

Decision **PROPOSED DECISION OF ALJ O'DONNELL** (Mailed 10/26/2010)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the application of California Water Service Company, (U60W), a California corporation, for an order 1) authorizing it to increase rates for water service by \$70,592,000 or 16.75% in test year 2011, 2) authorizing it to increase rates on January 1, 2012 by \$24,777,000 or 5.04% and January 1, 2013 by \$24,777,000 or 4.79% in accordance with the Rate Case Plan, and 3) adopting other related rulings and relief necessary to implement the Commission's ratemaking policies.

Application 09-07-001
(Filed July 2, 2009)

Darin Duncan, Attorney at Law, for California Water Service Company, applicant.

Selina Shek, Attorney at Law, for the Division of Ratepayer Advocates; Jeffrey Young, for self; Marcos Pareas, for self; William Larry Tyler, for Leona Valley Town Council; Steven M. Solomon, for City of Visalia; and Jack L. Chacanaca, for Fremont Valley Property Owners; interested parties.

**DECISION AUTHORIZING GENERAL RATE INCREASES
FOR CALIFORNIA WATER SERVICE COMPANY**

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**DECISION AUTHORIZING GENERAL RATE INCREASES
FOR CALIFORNIA WATER SERVICE COMPANY**

1. Summary

By this decision, the Commission authorizes general rate increases for California Water Service Company (CWS) for 24 districts for 2011. CWS is also authorized to file escalation advice letters for 2012 and 2013, and ratebase offset advice letters for specified projects. In doing so, the Commission adopts a settlement agreement between five of the seven parties to the proceeding that resolves most of the issues in this application.¹ The Commission also adopts a second settlement agreement between two of the parties that resolves a single issue not resolved in the first settlement agreement. The overall revenue requirement increase approved herein for 2011 is \$25,444,800 or 5.6%. Individual district revenue requirement changes range from a decrease of 1.1% to an increase of 50.0%.²

This proceeding is closed.

2. Procedural Background

On July 2, 2009, California Water Service Company (CWS, Cal Water) filed this application for a general rate increase. CWS requests that rates for Test Year 2011 increase by \$70,592,900 or 16.75% on January 1, 2011. It estimates escalation

¹ Three of the parties to the settlement disagreed with limited portions of the settlement.

² Requested individual district revenue requirement increases ranged from 6.3% to 154.8%.

rate increases of \$24,777,000 or 5.04% on January 1, 2012, and \$24,777,000 or 4.79% on January 1, 2013. CWS says that the escalation years are shown for illustration and customer information purposes, and it will file advice letters to implement the rate changes as provided for in Decision (D.) 07-05-062.

On September 28, 2009, a prehearing conference (PHC) was held before Administrative Law Judge (ALJ) Jeffrey P. O'Donnell to determine parties, identify issues, consider the schedule, and address other matters as necessary to proceed with this application. On October 2, 2009, the Assigned Commissioner issued a scoping memo and ruling setting forth the issues and schedule. Evidentiary hearings were held on May 3, 4 and 7, 2010.

A motion to adopt a settlement agreement was filed by CWS, the Commission's Division of Ratepayer Advocates (DRA), Jeffrey Young (Young), Fremont Valley Property Owners (Fremont Valley) and the Leona Valley Town Council (Leona Valley) on June 28, 2010.³ Comments and reply comments on the settlement agreement attached to the motion were filed on July 27, 2010 and August 12, 2010, respectively. No comments were filed in opposition to the Settlement.⁴

On September 1, 2010, a second motion to adopt a settlement agreement was filed by CWS and DRA. The motion addressed a single issue. Comments

³ "Joint Motion of California Water Service Company (U60W), The Division of Ratepayer Advocates, Mr. Jeffrey Young, Mr. Jack Chacanaca, and the Leona Valley Town Council to Approve Settlement Agreement." Chacanaca represents Fremont Valley.

⁴ The portions of the Settlement with which Young, Fremont Valley and Leona Valley disagree were addressed in the briefs and not in comments on the Settlement.

and reply comments on the September 1, 2010 settlement agreement attached to the motion were filed on September 8, 2010 and September 17, 2010, respectively.

Briefs and reply briefs were filed on August 27, 2010 and September 10, 2010, respectively.

On September 3, 2010, the parties to the June 28, 2010 settlement agreement filed a “Joint Motion of the Division of Ratepayer Advocates and California Water Service Company (U60W) to Approve Revisions Reflecting Clarifications and Errata to the Proposed Joint Settlement filed on June 28, 2010.” The revisions make no substantial changes to the terms of the settlement agreement filed on June 28, 2010.⁵

On October 14, 2010, the parties to the September 3, 2010 motion filed a “Joint Motion of the Division of Ratepayer Advocates and California Water Service Company (U60W) to Approve Further Corrections to the Amended Joint Settlement filed on September 3, 2010.” The revisions make no substantial changes to the terms of the settlement agreement filed on September 3, 2010.

The settlement agreement attached to the October 14, 2010 motion is referred to herein as the Settlement.⁶

On September 23, 2010, the parties to the September 1, 2010 settlement agreement filed a “Joint Motion of the Division of Ratepayer Advocates and California Water Service Company (U 60 W) to Approve Revisions Reflecting

⁵ The motion was filed by CWS and DRA because the revisions do not negatively impact any of the settling parties, and are limited to clarifications, corrections of inadvertent omissions and typographical errors.

⁶ “Settlement of California Water Service Company (U 60 W), the Division of Ratepayer Advocates, Mr. Jeffrey Young, Mr. Jack Chacanaca, and the Leona Valley Town Council.”

Clarifications and Errata to the Proposed Joint Settlement of Special Request #12, Filed on September 1, 2010.” The revisions to reflect clarifications and errata make no substantial changes to the terms of the settlement agreement filed on September 1, 2010. The settlement agreement attached to the September 23, 2010 motion is referred to herein as the Agreement.⁷

The matter was submitted on October 1, 2010.

3. Parties to the Proceeding

The parties to the proceeding are CWS, DRA, Young, Fremont Valley, Leona Valley, Marcos Pareas (Pareas), and the City of Visalia (Visalia).

4. Public Participation Hearings

Public participation hearings were held as follows:

- February 4, 2010 in Lancaster, California.
- February 11, 2010 in Salinas, California.
- February 18, 2010 in Kernville, California
- February 25, 2010 in Guerneville, California.
- March 4, 2010 in Lucerne, California.

The public participation hearings were well attended. Overall, customers opposed the proposed rate increases. The major points raised by the customers are as follows.

- The requested rate increases are far more than the inflation rate and not reasonable.

⁷ “Settlement of the Division of Ratepayer Advocates and California Water Service Company (U 60 W) of Special Request #12: Continuation and Enhancement of Rate Support Fund.”

- Many customers are on fixed and/or low incomes and cannot afford the increase in water rates.
- The water sometimes leaves stains and smells bad (Redwood Valley District-Coast Springs and Lucerne areas).

In addition, customers sent letters and e-mails to the Commission generally reflecting the same information conveyed in the public participation hearings.

In analyzing the record in this proceeding and reaching this decision the Commission gave full consideration to these customer concerns.

5. Organization of Decision

The Settlement addresses the vast majority of issues in this proceeding and the Agreement addresses a single issue. This decision first addresses the Settlement. It then addresses the Agreement. Next, it addresses issues, whether or not covered by the Settlement, disputed by one or more parties. Finally, it addresses an issue regarding notice.

6. The Settlement

Rule 12.1(d) of the Commission's Rules of Practice and Procedure (Rule 2.1(d)) provides that:⁸

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

This is the standard of review for the Settlement and the Agreement.

CWS, DRA, Young, Fremont Valley, and Leona Valley are parties to the Settlement. There are, however, a few portions of the Settlement with which

⁸ All references to rules in this decision refer to the Commission's Rules of Practice and Procedure.

Young, Fremont Valley, and Leona Valley do not agree. The issues that remain contested are addressed later in this decision.⁹ The Settlement is otherwise unopposed.

CWS provided an application and exhibits that explained its request for a rate increase in detail. DRA provided its analysis of the application indicating that it agreed with some of CWS's estimates and disagreed with others. Young provided exhibits related to the Coast Springs District. Leona Valley provided exhibits related to the Antelope Valley District. The Settlement contains a detailed issue-by-issue discussion of the parties' initial positions and how each issue was resolved. The Settlement indicates that most of the differences were resolved by use of more recent data, correction of calculation errors, parties' acceptance of another party's estimates or calculation methodologies, and compromises between the parties. The overall result lies between the initial positions of CWS and DRA. As discussed later in this decision, the Commission does not find in favor of parties opposing parts of the Settlement. The Settlement is reasonable in light of the whole record.

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

CWS represents the interests of its shareholders. DRA represents the interests of all of CWS's ratepayers. Young is a customer of the Coast Springs District. Leona Valley represents the Leona Valley customers of the Antelope Valley District. Fremont Valley represents the Fremont Valley customers of the

⁹ The Settlement indicates the issues with which Young, Fremont Valley, and Leona Valley do not agree. Several of these issues were later dropped by these parties and are not discussed in this decision.

Antelope Valley District. Thus, the settling parties fairly represent the affected interests. The Settlement results in rates sufficient to provide adequate reliable service to customers at reasonable rates while providing CWS 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.

7. Key Issues Resolved in the Settlement

7.1. Payroll¹⁰

CWS requested 75 new positions in this application. The Settlement provides for the addition of 29 new employees in the test year. The Settlement also allows CWS to include the necessary incremental meter reading resources necessary due to flat-to-meter conversions in its annual ratebase offset advice letters for flat-to-meter conversions.

7.2. Conservation Expenses¹¹

The Settlement provides for removal of conservation expenses from escalation for 2012 and 2013. Instead, it provides specific conservation budgets for each district for the 2011 test year, 2012 and 2013. The funds are not transferable between districts, but may be carried forward to subsequent years within this general rate case (GRC) cycle (2011-2013).

The Settlement provides for the establishment of a one-way balancing account, to go into effect on the effective date of the rates adopted in this

¹⁰ Settlement Section 3.1.2.

¹¹ Settlement Section 5.0.

decision, to track the difference between actual and authorized conservation expenses. Any unspent funds at the end of the GRC cycle will be refunded to customers.

In order to implement the one-way balancing account, tariff changes will be necessary. The Settlement does not address this. Therefore, CWS shall file a Tier 1 advice letter within 30 days of the effective date of this decision making the necessary changes to its tariffs to implement the one-way balancing account.

The Settlement provides that, within 90 days of the effective date of rates adopted in this decision, CWS should file an advice letter to close any existing conservation memorandum accounts and conservation one-way balancing accounts. The advice letter should provide a comparison of the authorized and actual conservation expenses from the last GRC for each district. Existing balances in the accounts should be amortized in accordance with General Order 96-B except that, for under-spending in the one-way balancing accounts, the advice letter should include a methodology for refunding to customers the unexpended funds and accrued interest for each district.¹²

The Settlement provides that, within 90 days of the effective date of the rates adopted in this decision, CWS should file an advice letter to close any existing conservation accounts and amortize the existing balances to customers.

The Settlement provides that, within 90 days of the effective date of the rates adopted in the next GRC, CWS should file an advice letter comparing the authorized and actual conservation expenses from this GRC for each district, and

¹² The accrual of interest and the interest rate are addressed in the Settlement in Section 5, One-Way Balancing Account.

amortizing any unspent funds and accrued interest to customers through a 12-month surcredit on the service charge.¹³

7.3. Annual Conservation Reporting¹⁴

The settlement provides that CWS will file an annual report with the Division of Water and Audits by May 1 of each year, beginning in 2012, summarizing conservation activities and expenses.¹⁵ The reporting requirements are shown on Table 5.3 of the Settlement. CWS will also provide the Division of Water and Audits and DRA with copies of its California Urban Water Conservation Council Gallons per Capita per Day reports when they are issued.¹⁶

7.4. Cross-Connection Control Program (CCCP)¹⁷

Cross-connections occur where customer-owned facilities are connected to CWS's distribution system that could cause water to flow from the customer's facilities into CWS's distribution system. The result could be pollution of CWS's water supplies. Such water flow into CWS's system is prevented either by disconnecting the customer's facilities from CWS's system or by installing a backflow prevention device that allows water to flow only from CWS's system to the customer-owned facilities.

¹³ The accrual of interest and the interest rate are addressed in the Settlement in Section 5, One-Way Balancing Account.

¹⁴ Settlement Section 5.0, Annual Reporting Requirement.

¹⁵ Existing reporting requirements will apply for the May 1, 2011 annual report.

¹⁶ The California Urban Water Conservation Council is an association of water suppliers, environmental groups and other interested parties with the purpose of promoting efficient water use. It was formed in 1991. Its members represent more than 75% of California's water supply.

¹⁷ Settlement Section 6.0.

Regulations governing cross-connection control are found in Title 17 of the Public Health Code. In addition, CWS's Tariff Rule 16 provides that CWS shall inspect customer facilities for cross-connections and may require the customer to install backflow prevention devices as necessary. CWS is required to notify the customer when the backflow devices require testing. The purchase, installation, operation, maintenance, testing, repair and replacement of the backflow prevention devices are the customer's responsibility.

