 455.2 provides for interim rate relief when the Commission is unable to issue its final decision on the general rate case application in a manner ensuring the decision becomes effective on the first day of the test year in the application. The first day of the test year for this application was January 1, 2010. Golden State timely sought and was granted interim rates by a ruling dated December 23, 2009. The ruling authorized Golden State to request a memorandum account be established to track the differences between the interim rates and the final rates adopted in this decision. Any over-collection will be refunded to customers in the form of a sur-credit and any under-collection will be collected from customers in the form of a sur-charge. In this instance, the sur-charge to true-up the interim rates and the rate increase adopted in today's decision shall be based on the methodology set forth in D.03-06-072 and collected over the remainder of this 3-year rate case cycle.

This decision adopts the partial settlements between Golden State and the Division of Ratepayer Advocates, available online at http://docs.cpuc.gov/efile/MOTION/103306.pdf, and http://docs.cpuc.gov/efile/MOTION/117288.pdf, and the joint motion to submit corrections to the settlement and admit exhibits, available at http://docs.cpuc.ca.gov/efile/MOTION 124226.pdf. This decision requires Golden State to remove $3.5 million associated with the La Serena plant improvement project from rate base and make a one-time refund to ratepayers of $1,112,275 for amounts previously collected from ratepayers.

This proceeding is closed.

2. Background

This proceeding involved both an evidentiary phase, including formal hearings and briefs, and public participation hearings. Although the comments received during the public participation hearings are not accorded the weight of testimony received during the evidentiary phase, we find the public statements particularly compelling. We also value the participation and contributions of several cities representing the interests of their citizens and businesses.

3. Procedural Background

Golden State Water Company (Golden State) filed Application (A.) 08-07-010 on July 1, 2008, requesting authority to increase its revenue requirement in Region II by $20,327,339 (20.12%) in 2010, $2,646,748 (2.18%) in 2011, and $4,189,596 (3.37%) in 2012, and in Region III by $30,035,914 (32.67%) in 2010, $1,714,524 (1.39%) in 2011, and $3,664,223 (2.92%) in 2012.

On August 21, 2008, the Commission issued Decision (D.) 08-08-031granting a limited rehearing of D.08-01-043 on the La Serena plant improvement project costs in Golden State's Region I general rate case (GRC). A prehearing conference in A.08-07-010 and A.07-01-014 was noticed and held on September 23, 2008, to create a service list, discuss consolidating A.08-07-010 and A.07-01-014, the proceeding schedule, and any other procedural matters as necessary. The assigned Commissioner and Administrative law Judge (ALJ) issued a scoping memo and ruling on October 21, 2008, consolidating A.07-01-014 (the La Serena rehearing issue) with A.08-07-010, setting forth the scope and schedule of the proceeding and other matters necessary to move the proceeding forward.

Public participation hearings were noticed and held on January 26-29, 2009, in Gardena, Barstow, Wrightwood, and Culver City. Public participation hearings were also held on February 4-5, 2009, in Placentia and Claremont. All but the Culver City public participation hearings were well attended with a robust and at times raucous discussion of the issues. Many speakers referred to higher water bills even after replacing landscaping with rock, concrete or some other form of hardscape to reduce water use. Speakers also referred to the high fixed meter service charge as an impediment to lowering their monthly bills. Issues of particular concern to the speakers were the level of the rate increases sought, the impact of the proposed conservation rate design on high use areas, regionalized rates, and the level of Golden State's executive compensation.

The level of rate increases sought and executive compensation were particularly troublesome to the speakers given the current economic crisis and its personal impact on many of Golden State's customers. One sentiment expressed over and over again was that citizens of the state and nation are being forced to tighten their belts and Golden State should do so as well. The Commission is mindful of ratepayers' concerns voiced at the public participation hearings and our review of Golden State's applications are undertaken within the broader context of the current economic situation.

Evidentiary hearings were held May 11-15, and 18, 2009. Opening and reply briefs were filed on June 6, 2009, and July 14, 2009, respectively. The proceeding was initially submitted on July 14, 2009. The ALJ's proposed decision was issued on November 17, 2009. A Golden State contract to provide non-regulated service to the City of Torrance was due to expire on January 1, 2010, but Golden State informed the ALJ that the contract had been extended.

The Division of Ratepayer Advocates (DRA) informed the ALJ that it had made certain concessions in its negotiations with Golden State on the basis that all contracts for non-regulated services would be allowed to expire. The ALJ's proposed decision was withdrawn from the December 15, 2009, agenda.

On January 29, 2010, an assigned Commissioner and ALJ ruling amended the scoping memo and reopened the record for the limited purpose of receiving supplemental testimony on Golden State's contract with the City of Torrance and certain other highly contested issues. Supplemental opening testimony was due from Golden State on February 12, 2010, and from DRA on March 12, 2010. Rebuttal testimony was due on April 2, 2010. Evidentiary hearings were scheduled for April 7–9, 2010, but after a prehearing conference on April 1, 2010, the parties agreed to forego evidentiary hearings and submit the case on briefs.

Supplemental opening briefs were due on April 29, 2010. Golden State timely requested oral arguments in its opening brief. On April 29, 2010, Golden State and DRA filed a joint motion for adoption of a supplement to the settlement that resolved the General Office allocation for the City of Torrance contract issue and the DRA consultant fees in the reopened proceeding. Supplemental reply briefs were due on May 13, 2010. Oral arguments were held on August 16, 2010, and the case was submitted at the close of oral arguments.

By telephone on September 22, 2010, Golden State informed the ALJ of an error in the settlement. On September 27, 2010, Golden State and DRA jointly filed a motion to correct the settlement and to move the exhibits into the record. Golden State and DRA also jointly filed a motion to shorten the response time to the motion. On September 29, 2010, the assigned Commissioner and ALJ issued a revised scoping memo and ruling granting the motions to correct the settlement, admitting exhibits into the evidentiary record, reopening the record, and extending the statutory deadline.

The parties to this proceeding are Golden State; DRA; the Cities of San Dimas, Claremont, Placentia, and the town of Apple Valley (Cities) that are jointly represented; and the City of Cypress (Cypress).

4. The Settlement

On June 29, 2009, Golden State and DRA filed a joint motion to adopt the settlement addressing various issues in the proceeding. The motion stated that Golden State and DRA convened a settlement conference during the period April 20-24, 2009, with notice and opportunity to participate provided to all parties. Representatives of Golden State and DRA attended and participated in the entire settlement conference. Representatives of Cypress participated in the first day of the settlement conference. Neither Cypress nor the Cities signed the settlement and neither filed a protest of the settlement. The settlement discussions continued through the evidentiary hearing portion of the proceeding, which was May 11-14 and May 18, 2009. The settlement is comprised of two exhibits: Exhibit 1 addresses all settled issues relating to plant, sales, rate base, labor, administrative and general expenses, operation and maintenance, and taxes; Exhibit 2 relates to conservation rate design and related decoupling mechanisms.[1] In the paragraphs below, we discuss some of the more significant elements of the settlement agreement.

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[1] The settlement agreement states that Exhibit 1 relates to conservation rate design and Exhibit 2 relates to all other settled issues; however, the exhibits are reversed.

Plant: Overhead Rates - The parties to the settlement (DRA and Golden State) agreed to overhead rates of 26.37% in Region II and 17.80% in Region III for 2008.[2] The parties agreed to recalculated overhead rates of 26.88% in 2009, 31.05% in 2010, and 33.16% in 2011. Parties agreed that overhead rates would not apply to land purchases, and that the overhead rates should apply to all regions, general office and Bear Valley Electric System (BVES). The settling parties also request that any changes adopted by the Commission in how overhead is accounted for, be applied to each of Golden State's regions, general office and BVES.

Plant: Contingency Rates - The parties compromised and agreed to use a 7.5% contingency rate for all construction projects and a 2.5% contingency rate for all blanket projects and all projects in the general office and Centralized Operations Support (COPS).

Plant: Capital Budgets for Region II and Region III - The table below illustrates the parties' agreed-upon capital budgets.

Table 1 (millions)

	2008	2009	2010	2011
Region II		$19.3	$16.5	$20.3
Region III	$14.4	$15.7	$19.0	$14.6

Plant: Capital Budgets for general office and COPS - The parties' total stipulated amount for general office is $11,512,950 and $778,100 for COPS. These figures represent agreement on some figures and compromise positions on others.

Plant: Capital Budget Advice Letter Treatment - The parties agreed that Golden State should be authorized to file advice letters seeking authorization to include in rate base, upon completion of the project and when it becomes used and useful, the actual costs of the plant

[2] These rates were adopted in prior rate case decisions.

additions for five specific projects and to receive corresponding rate adjustments for the additional rate base. Parties agreed to request that the final decision include an Ordering Paragraph authorizing each and every advice letter. The projects are:

- 0.5 million gallon reservoir and transmission main, Johnson's Pasture (Region III)
- Stabilize Eaglecliff tank foundation (Region III)
- Site for 2.5 million gallon reservoir (Region III)
- Install Lone Pine Reservoir (Region III)
- Sheep Creek Reservoir (Region III)

Sales: Customer Growth - The parties used the new methodology in the Rate Case Plan (RCP) to forecast customer growth. The table below illustrates the agreed-upon customer figures by region and year.

Table 2

	2010	**2011**	**2012**
Region II	101,424	101,692	101,959
Region III	100,016	100,613	101,202

Sales: Per Customer - The parties used a five-year average to forecast customer usage for all customer classes other than residential and commercial. Parties compromised and revised their respective models using the most recent weather and consumption data and considered the effects of conservation in the sales forecast. The table below illustrates the agreed-upon sales per customer.

Table 3 (Ccf)[3]

	Region II	**Region III**
Customer Class		

[3] Ccf = hundred cubic feet.

Residential	149.5	201
Commercial	545	1,023
Industrial	2,775	1,802
Public Authority	2,197	2,472
Irrigation	893	1,135
Resale	0	9,105
Contract	10,775	205,572
Other	466	2,062
Flat Rate	0	0
Public Authority	0	1,929
Private Fire	0	0

Sales: Water Loss - The parties' agreed-upon water loss percentages reflect compromise positions and considered issues of residential and commercial water sales. The water loss percentages are 8.60% for Region II and 7.55% for Region III.

Sales: Supply Sources - The table below illustrates the parties' stipulated sources of supply in the various customer service areas. The parties used a combination of historical usage, expected developments, and constraints on systems to determine the level of production from wells and purchased water.

Table 4 (Ccf)

	2010	2011	2012
Region II	29,824,700	29,893,900	29,958,400
Region III	33,309,358	34,106,400	34,349,900

Sales: Supply Cost - The parties agreed to use Golden State's methodology to forecast purchased water, purchased power and pump taxes costs.

Labor: Region II and III, general office and Customer Service Center (CSC), and COPS - The table below illustrates the settlement between the parties on new positions.

Table 5

	Golden State Request	Settlement
Region II	14	8
Region III	19	11
General Office and CSC	15	11
COPS	37	31

Conservation Rate Design: Three-tier rate structure - Golden State and DRA agree to refine the conservation rate design settlement adopted in D.08-08-030. Golden State and DRA agree to a three-tier increasing rate structure for residential customers instead of the original two-tier structure. The table below illustrates the three-tier rate structure:

Table 6

	Tier 1	**Tier 2**	**Tier 3**
Region II	0-11 Ccf	12-15 Ccf	16 Ccf and up
Region III	0-13 Ccf	14-21 Ccf	22 Ccf and up

Golden State and DRA agree that the rate design for non-residential customers should meet Best Management Practice (BMP) 1.4 (formerly BMP 11) 30/70 threshold where 30% of non-residential customers' revenue requirement is recovered through the service charge and 70% is recovered through the volumetric rate. Parties agree that the conservation rate design and related decoupling mechanisms discussed below are pilot programs that will be reviewed in the next GRC.

Conservation Rate Design; Water Revenue Adjustment Mechanism (WRAM) and Modified Cost Balancing Account (MCBA) - Golden State and DRA agree to have two WRAMs, one for residential customers and one for non-residential customers that will be zeroed out every 12 months. Over- or under-collection will be refunded to customers as a credit or collected via a surcharge on the volumetric rate. The MCBA will track the difference between Actual Variable Costs and Adopted Variable Costs for purchased water, purchased power and pump tax.

On October 6, 2009, Golden State and DRA filed a supplement to the settlement stating that a portion of the settlement agreement had been inadvertently omitted. The supplemental settlement provides $375,000 for Golden State to hire a consultant to conduct well replacement studies in 2010. The two parties agree that the cost of the consultant will be expensed in the year the study is conducted, the cost of the study will be tracked in a balancing account and recovery will be based on the actual prudently incurred costs at the time of the next general office GRC.

To the extent that individual items related to plant, labor expenses, etc., were not settled, they are discussed and resolved later in the decision.

5. Standard of Review for Settlements

Prior to adopting any settlement, the Commission must be convinced that the parties had a sound and thorough understanding of the application and of all the underlying assumptions and data included in the record. This level of understanding of the application and development of an adequate record is necessary to meet the requirements for considering any settlement. The requirements are set forth in Article 12 of the Commission's Rules,[4] which provides in pertinent part:

> (a) Parties may … propose settlements on the resolution of any material issue of law or fact or on a mutually agreeable outcome to the proceeding. Settlements need not be joined by all parties;

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[4] All referenced Rules are the Commission's Rules of Practice and Procedure (http://docs.cpuc.ca.gov/published/RULES_PRAC_PROC/70731.htm). This Settlement is adopted under the rules in place at the time of filing, although the Commission updated its rules effective August 1, 2009. (Resolution ALJ-224.)

> however, settlements in applications must be signed by the applicant … .
>
> The motion shall contain a statement of the factual and legal consideration adequate to advise the Commission of the scope of the settlement and of the grounds on which adoption is urged. Resolution shall be limited to the issues in that proceeding and shall not extend to substantive issues which may come before the Commission in other or future proceedings. …
>
> (b) Prior to signing any settlement, the settling parties shall convene at least one conference with notice and opportunity to participate provided to all parties for the purpose of discussing settlements in the proceeding. …
>
> (c) Settlements should ordinarily not include deadlines for Commission approval … .
>
> (d) 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.

In short, the settlement must comport with Rule 12.1(d), which requires a settlement be "reasonable in light of the whole record, consistent with law, and in the public interest." We address below whether the settlement meets these three requirements.

The Commission also takes into consideration a long-standing policy favoring settlements. This policy reduces litigation expenses, conserves scarce Commission resources, and allows parties to craft their own solutions reducing the risk of unacceptable outcomes if litigated.[5]

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[5] D.05-03-022 at 7-8.

This is the standard of review for this settlement. Golden State and DRA are the only parties to the settlement. No other parties filed comments opposing the settlement.

Golden State filed a GRC application and testimony explaining its request for rate increases in detail. DRA provided its analysis of the application. Golden State also presented witnesses at the evidentiary hearings and filed opening and reply briefs. The settlement indicates that most of the differences were resolved by use of more recent data, one party's acceptance of the other's initial position or ultimately through compromise positions between the parties.

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

Golden State represents the interests of its shareholders. DRA represents the interests of Golden State's ratepayers. Thus, the settling parties fairly represent the affected interests. However, the Cities and Cypress are also ratepayers. Their interests, to the extent they conflict with the settlement, are addressed later in this decision. The settlement results in rates sufficient to provide adequate reliable service to customers at reasonable rates while providing Golden State with the opportunity to earn a reasonable return. The settlement provides the Commission with sufficient information to carry out its future regulatory obligations with respect to the parties and their interests. Thus, the settlement is in the public interest and is adopted.

6. Burden of Proof Under Statute and Rate Case Plan

The applicant, Golden State, bears the burden of proving that its proposed rate increases are "justified." Pursuant to Pub. Util. Code § 454(a), before implementing a rate increase, Golden State must make a "showing before the commission," and the Commission must find that the proposed increase is "justified."

In adopting the revised RCP, the Commission further articulated the required showing for a water utility's GRC: "The utility's application for a rate increase must identify, explain, and justify the proposed increase." Specifically, the application must include testimony, with supporting analysis and documentation, describing the components of the utility's proposed increase, e.g., results of operations, plant in service. All significant changes from the last adopted and recorded amounts must be explained, and all forecasted amounts must include an explanation of the forecasting method.

In considering each remaining disputed issue, we evaluate whether Golden State's showing meets our standards for justifying a rate increase.

As set out below, we resolve the issues that remain in dispute between Golden State and DRA.

7. General Office and Centralized Operations Support

7.1. Costs Associated with Vacant Positions and DRA's Request for $45,000 Penalty

Golden State included vacant positions in its labor expense calculations stating that "extraordinary circumstances" allow the inclusion. DRA asks the Commission to impose a $45,000 penalty for Golden State's failure to follow a past Commission order and to exclude $1,471,247 representing vacant positions from Golden State's test year labor expense estimate.

7.1.1. Positions of the Parties

Golden State contends that expenses for vacancies were included in its labor expenses projections because its Human Capital Management Department has taken a proactive approach to filling vacancies and that constitutes "extraordinary circumstances." The proactive approach includes accessing more targeted career websites, developing more detailed job descriptions and advertisements, providing interview preparation and support to the hiring manager, providing quicker turn-around in reviewing applications by using a collaborative team approach, and participating in career fairs. (Golden State Ex. 19 at 4-5.)

DRA counters that the steps Golden State has taken do not constitute "extraordinary circumstances," but are the normal steps DRA would expect all utilities to take when filling vacancies. DRA cites D.05-07-044 which states:

> Most utilities will at some point have position vacancies caused by, e.g., separations, retirements or intentionally holding a position open for cost savings. To the extent there were vacancies in the recorded year, we should assume there will also be comparable vacancy savings in the test and escalation years.

DRA requests that the Commission fine Golden State $45,000 for failing to follow D.08-01-043, a past Commission order to exclude vacant positions for its test year labor expense estimate. D.08-01-043 states:

> In all future rate cases we direct Golden State to present its labor expense projections consistent with our finding in D.05-07-044. In that decision, we found that San Gabriel's proposed estimating method for labor expenses included expenses for vacant positions. We decided there, absent a showing of extraordinary circumstances, that to the extent there were vacancies in the recorded year, we should assume that there would also be comparable vacancy savings in the test and escalation years.

Golden State asserts that even if the Commission finds its actions do not constitute "extraordinary circumstances," Golden State's actions were in good faith and therefore do not warrant a penalty.

7.1.2. Discussion

We agree with DRA's position that Golden State's aggressive, proactive recruiting practices do not constitute "extraordinary circumstances." Rather, Golden State employed methods every utility should utilize, taking all necessary steps to recruit from the broadest pool of qualified candidates possible to fill vacancies.

We also agree with Golden State that there is no evidence that Golden State acted in bad faith and that absent a clear directive regarding what constitutes "extraordinary circumstances," companies are left to draw their own conclusions, however tortured the result. The Commission's goal is to ensure that labor expense forecasts used in rate cases are as accurate as possible. To that end, as noted in D.05-07-044, the Commission expects that a certain level of vacancies will always exist, no matter how proactive and aggressive recruiting efforts are.

Some clarity regarding "extraordinary circumstances" is called for. An example of "extraordinary circumstances" might be an unusually high number of vacancies, occurring for various reasons, and a demonstration that denying the utility the ability to fill some of the vacancies could adversely impact service to ratepayers. Tracking vacancies is a normal function of any human resources department. If abnormally high vacancies occur at some period in time, very little effort is required to make such a showing. This is by no means the only possible example of "extraordinary circumstances," but it provides some guidance.

While Golden State's interpretation of "extraordinary circumstances" as the basis for including vacant positions in its labor expense is not persuasive, there is no evidence of bad faith on Golden State's part. Although bad faith is not an element of Pub. Util. Code § 2107,[6] it is the basis upon which we determine if Golden State's failed claim of "extraordinary circumstances" for including vacant positions in its labor expense rises to the level of non-compliance with a Commission order. We find it does not. For that reason, we do not impose the $45,000 fine recommended by DRA, but grant DRA's request that the salaries of 24 vacant positions totaling $1,471,247 be removed from Golden State's labor expense.

7.2. Cost Allocation

The purpose of the four-factor cost allocation methodology is to allocate the costs of general office expense between Golden State and its affiliates based on a cost-causation approach. First, the costs that can be directly assigned to one entity or another are separated from the rest of the general office expenses. Next, the remaining indirect general office expenses are totaled and the total is allocated among all the entities based on a set of allocation factors. The methodology and four allocation factors were set forth in the Commission's 1956 Memorandum (Memo). The four factors used in allocating general office expense are (1) direct operating expense (excluding uncollectibles, general expense, depreciation, and taxes), (2) gross plant, (3) number of employees

[6] Pub. Util. Code § 2107 states: "Any public utility which violates or fails to comply with any provision of the Constitution of this state or of this part, or which fails or neglects to comply with any part of provision of any order, decision, decree, rule, direction, demand, or requirement of the commission, in a case in which a penalty has not otherwise been provided, is subject to a penalty of not less than five hundred dollars ($500), nor more than twenty thousand dollars ($20,000) for each offense.

(using direct operating payroll and excluding general office payroll), and (4) number of customers.

7.2.1. Positions of the Parties

Golden State requests a single-factor cost allocation for certain costs and a four-factor allocation for the remaining costs. Golden State proposes customer billing, customer call center, and human resources for single-factor allocation treatment. According to Golden State's request, the general office cost for billing would be directly allocated to the entities based on the number of customers billed for each entity. Golden State recommends general office customer service costs be allocated in the same manner. Golden State would have customer service costs allocated based on the number of calls to the customer service center received from customers of each entity. Golden State cites the Commission's 1956 Memo as support for its single-allocation factor treatment of certain expenses. The 1956 Memo states:

> Indirect general expenses which have a significant relationship to a particular factor, such as pension expense to payroll, should be segregated and prorated on the basis of an appropriate single factor. The remaining indirect expenses may be so general in nature as to require prorations based on a combination of several pertinent factors.

Golden State also cites D.80207, 73 CPUC 597, as additional support for its position regarding single-factor allocation of certain expenses. The decision states:

> Staff Exhibit No.19 states that the difference between applicant's original estimate and the staff's estimate of customer records and collection expense was predominantly due to differences in allocation percentages for payroll. The staff developed four-factor allocation percentages, whereas applicant's general manager

> testified that applicant spreads these expenses in proportion to the number of customers. For the rendering of bills and maintaining of customers' accounts there appears to be no justification for considering (1) direct operating expenses, (2) number of division employees and (3) division gross plant, the three additional factors used by staff. Applicant's allocation method more properly relates customer records and collection expense to the numbers of customer accounts and bills rendered.

Golden State asserts that its single-factor treatment for certain indirect expenses is based on Commission precedent and identifies costs that have a significant relationship to a particular factor and allocates those on the basis of that single factor.

DRA objects to Golden State's single-factor treatment of certain items stating that the purpose of a four-factor approach is the reasonable averaging of costs which avoids the otherwise necessary account-by-account review of expense allocation. DRA does, however, accept Golden State's proposal that all of the costs associated with the following cost centers be allocated to Golden State alone as none of the other entities benefit from them: 49a—Non-Capitalized Expenses; 51—Rate Cases; 52—Tariffs and Special Projects; 53—Conservation; and 56—Regulatory BVES. DRA also agreed with Golden State's proposal to allocate: 83—Customer Service Center; 88—Application Support; 91—Customer Service Day Shift; and 92—Customer Service Night Shift to Golden State (including BVES) and Chaparral City Water Company (Chaparral) as American States Utility Service (ASUS) receives no services in these areas.

DRA asserts that using a single-factor method for some cost centers coupled with a four-factor method for others results in too many cost allocations. DRA also states that Golden State's approach negates the purpose of the four-factor method and results in too many costs allocated to non-regulated operations in some areas and not enough in others.

DRA recommends that the Commission rule in this proceeding as it has in recent decisions and deny Golden State's use of a single-factor allocation methodology. DRA cites D.07-11-037, Golden State's last GRC that included general office expense and where Golden State's single-factor approach was rejected by the Commission in favor of a modified three-factor allocation method.

In addition to its objections to the single-factor allocation, DRA proposes revisions to the four-factor allocation method. First, DRA proposes using the total number of employees rather than payroll expenses in the four-factor allocation. DRA's justification is that Golden State's proposed ASUS payroll expenses figure under-represents ASUS's true payroll expense because it is based on the number of employees as of December 31, 2007. DRA asserts that by June 1, 2008, ASUS had more than tripled its number of employees, going from just 27 to 84. DRA claims that even though it has recommended the use of payroll expense in past cases, in this case the employee number should be used because Golden State's payroll expenses figure represents the expense associated with only 27 employees.

DRA's second recommended modification is associated with the total direct operating expense factor. DRA proposes that the costs of purchased water be removed for Golden State ($44,582,744) and Chaparral ($856,379) because the cost of the water is a flow-through to customers' bills. DRA asserts that the flow-through costs do not require the general office attention and activities at the level required by produced water.

Countering DRA's argument that purchased water has lower general office costs, Golden State lists multiple accounting functions specifically related to tracking purchased water costs. They are: a separate balancing account to track under- or over-collected balances; tracking production costs by source including purchased water; and, calculating an accrual for purchased water costs at the end of each month.

DRA also proposes using the number of connections (17,788) at the military bases served by ASUS as the customer number rather than using the number of bases served by ASUS (6) as the number of customers.

Finally, DRA proposes increasing the amount of Golden State's direct plant from $1,184,464 to $226,043,586 (an increase of $224,859,122) to reflect the amount of gross plant owned and operated by ASUS subsidiaries serving military bases (DRA Ex. 133-C, Attachment 8.) DRA contends that the figure used by Golden State represents only the corporate headquarters and assets for ASUS.

Much of the testimony regarding total plant expense was filed under seal. Except where necessary, we avoid discussing sensitive contract terms. DRA asserts that under its contract with the military bases, ASUS not only provides water and wastewater services, but also acquired the distribution assets to provide services under those contracts. DRA claims the value of the assets being transferred is $226,033,576. DRA contends that this amount includes additions to the military plant and Construction Work in Progress. (DRA Ex. 107-C at 2-15, 16.)

Golden State denies DRA's claims that the military contracts transfer assets. Golden State asserts that since the military has the right to terminate the contracts and take the assets back, there is no transfer. Golden State contends that DRA has provided no proof of its claims regarding the terms of the contracts. Golden State also states that the value of the pipeline and infrastructure used to provide service under the contracts has little if any impact on Golden State's general office costs since ASUS has its own employees to operate the distribution system and ASUS pays them directly.

DRA also asks the Commission to order Golden State to discontinue providing service to several cities and agencies under eight non-regulated operating contracts. DRA claims the level of service varies from city to city and since the last GRC, Golden State has shifted certain non-regulated contracts to the regulated operations of Golden State in violation of D.98-06-068. That decision authorized establishment of a holding company. A prior settlement agreement adopted by the Commission in D.97-12-016 requires that all contracts and unregulated operations shall be transferred to the appropriate affiliate as soon as all requisite consent is obtained.

In 2007, Golden State moved eight city contracts from ASUS to Golden State in violation of D.98-06-068. Golden State acknowledges this action and admits that it did not seek a change in ratepayer rates and asserts its intention to discontinue services under these contracts.

DRA contends that if Golden State continues to provide services under city contracts when the rates from this proceeding go into effect, ratepayers will be subsidizing non-regulated service. The Cities agree with DRA's position regarding using a four-factor approach and stressed the importance of ensuring that ratepayers are not subsidizing unregulated operations.

Because Golden State's contract to provide services to the City of Torrance was extended, the four factor allocation calculation must include the general office costs associated with that contract. As part of the supplement to the settlement agreement, Golden State and DRA agreed to use a separate ASUS category in the allocation, ASUS-City, to reflect the extended contract with the City of Torrance.

7.2.2. Discussion

The four factors identified in the Commission's 1956 Memo are direct operating expenses, gross plant, number of employees, and number of customers. The purpose behind the four-factor methodology is to arrive at a reasonable allocation of costs among entities and avoid the tedious parsing of individual cost centers that Golden State advocates here with its single-factor allocation.

DRA has agreed to allocate costs to Golden State only, or to Golden State, Chaparral and ASUS-City combined, all those cost centers which provide absolutely no services to ASUS-Military. Of the 47 general office cost centers, ASUS-Military benefits from 30. The other 17 cost centers totaling $5,719,902 of general office costs are allocated among Golden State, Chaparral or ASUS-City. Although Golden State cites the 1956 Memo and D.80207 as support for its single-factor methodology, the Commission has not adopted a single-factor methodology in any recent cases. In fact, recent Commission decisions have either approved the use of the traditional four-factor methodology, or fewer than four factors if it can be shown that one or more of the established four factors are inappropriate or would result in distorting the allocation results unreasonably.

Golden State argues that the number of customers for ASUS should be determined by counting each military contract as one customer rather than by counting the number of connections. Under Golden State's proposed method, ASUS has only six customers.

DRA's proposed method which is the method we adopted in D.07-011-037, would recognize 17,788 customers for ASUS. Golden State provides no compelling reason why the method adopted in D.07-011-037 should be altered in this GRC. We disagree with Golden State's approach. If Golden State's proposal were followed to its natural conclusion, each city served by Golden State should only be counted as one customer. The number of customers for ASUS-Military operations used in the four-factor allocation should be 17,788. Golden State and DRA agree on the number of customers for Golden State (277,819), Chaparral (13,488), and ASUS-City (12,599).

In the allocation calculation, DRA proposes that purchased water costs be deducted from the total expenses for Golden State and Chaparral because it is a flow-through expense that does not require the same level of general office activity as produced water. Golden State has demonstrated that some general office functions are related to purchased water and although the amount or expense related to purchased water does not materially impact the amount of general office activity, a full four factor allocation methodology is intended to smooth out the discrepancies. Therefore, we include the purchased water costs in the four-factor allocation.

DRA proposes that the number of customers be substituted for the payroll expense factor in this GRC. We agree that Golden State's payroll expense figure under-represents its actual costs and a more accurate figure is the number of employees.

Golden State objects to DRA using 2008 figures for some factors, such as number of employees, and 2007 figures for other factors, claiming it leads to biased outcomes. On the contrary, using the 2008 figures for number of employees, the most accurate information, ensures the four-factor allocation outcome is as fair as possible. Using out-of-date information skews the outcomes. Golden State does not dispute the fact that ASUS's employee count has tripled since December 2007. As a general matter, it would be preferable to use data from the same year for all factors. However, the Commission favors accurate information that adheres to the objective of the 1956 Memo which seeks to fairly allocate actual indirect general office costs between all entities. For these reasons, Golden State's proposal is not reasonable and we adopt DRA's recommended employee count for Golden State (553), Chaparral (13), ASUS-Military (84), and ASUS-City (2.25),[7] rather than payroll expense as one of the cost allocation factors.

DRA proposes including the total dollar amount of plant involved in Golden State military contracts ($224,859,122) for the plant factor of the allocation methodology. Golden State proposes that only the value of furniture, vehicles, and equipment ($1,184,464) should be used since ASUS does not actually own the water distribution and wastewater collection systems.

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[7] The ASUS-City employee count is part of DRA's and Golden State's supplement to the settlement.

As part of the reopened proceeding, Golden State was required to provide the contracts for ASUS operations on military bases. Although the contracts are confidential, a review of the contract terms reveals specific language as to ownership of the water distribution and wastewater collection systems. Each contract contains language such as, "ASUS shall assume ownership, operation and maintenance of water distribution systems and wastewater collection systems…" and "The Government shall transfer such assets as are listed in the Bill of Sale…" (DRA Ex. 133-C, Attachments at 2-8, 10.) There is little doubt as to the intent of the contracts and therefore we adopt DRA's recommendation that Golden State's plant factor for ASUS–Military include the water distribution and wastewater collection systems for a total plant factor of $226,043,586.

The result of our adopted four-actor allocation is illustrated on the table below:

Table 7

Entity	Plant	%	Expenses	%	Num. of Cust.	%	Num. of Emp.	%	Factor Aver.	*Excludes ASUS-Military
Golden State	$1,006,318,013	77.86%	$136,712,842	90.83%	277,819	86.36%	553	84.78%	84.96%	95.0%
Chaparral	60,011,821	4.64%	3,799,099	2.56%	13,488	4.19%	13	1.99%	3.35%	3.8%
ASUS-City	173,288	.01%	259,603	.18%	12,599	3.92%	2.25	.35%	1.11%	1.2%
ASUS-Military	226,043,586	17.49%	9,542,205	6.43%	17,788	5.53%	84	12.88%	10.58%	
Total	**$1,292,546,698**	**100%**	**$150,313,749**	**100%**	**321,694**	**100%**	**652.25**	**100%**	**100%**	**100%**

*This is the allocation of costs associated with the general office activities that do not apply to the ASUS-Military contracts.

As part of the settlement, Golden State and DRA agree that if for some reason, Golden State's ASUS-City contract (the contract with the City of Torrance) expires prior to December 31, 2012, Golden State may establish a balancing account to track the costs being allocated to ASUS-City.

7.3. 1% Equity Adjustment

Golden State requests a 1% equity adjustment to labor expense forecasts for both its general office and regional labor expenses. The 1% equity adjustment is calculated based on the total forecasted labor expense and produces funds that would be used as employee bonuses.

7.3.1. Positions of the Parties

Golden State claims the 1% equity adjustment would provide a pool of funds for the purpose of attracting, retaining, and rewarding experienced, non-executive employees that perform at or above the level expected for their positions. Golden State asserts that the opportunity to receive performance-based increases provides an incentive for employees to perform at their highest level. Golden State believes employees who perform at a high level deserve more than just a Consumer Price Index adjustment. Golden State asserts that the equity adjustment is allowed under the rate case plan. Golden State's witness Darney-Lane likened the 1% equity pool to the State's Merit Salary Adjustment that allows employees to progress through their salary grade up to the maximum of the grade. (Golden State Ex. 73 at 7:20-22.)