The Settlement allows CWS to hire six additional CCCP inspectors. However, the costs for the CCCP inspectors will not be included in rates until they are hired. The Settlement allows CWS to include the costs for additional CCCP inspectors in its annual advice letter filing for an escalation increase after they have been hired.

7.5. District Increases and Ratebase Offset Advice Letters¹⁸

The Settlement provides for many capital improvements to occur. In some cases, CWS is authorized to file ratebase offset advice letters when the projects are placed into service. The projects for which ratebase offset advice letters are authorized are listed separately below for each district and General Office. They are also listed in Attachment A to this decision.

The ratebase offset advice letters may include direct and indirect costs of the project up to the cap plus associated interest during construction (IDC).¹⁹ If the actual direct and indirect costs exceed the cap, IDC may be included in the advice letter in the same proportion as the cap is of the total direct and indirect

¹⁸ Plant additions, including additions for which ratebase offset advice letters are proposed, are addressed in Section 9.2 of the Settlement.

¹⁹ IDC is addressed in Section 7.6.15 of this decision.

costs. For example, if the cap is 75% of the total direct and indirect costs, 75% of the total IDC may be included in the advice letter along with the cap amount.

For flat-to-meter conversion projects, the advice letters will provide actual counts and construction costs with a detailed breakdown of employees who charged time to the project.

The revenue requirement increases authorized in this decision for the Dixon, King City, Oroville, Selma, and Willows Districts for 2011 are greater than requested in the application. This is because CWS had proposed to phase in the rate increases, while the settlement does not do so for these districts.

7.5.1. Antelope Valley District

CWS requested a revenue requirement increase of \$1,212,000 or 73.0% for 2011, \$487,000 or 16.9% for 2012, and \$487,000 or 14.5% for 2013. This decision, which adopts the Settlement, authorizes an increase of \$675,200 or 41.6% for 2011, \$100,800 or 4.4% for 2012, and \$99,500 or 4.1% for 2013.

For a residential customer in the Leona Valley and Lake Hughes area with average annual usage of 33 Ccf per month, the 2011 bill will increase 37.9%.²⁰

For a residential customer in the Lancaster area with average annual usage of 40 Ccf per month, the 2011 bill will increase 37.4%.

For a residential customer in the Fremont Valley area with annual usage of 25 Ccf per month, the 2011 bill will increase 36.7%.

The Settlement provides for a second well in the Fremont Valley, an interconnection to the Antelope Valley-East Kern River Water Agency (AVEK), a purchased water provider, and additional storage in the Leona Valley. It also

²⁰ Ccf means 100 cubic feet.

provides for an additional part-time operator to streamline operations, reduce overtime and improve customer support.

The Settlement allows CWS to file ratebase offset advice letters for the projects specified below.

Project No.	Cap (\$)	Description
10391	810,000	Install connection to AVEK
14467	108,000	Install chloramination equipment
14468	108,000	Install chloramination equipment
17663	288,800	Construct tank
20642	619,000	Construct well

7.5.2. Bakersfield District

CWS requested a revenue requirement increase of \$9,073,000 or 15.1% for 2011, \$2,328,000 or 3.4% for 2012, and \$2,328,000 or 3.3% for 2013. This decision authorizes a decrease of \$278,700 or 0.4% for 2011, an increase of \$1,521,800 or 2.4% for 2012, and an increase of \$1,475,900 or 2.3% for 2013.

For a residential customer with average annual usage of 26 Ccf per month, the 2011 bill will decrease 0.3%.

The Settlement provides for pipeline replacements, flat-to-meter conversions, pump efficiency upgrades and additional employees to meet customer needs.

The Settlement allows CWS to file ratebase offset advice letters for the projects specified below.

Project No.	Cap (\$)	Description
20557	2,739,500	Flat-to meter conversions (2010)
20780	2,825,000	Flat-to meter conversions (2011)
20781	2,923,800	Flat-to meter conversions (2012)

7.5.3. Bear Gulch District

CWS requested a revenue requirement increase of \$4,681,000 or 17.4% for 2011, \$909,000 or 2.9% for 2012 and \$909,000 or 2.8% for 2013. This decision authorizes an increase of \$3,116,500 or 11.1% for 2011, \$646,500 or 2.1% for 2012, and \$643,700 or 2.0% for 2013.

For a residential customer with average annual usage of 25 Ccf per month, 2011 the bill will increase 9.3%.

The Settlement provides for pipeline, fire hydrant and storage upgrades, reliability improvements, emergency response upgrades and a fish passage.

The Settlement allows CWS to file ratebase offset advice letters to construct a fish passage to allow threatened California Steelhead Trout to bypass CWS's water diversion structure on Bear Creek. The projects are specified below.

Project No.	Cap (\$)	Description
4228, 12920, 12922, 13154	1,045,000	Construct fish passage
20196	1,315,000	Construct fish passage

7.5.4. Chico District

CWS requested a revenue requirement increase of \$2,826,000 or 15.4% for 2011, \$1,397,000 or 6.6% for 2012, and \$1,397,000 or 6.2% for 2013. This decision authorizes an increase of \$1,228,000 or 6.7% for 2011, \$846,000 or 4.3% for 2012, and \$828,700 or 4.1% for 2013.

For a residential customer with average annual usage of 22 Ccf per month, the 2011 bill will increase 6.7%.

The Settlement provides for a solar project at the Customer Service Center, additional storage and flat-to-meter conversions.²¹

The Settlement allows CWS to file ratebase offset advice letters for the projects specified below.

Project No.	Cap (\$)	Description
16923	667,800	Construct new well
16952	780,000	Central Plume Remediation ²² (2010-2012)
17098	677,100	Equip new well
17195	412,000	Flat-to-meter conversions-Chico (2010)
20375	99,100	Replace pump
20873	481,100	Flat-to-meter conversions-Chico (2011)
20889	462,500	Flat-to-meter conversions-Chico (2012)
20124	37,400	Flat-to-meter conversions-Hamilton City (2010)
21034	39,600	Flat-to-meter conversions-Hamilton City (2011)
21052	41,900	Flat-to-meter conversions-Hamilton City (2012)

7.5.5. Dixon District

CWS requested a revenue requirement increase of \$251,000 or 14.3% for 2011, \$304,000 or 15.2% for 2012, and \$304,000 or 13.2% for 2013. This decision

²¹ The solar project will provide a portion of the electricity necessary to operate the Customer Service Center.

²² This is an area where the ground water is contaminated by polychloroethylene. The costs are for remediation of the contamination.

authorizes an increase of \$553,900 or 30.8% for 2011, \$130,800 or 5.6% for 2012, and \$130,900 or 5.3% for 2013.

For a residential customer with average annual usage of 18 Ccf per month, the 2011 bill will increase 31.0%.

The Settlement provides for water quality improvements to remedy high nitrate levels in many of the district's wells. These include a deeper well and an ion exchange system.

7.5.6. Dominguez South Bay District

CWS requested a revenue requirement increase of \$6,427,000 or 15.3% for 2011, \$1,677,000 or 3.5% for 2012 and \$1,677,000 or 3.3% for 2013. This decision authorizes an increase of \$5,367,600 or 11.7% for 2011, \$441,100 or 0.9% for 2012, and \$439.6 or 0.8% for 2013.

For a residential customer with average annual usage of 14 Ccf per month, the 2011 bill will increase 11.4%.

The Settlement provides for additional staff to provide 24-hour operations, and additional wells and water treatment aimed at reducing purchased water.

The Settlement allows CWS to file ratebase offset advice letters for the projects specified below.

Project No.	Cap (\$)	Description
13540, 13541, 13542, 13543	1,094,000	Construct well and treatment plant
20772	1,181,100	Install treatment plant
20775	1,920,200	Construct and equip well
20838	1,953,800	Construct and equip well
20973	455,300	Property purchase for well
20978	468,200	Property purchase for well

7.5.7. East Los Angeles District

CWS requested a revenue requirement increase of \$4,942,000 or 18.6% for 2011, \$2,250,000 or 7.1% for 2012, and \$2,250,000 or 6.7% for 2013. This decision authorizes an increase of \$907,100 or 3.0% for 2011, \$546,500 or 1.7% for 2012, and \$546,900 or 1.7% for 2013.

For a residential customer with average annual usage of 16 Ccf per month, the 2011 bill will increase 2.7%.

The Settlement provides for replacement of an older storage tank, booster stations, wells and pipelines.

The Settlement allows CWS to file ratebase offset advice letters for the projects specified below.

Project No.	Cap (\$)	Description
18197	1,911,200	Construct well and treatment plant
20583	3,833,000	Construct well and treatment plant
20670	3,524,000	Construct tank
20763	4,626,000	Construct well and treatment plant

7.5.8. Hermosa Redondo District

CWS requested a revenue requirement increase of \$2,218,000 or 9.7% for 2011, \$42,000 or 0.2% for 2012, and \$42,000 or 0.2% for 2013. This decision authorizes an increase of \$661,100 or 2.7% for 2011 \$300,900 or 1.2% for 2012, and \$297,500 or 1.1% for 2013.

For a residential customer with average annual usage of 14 Ccf per month, the 2011 bill will increase 2.2%.

The Settlement provides for replacement of older mains and an older generator as well as the purchase of a new mobile generator.

7.5.9. Kern River Valley District

CWS requested a revenue requirement increase of \$1,687,000 or 36.5% for 2011, \$156,000 or 2.5% for 2012, and \$156,000 or 2.4% for 2013. This decision authorizes an increase of \$543,800 or 12.6% for 2011, \$776,000 or 16.0% for 2012, and \$230,400 or 4.1% for 2013.

For a residential customer with average annual usage of 13 Ccf per month, the 2011 bill will increase 12.3%.

The Settlement provides for optimization of the water treatment process to address arsenic contamination.

7.5.10. King City District

CWS requested a revenue requirement increase of \$266,000 or 10.7% for 2011, \$247,000 or 9.0% for 2012, and \$247,000 or 8.2% for 2013. This decision authorizes an increase of \$313,400 or 12.5% for 2011, \$90,800 or 3.2% for 2012, and \$88,200 or 3.0% for 2013.

For a residential customer with average annual usage of 18 Ccf per month, the 2011 bill will increase 12.3%.

The Settlement provides for transmission system upgrades to move water throughout the district to help address elevated nitrate levels in wells on the east side of the district.

7.5.11. Livermore District

CWS requested a revenue requirement increase of \$2,917,000 or 16.6% for 2011, \$442,000 or 2.2% for 2012 and \$442,000 or 2.1% for 2013. This decision authorizes an increase of \$262,900 or 1.3% for 2011, \$313,300 or 1.5% for 2012, and \$310,500 or 1.5% for 2013.

For a residential customer with average annual usage of 17 Ccf per month, the 2011 bill will increase 1.2%.

The Settlement allows a new well in a deeper aquifer to reduce concerns over high nitrate levels in CWS's shallower wells.

7.5.12. Los Altos District

CWS requested a revenue requirement increase of \$2,358,000 or 10.4% for 2011, \$706,000 or 2.8% for 2012 and \$706,000 or 2.7% for 2013. This decision authorizes an increase of \$198,300 or 0.8% for 2011, \$233,600 or 1.0% for 2012, and \$233,400 or 0.9% for 2013.

For a residential customer with average annual usage of 20 Ccf per month, the 2011 bill will increase 0.6%.

The Settlement provides for upgrading booster stations and reservoirs, and increasing the number of chloramination stations to match the chlorine levels in the distribution system.

7.5.13. Marysville District

CWS requested a revenue requirement increase of \$505,000 or 22.0% for 2011, \$693,000 or 24.7% for 2012 and \$693,000 or 19.8% for 2013. This decision authorizes an increase of \$1,000,200 or 45.4% for 2011, \$68,200 or 2.1% for 2012, and \$69,400 or 2.1% for 2013.

For a residential customer with average annual usage of 14 Ccf per month, the 2011 bill will increase 45.4%.

The Settlement allows CWS to move forward with a new customer service center. It also provides for flat-to-meter conversions and the addition of energy monitoring equipment on a replacement pump to develop data to be used in considering a company-wide energy monitoring program.

The Settlement allows CWS to file ratebase offset advice letters for the projects specified below.

Project No.	Cap (\$)	Description
25969	150,000	Flat-to-meter conversions (2010)
26208	150,000	Flat-to-meter conversions (2011)
26209	150,000	Flat-to-meter conversions (2012)

7.5.14. Mid-Peninsula District

CWS requested a revenue requirement increase of \$5,398,000 or 17.7% for 2011, \$1,990,000 or 5.5% for 2012, and \$1,990,000 or 5.2% for 2013. This decision authorizes an increase of \$1,678,500 or 5.1% for 2011, \$942,000 or 2.7% for 2012, and \$942,600 or 2.6% for 2013.

For a residential customer with average annual usage of 11 Ccf per month, the 2011 bill will increase 4.2%.

By this decision, the Mid-Peninsula and South San Francisco Districts are being merged into the Bayshore District. The above revenue requirement increases are calculated as if the merger had not taken place. The bill increase is calculated based on the change between the previously authorized rates for the Mid-Peninsula District and the new rates authorized for the Bayshore District. The new rates will be the same across the Bayshore District.

The Settlement provides for construction of two new tanks, and pipeline replacements.

The Settlement allows CWS to file a ratebase offset advice letter for Project 20315 with a cap of \$458,200. The project is for an energy monitoring program and related equipment.