Golden State asserts that its goal of attracting, developing, and retaining high-performing employees is becoming increasingly difficult because water utilities are facing a "War on Talent" with all water utilities as well as municipally run systems competing for the same employees. (Golden State Ex. 19 at 4:1-2.) Golden State contends that one way to combat this is to compensate high performing employees for their work.

DRA opposes Golden State's request for a 1% equity adjustment to general office and regional labor expenses. DRA asserts that the settlement's current wage escalation rate and other incentives sufficiently address the need for salary increases, and Golden State has not shown a need for the 1% equity adjustment over and above the provisions of the settlement. (DRA Ex. 102 at 16, and DRA Ex. 133 at 64.) DRA cites the state's unemployment rate of 11.2%, and rising, as easing Golden State's difficulty in attracting and retaining employees since fewer alternative employment opportunities are available. DRA claims this situation creates an incentive for employees to perform at a high level in order to retain their current positions.

Golden State counters DRA's claim regarding the current high unemployment rate as an incentive for employees to maintain their current employment with statistics demonstrating that the government sector from which Golden State draws its employees has not had significant job losses. Golden State asserts that its main competition for employees is municipal water companies. Golden State cites statistics indicating that the government sector has only lost 0.4% of jobs in the 12-month period of March 2008 to March 2009. (DRA Ex. 114 at 3.)

DRA expresses concern about the 1% equity adjustment becoming part of an employee's base salary so that future escalations are applied to a higher base salary, regardless of whether the employee continues to perform at a high level. And finally, DRA objects to Golden State's expansive view of customer service that includes sections of the company, such as regulatory affairs, that have nothing to do with service to ratepayers, but would be eligible for Golden State's proposed ratepayer-funded equity adjustments. (RT at 452:4-12.)

The Cities state that the 1% equity adjustment is particularly offensive in these economic times and agree with DRA's position opposing the 1% equity adjustment.

7.3.2. Discussion

While Golden State's assertion that the RCP (D.04-06-018)[8] allows water utilities to use any methodology to forecast expenses is correct, such forecasts are subject to review and approval by the Commission.

It is troubling that Golden State has referred several times to the equity adjustment as a means to reward employees who are working at or above the level expected for their positions. (Golden State Ex. 7 at 3.) Employees working at the level expected are typically rewarded with a salary and some degree of job security. Of course, even performing at the expected level is not always sufficient to retain employment during an economic downturn, but certainly merely working at the expected level does not justify a bonus.

Golden State insists that the equity adjustment is essential to attracting and retaining high performing employees. The Commission would be more convinced of the necessity of the equity adjustment if Golden State had

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[8] D.04-06-018 states:

> For test year district and general office expenses, excluding water production related expenses, the utilities and ORA may forecast using traditional estimating methodologies (historical averages, trends, and specific test year estimates). In addition to any other methodology the utility may wish to use, the utility shall also present an inflation adjusted, simple five-year average for all administrative, operational, and maintenance expenses, with the exception of off-settable expenses and salaries in its workpapers.

demonstrated that it was unable to fill existing vacancies without an equity adjustment. On the contrary, Golden State's witness Rentfrow's testimony lauds the efforts of the Talent and Diversity team which has been able to fill 85 positions in the last 12 months. (Golden State Ex. 19 at 4.) Indeed, the testimony confirms that Golden State's ability to attract new employees has not been hampered by the uncertainty of whether equity adjustments will be approved in this GRC.

Golden State asserts that municipal water agencies have not experienced the same level of job loss as the state in general and on that basis justifies the need for an equity adjustment to attract and retain quality employees. However, the statistics for the government classification do not tell the whole story. Although the government classification may have lost significantly fewer jobs, it is unclear if jobs were retained through reduced salaries or work schedules, as is the case for state government agencies. While the statistics do not indicate significant job losses, neither do they indicate job availability or growth, rather more of a static status. As a result, there are fewer opportunities available for employees to seek positions elsewhere. Also, Golden State ignores the statistic for the trade, transportation, and utility classification which indicates the change over 12 months as -5.9%. While still less than the statewide average for job losses, it does indicate an available talent pool in the utility sector.

In its supplemental testimony, Golden State listed the criteria used to determine when an employee's performance warrants a bonus. The criteria support the position that awarding bonuses is based on an objective process, but does not go to the more important question of whether Golden State would be able to attract and retain employees in the absence of the equity adjustment.

Golden State did not provide comparisons of its total compensation package to that of other water companies or municipal water agencies to support the need for the equity adjustment in order to remain competitive with other employers.

Finally, Golden State does not have to compete with municipal water agencies to attract and retain employees for all positions within the company. Administrative and support positions at all levels could be filled from the large pool of skilled workers in the state. We agree with DRA that the compensation adjustments contained in the settlement and the current unemployment rate provides sufficient incentive for employees to perform at a high level to retain their current jobs. No additional incentive should be required for current employees to perform at a high level and no inducement should be necessary to attract workers to fill any openings in these areas.

Golden State has not met its burden of proof in this matter. While we do not dispute Golden State's right to award equity adjustments, we do find that under the current circumstances, ratepayers should not fund them. To the extent that certain employees' performance increases efficiency, the resulting revenue requirement savings are a more appropriate source for equity adjustments.

For the reasons given above, Golden State's request for a 1% equity adjustment in its general office and regional forecasted labor expenses is not reasonable and therefore is denied.

7.4. Pension and Benefit—Retiree Medical

Golden State seeks $3,340,800 in 2009, $3,411,000 in 2010, $3,505,000 in 2011, and $3,573,000 in 2012 to expand its post-retirement Voluntary Employee Beneficiary Association (VEBA) benefits.

7.4.1. Positions of the Parties

Golden State proposes to increase pre-65 aged retiree medical benefits to $242 per month, an increase of $90 per month. Golden State proposes to increase the post-65 aged retiree medical benefit to $150 per month, an increase of $65 per month. (Golden State Ex. 10 at 24 of 77 of Attachments.) In addition to the increased post-retirement medical benefits, Golden State is also proposing to offer VEBA benefits to all of its employees. This is the first increase in benefits since Golden State froze its VEBA plan in 1995.

Golden State asserts that the increases in VEBA are necessary in order for the company to stay competitive as it competes with other water utilities and municipal water agencies to attract and retain talented employees from a limited pool of technically skilled candidates. Golden State produced a study performed by its actuary Mercer evaluating which companies in its peer group offer retirement medical benefits to their retirees.[9] The actuary noted that all members of the peer group for which information was available provide a post-retirement medical plan covering all of its employees.

Golden State claims that the freeze on VEBA has resulted in an issue of equality amongst employees regarding their respective benefits and that in negotiations with its BVES Union, the Union made a demand that all employees be treated the same when it comes to providing medical insurance for retirees.

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[9] Golden State Ex 10 at 5:15-18. The peer group consists of California Water Service, City of Anaheim, City of Banning, City of Fullerton, City of LaVerne, City of Riverside, City of Sacramento, City of Simi Valley, San Diego Gas & Electric Company (SDG&E), San Jose Water Company, and Southern California Edison Company (SCE). Information was available for all entities except City of Banning.

DRA objects to Golden State's proposal because it amounts to a 45% increase in benefits for pre-65 aged retirees and a 70% increase in benefits for post-65 aged retirees. The expanded and enhanced medical benefits would increase costs to ratepayers by 350%, from $953,000 to a total of $4,364,000 in 2010.

DRA refers to a survey by Towers Perrin and the International Society of Certified Employee Benefit Specialists, dated December 2008, indicating that only 39% of employers are currently offering retiree medical benefits to new hires, that 40% of companies either have changed or will change the cost sharing terms and 20% of companies either have ceased or plan to cease providing post-65 financial support in post-retirement medical plans. DRA asserts that the results of the survey show that Golden State's proposal is contrary to what is happening elsewhere in the country.

DRA claims that Golden State has been unable to demonstrate either that it is not competitive in the marketplace for talent or that it has lost employees due to a lack of retirement medical benefits. DRA also notes that the Mercer study merely compared post-retirement medical benefits, but failed to compare overall compensation structures to provide a complete picture of retirement benefits. DRA also objects to Golden State's basing its request for increased benefits for all employees on the demands made by a Union representing only 16 of Golden State's employees.

Golden State contends that the results of the Towers Perrin survey are of limited use because they do not indicate whether water utilities were included in the survey or whether any of the survey participants were located in California.

The Cities agree with DRA's position and recommend that the Commission reject the request for expanded VEBA.

7.4.2. Discussion

Golden State's Mercer study stops short of a complete and convincing analysis in support of Golden State's requested enhanced and expanded medical benefits. An accurate comparison of employee benefits between companies must include an analysis of the overall compensation package. Without knowing how Golden State's overall compensation package compares to its peer group, it is impossible to reach the conclusion that it is not competitive.

Golden State has provided no evidence that it is not competitive in the marketplace or that it has been unable to attract new employees due to its medical benefits structure. Golden State seeks a substantial increase in employee benefits at a time when many of its customers may be facing personal financial difficulties. Absent a demonstration that without the increased benefits Golden State has been unable to attract qualified employees and that service to its customers has suffered as a result, Golden State's request is not reasonable and therefore the request is denied.

We adopt DRA's recommendation that $948,000 in 2009, $953,000 in 2010, $951,000 in 2011, and $945,000 in 2012, based on the current level of VEBA benefits, be included in rates.

7.5. Pension and Benefit—Balancing Account

Golden State's GRC application originally requested pension cost recovery of $5,062,000 in 2009, $5,115,000 in 2010, $5,191,000 in 2011, and $5,288,000 in 2012. In updated testimony, Golden State submitted an increased pension cost projection of $8,572,000 for 2010 and requested a two-way balancing account to track the difference between the pension amounts included in rates and the actual costs.

7.5.1. Positions of the Parties

Golden State asserts that between its initial filing and its updated filing, the financial markets collapsed and the stock market suffered an unprecedented decline. As a result, Golden State claims that its pension plan costs have increased by 67.5%. Golden State asserts that its original estimated pension costs for 2010 of $5,115,000 have increased to $8,572,000. Golden State seeks a two-way balancing account because according to its actuary, current economic conditions are likely to cause Golden State to under-recover its pension plan costs from 2010 through 2012. Golden State and DRA agree that the estimated pension expense is projected to be $6,870,000 in 2010, $6,664,000 in 2011 and $6,595,000 in 2012 based on the actuarial calculationsprovided to Golden State on February 10, 2010. (DRA Ex. 133 at 45 and GSWC Ex. 212, Attachment A and Attachment C.)

Golden State cites the *Joint Ruling to Modify the Scope of Phase 2 to Consider the Impacts of the On-going Financial Market upheaval* issued by ALJ Long and Commissioner Bohn in A.08-05-001 as recognizing the impact of the financial crisis on the national and state economy. Golden State also cites Commission decisions establishing balancing accounts for pension and benefits costs of SCE and Pacific Gas and Electric Company (PG&E).[10] Golden State asserts that a

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[10] D.06-05-016 established a two-way balancing account for SCE and D.06-06-014 established a two-way balancing account for PG&E.

balancing account benefits ratepayers since they fund only the actual pension benefit costs and there is no chance for over-recovery.

Golden State asserts that the current economic crisis goes beyond mere market fluctuations. Golden State claims the influences of the economy, financial market conditions, and changing interest rates on Golden State's pension expenses are as follows:

- Bear market returns have significantly decreased the value of assets held in the pension trust fund. This has led to a significant increase in the under-funded status of the Golden State pension plan resulting in a corresponding increase in annual pension expenses and required cash contributions.
- Low discount rates have resulted in increased pension liability and service costs and therefore, an increase in expense levels.
- Poor asset performance and increase in liability have resulted in actuarial losses that are amortized over the future, working lifetime. Again this results in increased annual expenses. (Golden State Ex. 10.)

DRA objects to Golden State's calculations of the increased pension and benefit costs for years 2010, 2011, and 2012 and its request for a two-way balancing account. DRA asserts that the discounted rate Golden State used to determine the updated pension costs is higher than that used in its initial filing. The change in discount rate results in lower pension costs since the discount rate is inversely related to the costs of the pension plan.

DRA also claims that establishing a two-way balancing account removes the incentive for the company to control costs and that Golden State has benefitted from the current system and only now, when market fluctuations are adversely affecting it, has Golden State sought a change. DRA states that many companies are freezing pension plans or discontinuing defined benefit plans and offering enhanced 401k plans instead to mitigate costs. DRA also claims that market volatility results in both gains and losses over time and therefore Golden State's actuarial assumptions can and should be revised on an annual basis to account for the fluctuations.

DRA points out a distinction between the pension balancing accounts the Commission has authorized for SCE and PG&E and that sought by Golden State. DRA states that the balancing account established for SCE was based on the Employee Retirement Income Security Act (ERISA) minimum funding levels and not the pension expense calculated under Financial Accounting Standards No. 87 (FAS 87) used by Golden State. DRA asserts that ERISA funding levels are almost always lower and sometimes significantly lower. The PG&E case was based on a settlement between DRA and PG&E, authorizing PG&E to establish a balancing account to track the differences between authorized pension contributions and (1) lower contributions or (2) federally mandated higher contributions.

The Cities recommend that the Commission reject Golden State's request for a pension balancing account.

In its supplemental testimony and during oral arguments, Golden State cited instances where the Commission has approved balancing account treatment for water companies. Golden State asserts that because it earns the same return on equity as the water companies that have been granted pension and benefit balancing accounts, Golden State should be given one so that it is facing the same risk.

7.5.2. Discussion

The Commission's current ratemaking treatment for water company pension and post-retirement benefits is based on forecasting the pension obligations and allowing recovery of the forecasted amount through rates. If pension asset earnings exceed expectations, the company retains any surplus funds; if pension asset earnings fall short of expectations, the company contributes the difference to meet the required funding level.

Golden State currently assumes the risk of under-recovery and enjoys the reward of over-recovery. A shift away from that system can create a perceived imbalance of risk to reward, depending on the snapshot in time that is reviewed. DRA states that Golden State has over-recovered in the time since the last GRC, (2007 and 2008) and, therefore, DRA asks the Commission to reject Golden State's request for a balancing account.

Golden State asserts that in the last five years, it has under-recovered through rates and the company contributed the difference. A 10-year review would probably provide another variation on the degree to which Golden State has under- or over-recovered. However, over time the market fluctuations smooth out. Although the current economic crisis is unprecedented, there have been unprecedented market gains in the recent past as well, and Golden State did not seek balancing account treatment during those times.

Although we adopted balancing accounts for SCE, PG&E, California-American Water Company (Cal Am), and San Jose Water Company (San Jose), there are important distinctions between those cases and the one at hand. The SCE balancing account was based on minimum ERISA funding, not the higher FAS 87 calculations requested by Golden State. The PG&E, Cal Am, and San Jose balancing accounts were part of settlement agreements between

DRA and the utilities. In the case of the Cal Am and San Jose settlements, there were caps based on ERISA minimum funding levels placed on the amount of recovery allowed through the balancing account. Those situations do not exist here and in any event, settlements are not precedential.

Golden State's assertion that a balancing account removes the risk of ratepayer overfunding is true; however, a balancing account also removes a very important ratepayer protection, the incentive to control costs. The fact that Golden State is currently projecting an under-recovery is not sufficient justification to establish a balancing account. Market volatility can also result in over-recovery. Golden State should develop methods to control the volatility of its pension costs. Such actions would protect both its employees and ratepayers.

For the reasons stated above, Golden State's request to establish a balancing account is not reasonable and is therefore denied. In its supplemental testimony, DRA has agreed to Golden State's updated estimates of pension and benefits amounts. Therefore, Golden State's request for $6.87 million in 2010, $6.664 million in 2011, and $6.595 million in 2012 for pension and benefits is granted.

7.6. General Office Rent Expense

Golden State requests $314,600 in 2009, $326,900 in 2010, $339,600 in 2011, and $352,800 in 2012 for general office rent expense.

7.6.1. Positions of the Parties

DRA's primary objection to Golden State's rental expense request is that the size of Golden State's two facilities exceeds Golden State's needs. Golden

State recently leased a new facility down the street from its existing facility.[11] The new facility contains 9,258 square feet of space on two levels. DRA recommends removing half of the rent expense associated with the new facility. DRA's testimony cited vacant offices and workstations, large areas of unused space near the executive offices and a 24% increase in the amount of general office conference and training room space. DRA cites the 29 work stations on the second floor of the new facility where only 14 to 16 customer service representatives are working at any given time as another example of underutilized space. (DRA Ex. 107 at 3-44, 45.)