7.5.15. Oroville District

CWS requested a revenue requirement increase of \$485,000 or 14.1% for 2011, \$577,000 or 14.7% for 2012, and \$577,000 or 12.8% for 2013. This decision

authorizes an increase of \$562,200 or 16.2% for 2011, \$136,300 or 3.4% for 2012, and \$135,500 or 3.3% for 2013.

For a residential customer with average annual usage of 16 Ccf per month, the 2011 bill will increase 15.4%.

The Settlement provides for replacement of water treatment plant components, main improvements and flat-to-meter conversions.

The Settlement allows CWS to file ratebase offset advice letters for the projects specified below.

Project No.	Cap (\$)	Description
26248	26,200	Flat-to-meter conversions (2010)
26590	26,200	Flat-to-meter conversions (2011)
26591	26,200	Flat-to-meter conversions (2012)

7.5.16. Palos Verdes District

CWS requested a revenue requirement increase of \$2,145,000 or 6.3% for 2011, \$721,000 or 2.0% for 2012, and \$721,000 or 2.0% for 2013. This decision authorizes a decrease of \$62,400 or 0.2% for 2011, an increase of \$339,400 or 0.9% for 2012, and an increase of \$339,900 or 0.9% for 2013.

For a residential customer with average annual usage of 30 Ccf per month, the 2011 bill will decrease 0.2%.

The Settlement provides for extensive panelboard and motor control center replacements at pumping stations and installation of a new main.

The Settlement allows CWS to file ratebase offset advice letters for the projects specified below.

Project No.	Cap (\$)	Description
17330	430,000	Replace electric panelboard
17331	345,000	Replace electric panelboard
20510	849,200	Install power recovery turbine unit
21173	2,360,000	Purchase land for reservoir
21175	2,114,600	Install main
26747	576,900	Replace electric panelboard

7.5.17. Redwood Valley-Coast Springs District

CWS requested a revenue requirement increase of \$399,000 or 154.8% for 2011, \$58,000 or 8.8% for 2012, and \$58,000 or 8.1% for 2013. This decision authorizes an increase of \$129,000 or 50.0% for 2011, \$57,200 or 14.8% for 2012, and \$2,300 or 0.5% for 2013.

For a residential customer with average annual usage of 8 Ccf per month, the 2011 bill will increase 50.0%.

The Settlement provides for optimization of the water treatment plant and main replacements.

7.5.18. Redwood Valley-Lucerne District

CWS requested a revenue requirement increase of \$683,000 or 54.9% for 2011, \$135,000 or 7.0% for 2012, and \$135,000 or 6.6% for 2013. This decision authorizes an increase of \$516,600 or 41.6% for 2011, \$39,600 or 2.2% for 2012, and \$39,200 or 2.2% for 2013.

For a residential customer with average annual usage of 15 Ccf per month, the 2011 bill will increase 41.6%.

The Settlement provides for main replacements.

7.5.19. Redwood Valley Unified District

CWS requested a revenue requirement increase of \$428,000 or 86.3% for 2011, \$7,000 or 0.7% for 2012, and \$7,000 or 0.7% for 2013. This decision authorizes an increase of \$122,300 or 25.1% for 2011, \$1,400 or 0.2% for 2012, and \$1,400 or 0.2% for 2013.

For a residential customer with average annual usage of 15 Ccf per month, the 2011 bill will increase 25.1%.

The Settlement provides for main replacements and removal of iron and manganese from the water.

7.5.20. Salinas District

CWS requested a revenue requirement increase of \$5,498,000 or 25.1% for 2011, \$1,659,000 or 6.1% for 2012, and \$1,659,000 or 5.7% for 2013. This decision authorizes an increase of \$765,400 or 3.1% for 2011, \$647,000 or 2.6% for 2012, and \$649,700 or 2.5% for 2013.

For a residential customer with average annual usage of 13 Ccf per month, the 2011 bill will increase 2.9%.

The Settlement provides for additional wells in deeper aquifers to improve water supply, and additional expenses related to water treatment to remove contaminants.

The Settlement allows CWS to file ratebase offset advice letters for the projects specified below.

Project No.	Cap (\$)	Description
9209	445,000	Purchase land for well
15544	1,224,200	Construct well
15789	803,800	Construct and equip well and well site improvements
15885	552,600	Construct well
18952	694,700	Equip well and well site improvements
20198	514,100	Purchase land for well
23128	195,600	Replace electric panelboard
23147	349,600	Replace pump and install generator.
23267	1,700,200	Construct tanks

7.5.21. Selma District

CWS requested a revenue requirement increase of \$554,000 or 16.5% for 2011, \$669,000 or 17.1% for 2012, and \$669,000 or 14.6% for 2013. This decision authorizes an increase of \$1,001,100 or 29.4% for 2011, \$57,200 or 1.3% for 2012, and \$53,600 or 1.2% for 2013.

For a residential customer with average annual usage of 25 Ccf per month, the 2011 bill will increase 27.7%.

The Settlement provides for flat-to-meter conversions, main replacements, and emergency generators on well pumps to maintain supply during emergencies.

The Settlement allows CWS to file ratebase offset advice letters for the projects specified below.

Project No.	Cap (\$)	Description
21505	92,300	Flat-to-meter conversions (2010)
21508	92,300	Flat-to-meter conversions (2011)
21509	80,200	Flat-to-meter conversions (2012)

7.5.22. South San Francisco District

CWS requested a revenue requirement increase of \$1,709,000 or 11.5% for 2011, \$543,000 or 3.3% for 2012, and \$543,000 or 3.2% for 2013. This decision authorizes an increase of \$285,600 or 1.8% for 2011, \$224,900 or 1.4% for 2012, and \$224,700 or 1.4% for 2013.

For a residential customer with average annual usage of 7 Ccf per month, the 2011 bill will increase 16.1%.

By this decision, the Mid-Peninsula and South San Francisco Districts are being merged into the Bayshore District. The above revenue requirement increases are calculated as if the merger had not taken place. The bill increase is calculated based on the change between the previously authorized rates for the South San Francisco District and the new rates authorized for the Bayshore District. The new rates will be the same across the Bayshore District.

The Settlement provides for pipeline replacements and booster pump upgrades.

7.5.23. Stockton District

CWS requested a revenue requirement increase of \$6,797,000 or 22.8% for 2011, \$1,845,000 or 5.0% for 2012, and \$1,845,000 or 4.8% for 2013. This decision authorizes an increase of \$2,383,100 or 7.6% for 2011, \$108,100 or 0.3% for 2012, and \$111,100 or 0.3% for 2013.

For a residential customer with average annual usage of 16 Ccf per month, the 2011 bill will increase 7.6%.

The Settlement provides for construction of a new customer service center, main replacements, new wells, pump replacements and water treatment projects.

The Settlement allows CWS to file ratebase offset advice letters for the projects specified below.

Project No.	Cap (\$)	Description
16025	1,215,000	Construct new customer service center
17203	795,600	Construct monitoring and production well
20204	2,121,100	Purchase land and construct well

7.5.24. Visalia District

CWS requested a revenue requirement increase of \$3,482,000 or 21.1% for 2011, \$4,466,000 or 22.3% for 2012, and \$4,466,000 or 18.2% for 2013. This decision authorizes an increase of \$3,247,200 or 16.0% for 2011, \$907,400 or 3.9% for 2012, and \$928,300 or 3.8% for 2013.

For a residential customer with average annual usage of 22 Ccf per month, the 2011 bill will increase 13.0%.

The Settlement provides for flat-to-meter conversions, new wells and storage tanks, and additional employees to handle increased workload.

The Settlement allows CWS to file ratebase offset advice letters for the projects specified below.

Project No.	Cap (\$)	Description
16776	1,385,555	Construct well
16782	1,496,800	Construct well
21123	1,716,400	Flat-to-meter conversions (2011)
21140	1,798,100	Flat-to-meter conversions (2012)

7.5.25. Westlake District

CWS requested a revenue requirement increase of \$3,340,000 or 24.0% for 2011, \$88,000 or 0.5% for 2012, and \$88,000 or 0.5% for 2013. This decision authorizes a decrease of \$169,900 or 1.1% for 2011, an increase of \$85,500 or 0.6% for 2012, and an increase of \$85,400 or 0.6% for 2013.

For a residential customer with average annual usage of 36 Ccf per month, the 2011 bill will decrease 1.3%.

The Settlement provides for replacement of a four million gallon reservoir.

The Settlement allows CWS to file a ratebase offset advice letter for Project 14384, the replacement reservoir, with a cap of \$8,800,000.

7.5.26. Willows District

CWS requested a revenue requirement increase of \$314,000 or 20.4% for 2011, \$381,000 or 20.6% for 2012, and \$381,000 or 17.0% for 2013. This decision authorizes an increase of \$436,900 or 27.4% for 2011, \$40,100 or 2.0% for 2012, and \$39,500 or 1.9% for 2013.

For a residential customer with average annual usage of 20 Ccf per month, the 2011 bill will increase 23.6%.

The Settlement provides for construction of a storage tank and booster pump station and flat-to-meter conversions.

The Settlement allows CWS to file ratebase offset advice letters for the projects specified below.

Project No.	Cap (\$)	Description
15433, 15436, 15440	1,366,100	Purchase land and construct tank and booster station
20922	28,400	Flat-to-meter conversions (2010)
20953	179,800	Well casing testing and repairs
20972	28,400	Flat-to-meter conversions (2011)
20987	28,400	Flat-to-meter conversions (2012)

7.5.27. General Office

The Settlement allows CWS to file a ratebase offset advice letter for Project 16976 with a cap of \$140,300. The project is to eliminate standing water in the engineering building basement.

7.6. Special Requests

7.6.1. Request for A) Clarification of Interim Rate Request Procedures, and B) Determination of Interim Revenue Requirements²³

The Settlement asks the Commission to order CWS to amortize the differences between the adopted interim revenue requirements for 2009-10 and 2010-11 and the revenue requirements authorized herein.²⁴ The balances (sum of the differences for the two periods) will be amortized over 12 months for balances up to five percent of the district revenue requirement adopted herein.

²³ Settlement Section 10, Special Request #4.

²⁴ The revenue requirements exclude Modified Cost Balancing Account amounts.

For balances over five percent and up to 10%, the balances will be amortized over 24 months. Balances in excess of 10% will be amortized over 36 months.²⁵ Because the Settlement is adopted herein, CWS is so ordered. The amortization is to be included in the advice letters to be filed to implement the rates adopted in this decision.

7.6.2. Increased Fees²⁶

The current fees for restoration of service after disconnection for nonpayment are \$25 during working hours and \$65 after working hours. In D.08-07-008 in Application (A.) 07-07-001, a fire-flow test fee of \$450 was adopted for the Chico District, East Los Angeles District, Livermore District, Los Altos-Suburban District, Mid-Peninsula District, Salinas District, Stockton District and Visalia District.

The Settlement provides for an increase in fees for restoration of service after disconnection for nonpayment to \$50 during working hours and \$90 after working hours, and a fire-flow test fee of \$525 in all districts.

7.6.3. Non-Residential Tiered Rates²⁷

In Ordering Paragraph (OP) 3 of D.08-08-030, the Commission required Class A utilities to propose increasing block rates for non-residential customers in the next GRC. This issue was addressed by CWS and DRA. The Settlement provides for further consideration of increasing block rates for non-residential customers in the next GRC when more information will be available.

²⁵ The amortization periods are consistent with those adopted in D.03-06-072, Appendix A, Section 5.a.

²⁶ Settlement Section 10, Special Request #5.

²⁷ Settlement Section 10, Special Request #6.

7.6.4. Rates for Residential Customers with Private Fire Protection Service²⁸

In OP 10 of D. 08-07-008, the Commission ordered CWS to:

... make a proposal to address customers outside the Livermore District who pay for 1-inch metered service solely to meet fire protection requirements imposed by the local government, and provide customers who request it an opportunity to pay a smaller meter service fee. Cal Water shall research its customer information database, contact cities, and/or conduct sample studies to determine the potential applicability of a “1-inch residential plus fire service” rate in its other districts. It shall also review its tariffs to determine who has such 1 inch fire protection service. The proposal shall explain how Cal Water will account for the cost under-recovery, if any, related to installing and maintaining large meters for fire protection while collecting rates for smaller meter service.

Both CWS and DRA made differing proposals addressing this issue as required by OP 10 of D.08-07-008. However, the proposals were problematic and the issue merits further study before it can be resolved. The Settlement provides that CWS shall provide the studies and related information required by OP 10 of D.08-07-008 in its next GRC.

7.6.5. Recognize Subsequent Offsets²⁹

The Commission has previously authorized CWS to file ratebase offset advice letters for various projects. The Settlement extends the advice letter filing deadlines for specified projects where costs are still too uncertain for inclusion in the adopted revenue requirements. The Settlement provides that no surcharge or delineated rate component for a ratebase offset advice letter approved prior to

²⁸ Settlement Section 10, Special Request #7.

²⁹ Settlement Section 10, Special Request #8.

the effective date of rates adopted in this decision will be discontinued when the rates adopted in this decision become effective. The subject advice letters will indicate whether the project is included in the revenue requirement in the Settlement. If a project is included in the Settlement revenue requirement, CWS will file for rate recovery only for the period until the effective date of rates adopted in this decision. If the project is not included in the Settlement revenue requirement, CWS will request a dedicated rate component, such as a surcharge, to enable the revenue requirement to survive the adoption of rates in this proceeding.