Golden State counters that all but one office in the existing facility and two offices in the new facility are assigned and otherwise all space is fully utilized and useful. Golden State's witness Garon declares that the large open space next to the executive offices is used to greet visitors and is no larger than it needs to be based on its intended use. Garon states that the training and conference room space is justified because the additional 599 square feet represent only a 24% increase in space, while the number of employees has increased by 30%. (Golden State Ex. 77 at 63.)

Garon states that every customer service representative has an individual work station on the second floor because at least once a quarter all customer service representatives need to report to work on the same day. Garon also claims that sharing work stations would require the time-consuming process of packing and unpacking personal effects and adjusting ergonomic equipment.

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[11] The existing facility is at 630 E. Foothill Boulevard, San Dimas, CA and the new facility is at 460 E. Foothill Boulevard, San Dimas, CA.

Finally, Garon emphasizes that sharing work stations and phone equipment would increase the likelihood of spreading germs and illness, therefore each customer service representative is assigned an individual work space for efficiency, morale, and health and safety reasons. (Golden State Ex. 77 at 65.)

The Cities support DRA's position regarding excessive office rent.

7.6.2. Discussion

Golden State's new facility has 9,258 square feet on two floors that, according to Golden State's original testimony, accommodates 42 employees. The lease expense for the new facility is $288,900 for 2009. The first floor of the new facility has 13 offices as well as 599 square feet of conference and training rooms, and a small coffee room. The second floor is occupied by the call center with 29 workstations. Both floors have restrooms.

In its supplemental testimony, Golden State has indicated that 1,734 square feet of the 9,258 square feet in the new general office space is elevators, stairwells, restrooms, and equipment rooms in addition to the 599 square feet of common areas indicated above. Golden State's supplemental testimony has also updated the total number of employees situated at both general office locations as 154 and demonstrated that varied and overlapping work schedules for its call center employees indicate a need for individual cubicles. For the above reasons, Golden State's request for $288,900 for 2010 with escalation factors for subsequent years is granted.

7.7. Executive Labor Adjustment

DRA recommends that salaries for two executive positions be disallowed from Golden State's requested labor expense.

7.7.1. Positions of the Parties

DRA requests that the salaries of two positions, the Chief Executive Officer (CEO) and the Executive Vice President (EVP) be removed from Golden State's forecasted labor expense. DRA does not recommend the elimination of the positions, but a reduction to Golden State's overall labor expense equal to the salaries of the two positions. DRA asserts that because at least one of the positions is vacant and because Golden State overcompensates its executives at the expense of ratepayers, removal of the two positions' salaries will bring Golden State's overall executive labor expenses more in line with its peers.

DRA contends that compensation studies ordered by Golden State show that Golden State overcompensates its executives. DRA also asserts that executive bonuses become part of base salary which are then brought forward and compound the overcompensation.

Golden State claims there are no actual vacancies as the previous CEO, Mr. Wicks, retired on December 31, 2008, and the position was filled when the previous Chief Financial Officer, Mr. Sprowls, became the CEO on January 1, 2009. Golden State asserts that the EVP vacancy will be filled with an executive level employee to oversee the Information Technology department prior to the issuance of a decision in this proceeding. Golden State asserts ongoing vacancies at the executive level are less likely than at other levels within the company and therefore should not be excluded from labor expenses.

Golden State also contends that it does not overcompensate its executives, and salaries are based on the results of contracted compensation studies.

The Cities support DRA's position that executive compensation is excessive.

7.7.2. Discussion

Most of the information regarding executive compensation was filed under seal. To the extent necessary, we have avoided using specific confidential information. Golden State hired Frederick Cook & Company to compare the five highest levels of executive compensation at Golden State to a peer group and make recommendations regarding the appropriate level of executive compensation at Golden State. The resulting study (the Cook Report) includes the years 2006, 2007, and 2008.

Golden State asserts that its five highest executives' salaries fall between the 50th and 75th percentile of its peer group's five highest executive salaries.[12] This statement does not paint a completely accurate picture of Golden State's overall executive compensation.

According to the Cook Report, except for the CEO, the total cash compensation at every level is above the 75th percentile. Golden State's total direct compensation is also near or above the 75th percentile for all positions except the CEO, which is at the median. (DRA Ex. 117-C at 20-25.)

The CEO salary comparison is skewed because the highest CEO salary in the peer group is almost double that of the second-highest salary. Therefore, although Golden State's CEO's compensation is the fourth highest of the eight companies compared, it falls below the 60th percentile due to the impact the highest compensation has on the overall comparison. Of the other

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[12] The fourth highest paid executive at American State Water (Golden State's parent), works for the unregulated ASUS and is not included here.

four companies compared, one is at the median and the other three are clustered around the 25th percentile.

DRA asserts that Golden State has applied the Cook Report's recommendations to more than just its five highest paid executive positions, compounding the asserted overcompensation by doubling the number of executives that are compensated within the five highest compensation bands.

The Cook Report lists the compensation of the five highest paid positions at Golden State. (DRA Ex. 118-C at 10, 20-25.) The proposed Officer Compensation for 2008 lists two officers at the second-highest grade, one officer at the third-highest grade, four officers at the fourth-highest grade, three officers at the fifth-highest grade, and three officers at the sixth-highest grade. (DRA Ex. 118-C at 1-2.) An analysis of the information in both Exhibit 117-C and Exhibit 118-C demonstrates that all 12 executives or officers, including the three at the sixth-highest compensation level, receive salaries falling high within the percentile ranges recommended by the Cook Report for only the five highest paid executives.

For the reasons stated above, we find that Golden State's executive compensation exceeds what is reasonable. Golden State's compensation for the 11 highest positions, at Vice President and above, is $3,288,965. DRA requests a reduction of approximately $1 million representing the CEO and EVP actual cash compensation or 30.5% of the total executive salary base. DRA's request is denied. However, we find it reasonable to reduce Golden State's executive salary base by $500,000, approximately 15% of the executive salary base and the equivalent of the total direct compensation of the still-vacant EVP position. This reduction will place Golden State's overall executive compensation more in the mid-range of the percentile span recommended by its consultant.

7.8. Management Audit

DRA has requested that the Commission order a management audit before Golden State files its next GRC.

7.8.1. Positions of the Parties

DRA cites the significant internal reorganization that Golden State is undergoing as the basis for its request. In 2007, Golden State created the COPS department. The Asset Management, CSC, and Environmental Quality cost centers now all fall within the purview of COPS. The reorganization clarifies the reporting hierarchy of the various departments and the employees within the department. The Asset Management Department's functions, historically handled at the regional level, are now centralized under COPS.

As a result of the formation of COPS, Golden State requested a 35% increase in employee positions; however, a lesser figure resulted from parties' settlement negotiations in the last Golden State GRC. DRA states that although the centralized functions should result in more efficient operations and ultimately long-term cost reductions, the significance of the change and the cost involved call for a management audit prior to the next general office GRC in May 2011. DRA asserts that a management audit would ensure that the reorganization is effective and results in reduced costs, and would determine whether the Asset Management program is operating efficiently. (DRA Ex. 107 at 5-15.)

Golden State objects to the management audit, calling it premature because the reorganization is not complete and, in part, dependant on the decision in the present proceeding. Golden State asserts that a management audit in the time frame suggested by DRA allows only 17[13] months between the assumed January 2010 effective date of the decision in this proceeding and the May 2011 filing of the next general office GRC. Additionally, contrary to DRA's claims that the audit would provide several years of actual operational experience, Golden State asserts that less than a year will elapse between full reorganization implementation and the start of the audit in order for it to be finalized by the GRC application deadline. Finally, Golden State states that a premature management audit would impose unnecessary costs on ratepayers.

The Cities recommend that DRA's request for a management audit prior to the next GRC be adopted.

7.8.2. Discussion

It appears that the timing of the management audit may be the real issue between the parties. Golden State does not oppose the management audit outright, but contends that it is premature. As an alternative, Golden State proposes that the Commission defer its decision on whether to order an audit until the next general office GRC.

While we agree with DRA that it is necessary to determine if the significant costs for the reorganization have yielded the expected efficiencies and resulting cost reductions, it is prudent to ensure that the information necessary to make that determination is available. It is unclear how far the reorganization is

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[13] The 17 month lag between the anticipated effective date of a decision in this proceeding and the filing of the next Golden State GRC was 17 months at the time the testimony was served. Because the decision has been delayed, the lag time is now only six months.

from full implementation. Proof of its inchoate state is evidenced by the fact that some positions for the centralized COPS functions were requested in this GRC. However, because the reorganization was started in 2007, it is reasonable to assume that some aspects of the centralization are complete.

For the results of a management audit to adequately and accurately represent the impact of the reorganization on Golden State's operations, it is necessary that the reorganization be completely implemented and operating for a sufficient period of time. There are only about six months between the issuance of the decision in this proceeding and the filing deadline for Golden State's next general office GRC. The audit would have to be completed within that compressed time frame. Less than six months of fully operational experience supplies insufficient information to determine whether a costly reorganization is providing the expected beneficial results. The Commission's goal is to ensure that ratepayer money is spent wisely, both for Golden State's COPS reorganization and the audit to determine its efficacy. A delay more likely to yield quality information is preferable to swift feedback that may be of questionable value. Ordering a management audit prior to Golden State's next general office GRC is premature and the Commission denies DRA's request.

8. Region II and Region III

8.1. Tax Calculations

Golden State and DRA disagree over how to calculate the amount of California Corporate Franchise Tax (CCFT) to deduct when estimating Golden State's Federal Income Tax (FIT) expense for 2010.

8.1.1. Positions of the Parties

In order to estimate FIT expense, Golden State calculated its anticipated revenues by multiplying its forecasted 2010 water sales by then-current, 2008 tariff rates. Golden State cites to several Commission decisions in support of its calculation method. Using its method, Golden State estimates its CCFT for 2009 as $630,400.

DRA asserts that Golden State's calculation misinterprets the Commission's decisions on the matter and results in a too-low CCFT expense forecast. DRA states that the CCFT is a deduction from the FIT, so that using a number that is too low results in a higher FIT expense forecast and a higher revenue requirement request. DRA contends that because the actual CCFT expense is available, it should be used in the calculation of the FIT. DRA contends that $2,571,900 should be used as this is the figure Golden State used for State Income Tax expense to support Advice Letter 1302-W.

8.1.2. Discussion

The issue is whether the test year's CCFT deduction (i.e., for year 2010) should be the prior year's actual CCFT expense (2009) as DRA claims, or be approximated in 2010 as asserted by Golden State.

In D.84-05-036 the Commission stated:

> The state income tax deduction for federal tax purposes is the amount of tax paid in the prior year. The state tax deduction computed for ratemaking purposes is the amount of tax paid in the prior year. The state tax deduction computed for ratemaking purposes has been based on the current test-year…. Although several alternative methods of making these calculations are discussed, neither staff nor any other party recommends a change from the present practice since they believe that the present yields a reasonable result over time.

[15 CPUC2d at 54.]

At the time when D.84-05-036 was written, the test year calculation was reasonable because there was no other information available or better method to calculate a proxy.

In D.89-05-011 the Commission stated:

> … we adopt the DRA/San Diego position that the test year CCFT number used is really an approximation for the prior year. Our conclusion is based on an understanding of what it takes to prepare a results of operations for a test year. The preparation of a results of operations for one test year is a major undertaking. The preparation of an additional results of operations for the year prior to the test year is likewise no small task. To do the work required to prepare the additional results of operations, solely for the purpose of deriving one number, arguably a more accurate CCFT number, for the test year federal income tax calculation, does not make sense if the test year CCFT number is available and it is a reasonable approximation.

Golden State mistakenly cites this section as support for using a test year calculation. This language is actually reciting the reason the test year calculation became a proxy for the CCFT in the first place. The Commission realized that preparing a results of operations for the prior year was too burdensome merely to develop a CCFT figure, especially if over time the test year calculation yielded a reasonable result.

D.89-011-058 also states:

> … since the prior year's CCFT number is now available from Commission adopted records, the Commission finds that a change in method to flow-through for the treatment of the CCFT deduction would alleviate the utilities' concerns over the timing of the benefit of the CCFT deduction. Therefore, the prior year CCFT number should be used in future income tax expense.

Conclusion of Law

1. The Commission concludes that ratemaking should reflect the value of the CCFT deduction. Since the prior year's CCFT ratemaking amount is now readily available from the recent Commission adopted records, flow-through treatment for the CCFT deduction shall be used in setting rates.

Ordering Paragraph

4. In the future, all results of operations for all utilities shall reflect the flow-through treatment for the CCFT deduction in computing federal income tax expense.

Ultimately the heart of the issue here is the availability of accurate information. There is no reasonable basis for using an approximation when actual costs are readily accessible. Although a partial estimate for each tax year is still required, the current timing of CCFT payments has made accurate partial information available earlier in the process. An estimate using some actual expense figures is more accurate than a total approximation and therefore we find merit in DRA's position. However, because this proceeding involves only two of Golden State's regions, any changes to the current tax calculation methodology would result in inconsistent treatment among the regions. For that reason we adopt Golden State's 2010 CCFT amounts of $630,400 for Region II and ($210,000) for Region III, but require that this issue be explored in Golden State's upcoming statewide GRC due to be filed in 2011.

8.2. Regulatory Commission Expenses for Regions II and III

Golden State requests $200,000 for Region II and $250,000 for Region III Regulatory Expense.

8.2.1. Positions of the Parties

Golden State is requesting $450,000 for consulting fees associated with developing the three-year GRC capital budget. Golden State had also initially sought recovery of consultant fees of $15,100 and $14,900, for Regions II and III respectively, related to the development of the Distribution System Improvement Charges (DSIC). Golden State has agreed to remove those charges since the DSIC issue was removed from the GRC. Golden State also requested $35,500 and $34,800, for Regions II and III respectively, for mailing costs to Region I customers. Golden State agreed to remove the mailing costs as well.

DRA contends that the consulting fees sought are for consulting activities that go beyond what is normal for a GRC, i.e., a long-term pipeline replacement program, the prioritization of capital improvement projects and the Asset Management program. DRA also contends that due to their nature, these are non-recurring fees and that absent Commission authority, cannot be booked to Account 146 and later transferred to Account 797.

Golden State asserts that the consulting fees are for GRC preparation and therefore not a one-time expense. Golden State claims that it has incurred consulting fees in the past and expects to do so in the future. It argues that, even though the exact nature of the consulting activities may change, there are normally consulting fees associated with GRC preparation and they should be allowed here.

In its supplemental testimony and during oral arguments, Golden State takes issue with the characterization of the regulatory expenses as forecasts. Golden State contends that it has always recovered its regulatory expenses for the current GRC in the test and escalation years covered by the GRC. Golden State asserts that this position is a departure from past Commission action.

8.2.2. Discussion

Golden State provides language from its 1967, 1969, 1976, and 1982 GRC Results of Operations Reports that each refer to the regulatory expense as a projection or an estimate. (Golden State Ex. 214 at 5-6.) However, Golden State cites the language as proof of the Commission's previous practice of allowing Golden State to recover regulatory expenses incurred in the current rate case in the years following the rate case.

Golden State also cites language from 2006 and 2009 decisions that it contends signal the change in Commission practice, yet the language of those decisions indicate that it has been a long standing Commission practice to set rates based on forecasted expenses. For example, in D.09-07-021, the Commission reiterated its position from D.03-06-036 in denying Cal Am's requested deferred regulatory expense stating, "Regulatory expense is included in revenue requirement on a forecasted basis." Contrary to Golden State's assertions, those decisions did not establish a new policy, but reiterated the Commission's existing policy that current regulatory expenses may only be used as a forecast or projection for future regulatory expenses when considering test year revenue requirements in a GRC. Golden State appears to be the only one confused about this. To do anything other than set rates on a prospective basis is inconsistent with the law.

The activities engaged in by Golden State's consultant CH2MHILL, described as a long-term pipeline and main replacement program, prioritization of capital improvement projects and the Asset Management program may appear to be outside the normal rate case preparation; however, the Water Action Plan specifically encourages companies to include infrastructure improvement and replacement plans as part of their long-term planning.

In our Water Action Plan at 12-13, we discuss the need for water utilities to address their infrastructure requirements by undertaking comprehensive long-term planning to provide all capital investments necessary to upgrade or replace their existing infrastructure. Because the activities of CH2MHILL or similar activities comport with recommendations in the Water Action Plan, Golden State's regulatory expense is a reasonable forecast for the test year. Therefore, Golden State's request for $200,000 for Region II and $250,000 for Region III Regulatory Expense in 2010 is granted.

9. Region II and Region III Capital Projects

The heart of the matter for most of the Region II and Region III plant projects at issue in this proceeding is whether the Commission accepts Golden State's "firm capacity" planning criteria. Golden State's "firm capacity" criteria require each system's Maximum Day Demand (MDD) be met with the largest source capacity off line. The regulations governing water supply are the Commission's General Order (GO) 103-A and the Department of Public Health (DPH) Section 64554 of Title 22. GO 103-A[14] sets the water supply requirements and states:

B. Quantity of Water

(1) Source

All water supplied by the water utility shall be:

(a) Obtained from a permitted source;
(b) Obtained from a source or sources reasonably adequate to provide a reliable supply of water; or

[14] When A.08-07-010 was filed, GO 103 was in effect. On September 10, 2009, the Commission issued GO 103-A.