7.6.6. Amortization of Balancing and Memorandum Account Balances³⁰

The Settlement provides that CWS should be ordered to file an advice letter within 90 days of the effective date of this decision to amortize the remaining balances in its incremental cost balancing accounts for all districts that have not met the 2% trigger specified in D.03-06-072. The Settlement further provides that CWS should be ordered to file an advice letter within 90 days of the effective date of this decision to amortize its water conservation memorandum account and its water conservation one-way balancing accounts. The Settlement also provides that CWS shall seek recovery of other memorandum account balances by filing advice letters in accordance with General Order 96-B. CWS is so ordered.

³⁰ Settlement Section 10, Special Request #9.

7.6.7. Merger of South San Francisco and Mid-Peninsula Ratemaking Areas³¹

The Settlement provides for the merger of the South San Francisco and Mid-Peninsula Districts subject to a \$20,000 reduction in the annual revenue requirement to be applied in this GRC cycle to the South San Francisco District. The resulting district will be called the Bayshore District. The rates adopted herein reflect the merger.

7.6.8. Review Parameters of Conservation Rates³²

In D.08-02-036, the Commission adopted a conservation rate design for CWS. The Settlement provides that there will be no changes to the conservation rate design principles adopted in that decision. Operating in conjunction with the conservation rate design are the Water Revenue Adjustment Mechanism (WRAM) and the Modified Cost Balancing Account (MCBA), which ensure CWS and ratepayers are not at risk for under- and over-collection of revenues following the adoption of conservation rates and programs.

The Settlement provides for no change to the WRAM and the MCBA adopted in D.08-02-036 except as indicated below, or as the Commission may adopt in a future application to modify D.08-02-036 that CWS anticipates filing.³³ The changes are:

- The trial program, referenced in Section III of the Settlement, adopted in OP 1 of D.08-02-036 will be extended for the duration of this GRC cycle and reviewed in the next GRC.

³¹ Settlement Section 10, Special Request #10.

³² Settlement Section 10, Special Request #11.

³³ CWS and several other water utilities filed A.10-09-017 proposing modifications of the WRAM/MCBA mechanism.

- Recycled water revenues will be included in the WRAM/MCBA in the districts with recycled water tariffs as of the effective date of rates adopted in this decision, and CWS will concurrently cancel its recycled water memorandum account.³⁴
- CWS will provide a report, as a “minimum Data Requirement” of its next GRC filing, addressing customer usage patterns, disconnection activity, and other data as specified in the Settlement.
- If information on the long-run marginal costs of water supplies is available prior to the next GRC filing, CWS will provide it to DRA at a mutually agreeable time.

7.6.9. Rate Phase-In³⁵

CWS proposed to phase in rate increases for a number of districts because of the size of the rate increases requested. The settlement provides for rate increases which are substantially less than the increases requested by CWS in many cases. The Settlement provides for a two-year phase-in of the rate increase for the Coast Springs area of the Redwood Valley District due to the size of the increase. The Settlement also provides for a two-year phase-in of the rate increase for the Kern River Valley District due to the rate impact of amortizing WRAM/MCBA balances. As a result, no district will have a rate increase greater than 50%.

³⁴ See also Section 7.6.16 of this decision and Settlement Section 10, Special Request 28.

³⁵ Settlement Section 10, Special Request #13.

7.6.10. Modify Methods of Escalation³⁶

The Settlement does not provide for any change to the escalation procedures specified in the Rate Case Plan. However, the Settlement excludes employee health insurance, retiree health insurance and conservation expenses from escalation. Instead, a fixed three-year budget is set for those costs.

The Settlement requires CWS to make an information-only filing with the Division of Water and Audits to document its calculations of the impact of a hiring lag on the General Office offset approved in D.08-07-008. Since the settlement does not indicate when this filing should be made, it will be due 90 days after the effective date of this decision.

The Settlement provides that, in each escalation advice letter for the Bakersfield, Chico, Marysville, Oroville, Selma, Visalia and Willows Districts, CWS will show the progress of its flat-to-meter conversions and adjust the adopted flat-rate and metered service counts for the escalation year rate design and adopted quantities to ensure escalation year WRAM adopted quantities reflect the actual progress in installing meters.

7.6.11. Continue Rate Base Offset Pilot Methodology and Delay Reporting on Pilot Program³⁷

CWS proposed to continue the ratebase offset pilot program, authorized by D.08-07-008, which allowed immediate implementation of rates for ratebase offsets while the advice letter requesting the offset is being reviewed. No advice letters were filed under the pilot. Subsequent to D.08-07-008, the Commission amended General Order 96-B that allows ratebase offset advice letters for

³⁶ Settlement Section 10, Special Request #14.

³⁷ Settlement Section 10, Special Request #19.

previously authorized plant additions that were subject to a cap and did not exceed the cap to be filed as Tier 2 advice letters and approved ministerially by the Division of Water and Audits. The parties agree that the pilot is no longer necessary and should be discontinued. As a result, the Settlement requests the Commission to find it is no longer necessary for CWS to comply with OP 9 of D.08-07-008, which required CWS to file a request for review of the rate base offset pilot in this proceeding. The Commission so finds.

**7.6.12. Request Confirmation of Compliance with
D.08-03-020³⁸**

OPs 3, 4, 5 and 8 of D.08-03-020 required CWS to do the following regarding its Redwood Valley District Coast Springs area system:

3. CalWater shall explore the system improvement projects ordered herein, as well as others that appear reasonable, and submit a report to the Commission with its next GRC, identifying each project's estimated cost, the amount of additional water the project expects to produce, the required permits, and the amount of time the project would require for completion.
4. CalWater shall follow the Commission's System Improvement Policy and plan for expenses related to remedies to lift the moratorium in its next GRC.
5. CalWater shall file a plan for providing redundancy and back up service in Coast Springs with its next general rate case.
8. CalWater shall present the procedures it follows and the methods it uses to protect customer information in its next general rate case.

The Settlement states that CWS complied with most of the requirements but has more tasks to complete before it is fully in compliance. The Settlement provides that CWS should be ordered to complete compliance with OPs 3, 4, 5

and 8 of D.08-03-020 and make an information-only filing with the Division of Water and Audits within 90 days of the effective date of this decision demonstrating its full compliance with the ordering paragraphs. CWS is so ordered.

7.6.13. Pension Balancing Account³⁹

The Settlement adopts a balancing account for pension costs, which reflects the following:

- (a) The amounts recorded in the balancing account will be limited to the difference between Statement of Financial Accounting Standards (SFAS) 87 expense calculated by CWS's actuarial expert and recorded as expense, and CWS's recovery of costs for ratemaking purposes.
- (b) The effective date will be the effective date of this decision and apply to amounts expensed after that date.
- (c) The balancing account will be subject to recovery in one of two ways: (1) through a tier 2 advice letter if the balance exceeds two percent of CWS's total company adopted revenue requirement, or (2) as part of a general rate case proceeding. Recovery of costs is subject to a reasonableness review.
- (d) CWS will not be permitted to change its method of accounting for ratemaking purposes except as required by state or federal law or as directed by the Financial Accounting Standards Board. Changes in assumptions reflecting current market, interest rate or demographic assumptions will not be considered changes in accounting.

³⁸ Settlement Section 10, Special Request #20.

³⁹ Settlement Section 10, Special Request #21.

The Settlement provides that CWS shall file a Tier 2 advice letter to amortize the balance in the balancing account if the balance exceeds two percent of CWS's total company adopted revenue requirement.

In order to implement the pension cost balancing account, tariff changes will be necessary. The Settlement does not provide for such tariff changes. Therefore, CWS shall file a Tier 1 advice letter within 30 days of the effective date of this decision making the necessary changes to its tariffs to implement the pension cost balancing account.

7.6.14. Memorandum Account for Health Care Expenses⁴⁰

In lieu of escalation in the 2012 escalation and 2013 attrition filings, CWS proposed to adopt a balancing account to track the difference between health care costs included in the authorized revenue requirement and recorded costs. The Settlement instead adopts specific estimates for each district for retiree and employee health care costs for 2011-2013.

The Settlement does provides for a memorandum account limited to unknown and potentially significant cost changes related to the federal health care bill passed by Congress in April 2010. The memorandum account will be limited to tracking differences in costs for the following provisions:

1. Any reimbursement received from the temporary reinsurance program for pre-Medicare retirees which, according to current available information, will provide 80% coverage for claims between \$15,000 and \$90,000 for retirees aged 55-64.
2. Any incremental costs for health care stop-loss insurance, provided that CWS will not lower its stop-loss deductible from

⁴⁰ Settlement Section 10, Special Request #22.

the current amount of \$275,000 per covered individual.⁴¹ If CWS can not obtain stop-loss coverage, the memorandum account will record claims expenses that would have previously been covered by CWS's stop-loss policies.

3. Any incremental costs for dependents of employees who qualify for coverage under the new federal legislation, but would not have been covered under previous terms of CWS's health care plan.

In order to implement the health care expense memorandum account, tariff changes will be necessary. The Settlement does not provide for such tariff changes. Therefore, CWS shall file a Tier 1 advice letter within 30 days of the effective date of this decision making the necessary changes to its tariffs to implement the health care expense memorandum account.

7.6.15. Higher AFUDC Rate for Large Capital Projects⁴²

CWS requested to accrue Allowance for Funds Used During Construction (AFUDC), at its authorized rate of return, for a water treatment plant in its Bakersfield District estimated to cost \$62 million, and a transmission pipeline in its Palos Verdes District estimated to cost \$20-30 million. The Settlement provides that CWS will accrue IDC for all projects consistent with SFAS 34, which the parties understand CWS applies by weighting short-term debt and long-term debt to calculate total interest applicable to construction work in progress. The parties also agree that this method will be applied to separate applications for CWS's General Office building expansion, the Bakersfield water treatment plant and the Palos Verdes pipeline project.

⁴¹ Stop-loss insurance is coverage purchased by employers to limit their exposure under self insurance medical plans.

⁴² Settlement Section 10, Special Request #25.

7.6.16. Modified WRAM/MCBA for Recycled Water⁴³

The Settlement provides for the inclusion of recycled water revenue and costs in CWS's WRAM and MCBA, respectively.⁴⁴ CWS will be required to file a Tier 1 advice letter within 30 days of the effective date of this decision to modify its Preliminary Statement M to reflect these changes and concurrently close its recycled water memorandum account. CWS will report any balance in the recycled water memorandum account in its next GRC and request amortization of it.

7.6.17. CWS's Request for a Memorandum Account for Conversion to International Financial Reporting Standards (IFRS)⁴⁵

CWS requested authority to establish a memorandum account to record its costs of compliance with the IFRS proposed by the Security and Exchange Commission (SEC).

The IFRS is being developed by the International Accounting Standards Board (IASB). It is uncertain whether the IFRS will be adopted by the SEC if the IASB adopts it. The SEC has prepared a roadmap that, if certain milestones are completed, could lead to required use of IFRS beginning in 2014. Thus, the IFRS requirements are uncertain and it is uncertain whether and when it will apply to CWS.

The Settlement provides that CWS may file a Tier 2 advice letter for a memorandum account to track costs required to comply with IFRS after the SEC

⁴³ Settlement Section 10, Special Request #28.

⁴⁴ See Section 7.5.8 of this decision.

⁴⁵ Settlement Section 10, Special Request #30.

provides clear guidance on the timelines and actions necessary to implement IFRS. The memorandum account, if authorized, will expire at the beginning of the test year for the next GRC.

7.7. Water Quality

As provided for in the Water Rate Case Plan (D.07-05-062, OP 8 and Appendix A, Section II.F), the Commission appointed a water quality expert to examine CWS's water quality and provide a report on the results.⁴⁶ The expert issued a report that found that there are no outstanding California Department of Public Health compliance orders or notices of violations. In other words, CWS meets all applicable water quality requirements.

At public participation hearings held in the Redwood Valley District's Coast Springs and Lucerne areas, the Commission received allegations by customers that the water smelled of rotten eggs and left stains in toilets, etc. The record demonstrates the water is potable, however, these complaints indicate the water is sometimes not very palatable. The Commission expects CWS to address these complaints. In the next GRC, CWS shall make an affirmative showing indicating the frequency and location of such complaints in the Redwood Valley District's Coast Springs and Lucerne areas, the causes and corrective actions it has taken or will take to remedy the complaints and any underlying problems that led to the complaints.

⁴⁶ Exhibit WQE-1: Report On Water Quality Report For California Water Service Company In Response To Its Application 09-07-001 For A General Rate Increase, 3/4/2010.

7.8. The Agreement

The Agreement addresses the issue of enhancement of the Rate Support Fund (RSF).

In OP 1 of D.06-08-011, which adopted an RSF settlement (RSF Settlement), the Commission established an RSF balancing account for CWS. The RSF provides a subsidy for all customers in the following high cost districts.

- Antelope Valley District (Fremont Valley area only)
- Kern River Valley District
- Redwood Valley District (including the Coast Springs, Lucerne and Unified areas)

In addition, the RSF provides targeted Low-Income Rate Assistance (LIRA) to customers who meet the Low-Income Energy Efficiency Income limit in the above areas, including all of the Antelope Valley District rather than just the Fremont Valley portion.