(c) Produced from a source or sources descried in the utility's Urban Water Management Plan (UWMP) that has been reviewed by the Commission in its most recent general rate case or in an amendment to such UWMP that the utility has submitted by advice letter for review by the Division of Water and Audits. (GO 103-A, § II.B(1).)

(3) Potable Water System Capacity

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

(b) If a system provides potable water for fire protection service, new portions of the system shall have supply and storage facilities that are designed to meet MDD plus the required fire flow at the time of design. *See*, Section VI of this General Order for fire flow requirements.

DPH's 22 C.C.R. Section 64554(c) states:

> Community water systems using only groundwater shall have a minimum of two approved sources before being granted an initial permit. The system shall be capable of meeting MDD with the highest-capacity source off line.

It is clear that DPH regulations require systems using only groundwater to have a minimum of two approved sources before being granted an initial permit. The real issue between the parties is how to interpret and apply the second sentence in the section. Golden State asserts that the second sentence of paragraph (c) requires that all groundwater-only systems meet MDD with the highest capacity source off line at all times, not just for initial permits. To support its interpretation, Golden State offered a DPH 2008 Sanitary Survey which finds that the Apple Valley North System cannot meet MDD with its largest source of supply off line. (Golden State Ex. 79, Att. 6 at 1.) The Apple Valley North System is an existing system, not a new system seeking an initial permit.

DRA asserts that the requirement that MDD be met with the largest source off line applies only to initial groundwater-only system permits. Not withstanding the comments in the Sanitary Survey, we find the wording of § 64554(c) open to interpretation. Reading § 64554, titled New and Existing Source Capacity, in its entirety indicates that paragraph (c) applies discretely to groundwater-only systems applying for initial permits. The remainder of § 64554 applies generally to all systems and arguably, existing groundwater-only systems.

Golden State also applies its interpretation of the DPH standard to all its systems whether they are groundwater only or groundwater and produced water. That is, Golden State requires that all its systems meet MDD with the largest source capacity off line. Golden State refers to this standard as "firm capacity." The Commission has not changed its position regarding Golden State's more stringent "firm capacity" criteria since it was an issue in Golden State's prior GRC for Region III. In D.06-01-025, the Commission found that adopting Golden State's "firm capacity" criteria would have long-term and far-reaching implications for Golden State and all others regulated by this Commission.

The increases for new plant sought by Golden State in this GRC are substantial and would significantly affect rates. Absent a showing of absolute necessity, it is highly imprudent to impose Golden State's requested level of system redundancy and its associated costs on ratepayers who may be facing personal financial challenges at this time.

In its supplemental testimony, DRA provided a letter clarifying that § 64554(c) requires only that MDD be met with the largest source off line in the case of initial groundwater-only system permits. (DRA Ex. 135.) We will deal with groundwater-only systems and the application of § 64554(c) on a project-by-project basis, taking into consideration all aspects of the projects.

9.1. Region II Central Basin East Norwalk System Wells

Golden State requests $2,639,737 in 2009 and $3,946,809 in 2010 to purchase land and drill, develop and equip two new 900 gallons per minute (gpm) wells at the Norwalk System's Imperial East site.

9.1.1. Positions of the Parties

Golden State proposes to drill two new 900 gpm wells in the Norwalk System of the Central Basin East Customer Service Area. The Norwalk System is located in Los Angeles County and serves the City of Norwalk, parts of Downey, Santa Fe Springs and La Mirada. The Norwalk System is supplied by local groundwater and water from the Central Basin Municipal Water District.

The Norwalk System is divided into an East Side and a West Side which are connected by a 12-inch pipeline. The MDD for the East Side is 1,800 gpm. The East Side currently has only one source of supply, the CB-35 connection. Golden State bases its need for the two new wells on low water pressure and its inability to meet MDD if the CB-35 connection is off line.

Applying its "firm capacity" standard, Golden State asserts that the DPH drinking water regulation Title 22, Section 64554(c) requires that the largest source of supply be assumed off line when determining if MDD can be met.

Golden State also expresses concern about ongoing drought conditions and the Central Basin Municipal Water District's ability to continue supplying water to the Norwalk System.

DRA contends that DPH regulations do not require that MDD be met with the largest source of water supply off line. DRA further asserts that the Norwalk System water supply from CB-35 is more than adequate at 6,750 gpm to meet the Norwalk System's MDD of 1,800 gpm even if drought conditions forced it to cut back supply by 50%.

DRA also notes that there are two sources for water to the Norwalk System CB-35 connection: the Weymouth and Diemer Plants. DRA also points to Golden State's own Master Plan for the Norwalk System and its Urban Water Management Plan which states that the Central Basin Municipal Water District's water supply is 100% reliable. DRA also points out the East Side's emergency connection with the Suburban Water Company that is capable of supplying 1,300 to 1,500 gpm and is available as a backup in case a major supply source is interrupted. (DRA Ex. 105 at 13:21-24.)

DRA argues that rather than build two new wells at considerable cost to ratepayers for a perceived water supply shortfall, Golden State should consider less-costly alternatives such as aggressive conservation, or another Central Basin Municipal Water District connection.

9.1.2. Discussion

There is no question that the Norwalk System's MDD can be met according to DPH standards. The Norwalk System's MDD is 1,800 gpm and its source of water can supply 6,750 gpm during MDD. The Norwalk System is an existing system and does not rely solely on groundwater; therefore removing the highest capacity source from the calculation of MDD is not required.

For the above reasons, Golden State's request for $2,639,737 in 2009 and $3,946,809 in 2010 to purchase land and drill, develop and equip two new 900 gpm wells at the Norwalk System's Imperial East site is not reasonable and is denied.

9.2. Region II Central Basin West Hampshire Plant Booster Station

Golden State requests $240,000 in 2009 and $1,360,390 in 2010 to design and construct a new booster pump station in the Central Basin West Hampshire Plant.

9.2.1. Positions of the Parties

Golden State requests funds to construct a new booster pump station and circulation system at the Hampshire Plant in the Florence-Graham System. The Florence-Graham System serves the unincorporated areas of Los Angeles County and a portion of the City of Huntington Park. The Florence-Graham System is supplied by groundwater and water from the Central Basin Municipal Water District.

Golden State asserts that the improvements to the Florence-Graham System are needed because the system has water pressure below that which is required by the Commission's GO 103-A, Section IV, ¶6, which states:

> Variations in Pressure
>
> Each potable water distribution system shall be operated in a manner to assure that the minimum operating pressure at each

> service connection throughout the distribution system is not less than 40 psi[15] nor more than 125 psi, except that during periods near PHD[16] the pressure may not be less than 30 psi and that during periods of hourly minimum demand the pressure may not be more than 150 psi. Subject to minimum pressure requirements of 40 psi, variation in pressures under normal operation shall not exceed 50% of the average operating pressure.

DRA contends that the water pressure problems asserted by Golden State are a function of Golden State taking certain water sources off line when calculating minimum pressures. Golden State removed the CB-5 connection from its hydraulic modeling to calculate minimum pressure for Average Day Demand (ADD) and removed the CB-6 connection from the modeling to calculate its MDD.

Golden State does not dispute this claim.

9.2.2. Discussion

As discussed above, removing a source of supply to determine adequate water supply or water pressure is not required under current GO 103-A or DPH requirements. Golden State's justification relies on the results obtained with Central Basin-5 and Central Basin-6 connections off line. As a result, Golden State's request is not reasonable. Therefore Golden State's request for $240,000 in 2009 and $1,360,390 in 2010 for new booster station construction to create a new pressure zone in the Florence-Graham System is denied.

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[15] Pressure measurement of "pounds per square inch" as registered on a gauge.

[16] Peak hourly demand.

9.3. Region II Central Basin West Hampshire Booster Station Storage Tanks/Reservoir

Golden State requests $366,895 in 2010 and $1,967,565 in 2011 to design and construct a new 2.0 million gallon reservoir at the Hampshire Plant and demolish the existing 0.25 million gallon Hampshire Tank.

9.3.1. Positions of Parties

Golden State asserts that a new reservoir is needed because the creation of a new pressure zone cannot take place without the construction of a new booster station and reservoir to serve the customers in the zone.

DRA objects to Golden State's request on the basis that the need for the reservoir is predicated on the need for the booster station. DRA also contends that fire flow deficiencies cited by Golden State exist only as a result of construction of the booster station.

9.3.2. Discussion

We agree with DRA. The reservoir is only needed if the booster pump station is constructed. As the request for funds to construct the booster station has been denied, funds for the reservoir are unnecessary and therefore not reasonable. Consequently, Golden State's request for $366,895 in 2010 and $1,967,565 in 2011 to design and construct a new 2.0 million gallon reservoir is denied.

9.4. Region II Central Basin West Hampshire Plant Booster Station Chlorination System

Golden State requests $36,689 in 2010 and $248,045 in 2011 for a chlorination system for the Central Basin Hampshire Plant Booster Station reservoir requested above.

9.4.1. Discussion

Because we deny Golden State's request for funds to design and construct the Central Basin West Hampshire Plant Booster Station and reservoir, the request for a chlorination system for the reservoir is moot and therefore not reasonable. For the reasons stated above, Golden State's request for $36,689 in 2010 and $248,045 in 2011 is denied.

9.5. Region III Claremont System Miramar Reservoir Liner and Cover Replacement

Golden State requests $5,301 in 2008 and $958,973 in 2009 to replace the liner and cover on the Miramar Reservoir #2 at Three Valleys Metropolitan Water District (Three Valleys MWD).

9.5.1. Positions of Parties

Golden State's request to replace the Miramar reservoir liner and cover is predicated on recent inspections and Golden State's contractual obligation with Three Valleys MWD to pay for maintenance. Golden State claims the recent inspection calls for replacement of the liner and cover.

DRA disputes the need for replacement citing the latest inspection report from May 2007, in which Three Valleys MWD found the reservoir in good condition. The Three Valleys MWD inspection only recommended certain repairs.

Golden State asked Three Valleys MWD to review DRA's testimony regarding the inspection report. Three Valleys MWD did not refute DRA's claims regarding the inspection report and stated that inspectors will seldom recommend replacement unless the condition of the cover reached a point completely beyond repair.

9.5.2. Discussion

We find Three Valleys MWD's standard of recommending replacement only if the condition is "beyond repair," a reasonable standard. Absent a Golden State showing that repair is not possible or cost effective, replacement is unnecessary at this time and therefore unreasonable. Golden State's request for $5,301 in 2008 and $958,973 in 2009 to replace the liner and cover on the Miramar Reservoir #2 is denied.

9.6. Region III San Dimas System Baseline Well #4 Forebay and Pump

Golden State requests $56,308 in 2008 and $278,540 in 2009 to reconstruct the hydraulics surrounding the San Dimas System Baseline Well #4.

9.6.1. Positions of Parties

Golden State asserts that the hydraulics project for the Baseline Well #4 is necessary because double pumping is currently required—once into the forebay and then again from the forebay into the reservoir. Golden State asserts energy savings will be realized from reconstruction of the hydraulics since double pumping will be eliminated and the project will improve the efficiency of the system.

DRA cites Golden State's witness Gisler's testimony that it will take 18 years to recover the costs of this project through cost savings from the new hydraulics. (RT 600:6-13.) DRA objects to Golden State's request on the basis that the Baseline Well #4 is 97 years old and scheduled to be destroyed in the future. Citing the typical life of a well as 60 to 80 years, DRA asserts that making improvements on an old well scheduled for destruction is not cost effective.

Golden State states that even if Baseline Well #4 is destroyed, another well will be built on the same site and will use the existing equipment. Golden State also states that it will use the pump until it fails, which is 5 to 15 years under normal conditions. Golden State further asserts that the Baseline Well #4 is included as a mid-term project in its San Dimas Master Plan. Mid-term projects are defined as those generally needed in the next 5 to 15 years and therefore, the life of the well is expected to equal the life of the requested pump project.

9.6.2. Discussion

DRA's primary objection is that it is not cost effective to spend money on a well that is scheduled to be destroyed. Golden State asserts that the well is not scheduled to be destroyed for 5 to 15 years, but even if the well is destroyed prior to that time frame, Golden State will continue to use the new hydraulic system. Golden State states that it intends to construct a replacement well in the same place as Baseline Well #4 because the well has very good water quality and is a reliable source of supply.

According to the record, the requested pump will last as long as the current well is projected to last. Even if Baseline Well #4 is destroyed sooner than planned, Golden State states that it will use the new hydraulic system in a replacement well on the same site. For these reasons, we find Golden State's request reasonable and grant its request for $56,308 in 2008 and $278,540 in 2009 to reconstruct the hydraulics surrounding the San Dimas System Baseline Well #4.

9.7. Region III San Dimas System Booster Station from Vinnell to Wayhill

Golden State requests $265,542 in 2011 for design and permitting costs associated with building a new booster station to move water from the Vinnell gradient to the Wayhill gradient in the San Dimas System.

9.7.1. Positions of Parties

Golden State asserts there is a water deficiency in the San Dimas System when planned and unplanned outages occur. Golden State states that water from the Eaglecliff zone is drawn down into the Wayhill zone when demand exceeds capacity in the Wayhill zone. Golden State proposes to build the booster station to supply water to Wayhill and counteract the supply draw from Eaglecliff. Golden State is seeking the funds for design and permitting in this GRC and will request the funds for construction in the next GRC.

DRA opposes the request because the supply deficiency is only in the Eaglecliff zone and only during planned or unplanned Three Valleys MWD outages. DRA cites to Golden State's Urban Water Master Plan which states that Three Valleys MWD's water is 100% reliable.

DRA asks the Commission to deny the request even if it finds that the project may be needed because Golden State has not yet contacted the property owner regarding the desired site and therefore the request is premature.

9.7.2. Discussion

Golden State's request is premised on the need for a booster station to correct a supply deficiency that could occur if the Three Valleys MWD has a planned or unplanned outage. Golden State's Urban Water Master Plan labels Three Valleys MWD as 100% reliable. If the project is approved, construction costs for the booster station will be requested in the next GRC. This request is only for design and permitting activities and fees.

Design and permitting fees are necessarily associated with a particular site. Although Golden State has preliminarily identified a site, that is the extent of progress on the project. No contact has been made with the owner and no initial negotiations have begun.

There is stated threat of outages from the Three Valleys MWD that would necessitate quick action on this project and absent a sales agreement or some other proof that this site is more than just a possibility and will actually be the construction site, the requested design and permitting fees are premature. Since the request for construction costs will be included in the next GRC, project approval, design and permitting fees may be requested there as well.

For this reason, Golden State's request for $265,542 in 2011 for design and permitting costs associated with building a new booster station in the San Dimas System to move water from the Vinnell gradient to the Wayhill gradient is denied.

9.8. Region III Apple Valley South System Land Purchase and Well Construction

Golden State requests $2,075,861 to purchase land and design, construct, drill, and equip a new well in the Apple Valley South System.

9.8.1. Positions of Parties

Golden State asserts that the Apple Valley South System requires a new well due to a water supply deficit. Golden State states that the Apple Valley South System cannot meet the MDD with its largest supply source off line. The Apple Valley South System is supplied by groundwater only and the supply deficit is based on Golden State's interpretation of the DPH regulations discussed above. Golden State states that because the Apple Valley South System is supplied by groundwater only, § 64554(c) requires taking the largest source supply off line when determining water supply adequacy for MDD.

DRA objects to Golden State's interpretation of § 64554(c), but asserts that even with the largest supply source off line, the Apple Valley South System's deficit is only 88 gpm. DRA argues that Golden State has not considered less-costly alternatives to remedy the supply deficiency. DRA cites the emergency interconnection with Apple Valley Ranchos Water Company (Apple Valley Ranchos) as an alternate to meet the 88 gpm deficit. Golden State's witness Gisler did not know if Golden State had ever contacted Apple Valley Ranchos regarding purchasing water.

DRA also contends that Golden State used the Apple Valley North System's supply needs of 645 gpm in the Apple Valley South System's supply analysis, yet has not proposed connecting the two systems. DRA states that the needs of the Apple Valley North System should not be considered.

Golden State agrees that the Apple Valley South System supplies 654 gpm to the Apple Valley North System, but contends that it is irrelevant to the question of Apple Valley South System's deficit.

9.8.2. Discussion

Applying Golden State's interpretation of § 64554(c) results in a MDD supply deficit of 88 gpm. Golden State requests $2,075,861 to remedy a possible 88 gpm deficit. It appears that the deficit is also caused by the transfer of 654 gpm from the Apple Valley South System to the Apple Valley North System. This raises the question of whether there is an alternative in the Apple Valley North System to supply the 654 gpm needed in that system. If so, the deficit in the Apple Valley South System will disappear. In addition, less-costly alternatives such as conservation should be explored to address the possible 88 gpm deficit prior to burdening ratepayers with the expense of a new well. For these reasons, Golden State's request for $2,075,861 for a new well in the Apple Valley South System is not reasonable and is therefore denied.