The subsidies are financed by a volumetric surcharge (\$.009/ccf) imposed on all CWS customers except those enrolled in any CWS low-income assistance program. Flat-rate unmetered customers are charged a per-customer charge based on average residential usage in each district.⁴⁷

The Agreement provides that, for each of the RSF rate areas subject to transitional interim rates for the period July 1, 2009 through January 1, 2011, proportional RSF support will be provided for the period interim rates were in effect. This will be done through the amortization of the difference between interim rates and the rates adopted herein as discussed in Section 7.6.1 of this decision and Section 10, Special Request 4 of the Settlement.

⁴⁷ D.06-08-011, Appendix G “Rate Support Fund Settlement” at 5.

The Agreement provides for a continuation of the RSF in the same areas currently receiving it. The subsidies will increase proportional to the adopted revenue requirement increase for 2011.⁴⁸ At the same time, the RSF surcharge will increase to \$.010 per Ccf for metered customers with a similar increase for flat-rate residential customers.

CWS charged administrative costs to the RSF balancing account. Pursuant to the Agreement, CWS will remove these charges from the RSF balancing account and will not book future administrative costs to the RSF balancing account.

The LIRA program provides a 50% discount on the service charge with a cap of \$10 per month. Since the service charge will increase above \$20 in some areas, the Agreement provides for an increase of the LIRA cap to \$12.

The WRAM records and provides for recovery of the difference between revenue from adopted sales and revenue from recorded sales. However, this fails to recognize that the RSF credit is volume based. When recorded sales decrease or increase relative to the adopted sales, the amount of the RSF subsidy should decrease or increase. However, the change in the subsidy amount is not a revenue requirement change that needs to be recovered through WRAM. In order to make the appropriate WRAM adjustment, the Agreement provides that, for the Redwood Valley District's Unified and Coast Springs areas annual WRAM/MCBA reporting, CWS will calculate the difference in rate support due to sales changes as a component of the WRAM balance. CWS will transfer funds between the Rate Support Fund balancing account and the WRAM balancing

⁴⁸ For districts where the revenue requirement is phased in over two years, the subsidy increase will occur over the same two years.

account to ensure the rate support remains proportional to revenue as intended in the Settlement.

The Agreement notes that changes in costs in the Coast Springs area have affected the percentage of fixed costs recovered through the service charge. If left in place, the current rate design would recover 44% of the fixed costs through the service charge. The Agreement provides for recovery of 50% of the fixed costs through the service charge consistent with Commission practice.

Young and Pareas argue that the Agreement provides insufficient RSF subsidies to the Coast Springs area of the Redwood Valley District. They argue that the amount of the increase should be proportional to the overall revenue requirement increase since the last GRC, rather than the revenue requirement increase authorized in this decision. They also argue that the amount of the increase should be based on the sales per customer used in the Settlement.

The rate increase is to be phased in over two years. Young argues that since the increase in the RSF subsidy is to be phased in with the rate increase, the second year increment in the subsidy should be increased by some interest rate to recognize inflation between 2010 and 2011.

Young argues that the transfer of the appropriate amount between the RSF balancing account and the WRAM balancing account should reflect the change in customer usage between D.06-08-011 and the Settlement.

7.8.1. Discussion

As stated previously, 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.

CWS and DRA are parties to the Agreement. The primary issue regarding the Agreement is the amount of the RSF subsidy for the Coast Springs area of the Redwood Valley District. Young and Pareas argue that the Agreement should be changed to provide more of a subsidy.

The Agreement contains a detailed discussion of the issues addressed by the Agreement and how they are resolved.

Young and Pareas point to language in the Agreement that says “The Parties agree not to change the principles of the RSF Settlement adopted by the Commission in OP 1 of A.05-08-006.”⁴⁹ They argue that the Agreement does not follow the principles of the RSF Settlement because the increase in the subsidy is not proportional to the revenue requirement increase since the last GRC.

The RSF Settlement did not set a precedent. Therefore, there is no requirement that the Agreement follow a methodology or principles adopted in it. The issue is whether the Agreement is reasonable. The fact that Young and Pareas have a different interpretation of the principles adopted in the RSF Settlement does not make the Agreement unreasonable.

At the first prehearing conference and in the Assigned Commissioner’s Scoping Ruling in A.05-08-006, et al. the parties were urged to develop proposals to moderate the potential rate impacts those applications could have on CWS’s low-income customers. In commenting on the RSF Settlement in that proceeding, the Commission stated that “We see this settlement not as the only answer, but as a reasonable and pragmatic way to proceed in the case before us.

⁴⁹ The appropriate reference is to D.06-08-011 in A.05-08-006.

We intend in future proceedings to continue to examine the issue.”⁵⁰ That continues to be the case in this proceeding.

Pareas and Young’s argument that the amount of the increase should be based on the sales per customer used in the Settlement is equally unpersuasive. It too appears to rely on what was done in the RSF Settlement. Since the RSF Settlement is not a precedent, whether the Agreement follows the methodology of the RSF Settlement is not indicative of the reasonableness of the Agreement.

Pareas and Young’s recommendations are based on the assumption that the RSF Settlement set precedent, which it did not, they have not shown that their recommendation is more reasonable than that proposed in the agreement. Additionally, adoption of their recommendation would result in a greater cost to other ratepayers who provide the subsidy. Therefore, the subsidy proposed in the agreement is more reasonable than their recommendations.

Young argues that since the increase in the RSF subsidy is to be phased in with the rate increase, the second year increment in the subsidy should be increased by some interest rate to recognize inflation between 2010 and 2011. If the rate increase were not to be phased in, the subsidy would be the same in the second year as proposed in the Agreement. The phase-in of the rate increase defers part of CWS’s revenues. Thus, the deferred revenues will earn interest. However, the customers will have a lesser rate increase in the first year and thus a lesser subsidy is reasonable. In the second year, the full subsidy increase will be applied. However, the customer will not have experienced deferred revenues as is the case with CWS. Therefore, the customer is not entitled to an additional

⁵⁰ See D.06-08-011, the end of the section titled “REBA and the Rate Support Fund Settlement.”

increase in the incremental subsidy and there is no reason to increase the second year increment of the subsidy by some interest rate.

Young argues that the transfer of the appropriate amount between the RSF balancing account and the WRAM balancing account should reflect the change in customer usage between the usage adopted in D.06-08-011 and recorded usage.

The WRAM records and provides for recovery of the difference between revenue from adopted sales and revenue from recorded sales. However, the change in the subsidy amount due to the difference between adopted and recorded sales is not a revenue requirement change that should be recovered through WRAM. In order to make the appropriate WRAM adjustment, the Agreement provides that, for the Redwood Valley District's Unified and Coast Springs areas annual WRAM/MCBA reporting, CWS will calculate the difference in RSF credits due to sales changes and transfer the appropriate amount between the RSF balancing account and the WRAM balancing account. This will be a process that will occur each year. The adopted sales amount will change over time. Young's proposal, which would reflect the change in customer usage between the usage adopted in D.06-08-011 and recorded usage, is not consistent with the WRAM mechanism and is not adopted.

As explained above, the Agreement is reasonable in light of the whole record.

Since the Agreement does not violate any statute or Commission decision or rule, it is consistent with law.

CWS represents the interests of its shareholders. DRA represents the interests of CWS's ratepayers. Thus, the settling parties fairly represent the affected interests. The Agreement, together with the Settlement, results in rates sufficient to provide adequate reliable service to customers at reasonable rates

while providing CWS with the opportunity to earn a reasonable return. Additionally, the Agreement provides the Commission with sufficient information to carry out its future regulatory obligations with respect to the parties and their interests. Thus, the Agreement is in the public interest and is adopted.

8. Disputed Issues

8.1. Imputation of State Revolving Fund (SRF) Financing for the Redwood Valley-Coast Springs Area

This issue concerns the financing cost of expanding the Coast Springs Water Treatment Plant. The final cost of the expansion is \$1,422,545.

The Settlement provides for a permanent reduction of \$320,000 in total plant costs. It also provides for a further \$189,000 in plant costs to be amortized company-wide over a three-year period because there is a benefit to all customers of what CWS learned during the design and construction of the plant.

Young states that CWS should have requested a higher loan amount when it initially applied for an SRF loan for this project. He also says CWS should have requested additional SRF funds as the costs of the expansion increased. As a result, Young recommends a disallowance of \$174,266 from ratebase for this project over and above the reduction adopted in the Settlement.

8.1.1. Discussion

Young's first contention is that CWS should have asked for a larger SRF loan amount. In order to obtain the loan, the Commission's approval was needed. CWS sought this approval in A. 04-01-018, which resulted in D.06-04-031.

D.06-04-031 states as follows:

The Coast Springs plant cost upgrades are estimated at \$600,000. CWS, through its predecessor companies, was granted a previous Fund loan for the Coast Springs service area in the 1980's of approximately \$350,000. (See D.87 10 047, D.98-09-022, and D.99-07-041.) The remaining balance from the previous loan is now approximately \$102,000, and maintained by CWS in a reserve account. CWS will use the new loan of \$494,276 augmented by the balance of the previous loan to finance the upgrades to the Coast Springs treatment plant.

D.06-04-031 authorized CWS to apply to for an SRF loan to upgrade the Coast Springs water treatment plant. The loan amount was \$494,276 to be repaid over a 20-year period at an interest rate of 2.6%. The Commission also specified that the loan is to be repaid through a surcharge. A. 04-01-018 was not contested.

According to D.06-04-031, the \$600,000 expansion project would be financed by an SRF loan of \$494,276 and approximately \$102,000 from a previous loan for a total of \$596,276. Thus, no significant amount of additional funding was needed at the time.

Young's second contention is that CWS should have requested additional SRF funds as the costs of the expansion increased.

By a letter dated September 8, 2004 from Perla Netto-Brown of the California Department of Water Resources (DWR) to CWS's president, DWR informed CWS that DWR and the California Department of Health Services had reviewed its application for SRF funds and had accepted it. The letter also indicated that CWS could make a one-time request for increased funding.

Subsequently, project costs increased substantially. The issue is whether CWS should have requested increased funding to cover the increased cost. CWS states it believed that if it requested increased funding such that the loan amount

exceeded \$500,000, it would have had to comply with the Federal crosscutters that would have led to increased project costs and delays.⁵¹

Exhibit JY-5 is a copy of an e-mail from Lorri Silva of the California Department of Public Health (DPH) to Young dated April 21, 2010. In the e-mail, Silva states as follows:

At the time Coast Springs submitted a funding application, crosscutters applied to any project for which the requested funding was greater than \$500,000 or if the system had more than 1000 service connections. Once funding is committed, if there is a request for additional funding, and the increased amount brings the total project cost over \$500,000, we do not go back and apply crosscutters. (There is not a written policy, regulation or statute that specifically states that once funding for a project is committed, the SRF does not make the applicant go back and apply crosscutters.)

CWS objected to the receipt of this exhibit into evidence because it lacks foundation, is hearsay, and contains expert legal opinion. The exhibit was received into evidence with the understanding that CWS's arguments go to the weight that should be given the exhibit. This exhibit is merely an e-mail, purportedly from a DPH employee, received by Young long after CWS's decision not to seek additional SRF funding was made. The record does not indicate that this e-mail represents DPH's opinion on the matter. Therefore, it is given little weight. However, if one assumes the e-mail is correct, what would that indicate about CWS's decision not to seek additional SRF funding?

⁵¹ Crosscutters are Federal laws and executive orders that apply to projects that receive Federal financial assistance, even though the assistance is administered by the state. Crosscutters include environmental, discrimination, equal employment opportunity and affirmative action requirements, among others.

The reasonableness of CWS's decision will be judged based on the information CWS had or should have had at the time it made the decision. The e-mail appears to indicate that crosscutters would not have been applied if CWS had requested additional funds, after the initial loan, that would have raised the total costs over \$500,000. However, it also indicates that there is no written policy, regulation or statute to that effect. Thus, if the e-mail is to be believed, there was no written document to that effect that CWS could have obtained.

CWS argues that it reasonably believed that crosscutters would have been applied if it had requested additional funds for a total loan amount over \$500,000. The question then becomes whether it was reasonable for CWS to believe that crosscutters would not have been applied.

The requirements at the time were that crosscutters would apply to loans over \$500,000, but not to loans under that amount. The policy articulated in Exhibit JY-5 would allow an applicant to game the system to avoid the more stringent crosscutter requirements. An applicant seeking a loan amount over \$500,000 could intentionally avoid crosscutters simply by initially applying for a loan amount under \$500,000 and later applying for an increase. It is not reasonable to expect CWS to have known or suspected that such gaming would be allowed. Thus, Exhibit JY-5 does not indicate CWS acted unreasonably.

Application of the crosscutter requirements concerning bidding, after the project had commenced, may have required CWS to rebid parts of the project for which bids had already been accepted. Starting the bidding process again could have required more time. It is also possible that bidders who were previously successful, but did not have their bids accepted under the new requirements may have pursued litigation, which could have led to additional delays and costs. Additionally, CWS would have had to apply to the Commission for approval to

increase the loan amount and surcharge approved in D.06-04-031 in A.04-01-018. This too could have caused some delay. Thus, CWS's belief that application of crosscutters, due to an increase in the loan amount after the initial loan had been approved, could have resulted in delays and additional costs is reasonable.