9.9. Region III Apple Valley North System Yucca Booster and Zone Break

Golden State requests $746,058 to relocate and enlarge the Yucca Booster Pump in the Apple Valley North System.

9.9.1. Positions of Parties

Golden State requests funds to relocate and enlarge the Yucca Booster Station. Applying its interpretation of § 64554(c), Golden State states that Apple Valley North System cannot meet MDD with the largest source of supply off line. The Apple Valley North System is a single source groundwater system and with the largest (in this case only) source off line, it has 0 gpm to meet MDD.

DRA again argues that MDD does not have to be met with the largest source off line and that less-costly alternatives such as conservation have not been considered. Apple Valley North System has an emergency interconnection with Apple Valley Ranchos and has purchased water in the past. DRA suggests that Golden State explore a firm contract for purchased water to meet the alleged supply deficit.

9.9.2. Discussion

The Apple Valley North System is served by a single groundwater source. Regardless of how § 64554(c) is interpreted, if this single source is off line for any reason, there is only the emergency interconnection with Apple Valley Ranchos to supply the system. Although the MDD is only 55 gpm, any outage creates a 100% deficit. An absolute deficit cannot be remedied through conservation and would render the system completely reliant on the emergency connection with Apple Valley Ranchos.

Golden State's proposal to increase the system storage capacity will enable it to supply water to the system if the single source of supply is off line for any reason. Golden State's request is reasonable and therefore the request for $746,058 to relocate and enlarge the Yucca Booster Pump in the Apple Valley North System is granted.

9.10. Region III Placentia System Land Purchase

Golden State requests $19,284 in 2010 and $5,242,589 in 2011 to acquire land to build a new reservoir.

9.10.1. Positions of Parties

Golden State requests funds to purchase land to build a new reservoir addressing Municipal Water District of Orange County (MWD of Orange County) regulations that require water agencies to purchase water at a constant rate over each 24-hour period. The costs for design and construction are not at issue here as Golden State plans to build the reservoir in the next GRC cycle. (Golden State Ex. 14 at 278:6.)

DRA opposes the request because it asserts that Golden State has not identified a specific site to purchase or submitted bids to support its request. DRA also objects to the request because there is no support for the land acquisition estimate and asserts that property values have declined since Golden State estimated the purchase cost.

DRA also asks the Commission to deny the request because Golden State has not met its burden of proof that a reservoir on the site will enable it to meet the MWD of Orange County requirement that water agencies purchase water at a constant rate over each 24-hour period.

Golden State counters that the estimate was based on its previous experience purchasing the land for the Garvey Plant and land estimates for Orange County. (Golden State Ex. 14, Att. A.) Golden State also asserts that to avoid the fluctuations in its supply requirements from the MWD of Orange County, the system needs storage capacity equal to 25% of MDD, which is 3.0 million gallons. The Placentia System has a storage capacity of 1.5 million gallons. Therefore, Golden State asserts, additional storage capacity is needed. (Golden State Ex. 14 at 278:7-12.)

9.10.2. Discussion

Golden State has met its burden of proof regarding the need to increase storage to meet the MWD of Orange County requirement that water agencies purchase water at a constant rate over each 24-hour period. The Placentia System's current storage capacity of 1.5 million gallons is insufficient to meet the storage requirements of 3.0 million gallons. Golden State proposes purchasing land for construction of a new reservoir to remedy the storage deficit. Golden State has provided an estimate for the land acquisition based on previous land acquisitions and land costs in Orange County, the site of the proposed reservoir.

DRA expresses concern about declining property values and the fact that Golden State's estimates were prepared at a time when property values were higher. However, DRA provides no information that would allow the Commission to adjust the amount of the request accordingly.

For the reasons stated above, Golden State's request for $19,284 in 2010 and $5,242,589 in 2011 to acquire land to build a new reservoir in the Placentia System is reasonable and is therefore granted.

9.11. Region III Placentia System Wells in Yorba Linda

Golden State requests $1,865,386 to drill and equip a new 1,500 gpm well and $206,658 for design and permitting of a second well in the North Zone of the Placentia System.

9.11.1. Positions of Parties

Golden State requests the funds to drill and equip a new well in the Placentia System in 2008 and 2009 and to design and permit a new well in 2010. Golden State states that two new wells are needed to address the Placentia System's heavy reliance on MWD of Orange County water that may become less reliable in the future. The Placentia System receives water from two connections with MWD of Orange County and refers to information received from MWD of Orange County regarding cutbacks in supply of up to 30% and the distinct possibility of more to come. Golden State also refers to the Placentia System's only source of groundwater being taken out of service in the near future due to contamination. Golden State claims this event will increase the Placentia System's reliance on its MWD of Orange County connections which according to MWD of Orange County's own "Water Supply Alerts" are becoming less reliable.

DRA states that the wells are not needed because MWD of Orange County's water supply has been reliable for the last 20 years with no unplanned outages. DRA claims that the MWD of Orange County has always planned its outages for low demand months and gives Golden State at least a year's advance notice. DRA asserts that planned or unplanned MWD of Orange County outages can be addressed through emergency connections, conservation measures and storage.

9.11.2. Discussion

The Placentia System's sole source of groundwater will be taken out of service soon due to contamination and the remaining two sources of water supply to the Placentia System are MWD of Orange County connections, OC-37 and OC-56. The MWD of Orange County has informed its customers that water availability is being curtailed by 30% and possibly more if drought conditions continue. The Commission cannot ignore statements from the MWD of Orange County warning of cutbacks in the water supply. The MWD of Orange County is a major source of water to Golden State's systems and the continued reliability of that supply is being threatened. The emergency connections with neighboring systems are subject to interruption and may be even less reliable if they too are served by the MWD of Orange County.

Although the MWD of Orange County water supply has been reliable for the last 20 years, it is currently warning customers of the challenges of meeting the water supply needs of the region. The threat of shortages or outages in the Placentia System is real, especially in light of the loss of the single source of groundwater due to contamination. It is unclear how much emergency conservation measures will help alleviate any water supply shortages or outages.

Golden State's plan to build two new wells to increase its groundwater sources as a means to address its reliance on decreasing MWD of Orange County supplies is reasonable. For the above stated reasons, Golden State's request for $1,865,386 to drill and equip a new 1,500 gpm well and $206,658 for design and permitting of a second well in the North Zone of the Placentia System is granted.

9.12. Region III Orangethorpe Boulevard Transmission Main Connecting the Yorba Linda and Placentia Systems

Golden State requests $290,447 in 2009 and $3,111,717 in 2010 to construct a transmission main on Orangethorpe Boulevard to connect the Yorba Linda System with the Placentia System.

9.12.1. Positions of Parties

Golden State requests the funds to construct a transmission main to address water supply issues in the Yorba Linda System when it takes the Concerto Well out of service. Golden State states that when the Concerto Well is taken out of service, the Yorba Linda System will be completely reliant on a single source of water supply, the MWD of Orange County connection OC-90. Golden State asserts that new wells cannot be constructed in the Yorba Linda System due to groundwater contamination and therefore a transmission main to move water from the Placentia System to the Yorba Linda System is necessary.

DRA objects to the construction of the main, contending that the emergency connection with the City of Anaheim will be sufficient to provide water to the Yorba Linda System. DRA asserts that even with the Concerto Well out of service, there is sufficient water supply in the Yorba Linda System.

Golden State again cites to the information supplied by the MWD of Orange County regarding curtailment of water availability and the challenges in meeting the water supply demands of the region. Golden State claims that warnings from the MWD of Orange County regarding cutbacks render it a less reliable source for the future than it has been in the past.

9.12.2. Discussion

When Golden State takes the Concerto Well out of service, the Yorba Linda System will have one source of supply, the MWD of Orange County. The MWD of Orange County has informed Golden State of 30% reductions and the possibility of further cutbacks if the drought continues. Although the Yorba Linda System has emergency connections, they are interruptible. If there is a planned or unplanned MWD of Orange County outage, the Yorba Linda System would experience a 100% supply deficiency.

The Commission finds Golden State's plan to develop additional groundwater supply a reasonable step to improve system reliability. Therefore, Golden State's request for $290,447 in 2009 and $3,111,717 in 2010 to construct a transmission main on Orangethorpe Boulevard to connect the Yorba Linda System with the Placentia System is granted.

9.13. Region III Placentia System Newport Plant Boosters

Golden State requests $55,134 in 2011 for the permitting and design related to replacing two booster pumps with larger capacity pumps.

9.13.1. Positions of Parties

Golden State requests funds for permitting and design related to replacing two booster pumps in the Cowan Heights System at the Newport Plant to address supply deficiencies in the event of an East Orange County Water District (East Orange County WD) outage.

DRA argues that there is only a supply deficiency if there is an East Orange County WD outage, which is unlikely, and that storage should be used to overcome any deficiency.

Golden State argues that while there is water in the system to meet demands, the booster pumps at the Newport Plant are of insufficient size to deliver water to the other areas of the system. Golden State cites the possibility of East Orange County water supply becoming less reliable as a reason to provide added reliability to the system.

9.13.2. Discussion

The continued reliability of the East Orange County WD is being threatened by possible supply reductions. Golden State's request to install two booster pumps to increase its pumping capacity at the Newport Plant to improve system reliability in the event of planned or unplanned outages is reasonable. Therefore, Golden State's request for $55,134 in 2011 for the permitting and design related to replacing two booster pumps with larger capacity pumps at the Newport Plant is granted.

10. Region II Issues

10.1. Advanced Metering Infrastructure

Golden State seeks authorization to test, evaluate, and implement one phase of a $27,179,393 Advanced Metering Infrastructure (AMI) system in Region II.

10.1.1. Positions of Parties

Golden State seeks $341,292 to hire an outside consultant to perform a program review in 2009; $159,075 to perform a pilot program in 2010; $198,526 for project management by the retained outside consultant during the pilot program in 2010; and $6,620,125 to begin the actual installation of the AMI system in 2011 in Region II. Golden State states that the AMI program is part of an overall strengthening of its water conservation programs. Golden State asserts that AMI is an important tool that gathers data and transfers information to a central database allowing utilities and their customers to view and track water consumption on demand. Golden State states that certain AMI programs contain features that detect leaks and shut off the water, avoiding flooding and water loss.

DRA recommends the Commission deny Golden State's request stating the program is premature and lacks necessary justification. DRA recommends that the Commission open a rulemaking for Class A Water Companies to determine if AMI is beneficial for water utilities.

Specifically, DRA states that Golden State's AMI program lacks a business plan and that the AMI program of SDG&E, upon which Golden State bases its request, contains a significant amount of advance work prior to implementation. DRA states that SDG&E issued five Requests for Proposals (RFP) before presenting its proposal to the Commission. DRA recommends that Golden State follow the recommendation of its own consultant and provide a cost estimate to the Commission that is based on an RFP that incorporates defined criteria and technical requirements.

Golden State acknowledges that it has not provided a detailed business plan or issued an RFP for the implementation of its proposed AMI system. As an alternative to the full AMI program funding, Golden State requests the Commission grant its request for pre-deployment funding of $341,292 to hire a consultant to assist in the preparation and evaluation of a final AMI deployment plan.

The Cities support DRA's critique of the AMI proposal and request that the Commission deny it.

10.1.2. Discussion

We applaud Golden State's commitment to conservation efforts by requesting implementation of such an innovative program. However, Golden State's plan lacks the requisite pre-planning detail and justification to approve full funding at this time. Golden State's request for pre-deployment funding to hire a consultant is reasonable, therefore we grant pre-deployment funding only, in the amount of $341,292.

11. Region III Issues

11.1. Wrightwood System Water Supply

Initially, Golden State's A.08-07-010 included a request for authorization to construct the Wrightwood Project. The Wrightwood Project is a water exchange program with the Sheep Creek Water Company (SCWC). The exchange program requires certain facilities to be constructed that allow SCWC to provide water to the town of Wrightwood and Golden State would provide replacement water to SCWC. Negotiations for the exchange program were ongoing over a period of years. Prior to the start of the evidentiary hearing phase in the instant application, DRA moved to have the issue removed from the proceeding since the water exchange negotiations had not resulted in a finalized contract. On April 17, 2009, the ALJ ruled that the Wrightwood Project would be removed from consideration, but water supply adequacy would remain as an issue in A.08-07-010.

11.1.1. Positions of Parties

Golden State states that normal year well capacity in Wrightwood is 2,005 gpm and that is sufficient to meet its MDD of 886 gpm. However, Golden State contends that during dry year conditions, the standing groundwater levels are too low to meet system demand in Wrightwood and the result is that well capacity drops to 669 gpm, a deficit of 217 gpm. (Golden State Ex. 8, App. 5, at 115-16.) Golden State defines "dry year" as a year when supply did not meet demand, and estimates dry year minimum capacity by analyzing well flow data during the dry year.[17]

DRA argues that Golden State's dry year calculations underestimate the wells' capacity. For example, Golden State's estimate for the Bobolink Well is 100 gpm for dry years. DRA analyzed the Bobolink well data for 91 pumping days. DRA states that on only 5 days during the 91-day period was Bobolink's pumping capacity below 125 gpm. The average supply was 245 gpm. DRA also questions Golden State's estimates for the Heath Creek Well #7. DRA asserts

[17] Wrightwood experienced "dry years" in July 2002 through January 2003 and again in July and August of 2004.

that since Heath Creek Well #7 did not start production until after the first dry year, Golden State's dry year estimate for Heath Creek Well #7 is suspect.

DRA calculates well capacity for dry years based on the average production of the Golden State wells in Wrightwood. Included in DRA's analysis is the Evergreen Well that was not in existence during the dry years when water had to be trucked into Wrightwood. DRA includes the Evergreen Well in its calculations and estimates its average dry year production by using its average production during the low precipitation year of 2007. DRA's estimate for the Evergreen Well is 212 gpm. When added to DRA's estimated Wrightwood dry year water supply of 679 gpm, the total is 891 gpm during a dry year. DRA states that this exceeds Golden State MDD of 886 gpm.

Golden State objects to DRA's dry year calculation because it uses low precipitation years in its estimate of dry year capacity for the Evergreen Well. Golden State asserts that precipitation, although tied to well capacity, cannot be directly linked to dry years. Golden State claims there is a lag between low precipitation and dry years because it takes time for water to reach the water basin to recharge it or for demand and the lack of precipitation to deplete the groundwater supply. In essence, Golden State claims the lag time between rainfall and groundwater recharge could result in low precipitation years having sufficient water supply and high precipitation years having a water supply deficit.

DRA asserts that two new wells, Heath Creek Well # 7 and Evergreen Well, have eliminated the water supply deficit. DRA states that even though there has been lower precipitation since those wells went into production, there has been no supply deficiency.

Golden State again refers to the lag time between precipitation and groundwater recharge. Golden State also refutes DRA's claim regarding the new wells adding to supply stating that the water is all drawn from the same supply source. Golden State refers to new wells as additional straws drawing water from the same bucket.

DRA recommends that Golden State address water leaks and institute conservation measures as a means to improve water supply. DRA cites the Master Plan water loss rate for Wrightwood of 17.39% and leaks in its reservoir tank that have been known since 2000.

Golden State asserts that DRA water loss figures do not accurately portray Wrightwood's water loss and a more accurate measure is water lost per mile of pipe.

11.1.2. Discussion

It is uncontested that Wrightwood had two periods in which there was insufficient water to meet system demand and water had to be trucked in to Wrightwood. Wrightwood is a small mountain community at 5,680 to 6,600 feet above sea level, accessible by a two-lane highway. Given Wrightwood's location, trucking water is a less than optimal solution.

Golden State and DRA differ on how to estimate dry year system capacity. DRA's calculations are based on averaged actual water produced during the time when water was trucked—Golden State's definition of a dry year. The proxy DRA uses to determine the Evergreen Well production is reasonable. Absent a better method to calculate dry year production, DRA used the best information available.

Golden State argues that dry years are the years when supply cannot meet demand and that DRA's estimate should be rejected because using a low precipitation year is inaccurate due to the lag time between precipitation and changes in the groundwater level. However, Golden State did not provide a time frame for the lag time between precipitation and groundwater basin recharge or link precipitation amounts to existing or changed groundwater levels. Golden State provides no data to develop a more accurate estimate of dry year production or predict when a dry year might occur again.

Although Golden State did estimate Evergreen Well's dry year production as a 40% reduction, it provided no basis for the estimate. Interestingly however, Golden State did state that the Evergreen Well went online concurrent with a significant amount of rainfall and shortly thereafter, the standing water level in Wrightwood wells increased by 40 feet. There does not appear to have been a significant lag time between the rainfall and the increased groundwater level at that time.