For the above reasons, the Commission finds CWS acted reasonably in not seeking additional SRF funding. Young's proposed disallowance is not adopted.

8.2. Antelope Valley District-Fremont Valley Well

There is currently one well and a tank to serve 88 customers in the Fremont Valley area of CWS's Antelope Valley District. If the well is out of service, the only source of water is the tank. An extended outage of the well could result in low pressure or a water outage. CWS initially proposed to construct a second well on a separate piece of property it would have to purchase at a cost of \$692,600. This was identified as Project 20642. Subsequently, CWS determined that it could construct the well on the same property as the existing well. This eliminated the need to purchase additional land and construct a pipeline from the new well to the existing tank and well location. The revised cost, which is adopted in the settlement, is \$619,000. The settlement allows CWS to file a ratebase offset advice letter to include the project in rates when the project is completed and in service to customers. The advice letter cost is capped at \$619,000 plus IDC.

Fremont Valley and Leona Valley oppose the project. They argue that an additional tank should be built instead to provide water in the event the well is out of service.

8.2.1. Discussion

The additional well will enhance the reliability of the water supply by eliminating the dependence on a single well. An additional storage tank would

provide additional water in the event of an outage. However, if the well is out of service for an extended period of time, and especially if a fire occurs during the outage, an additional tank may not be enough. An additional well would not be limited to a fixed amount of water as would an additional tank. Thus, a tank is not a viable option. The only other option for providing water in the event of an extended outage is hauling water in by truck. This could be quite expensive, assuming trucks are available during the outage, and may not be sufficient in the event of a fire. It is not a viable option. In addition, DRA supports the project. The project is reasonable.

8.3. Antelope Valley District – Mains, Services, Hydrants and Valves

CWS proposed a number of projects for main, fire hydrant and gate valve replacements. Leona Valley does not agree with the costs of a number of projects based on the number of replacements needed and the unit costs of the replacements.

The projects involving mains, services, hydrants and gate valves, listed by year of completion, are included in the following table showing cost estimates by CWS, DRA and Leona Valley, as well as the Settlement amount:

Project	CWS cost (\$)	DRA cost (\$)	Settlement cost (\$)	Leona Valley cost (\$)
			<u>2009</u>	
17499	227,800	227,800	227,800	110,022
17501	61,400	61,400	61,400	18,100

Project	CWS cost (\$)	DRA cost (\$)	Settlement cost (\$)	Leona Valley cost (\$)
17503	61,400	61,400	61,400	18,100
17506	19,200	19,200	19,200	7,328 ⁵²
17507	19,200	19,200	19,200	7,328
17508	19,200	19,200	19,200	7,328 ⁵³
17509	15,200	15,200	15,200	10,600
17510	15,200	15,200	15,200	7,950
			<u>2010</u>	
20496	70,200	70,200	70,200	13,565
20500	16,000	16,000	16,000	10,600
20501	20,200	20,200	20,200	7,328 ⁵⁴
20509	16,000	16,000	16,000	7,950
20559	20,200	20,200	20,200	7,328
20573	16,000	16,000	16,000	7,950
20574	20,200	20,200	20,200	7,328 ⁵⁵
21110	258,300	258,300	258,300	127,000
			<u>2011</u>	
20585	73,800	73,800	73,800	14,500
20587	16,800	16,800	16,800	11,128

⁵² Leona Valley did not specify the amount in its exhibits or briefs. Therefore, the amount for Project 17507, which is similar, is used.

⁵³ Leona Valley did not specify the amount in its exhibits or briefs. Therefore, the amount for Project 17507, which is similar, is used.

⁵⁴ Leona Valley did not specify the amount in its exhibits or briefs. Therefore, the amount for Project 17559, which is similar, is used.

⁵⁵ Leona Valley did not specify the amount in its exhibits or briefs. Therefore, the amount for Project 17559, which is similar, is used.

Project	CWS cost (\$)	DRA cost (\$)	Settlement cost (\$)	Leona Valley cost (\$)
20589	21,200	21,200	21,200	7,484 ⁵⁶
20596	36,900	36,900	36,900	5,500
20599	16,800	16,800	16,800	5,564
20643	21,200	21,200	21,200	7,484
20644	16,800	16,800	16,800	2,650
20646	21,200	21,200	21,200	0
21119	218,900	218,900	218,900	119,000
			<u>2012</u>	
20700	77,400	77,400	77,400	15,000
20707	77,400	77,400	77,400	6,000
20709	17,600	17,600	17,600	11,688
20711	17,600	17,600	17,600	5,844
20712	17,600	17,600	17,600	2,922
20716	22,200	22,200	22,200	7,858 ⁵⁷
20723	22,200	22,200	22,200	7,858
21127	233,300	233,300	233,300	121,000
29288	22,600	22,600	22,600	0

Leona Valley argues that fewer replacements are needed and the unit cost per replacement should be lower.

⁵⁶ Leona Valley did not specify the amount in its exhibits or briefs. Therefore, the amount for Project 20643, which is similar, is used.

⁵⁷ Leona Valley did not specify the amount in its exhibits or briefs. Therefore, the amount for Project 20723, which is similar, is used.

8.3.1. Discussion

The project costs were not opposed by DRA, based on its analysis, prior to the Settlement. This tends to support the Settlement. Additionally, settlements are a result of compromises made by the settling parties.

Leona Valley estimates unit costs based on 2010 RS Means Facilities Maintenance and Repair Cost Data.⁵⁸ These cost estimates are based on nationwide averages. They are not based on data specific to CWS or its Antelope Valley District. Additionally, costs can vary due to the size of the project, its location, the season of the year, weather conditions, local union restrictions, building code requirements and other factors, although Leona Valley has adjusted the RS Means numbers for some of these factors. Overall, Leona Valley's analysis is not sufficiently persuasive to disturb the overall balance reached by the Settlement. Leona Valley's recommendations are not adopted.

While Leona Valley's recommendations are not adopted, it appears the need for and cost of projects such as these would benefit from a more comprehensive examination in the next GRC. In order to review the reasonableness of these projects and forecast future costs, CWS shall, as part of its next GRC application for the Antelope Valley District, include a comprehensive affirmative showing regarding the reasonableness of the above projects. For each project, the showing shall demonstrate the need for the replacements and the reasonableness of the recorded costs, including the unit costs.

⁵⁸ Published by RSIVieans, a division of Reed Construction Data.

8.4. Allow Recovery of Unanticipated “Green” Projects

CWS requests that it be allowed to set up a memorandum account for recovery of investments and expenses related to cost-effective green projects. CWS requests authority to request recovery of these costs through Tier 2 advice letter filings. CWS states that opportunities to undertake such projects may be lost if CWS cannot proceed with such opportunities in a timely manner due to the uncertainty of revenue recovery.

DRA recommends the request be denied. DRA states the definition of what constitutes a green project is unclear. Specifically, it is unclear how a project would be evaluated in order to determine whether it is “green.”

DRA also objects on the basis that CWS’s request for a memorandum account does not meet the requirements established in D.02-08-054 for memorandum accounts.

8.4.1. Discussion

The Commission has not applied a fixed set of factors in considering whether to establish memorandum accounts for water utilities. Some of the factors the Commission has considered are articulated in D.02-08-054 and D.04-06-018.⁵⁹ When the Commission applied these factors, it has not always required that they all be met before authorizing a balancing account. Thus, at

⁵⁹ D.02-08-054 lists conditions for establishing a memorandum account as follows:

(1) The expense is caused by an event of an exceptional nature that is not under the utility’s control; (2) The expense cannot have been reasonably foreseen in the utility’s last GRC and will occur before the utility’s next scheduled GRC; (3) The expense is of a substantial nature in the amount of money involved; and (4) The ratepayers will benefit from the memorandum account treatment.

different times, the Commission has considered some or all of these factors, or relied on other policy considerations in determining whether to authorize a memorandum account. The overall question to be addressed is whether a utility should be authorized to seek recovery of the costs proposed to be included in a memorandum account at a later date without encountering retroactive ratemaking issues.

The Commission utilizes the GRC to set rates. In order to do so, expenses and ratebase, including new plant investments, are forecast. However, with some exceptions, these forecasts are not a fixed budget from which the utility cannot vary. Therefore, CWS has flexibility in its choice of expenses and plant investments subject to a reasonableness review in the next GRC. This should be sufficient for most expenditures. If an opportunity that satisfies the above factors were to occur, it would likely merit a more comprehensive review for reasonableness than can reasonably be expected in an advice letter process. Such a review would be hampered by the lack of a definition of a green project. The advice letter process is not an acceptable place for such a determination.

In addition, the Commission expects CWS to routinely take into consideration cost-effectiveness and the effect on the environment of its choice of expenses and capital projects. As such, all of its expenses and capital projects should be as cost-effective and green as possible.

For the above reasons, CWS request for a memorandum account for green projects is denied.

9. Information to be Provided to Visalia

In its comments on the Settlement, Visalia asked that it be provided with the following information:

- Advice letters reporting on authorized and actual conservation expenditures related to the Visalia District;
- CWS's annual report to the Commission on conservation;
- Data to be provided as part of CWS's "Minimum Data Requirement" for its 2012 general rate case filing related to customer disconnections, bill patterns, water usage and costs⁶⁰; and
- Information related to long-run marginal costs, and advance notice of any conferences with DRA related to that material.⁶¹

CWS agreed to provide Visalia with the requested information and any other information provided to the Commission's staff that is related to the Visalia District. The Commission requires CWS to provide the requested information to Visalia.

10. Notice

Rule 3.2(b), (c) and (d), requires the utility to give notice of its rate increase applications. CWS met these requirements in its notice for this proceeding. However, customers were not sufficiently informed in some instances.

CWS's bill insert notices regarding public participation hearings indicated the overall increase requested, which was 16.75% for 2011. However, CWS has 24 districts. The requested increases for individual districts for 2011 vary from 6.3% to 154.8%. Thus, many customers receiving the notice were misled into thinking the requested increase was far smaller for their district than it actually is.

Customers who receive an electronic notice were given a button to push for information on rates, etc. There was no indication that a rate increase had

⁶⁰ See settlement Section 10, Special Request 11.

been requested. Only if the button is pushed, would the customer find out about the requested overall rate increase. Even then, the customer would not be informed of how much the individual district rate increase would be. The notices that appeared in newspapers regarding public participation hearings were much more specific as to proposed district increases.

Thus, while CWS did not violate the notice requirements, improvement is needed. Future rate increase notices, including notices of public participation hearings, should indicate the rate increase proposed for the customer's district or rate area within a district if the rates are not uniform across the district. If this is not feasible, the notice should specify the range of district increases and where individual district increases can be found. As to the electronic notices, the initial screen should indicate that a rate increase has been requested and at least the range of proposed increases. A button can be used to give further information on individual district increases.

Newspaper notices should at least indicate the proposed increases for the districts served by the newspaper.

11. Comments on Proposed Decision

The ALJ's proposed decision in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed by DRA, CWS and Leona Valley on November 15, 2010 and reply comments were filed by DRA and CWS on November 22, 2010. All

⁶¹ See Settlement Section 10, Special Request 11.

comments were considered and changes to the proposed decision were made as necessary.

12. Assignment of Proceeding

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

Findings of Fact

1. CWS, DRA, Young, Fremont Valley and Leona Valley are parties to the Settlement. There are, however, a few portions of the Settlement with which Young, Fremont Valley and Leona Valley do not agree. The Settlement is otherwise unopposed.

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

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

4. Young provided exhibits related to the Coast Springs District.

5. Leona Valley provided exhibits related to the Antelope Valley District.

6. The Settlement indicates that most of the differences were resolved by use of more recent data, correction of calculation errors, parties' acceptance of another party's estimates or calculation methodologies, and compromises between the parties.

7. The overall Settlement result lies between the initial positions of CWS and DRA.

8. The Settlement does not violate any statute or Commission decision or rule.

9. CWS represents the interests of its shareholders.

10. DRA represents the interests of CWS's ratepayers.

11. Young is a customer of the Coast Springs District.
12. Leona Valley represents the Leona Valley customers of the Antelope Valley District.
13. Fremont Valley represents the Fremont Valley customers of the Antelope Valley District.
14. The settling parties fairly represent the affected interests.
15. The Settlement provides for the establishment of a one-way balancing account, to go into effect on the effective date of the rates adopted in this decision, to track the difference between actual and authorized conservation expenses.
16. The Settlement does not address the need for tariff changes to implement the one-way balancing account.
17. The budgeted amounts for conservation expenses are specified in the Settlement and are not subject to escalation.
18. The Settlement provides that, within 90 days of the effective date of the rates adopted in this decision, CWS should file an advice letter providing a comparison of the authorized and actual conservation expenses from the last GRC for each district. In the event of under-spending, the Settlement provides that CWS should include a methodology in the advice letter for refunding to customers the unexpended funds and accrued interest for each district.
19. The Settlement provides that, within 90 days of the effective date of the rates adopted in this decision, CWS should file an advice letter to close any existing conservation memorandum accounts and conservation one-way balancing accounts and amortize the existing balances to customers.
20. The Settlement provides that, within 90 days of the effective date of the rates adopted in the next GRC, CWS should file an advice letter providing a

comparison of the authorized and actual conservation expenses from this GRC for each district, and amortizing any unspent funds and accrued interest to customers through a 12-month surcredit on the service charge.

21. The settlement provides that CWS will file an annual report with the Division of Water and Audits, with a copy to DRA, by May 1 of each year beginning in 2012, summarizing conservation activities and expenses. The reporting requirements are shown on Table 5.3 of the Settlement.

22. The Settlement provides that CWS will provide the Division of Water and Audits and DRA with copies of its California Urban Water Conservation Council Gallons per Capita per Day reports when they are issued.

23. The Settlement allows CWS to hire six additional CCCP inspectors. The costs for the CCCP inspectors will not be included in rates until they are hired. The Settlement allows CWS to include the costs for additional CCCP inspectors in its annual advice letter filing for an escalation increase after they have been hired.

24. The Settlement allows CWS to file ratebase offset advice letters for the projects listed in Attachment A to this decision. Project costs are subject to caps as shown in Attachment A to this decision. For flat-to-meter conversion projects, the advice letters will provide actual counts and construction costs with a detailed breakdown of employees who charged time to the project.

25. The Settlement asks the Commission to order CWS to amortize the differences between the adopted interim revenue requirements for 2009-10 and 2010-11 and the revenue requirements authorized herein.

26. The Settlement provides for an increase in fees for restoration of service after disconnection for nonpayment to \$50 during working hours and \$90 after working hours, and a fire-flow test fee of \$525 in all districts.

27. The Settlement provides for further consideration of increasing block rates for non-residential customers in the next GRC when more information will be available.

28. In OP 10 of D. 08-07-008, the Commission ordered CWS to: "... make a proposal to address customers outside the Livermore District who pay for 1-inch metered service solely to meet fire protection requirements imposed by the local government, and provide customers who request it an opportunity to pay a smaller meter service fee. CWS shall research its customer information database, contact cities, and/or conduct sample studies to determine the potential applicability of a '1-inch residential plus fire service' rate in its other districts. It shall also review its tariffs to determine who has such 1-inch fire protection service. The proposal shall explain how CWS will account for the cost under-recovery, if any, related to installing and maintaining large meters for fire protection while collecting rates for smaller meter service."

29. The Settlement provides that CWS shall provide the studies and related information required by OP 10 of D.08-07-008 in its next GRC.

30. The Settlement provides that no surcharge or delineated rate component for a ratebase offset advice letter approved prior to the effective date of rates adopted in this decision will be discontinued when the rates adopted in this decision become effective. The subject advice letters will indicate whether the project is included in the revenue requirement in the Settlement. If a project is included in the Settlement revenue requirement, CWS will file for rate recovery only for the period until the effective date of rates adopted in this decision. If the project is not included in the Settlement revenue requirement, CWS will request a dedicated rate component, such as a surcharge, to enable the revenue requirement to survive the adoption of rates in this proceeding.

31. The Settlement provides that CWS should be ordered to file an advice letter within 90 days of the effective date of this decision to amortize the remaining balances in its incremental cost balancing accounts for all districts that have not met the 2% trigger specified in D.03-06-072.

32. The Settlement provides that CWS should be ordered to file an advice letter within 90 days of the effective date of this decision to amortize its water conservation memorandum account and its water conservation one-way balancing accounts.

33. The Settlement provides that CWS shall seek recovery of other memorandum account balances by filing advice letters in accordance with General Order 96-B.

34. The Settlement provides for the merger of the South San Francisco and Mid-Peninsula Districts subject to a \$20,000 reduction in the annual revenue requirement to be applied in this GRC cycle to the South San Francisco District. The resulting district will be called the Bayshore District.

35. The Settlement provides: CWS will, as a “Minimum Data Requirement” of its next GRC filing, provide a report addressing customer usage patterns, disconnection activity, and other data; and that if information on the long-run marginal costs of water supplies is available prior to the next GRC filing, CWS will provide it to DRA at a mutually agreeable time.

36. The Settlement provides that the trial program, referenced in Section III of the Settlement, adopted in OP 1 of D.08-02-036 will be extended for the duration of this GRC cycle and reviewed in the next GRC.

37. The Settlement requires CWS to make an information-only filing with the Division of Water and Audits to document its calculations of the impact of a hiring lag on the General Office offset approved in D.08-07-008. Since the

settlement does not indicate when this filing should be made, it will be due 90 days after the effective date of this decision.

38. The Settlement provides that, in each escalation advice letter for the Bakersfield, Chico, Marysville, Oroville, Selma, Visalia and Willows Districts, CWS will show the progress of its flat-to-meter conversions and adjust the adopted flat-rate and metered service counts for the escalation year rate design and adopted quantities to ensure escalation year WRAM adopted quantities reflect the actual progress in installing meters.

39. The ratebase offset pilot program, authorized by D.08-07-008, allowed immediate implementation of rates for ratebase offsets while the advice letter requesting the offset is being reviewed. No advice letters were filed under the pilot.

40. Subsequent to D.08-07-008, the Commission amended General Order 96-B to allow ratebase offset advice letters for previously authorized plant additions that were subject to a cap and did not exceed the cap to be filed as Tier 2 advice letters and approved ministerially by the Division of Water and Audits.

41. The ratebase offset pilot program, authorized by D.08-07-008, is no longer necessary.

42. OP 3 of D.08-03-020 required CWS to “explore the system improvement projects ordered herein, as well as others that appear reasonable, and submit a report to the Commission with its next GRC, identifying each project’s estimated cost, the amount of additional water the project expects to produce, the required permits, and the amount of time the project would require for completion.”

43. OP 4, of D.08-03-020 required CWS to “follow the Commission’s System Improvement Policy and plan for expenses related to remedies to lift the moratorium in its next GRC.”

44. OP 5 of D.08-03-020 required CWS to “file a plan for providing redundancy and back up service in Coast Springs with its next general rate case.”

45. OP 8 of D.08-03-020 required CWS to “present the procedures it follows and the methods it uses to protect customer information in its next general rate case.”

46. CWS complied with most of the requirements in OPs 3, 4, 5 and 8 of D.08-03-020 but has more tasks to complete before it is fully in compliance.

47. The Settlement adopts a balancing account for pension costs, which reflects the following:

- a. The amounts recorded in the balancing account will be limited to the difference between SFAS 87 expense calculated by CWS’s actuarial expert and recorded as expense, and CWS’s recovery of costs for ratemaking purposes.
- b. The effective date will be the effective date of this decision and apply to expensed amounts after that date.
- c. The balancing account will be subject to recovery in one of two ways: (1) through a tier 2 advice letter if the balance exceeds two percent of CWS’s total company adopted revenue requirement, or (2) as part of a GRC proceeding. Recovery of costs is subject to a reasonableness review.
- d. CWS will not be permitted to change its method of accounting for ratemaking purposes except as required by state or federal law or as directed by FASB. Changes in assumptions reflecting current market, interest rate or demographic assumptions will not be considered changes in accounting.

48. The budgeted amounts for employee and retiree health care insurance are specified in the Settlement and are not subject to escalation.

49. The Settlement provides for a memorandum account limited to unknown and potentially significant cost changes related to the federal health care bill

passed by Congress in April 2010. The memorandum account will be limited to tracking differences in costs for the following provisions:

- 1) Any reimbursement received from the temporary reinsurance program for pre-Medicare retirees which, according to current available information, will provide 80% coverage for claims between \$15,000 and \$90,000 for retirees aged 55-64;
- 2) Any incremental costs for health care stop-loss insurance, provided that CWS will not lower its stop-loss deductible from the current amount of \$275,000 per covered individual. If CWS can not obtain stop-loss coverage, the memorandum account will record claims expenses that would have previously been covered by CWS's stop-loss policies;
- 3) Any incremental costs for dependents of employees who qualify for coverage under the new federal legislation, but would not have been covered under previous terms of CWS's health care plan.

50. The Settlement provides that CWS will accrue IDC for all projects consistent with SFAS 34. The IDC will be calculated by weighting short-term debt and long-term debt to determine total interest applicable to construction work in progress. The IDC will be adjusted quarterly. The settlement provides that this method will be applied to separate applications for CWS's General Office building expansion, the Bakersfield water treatment plant and the Palos Verdes pipeline project.

51. The Settlement provides for the inclusion of recycled water revenue and costs in CWS's WRAM and MCBA, respectively.

52. The Settlement provides that CWS may file a Tier 2 advice letter for a memorandum account to track costs required to comply with IFRS after the SEC provides clear guidance on the timelines and actions necessary to implement IFRS. The memorandum account, if authorized, will expire at the beginning of the test year for the next GRC.

53. CWS meets all applicable water quality requirements.

54. At public participation hearings held in the Redwood Valley District's Coast Springs and Lucerne areas, the Commission received allegations by customers that the water smelled of rotten eggs and left stains in toilets, etc. The record demonstrates the water is potable, however, these complaints indicate the water is sometimes not very palatable.

55. In OP 1 of D.06-08-011, which adopted the RSF Settlement, the Commission established an RSF balancing account for CWS.

56. The RSF provides a subsidy for all customers in the Antelope Valley District (Fremont Valley area only), the Kern River Valley District and the Redwood Valley District (including the Coast Springs, Lucerne and Unified areas).

57. The RSF provides targeted LIRA to customers who meet the Low-Income Energy Efficiency Income limit in the Antelope Valley District, the Kern River Valley District and the Redwood Valley District (including the Coast Springs, Lucerne and Unified areas).

58. The Agreement provides for a continuation of the RSF in the same areas currently receiving it. And that the subsidies will increase proportional to the revenue requirement increase adopted in this decision for 2011.

59. CWS and DRA are parties to the Agreement.

60. Young and Pareas's argument that the Agreement does not follow the principles of the RSF Settlement adopted in OP 1 of D.06-08-011 assumes that there is some requirement to do so.

61. Since the RSF Settlement did not set a precedent, there is no requirement that the Agreement follow a methodology adopted in it.

62. The fact that Young and Pareas have a different interpretation of the principles adopted in the RSF Settlement does not make the Agreement unreasonable.

63. Pareas and Young's argument that the amount of the RSF increase should be based on the sales per customer used in the Settlement relies on what was done in the RSF Settlement.

64. Since the RSF settlement is not a precedent, whether the Agreement follows the principles or methodology of the RSF Settlement is not indicative of the reasonableness of the Agreement.

65. If the rate increase for the Coast Springs area of the Redwood Valley District is not phased in, the subsidy would be the same in the second year as proposed in the Agreement.

66. The phase-in of the rate increase for the Coast Springs area of the Redwood Valley District results in a deferral of part of CWS's revenues that will earn interest.

67. Since customers whose rate increase is deferred will have a lesser rate increase in the first year, a lesser subsidy is reasonable.

68. In the second year, when the deferred rate increase is applied, the full RSF subsidy increase will be applied. Since the customer whose rate increase was deferred will not have experienced deferred revenues, the customer is not entitled to an additional increase in the incremental subsidy by some interest rate as proposed by Young.

69. The Agreement provides that, for the Redwood Valley District's Unified and Coast Springs' areas annual WRAM/MCBA reporting, CWS will calculate the difference in RSF credits due to sales changes and transfer the appropriate amount between the RSF balancing account and the WRAM balancing account.

70. Young's argument that the transfer of the appropriate amount between the RSF balancing account and the WRAM balancing account should reflect the change in customer usage between the RSF settlement adopted in D.06-08-011 and recorded usage is inconsistent with the WRAM mechanism.

71. The settling parties fairly represent the affected interests.

72. The Agreement, together with the Settlement, results in rates sufficient to provide adequate reliable service to customers at reasonable rates while providing CWS with the opportunity to earn a reasonable return.

73. The Agreement provides the Commission with sufficient information to carry out its future regulatory obligations with respect to the parties and their interests.

74. In order to obtain the SRF loan, the Commission's approval was needed.

75. CWS sought the Commission's approval of the SRF loan in A. 04-01-018, which resulted in D.06-04-031.

76. D.06-04-031 states as follows: "The Coast Springs plant cost upgrades are estimated at \$600,000. CWS, through its predecessor companies, was granted a previous Fund loan for the Coast Springs service area in the 1980's of approximately \$350,000. (See D.87-10-047, D.98-09-022, and D.99-07-041.) The remaining balance from the previous loan is now approximately \$102,000, and maintained by CWS in a reserve account. CWS will use the new loan of \$494,276 augmented by the balance of the previous loan to finance the upgrades to the Coast Springs treatment plant."

77. D.06-04-031 authorized CWS to apply to for an SRF loan to upgrade the Coast Springs water treatment plant. The loan amount was \$494,276 to be repaid over a 20-year period at an interest rate of 2.6%. The Commission also specified that the loan is to be repaid through a surcharge. The surcharge revenue is

excluded from revenues, and the utility plant financed through the surcharge is excluded from rate base for ratemaking purposes. A. 04-01-018 was not contested.

78. According to D.06-04-031, the \$600,000 project to upgrade the Coast Springs water treatment plant would be financed by an SRF loan of \$494,276 and approximately \$102,000 from a previous loan for a total of \$596,276. Thus, no significant amount of additional funding was needed at the time.

79. By a letter dated September 8, 2004 from Perla Netto-Brown of DWR to CWS's president, DWR informed CWS that DWR and the California Department of Health Services had reviewed its application for SRF funds and had accepted it. The letter also indicated that CWS could make a one-time request for increased funding.