Golden State also contends that new wells do not add to the water supply because wells are merely straws drawing from the same bucket of water. However, as DRA asserts, once the Heath Creek Well #7 and Evergreen Well went into production, the supply to Wrightwood has been adequate to meet demand, even during long periods of low precipitation. In fact, even though there has been less precipitation in the years since Heath Creek Well #7 and Evergreen Well went online than during the dry years, the water supply has been sufficient to meet MDD.

Golden State has not met its burden of proof regarding inadequate water supply in Wrightwood. Golden State provided no guidelines to predict when a dry year will occur or to estimate the lag time between precipitation and groundwater recharge. Wrightwood has not experienced a dry year since 2004 even though there have been three successive years of low precipitation.

The Wrightwood Project issue was removed from this proceeding by the ruling; however, the GRC application still includes the request for construction funds. Therefore, Golden State's request for $11,313,039 for construction of the Wrightwood Project is denied.

11.2. Conservation Expenses

Golden State requests $738,644 for Region III 2009 conservation expenses.

11.2.1. Positions of the Parties

DRA objects to Golden State's calculation of conservation expenses. DRA requests the Commission to authorize only $463,000 as the conservation expenses for 2009. DRA asserts that $463,000 is the appropriate conservation expense figure because it is derived from the attrition year methodology in the rate case plan rather than the forecasted method used by Golden State.

Golden State objects to DRA's line item application of the attrition year methodology and cites DRA's lack of objection to other line items using the same forecasted methodology. Golden State claims its forecasts were calculated using the previous year's expenses and are based on the Commission's Water Action Plan and the California Urban Water Conservation Council's BMP.

11.2.2. Discussion

Golden State's forecasts for conservation costs are based on actual previous expenses, the Commission's Water Action Plan and the recommendation of the California Urban Water Conservation Council. Golden

State's conservation costs are reasonable and its request for $738,644 for conservation expenses in Region III is granted.

12. Region I Issues

12.1. La Serena Plant Improvements Project

The La Serena Plant Improvements Project (La Serena) included construction of a 0.5 million gallon storage tank, telemetry, new motor control center, seismic upgrades to the existing storage tank, upgrade of backwash pond and backwash water disposal system, new pressure filter controls and control valves, new booster, landscaping and the construction of a new driveway and perimeter fencing/wall. In D.08-04-013, the Commission approved $107,000 for landscaping/screening and paving at the La Serena plant. In the decision, the Commission stated that the $107,000 appeared to be part of a larger project not before it in that application. Golden State's tariffs implementing the rates approved in D.08-04-013 included the $3.7 million La Serena project costs. DRA filed a petition for rehearing of D.08-04-013. In D.08-08-031, the Commission granted a rehearing to determine if it was reasonable to include $3.7 million associated with the La Serena project in Golden State's Region I rates.

12.1.1. Positions of the Parties

Golden State states that the La Serena improvements were necessary due to a long-standing supply and storage deficiency identified in the 1998/1999 Master Plans for the Nipomo System. Golden State asserts that the water supply and storage deficiency were exacerbated when the San Simeon earthquake damaged the Vista Plant. Golden State asserts that within this same timeframe, a 41-lot development, two 12-unit developments, and a 650-student elementary school were built and Golden State decided it was time to address the water supply and storage problem in the Nipomo System. (Golden State Ex. 70 at 3.)

Golden State estimated the cost of the 500,000 gallon tank at $400,000 and special facilities fees were based on the supply requirements of the new developments and the school. Golden State calculated the school's special facility fee as $130,000 and the 41-lot development's fee as $157,000, for a total of $287,000. Golden State did not collect special facilities fees from the 12-unit developments because "… the demand of a 12-unit subdivision would be about 12 gallons a minute which is equivalent to the amount of water you could get out of a hose bib." (RT at 537.)

Golden State states that the construction of the storage tank was to address the needs of the system as a whole and therefore the $3.7 million is correctly included in rate base.

DRA asserts that developers should pay the costs of the whole project as it was undertaken to serve new development, not existing customers. DRA claims that the 1998/1999 Master Plan may have identified a small future need, but Golden State made no move to address it in any GRC filed subsequent to the 1998/1999 Master Plan. DRA contends that Golden State waited until after new development occurred to add additional storage and since the needs of the new development are over 50% of the capacity of the new facility, the costs should be charged to the developer.

In support of its position, DRA refers to Golden State's Tariff 15 which states:

> If special facilities consisting of items not covered by Section C.1. are required for the service requested and, when such facilities to be installed will supply both the main extension and other parts of the

> utility's system, at least 50 percent of the design capacity (in gallons, gpm, or other appropriate units) is required to supply the main extension, the cost of such special facilities may be included in the advance, subject to refunds as hereinafter provided along with refund of the advance of the cost of the extension facilities described in Section C.1.a. above.

DRA states that Rule 15 clearly warrants that the full project costs be treated as special facilities fees and collected from the developers. DRA also cites D.05-12-020 as recognition that the costs of all necessary facilities should be recovered in special facilities fees, not rate base. D.05-12-020 states:

> Construing all the provisions of Apple Valley's Rule 15, we conclude that the cost of all necessary facilities to serve new customers, including well, tanks and treatment facilities, when clearly attributable to new customers, should be recovered in facilities charge, and not imposed on the existing customer base. (DRA Ex. 110 at 1-12.)

DRA asserts that Golden State's calculation of the new developments' requirements is faulty. DRA calculates the storage capacity requirements of the new developments and the school to determine the percentage of the new tank's capacity needed by the new development. DRA calculated that the school required storage capacity of 180,000 gallons to meet fire flow requirements, and the 41-lot development required 120,000 gallons to meet fire flow requirements and 53,300 gallons to meet MDD. DRA calculated total storage capacity for the 41-lot development and the school as 353,000 gallons which is 70.66% of the 500,000 gallon storage tank. Based on this estimate, DRA recommends that the

Commission remove $3,519,000[18] from rate base and refund customers $1,112,275 for revenue collected in rates since January 2008.

12.1.2. Discussion

Golden State's initial estimate for the cost of the La Serena 500,000 gallon storage tank was grossly underestimated. The original estimate was $400,000 and based on construction at a site in which there were no constraints or problems. Golden State's witness Gisler testified:

> The estimate for the tank on the special facilities fee calculation, the $400,000 for a 500,000 gallon tank, is a good estimate for what it would cost to purchase steel, pour a concrete footing, erect the steel and coat the steel on a given flat site where the property was already available and no other site constraints or problems were required to be addressed with. (RT at 625:3-10.)

The estimate included no contingencies for the possibility that the site would not be perfect, even though the site was owned by Golden State at the time of the estimate. The site required significant modifications and the final tank cost of $1,102,256 was more than double the initial estimate. An additional $2,603,971 was spent on site construction and other improvements.[19] Golden State's witness Gisler went on to testify:

> Well, on the work order showing the estimate on here, the $985,000, that was based on constructing that tank on the La Serena site. And the La Serena site is a large piece of property, but it has a pretty

[18] D.00-12-063 approved $181,000 in upgrades: $3,700,000 – 181,000 = $3,519,000.

[19] Tree removal $22,504; Civil/Earthwork $1,103,342; Mechanical $414,232; Electrical $380,839; I&C/MCC $402, 941; SCADA $9,750; Landscaping and Erosion Control $36,439; and Paving $35,925.

> large slope across the property, and there's existing reservoir on the east side of the site which is a higher elevated station. And then adjacent to that tank was a backwash pond, so an earthen pond, that we used to backwash water in from a filter. And then we had a lot of vacant land to the west of the site, but this land was 10 to 20 feet lower than the—where the existing tank was.
>
> So what we had to do is to build a second tank because we need the second tank to be the same elevation that the floor of both tanks and the tops of both tanks are the same so that they could fill and drain together.
>
> So to accommodate that, we had to construct a new backwash pond on the west side of the property. We had to go in and over excavate and muck out all of the sludge and sloppy material in the backwash pond and over excavate that, import engineered fill for the soils report by a geotech and build a new ground base, and then pour the concrete footings and then construct the steel tank on top of that.
>
> So, in essence, we built a $400,000 tank on top of a bunch of other sub surface that was required. (RT at 625-626.)

Not only did Golden State never contact the developers and revise the special facilities fees based on the updated cost estimates, Golden State did not collect from all the developers in the first place. Golden State collected fees for only the 41-unit development and the school, but not the two 12-unit developments.

Additional facility improvements increased the cost to $3.7 million. Golden State's Gisler further testifies:

> … The $3.7 million includes quite a few site improvements that were performed at La Serena. It was the tank that I just described, the back filling of the pond and importing of material to build a good solid foundation. We had to construct new backwash ponds. We actually constructed two of them so could you drain one and keep the other one in operation.

> Down on the west side, we had to replace the valves on the iron manganese filter, and we replaced the motor control center and actually added another section to accommodate the third electric booster pump. And we had to put security fence around the site. And the conditional use permit required that we provide perimeter landscaping along the frontage of both roads because it's a corner lot.
>
> Then we had to build a wall along the two sides that were adjacent to residential units.

Golden State claims that the La Serena improvements were undertaken to address deficiencies in the Nipomo System are unpersuasive. No steps to improve the La Serena plant were undertaken until well after the initial estimate for the storage tank was provided for the benefit of the new developments. As Golden State witness Gisler most tellingly stated (emphasis added):

> Historically, the area served by the La Serena Plant was not densely populated and experienced slow growth. New houses were built individually, rather than as part of larger development. **Thus, GSWC did not need to construct additional facilities to serve the existing area; rather GSWC focus was primarily maintenance of the existing facilities.**
>
> Between 2000 and 2004, several new developments were built in the surrounding area. The developments included three small residential developments and 650-student elementary school (project specifics below). **In order to meet the increased demand resulting from these new developments, Golden State modified the La Serena Plants (discussed in detail below) to increase storage for operational control, peak demand and fire flow and an increase in booster capacity to enhance fire protection.** (Golden State Ex. 70 at 3.)

In its supplemental testimony Golden State seems to completely ignore or contradict its earlier testimony cited above. Golden State's supplemental testimony stresses the need for increased storage and flow for its existing customers and casts the new developments as a "last straw" for the needed improvements. Golden State's supplemental testimony also proffers an alternate special facilities fee calculation that it contends results in an over-collection of fees from the developers. We find it impossible to follow the logic that results in an over-collection of fees when two 12-unit developments paid nothing toward the improvements, yet millions of dollars in construction costs remain that existing ratepayers are expected to absorb. Even if we were to accept Golden State's alternate fee calculation, any over-collection should benefit existing ratepayers, not provide an excuse for collecting nothing at all from one of the developers.

Golden State's alternate fee calculation contained in its supplemental testimony considers the fire flow requirements of the new developments individually, rather than cumulatively as the calculations in its earlier testimony did. Residential units require 120,000 gallons of storage to meet fire flow and schools require 160,000 gallons of storage to meet fire flow. Because the existing system's fire flow storage capacity is 120,000 gallons, Golden State now asserts that only an additional 60,000 gallons of fire flow storage, of the 500,000 gallon storage tank, is attributable to the new school and that is the basis for its alternate calculations. However, using Golden State's justification for the alternate fee calculation, it appears that the existing system was sufficient to meet the fire flow demands of its current and new residential customers. Therefore, the new storage tank was built to meet the needs of the new school alone.

In its oral arguments Golden State referred to the "lumpiness" that occurs when new storage facilities are constructed and states that even if no new development had occurred, the same size facility would have been constructed. (RT at 932-933) We understand that certain construction costs are unaffected by the size of the storage tank built and that the incremental cost of building a larger-than-currently-needed tank are relatively small. However, Golden State's testimony that the area was slow growing and that its focus was primarily maintenance of the existing system undermines its claim that the new storage tank was needed to meet the present or future needs of existing customers. Golden State cannot have it both ways; it cannot claim that the storage tank was built to meet the needs of existing customers, yet base its fee calculations on a premise that excludes new residential development on the basis that the existing system meets the needs of the new residential development.

Golden State grossly under-estimated the cost of the La Serena project and grossly under-collected fees from developers. Golden State's supplemental testimony is a transparent attempt to justify its previous errors. In its supplemental testimony DRA states that the objective of Special Facilities Fees is to obtain the fair share of the costs of the new developments that ought to be paid by the developers. (DRA Ex. 132 at 19.) We agree.

We find that the La Serena project was undertaken for the benefit of new customers. We also find DRA's calculations for supply and capacity according to tariff Rule 15 reasonable and DRA's argument that tariff Rule 15 requires developers to pay all associated costs has merit. For the reasons stated above, Golden State's request to include $3,519,000 for La Serena project costs is not reasonable and is denied. Golden State should remove $3,519,000 from rate base. Additionally, Golden State's Region I ratepayers should be given a one-time credit of $1,112,275 to offset the fact that Golden State previously included the La Serena costs in rate base.

13. Regionalized Rates

Both Cities and Cypress request that the Commission review Golden State's regionalized rates no later than the next GRC. Cypress provided an extensive legal discussion of the impact of regionalized rates; however, the issue of regionalized rates is outside the scope of this proceeding.

14. True-Up of interim Rates

By Ruling dated December 23, 2009, we found it in the public interest to grant interim rate relief to Golden State for the two regions in this GRC proceeding. Consistent with Section 455.2, the interim rate increase is based on the rate of inflation as compared to existing rates for each region, is subject to refund, and will be adjusted upward or downward, back to January 1, 2010, based on the final rates adopted by the Commission in this decision.[20]

Based on our decision today, there will be a surcharge for each region for the period since January 1, 2010. Golden State should recover the surcharge for each region over the remainder of this rate case cycle.

15. Comments on the Proposed Decision

The proposed decision of ALJ Linda A. Rochester in this matter was mailed to the parties in accordance with Pub. Util. Code § 311 and comments were allowed pursuant to Rule 14.3. Opening comments were filed by Golden State and DRA on November 9, 2010, and reply comments were filed by Golden

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[20] The rate of inflation is to be calculated using the most recent Consumer Price Index maintained by the U.S. Department of Labor.

State and DRA on November 15, 2010. All comments were considered and changes were made as appropriate. Updated figures for pension and benefit amounts were added to section 7.5.1, CCFT amounts for regions II and III were clarified in section 8.1.2, typos were corrected throughout the document, and language more descriptive of the settlement's compensation provisions was incorporated.

16. Assignment of Proceeding

John A. Bohn is the assigned Commissioner and Linda A. Rochester is the assigned ALJ in this proceeding.

Findings of Fact

1. Golden State and DRA are the only parties to the settlement.
2. Golden State provided applications and exhibits explaining its request for a rate increase in detail.
3. DRA provided an analysis of the applications indicating that it agreed with some of Golden State's estimates and disagreed with others.
4. The overall settlement result lies between the initial positions of Golden State and DRA, and the settlement resolves some issues raised by other parties.
5. Golden State represents the interest of its shareholders.
6. DRA represents the interests of ratepayers.
7. The settlement and our resolution of contested issues in this proceeding result in rates sufficient to provide adequate reliable service to customers at reasonable rates while providing Golden State with the opportunity to earn a reasonable return.
8. Absent "extraordinary circumstances," including vacant positions in labor expense is not reasonable.

9. Golden State's aggressive recruiting efforts do not constitute "extraordinary circumstances," but there is no evidence of bad faith on Golden State's part to indicate willful noncompliance with Pub. Util. Code § 2107, warranting a fine of $45,000.

10. Golden State's proposal to allocate certain costs based on a single-factor allocation and certain other costs based on a four-factor allocation is not reasonable.

11. It is reasonable to allocate to Golden State only and to Golden State, Chaparral and ASUS-City combined, all those costs centers which provide absolutely no service to ASUS-Military.

12. It is not reasonable for Golden State to count each military contract as one customer.

13. It is reasonable to use the combined total of connections at each military base (17,788) under contract to ASUS as the number of ASUS-Military customers in the four-factor allocation.

14. Although the amount or expense related to purchased water does not materially impact the amount of general office activity, a full four factor allocation methodology is intended to smooth out the discrepancies.

15. Including the purchased water costs in the expenses factor of the four-factor cost allocation is reasonable.

16. DRA's proposal to include the value of all distribution assets at the military bases served by ASUS in the plant factor of the four-factor cost allocation is reasonable.

17. Golden State's proposal to use only the plant associated with ASUS's corporate headquarters and assets is not reasonable.

18. Golden State's proposed employee expenses for ASUS represents only 27 ASUS employees in the employee expenses factor of the four-factor cost allocation.

19. The number of ASUS employees has gone from 27 to 84 since Golden State filed its GRC application.

20. Using employee count instead of employee expenses results in a more accurate cost allocation.

21. All Golden State's contracts to supply unregulated services to various cities expired January 1, 2010, except the contract with the City of Torrance.

22. Golden State and DRA reached settlement on the allocation of general office costs for the City of Torrance contract.

23. Golden State has not demonstrated that without a 1% equity adjustment, it will be unable to attract and retain highly skilled employees or that customer service will suffer.

24. Golden State has been able to fill 85 positions in the last 12 months.

25. The current state unemployment rate is sufficient incentive for current employees to perform at a high level and to attract skilled applicants for open positions.

26. Golden State's request for a 1% equity adjustment is not reasonable.

27. Golden State asserts that enhanced and expanded retiree medical benefits are necessary to stay competitive with other water utilities vying for the same employees from a limited pool of technically skilled candidates.

28. Golden State's request to expand and enhance retiree medical benefits would increase the retiree medical benefit costs to ratepayers by 350%.

29. Golden State's request for expanded and enhanced retiree medical benefits is not reasonable.

30. Under the current ratemaking treatment for pension and post-retirement benefits, market fluctuations result in over-recovery in some years and under-recovery in others.

31. Balancing accounts remove the impact of market fluctuations and protect ratepayers from under-recovery, but also remove an incentive for utilities to control costs.

32. There are other methods for utilities to control the volatility of pension costs.

33. Golden State's request for a pension balancing account is not reasonable.

34. Golden State's two general office facilities house 154 employees.

35. Varied and overlapping work schedules for its call center employees indicate a need for individual work spaces.

36. Golden State's request for $288,900 in 2009 for new leased general office space is reasonable.

37. Golden State's compensation for its five highest paid executives falls high within the range set by its consultant.

38. Golden State has 12 executive or officers whose compensation falls within the range of compensation set for only the 5 highest paid positions.

39. Golden State's executive compensation exceeds the level recommended by its consultant.

40. DRA's request for executive labor expense that is $1 million (30.1%) less than Golden State requested is not reasonable.

41. Allowing Golden State's executive compensation at a level that is $500,000 (15%) less than requested is reasonable.

42. Golden State's COPS reorganization is not complete.

43. Golden State's next GRC is due to be filed in May 2011, about six months after the issuance of the decision in this proceeding.

44. A management audit prior to the next GRC would not provide sufficient time to determine if the reorganization is providing the expected beneficial results.

45. DRA's request for a management audit prior to the next GRC is not reasonable.

46. In past GRCs, because more accurate information was not available, an estimate was used to calculate test year CCFT for FIT purposes.

47. Some of Golden State's CCFT figures are readily available during the current tax year.

48. Using partial actual CCFT figures in the calculation of FIT is preferable to a total estimate.

49. Any changes to the current CCFT methodology will result in inconsistent tax treatment among Golden State's regions. A review of the CCFT is more appropriately undertaken in Golden State's upcoming statewide GRC due to be filed in 2011.

50. The Commission's Water Action Plan discusses the necessity of water utilities addressing their infrastructure needs by undertaking long-term planning to provide the capital to improve or replace existing infrastructure.

51. Golden State's consultant's activities, or similar future activities, comply with the Water Action Plan.

52. Golden State's request for $200,000 for Region II and $250,000 for Region III regulatory expense is a reasonable forecast of future expenses.

53. Golden State interprets DPH's § 64554(c) to require that all groundwater-only systems meet MDD with the highest-capacity source off line, defining it as a "firm capacity" standard and a prudent utility practice.

54. DPH has clarified § 64554(c) as requiring only groundwater-only water systems to meet MDD with the highest source capacity off line before being granted an initial permit.

55. Golden State's request for two new wells in the Norwalk System is based on Golden State's application of its "firm capacity" standard.

56. Golden State's request for two new wells in the Norwalk System is not reasonable.

57. Removing the largest capacity source to determine adequate water supply or water pressure in the West Hampshire Plant is not required by DPH's § 64554(c) or GO 103-A.

58. Golden State's request for booster pump stations in the West Hampshire Plant to address water pressure issues when the highest-source capacity is off line is not reasonable.

59. Golden State's request for new storage tanks/reservoirs in the West Hampshire Plant is based on the need for the new booster station.

60. Because the new booster station in the West Hampshire Plant is not reasonable, the storage tanks/reservoirs are unnecessary and therefore not reasonable.

61. Golden State's request for a chlorination system is based on its need for a booster station and storages tanks/reservoirs.

62. Golden State's request for a chlorination system is not reasonable.

63. The Three Valleys MWD inspection of the Miramar Liner and Cover found the reservoir was in good condition and recommended only repairs.

64. Golden State's request for funds to replace the liner and cover on the Miramar Reservoir is not reasonable.

65. Reconstructing the San Dimas Baseline Well #4 forebay and pump is reasonable as the pump is projected to last as long as the current well and the pump will be used on the replacement well.

66. Golden State's request for funds to reconstruct the Baseline Well #4 forebay and pump is reasonable.

67. The new site for a booster station in the San Dimas System has not been chosen.

68. Project design and permitting activities are associated with a particular site.

69. Because no site for the San Dimas booster station has been selected or purchased, Golden State's request for design and permitting fees is not reasonable.

70. The Apple Valley South System is a groundwater-only system and has a supply deficit of 88 gpm when Golden State applies its interpretation of "firm capacity" which requires meeting MDD with the highest source capacity off line.

71. Less-costly alternatives, such as conservation, should be explored to address the possible 88 gpm deficiency prior to burdening ratepayers with the expense of a new well.

72. Golden State's request for a new well in the Apple Valley South System is not reasonable.

73. The Apple Valley North System is a single source groundwater system.

74. If Apple Valley North System's single source of groundwater is off line for any reason, the system has a 100% deficit that cannot be alleviated through conservation.

75. Relocating and enlarging the Yucca Booster Pump will enable Golden State to supply water to the Apple Valley North System if the single groundwater source is off line for any reason.

76. Golden State's request for funds to relocate and enlarge the Yucca Booster Pump in the Apple Valley North System is reasonable.

77. MWD of Orange County requires that water agencies purchase water at a constant rate over each 24-hour period.

78. The Placentia System's current storage capacity of 1.5 million gallons is insufficient to meet the storage requirements of 3.0 million gallons in order to maintain the constant rate required by the MWD of Orange County.

79. Golden State has provided an estimate for the land acquisition based on previous land acquisitions and land costs in Orange County, the site of the proposed reservoir.

80. Golden State's request for funds to purchase land and construct a new reservoir to increase storage capacity for the Placentia System in order to meet the MWD of Orange County requirement that water be purchased at a constant rate is reasonable.

81. The Placentia System's sole groundwater source is scheduled to be taken off line due to contamination, leaving the system with only two sources of supply, the OC-37 and OC-56 connections with the MWD of Orange County.

82. Although the MWD of Orange County's water supply has been reliable for the last 20 years, it is currently warning its customers of a possible 30% curtailment of water availability and possibly more if the drought continues.

83. Golden State's proposal to build two new wells in the Placentia System to increase its groundwater sources and decrease its reliance on diminishing MWD of Orange County water supplies is reasonable.

84. When Golden State takes its Concerto Well out of service, the Yorba Linda System will be completely reliant on a single source of groundwater, the OC-90 connection with MWD of Orange County.

85. Golden State has received warnings regarding curtailment of water supply from the MWD of Orange County.

86. Golden State's request to construct a transmission main to connect the Yorba Linda System with the Placentia System to improve system reliability is reasonable.

87. Golden State's booster pumps in the Placentia System Newport Plant are of insufficient size to deliver water to the system in the case of a planned or unplanned outage.

88. Golden State's request for permitting and design related to replacing the booster pumps in the Placentia System Newport Plant to increase system reliability in the event of an outage is reasonable.

89. Golden State's AMI program lacks the requisite preplanning detail and justification.

90. Golden State's request for AMI pilot program funding is not reasonable.

91. Golden State's request for pre-deployment funds to hire a consultant to assist in the preparation and evaluation of a final AMI deployment plan is reasonable.

92. Golden State provided no guidelines to predict when a dry year will occur in Wrightwood.

93. Golden State has provided no information to estimate the lag time between precipitation and groundwater recharge in Wrightwood.

94. Golden State has not met its burden of proof regarding inadequate water supply in the Wrightwood System.

95. Golden State's request for $11,313,039 for the Wrightwood water exchange project should not be included in rate base as the project was removed from the scope of its application.

96. Golden State's conservation costs are based on previous years' expenses, the Commission's Water Action Plan and the California Urban Water Conservation Council's recommendations.

97. Golden State's forecasted conservation costs are reasonable.

98. The La Serena project costs were poorly estimated.

99. Golden State did not revise the special facilities fees based on the updated cost estimates.

100. Golden State did not collect special facilities fees from all the developments.

101. The La Serena project costs were incorrectly included in rate base after Golden State's last GRC.

102. The La Serena plant improvements were undertaken for the sole benefit of new developments.

103. The La Serena plant improvement costs are not reasonable.

Conclusions of Law

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 does not violate any statute or Commission decision or rule.

3. The settlement is consistent with law.

4. The settlement is in the public interest.

5. The settlement should be adopted.

6. Golden State should not be fined $45,000 for including vacant positions in its labor expense calculations.

7. Golden State's proposed $1,471,247 labor expense associated with vacant positions should not be approved.

8. The total number of connections at each military base should be counted as customers in the general office cost allocation methodology.

9. Purchased water costs for Golden State and Chaparral should be included in the total expenses factor of the general office cost allocation four factor methodology.

10. The total value of all distribution assets at the military bases served by ASUS should be included in the plant factor of the four-factor cost allocation.

11. Employee count should be used instead of total labor expense factor in the general office four factor cost allocation methodology.

12. Golden State's request for a 1% equity adjustment should be denied.

13. Golden State's request for $3,340,800 in 2009, $3,411,000 in 2010, $3,505,000 in 2011, and $3,573,000 in 2012 for expanded post-retirement medical benefits should be denied.

14. Golden State's request for balancing account treatment for pension and benefits should be denied.

15. The updated estimated pension expense of $6,780,000 in 2010, $$6,664,000 in 2011 and $6,595,000 in 2012, based on updated actuarial calculations and agreed to by Golden State and DRA, should be adopted.

16. Golden State's request for $314,600 in 2009, $326,900 in 2010, $339,600 in 2011, and $352,800 in 2012 for rental expense should be granted.

17. Golden State's executive compensation included in rates should be $500,000 less than requested.

18. DRA's request for a management audit prior to Golden State's next GRC should be denied.

19. Golden State's CCFT figure of $630,400 should be adopted.

20. The issue of whether to revise Golden State's methodology for calculation of the CCFT should be undertaken in Golden State's statewide GRC to be filed in 2011.

21. Golden State's request for $200,000 for Region II and $250,000 for Region III regulatory expense should be granted.

22. Golden State's "firm capacity" standard exceeds the requirements of DPH's § 64554(c).

23. Golden State's request for $2,639,737 in 2009 and $3,946,809 in 2010 to purchase land and drill, develop and equip two new 900 gpm wells at the Norwalk System's Imperial East site should be denied.

24. Golden State's request for $2,639,737 in 2009 and $3,946,809 in 2010 to purchase land and drill, develop and equip two new 900 gpm wells at the Norwalk System's Imperial East site should be denied.

25. Golden State's request for $240,000 in 2009 and $1,360,390 in 2010 to design and construct a new booster pump station in the Central Basin West Hampshire Plant should be denied.

26. Golden State's request for $366,895 in 2010 and $1,967,565 in 2011 to design and construct a new 2.0 million gallon reservoir at the Hampshire Plant and demolish the existing 0.25 million gallon Hampshire Tank should be denied.

27. Golden State's request for $36,689 in 2010 and $248,045 in 2011 for a chlorination system for the Central Basin Hampshire Plant Booster Station reservoir should be denied.

28. Golden State's request for $5,301 in 2008 and $958,973 in 2009 to replace the liner and cover on the Miramar Reservoir #2 at Three Valleys MWD should be denied.

29. Golden State's request for $56,308 in 2008 and $278,540 in 2009 to reconstruct the hydraulics surrounding the San Dimas System Baseline Well #4 should be granted.

30. Golden State's request for $265,542 in 2011 for design and permitting costs associated with building a new booster station to move water from the Vinnell gradient to the Wayhill gradient in the San Dimas System should be denied.

31. Golden State's request for $2,075,861 to purchase land and design, construct, drill and equip a new well in the Apple Valley South System should be denied.

32. Golden State's request for $746,058 to relocate and enlarge the Yucca Booster Pump in the Apple Valley North System should be granted.

33. Golden State's request for $19,284 in 2010 and $5,242,589 in 2011 to acquire land to build a new reservoir should be granted.

34. Golden State's request for $1,865,386 to drill and equip a new 1,500 gpm well and $206,658 for design and permitting of a second well in the North Zone of the Placentia System should be granted.

35. Golden State's request for $55,134 in 2011 for the permitting and design related to replacing two booster pumps with larger capacity pumps should be granted.

36. Golden State's request for $55,134 in 2011 for the permitting and design related to replacing two booster pumps with larger capacity pumps should be granted.

37. Golden State's request to test, evaluate, and implement one phase of a $27,179,393 AMI system in Region II should be denied.

38. Golden State's request for $341,292 to hire a consultant to assist in the pre-deployment preparation and evaluation of a final AMI deployment plan should be granted.

39. Golden State's request for $11,313,039 for construction of the Wrightwood Project should be denied.

40. Golden State's request for $738,644 for conservation expenses in Region III should be granted.

41. Golden State should remove $3,518,000 associated with the La Serena project costs from rate base.

42. Golden State's Region I ratepayers should be given a one-time credit of $1,112,275 to offset the fact that Golden State previously included the La Serena costs in rate base.

O R D E R

IT IS ORDERED that:

1. The joint motions of Golden State Water Company and the Division of Ratepayer Advocates to approve the settlement agreements, are granted.

2. As provided for in the settlement, Golden State Water Company is authorized to file a Tier 2 advice letter to recover actual costs incurred for the design, acquisition of land and construction of a 500,000 gallon reservoir in Claremont after the project is completed, used, and useful. The advice letter recovery is capped at a total cost for design, land acquisition and construction of $1,677,542. This amount includes overhead of 17.80% for the design and 26.88% for construction and a contingency rate of 7.5%.

3. As provided for in the settlement, Golden State Water Company is authorized to file a Tier 2 advice letter to recover actual costs incurred to stabilize the Eaglecliff Tank in San Dimas after the project is completed, used, and useful. The advice letter recovery is capped at a total cost of $329,217 including overhead rates of 17.80% for design and 26.88% for construction and a contingency rate of 7.5%.

4. As provided for in the settlement, Golden State Water Company is authorized to file a Tier 2 advice letter to recover actual costs incurred to purchase land for a 2.5 million gallon reservoir site in South San Gabriel after the project is completed, used, and useful. The advice letter recovery is capped at a total cost of $2,064,200 including a contingency rate of 7.5%.

5. As provided for in the settlement, Golden State Water Company is authorized to file a Tier 2 advice letter to recover actual costs incurred to install the Lone Pine reservoir in Wrightwood after the project is completed, used, and useful. The advice letter recovery is capped at $537,500 including overhead of 17.80% and a contingency rate of 7.5%.

6. As provided for in the settlement, Golden State Water Company is authorized to file a Tier 2 advice letter to recover actual costs for the Sheep Creek Reservoir in Wrightwood after the project is completed, used, and useful. The advice letter recovery is capped at $376,250 including overhead of 17.80% and a contingency rate of 7.5%.

7. As provided for in the settlement, Golden State Water Company is authorized to file a Tier 2 advice letter to establish a balancing account to recover $375,000 for the cost of hiring a consultant to conduct a comprehensive well replacement study. The study shall be expensed in the year the study is conducted and recovery shall be based on actual prudently incurred costs at the time of the next general office general rate case.

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

9. Golden State Water Company shall provide a one-time credit of $1,112,275 to customers as an offset to La Serena plant improvement project costs included in rate base.

10. Golden State Water Company is authorized to file by Tier 1 advice letter, revised tariff schedules, 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 schedules shall be five days after filing, and shall apply only to service rendered on or after that date.

11. For escalation years 2011 and 2012, Golden State Water Company shall file Tier 1 advice letters in conformance with General Order 96-B proposing new revenue requirements and corresponding revised tariff schedules for each district and rate area in this proceeding. Golden State Water Company's advice letters shall follow the escalation procedures set forth in the Commission's Rate Case Plan (Decision 07-05-062) for Class A Water Utilities and shall include appropriate supporting workpapers. The revised tariff schedules shall take effect on January 1, 2011 and January 1, 2012, respectively and shall apply to service rendered on and after their effective dates. The proposed, revised revenue requirements and rates shall be reviewed by the Commission's Division of Water and Audits. The Division of Water and Audits shall inform the Commission if it finds that the revised rates do not conform to the Rate Case Plan, this order, or other Commission decisions, and if so, reject the filing.

12. The sur-charge to true-up the interim rates shall be collected over the remainder of this rate case cycle. The tariff implementing the sur-charge may be included in the filing authorized in Ordering Paragraph 10 or filed by Tier 1 advice letter within 5 days of the effective date of the rate increases authorized by this decision.

13. Application 08-07-010 and Application 07-01-014 are closed.

This order is effective today.

Dated ______________________________, at San Francisco, California.