80. Exhibit JY-5 is a copy of an e-mail from Lorri Silva of DPH to Young dated April 21, 2010, that states in part: "At the time Coast Springs submitted a funding application, crosscutters applied to any project for which the requested funding was greater than \$500,000 or if the system had more than 1000 service connections. Once funding is committed, if there is a request for additional funding, and the increased amount brings the total project cost over \$500,000, we do not go back and apply crosscutters. (There is not a written policy, regulation or statute that specifically states that once funding for a project is committed, the SRF does not make the applicant go back and apply crosscutters.)"

81. Exhibit JY-5 indicates that crosscutters would not have been applied if CWS had requested additional funds after the initial loan that would have raised the total costs over \$500,000 but that there is no written policy, regulation or statute to that effect.

82. The requirements at the time the SRF loan was made were that crosscutters would apply to loans over \$500,000, but not to loans under that amount.

83. The policy articulated in Exhibit JY-5 would allow an applicant to game the system to avoid the more stringent crosscutter requirements by initially applying for a loan amount under \$500,000 and later applying for an increase.

84. Since it is not reasonable to expect CWS to have known or suspected that such gaming would be allowed, Exhibit JY-5 does not indicate CWS acted unreasonably.

85. Application of the crosscutter requirements concerning bidding, after the project had commenced, may have required CWS to rebid parts of the project for which bids had already been accepted that could have required more time.

86. Bidders who were previously successful, but did not have their bids accepted under the crosscutter requirements may have pursued litigation, which could have led to additional delays and costs.

87. CWS would have had to apply to the Commission for approval to increase the loan amount and surcharge approved in D.06-04-031 in A.04-01-018, which could have caused some delay.

88. CWS's belief that application of crosscutters, due to an increase in the loan amount after the initial loan had been approved, could have resulted in delays and additional costs was reasonable.

89. There is currently one well and a tank to serve 88 customers in the Fremont Valley area of CWS's Antelope Valley District.

90. If the Fremont Valley well is out of service, the only source of water is the tank.

91. An extended outage of the Fremont Valley well could result in low pressure or a water outage.

92. The additional Fremont Valley well will enhance the reliability of the water supply by eliminating the dependence on a single well.

93. If the existing Fremont Valley well is out of service for an extended period of time, and especially if a fire occurs during the outage, an additional tank may not be enough.

94. An additional Fremont Valley well would not be limited to a fixed amount of water as would an additional tank.

95. An additional storage tank and hauling water in by truck are not viable alternatives to the proposed additional Fremont Valley well.

96. CWS proposed a number of projects for main, fire hydrant and gate valve replacements in the Leona Valley portion of its Antelope Valley District that were not opposed by DRA prior to the Settlement.

97. Settlements are a result of compromises made by the settling parties.

98. Leona Valley estimates unit costs based on 2010 RS Means Facilities Maintenance and Repair Cost Data, that is based on nation-wide averages and not on data specific to CWS or its Antelope Valley District.

99. Project costs can vary due to the size of the project, its location, the season of the year, weather conditions, local union restrictions, building code requirements and other factors, although Leona Valley has adjusted the RS Means numbers for some of these factors.

100. The need for and cost of CWS's proposed projects for main, fire hydrant and gate valve replacements would benefit from a more comprehensive examination in the next GRC.

101. The Commission has not applied a fixed set of factors in considering whether to establish memorandum accounts for water utilities. Some of the factors the Commission has considered are articulated in D.02-08-054 and

D.04-06-018. At different times, the Commission has considered all or some of these factors, or relied on other policy considerations in determining whether to authorize a balancing account.

102. The Commission utilizes the GRC to set rates. In order to do so, expenses and ratebase, including new plant investments, are forecast. With some exceptions, the forecasts are not a fixed budget from which the utility cannot vary.

103. CWS has flexibility in its choice of expenses and plant investments subject to a reasonableness review in the next GRC, which should be sufficient for most expenditures.

104. CWS's request to set up a memorandum account for recovery of investments and expenses related to cost-effective green projects, and request recovery of these costs through Tier 2 advice letter filings, does not include a definition of what would constitute a green project that would be eligible for inclusion in its proposed memorandum account.

105. If a green project opportunity that meets the memorandum account treatment conditions were to occur, it would likely merit a more comprehensive review for reasonableness than can reasonably be done in an advice letter process. Such a review would be hampered by the lack of a definition of a green project.

106. CWS should routinely take into consideration cost-effectiveness and the effect on the environment of its choice of expenses and capital projects.

107. All of CWS's expenses and capital projects should be as cost-effective and green as possible.

108. CWS agreed to provide Visalia with the following information and any other information provided to the Commission's staff that is related to the

Visalia District: (1) advice letters reporting on authorized and actual conservation expenditures related to the Visalia District; (2) CWS's annual report to the Commission on conservation; (3) data to be provided as part of CWS's "Minimum Data Requirement" for its 2012 GRC filing related to customer disconnections, bill patterns, water usage and costs; and (4) information related to long-run marginal costs, and advance notice of any conferences with DRA related to that material.

109. Rule 3.2(b), (c) and (d), requires the utility to give notice of its rate increase applications.

110. CWS met the notice requirements for this proceeding. However, their customers were not sufficiently informed in some instances.

111. CWS's bill insert notices regarding public participation hearings indicated the overall increase requested, which was 16.75% for 2011.

112. Since the requested increases for CWS's individual districts for 2011 varied from 6.3% to 154.8%, many customers receiving the bill insert notices regarding public participation hearings may have thought the requested increase was far smaller for their district than it actually was.

113. Customers who receive an electronic notice were not informed of how much the individual district rate increases would be when they were informed of public participation hearings.

114. The notices that appeared in newspapers regarding public participation hearings were much more specific as to proposed district increases.

115. Improvement is needed in CWS's notices.

Conclusions of Law

1. Rule 12.1(d) of the Commission's Rules of Practice and Procedure 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 is reasonable in light of the whole record.

3. The Settlement is consistent with law. The Settlement results in rates sufficient to provide adequate reliable service to customers at reasonable rates while providing CWS with the opportunity to earn a reasonable return.

4. The Settlement provides the Commission with sufficient information to carry out its future regulatory obligations with respect to the parties and their interests.

5. The Settlement is in the public interest and should be adopted.

6. Within 30 days of the effective date of rates adopted in this decision, CWS should file an advice letter to make the necessary changes to its tariffs to implement the one-way balancing account to track the difference between actual and authorized conservation expenses.

7. Within 90 days of the effective date of rates adopted in this decision, CWS should file an advice letter to close any existing conservation memorandum accounts and conservation one-way balancing accounts. The advice letter should provide a comparison of the authorized and actual conservation expenses from the last GRC for each district. Existing balances in the accounts should be amortized in accordance with General Order 96-B except that, for under-spending in the one-way balancing accounts, the advice letter should include a methodology for refunding to customers the unexpended funds and accrued interest for each district.

8. Within 90 days of the effective date of the rates adopted in the next GRC, CWS should file an advice letter comparing the authorized and actual conservation expenses from this GRC for each district, and amortizing any

unspent funds and accrued interest to customers through a 12-month surcredit on the service charge.

9. CWS should file an annual report with the Division of Water and Audits, with a copy to DRA, by May 1 of each year, beginning in 2012, summarizing conservation activities and expenses. The reporting requirements are shown on Table 5.3 of the Settlement.

10. CWS should provide the Division of Water and Audits and DRA with copies of its California Urban Water Conservation Council Gallons per Capita per Day reports when they are issued.

11. CWS should be authorized to file ratebase offset advice letters for the projects listed in Attachment A to this decision. The ratebase offset advice letters may be filed only after each project is complete and in service to customers. Exceptions are land purchases, which may be filed after the purchase is complete, and Project 16952, Central Plume remediation, which may be filed annually. For flat-to-meter conversion projects, the advice letters should provide actual counts and construction costs with a detailed breakdown of employees who charged time to the project.

12. In its advice letters implementing the rates adopted herein, CWS should amortize the differences between the adopted interim revenue requirements for 2009-10 and 2010-11 and the revenue requirements authorized herein. For each of the Rate Support Fund areas subject to the transitional interim rates for the period July 1, 2009 through January 1, 2011, proportional Rate Support Fund support should be provided for the period interim rates were in effect as provided in the Agreement. The balances (sum of the differences for the two periods) should be amortized over 12 months for balances up to five percent of the district revenue requirement adopted herein. For balances over five percent

and up to 10%, the balances should be amortized over 24 months. Balances in excess of 10% should be amortized over 36 months.

13. CWS should be authorized to file a Tier 1 advice letter to increase fees for restoration of service after disconnection for nonpayment to \$50 during working hours and \$90 after working hours, and implement a fire-flow test fee of \$525 in all districts.

14. Consideration of increasing block rates for non-residential customers, as ordered in OP 3 of D.08-08-030, should be further addressed in CWS's next GRC, where CWS shall present a proposal for increasing block rates for non-residential customers.

15. CWS should be required to provide the studies and related information required by OP 10 of D.08-07-008 in its next GRC.

16. No surcharge or delineated rate component for a ratebase offset advice letter approved prior to the effective date of rates adopted in this decision should be discontinued when the rates adopted in this decision become effective. The subject advice letters should indicate whether the project is included in the revenue requirement in the Settlement. If a project is included in the Settlement revenue requirement, CWS should file for rate recovery only for the period until the effective date of rates adopted in this decision. If the project is not included in the Settlement revenue requirement, CWS should request a dedicated rate component, such as a surcharge, to enable the revenue requirement to survive the adoption of rates in this proceeding.

17. CWS should file an advice letter within 90 days of the effective date of this decision to amortize the remaining balances in its incremental cost balancing accounts for all districts that have not met the 2% trigger specified in D.03-06-072.

18. CWS should seek recovery of all memorandum account balances by filing advice letters in accordance with General Order 96-B unless otherwise directed by the Commission.

19. The merger of the South San Francisco and Mid-Peninsula Districts into the Bayshore District should be authorized.

20. The trial program adopted in OP 1 of D.08-02-036 should be extended for the duration of this GRC cycle and reviewed in the next GRC.

21. Within 90 days of the effective date of this decision, CWS should make an information-only filing with the Division of Water and Audits to document its calculations of the impact of a hiring lag on the General Office offset approved in D.08-07-008.

22. In each escalation advice letter for the Bakersfield, Chico, Marysville, Oroville, Selma, Visalia and Willows Districts, CWS should show the progress of its flat-to-meter conversions and adjust the adopted flat-rate and metered service counts for the escalation year rate design and adopted quantities to ensure escalation year WRAM adopted quantities reflect the actual progress in installing meters.

23. The ratebase offset pilot program, authorized by D.08-07-008, should be discontinued.

24. It is no longer necessary for CWS to comply with OP 9 of D. 08-07-008, which required CWS to file a request for review of the rate base offset pilot authorized therein.

25. As provided for in the Settlement, CWS should complete compliance with OPs 3, 4, 5 and 8 of D.08-03-020 and make an information-only filing with the Division of Water and Audits within 90 days of the effective date of this decision demonstrating its full compliance with the OPs.

26. CWS should file a Tier 1 advice letter within 30 days of the effective date of this decision making the necessary changes to its tariffs to implement the pension cost balancing account.

27. CWS should file a Tier 2 advice letter to amortize the balance in the pension cost balancing account if the balance exceeds two percent of CWS's total company adopted revenue requirement.

28. CWS should file a Tier 1 advice letter within 30 days of the effective date of this decision making the necessary changes to its tariffs to implement the health care expense memorandum account.

29. CWS should accrue IDC for all projects consistent with SFAS 34. The IDC should be calculated by weighting short-term debt and long-term debt to determine total interest applicable to construction work in progress. The IDC should be adjusted quarterly. This method should be applied to separate applications for CWS's General Office building expansion, the Bakersfield water treatment plant and the Palos Verdes pipeline project.

30. CWS should file a Tier 1 advice letter within 30 days of the effective date of this decision to modify its preliminary statement M to reflect the inclusion of recycled water revenue and costs in its WRAM and MCBA. CWS should concurrently close its recycled water memorandum account, and request amortization of any balance in its next GRC.

31. CWS should be authorized to file a Tier 2 advice letter for a memorandum account to track costs required to comply with IFRS after the SEC provides clear guidance on the timelines and actions necessary to implement IFRS. The memorandum account, if authorized, should expire at the beginning of the test year for the next GRC.

32. In its next GRC, CWS should make an affirmative showing indicating the frequency and location of complaints regarding water smell or stains left in toilets, etc. in the Redwood Valley District's Coast Springs and Lucerne areas, and the causes and corrective actions it has taken or will take to remedy the complaints and any underlying problems that led to the complaints.

33. For the Redwood Valley District's Unified and Coast Springs areas annual WRAM/MCBA reporting, CWS should calculate the difference in rate support due to sales changes as a component of the WRAM balance, and transfer funds between the RSF balancing account and the WRAM balancing account to ensure the rate support remains proportional to revenue.

34. Since Pareas and Young's recommendations that the RSF subsidy should be increased based on the change in the revenue requirement since the last GRC and on the sales per customer used in the Settlement are based on the assumption that the RSF Settlement set precedent, which it did not, they have not shown that their recommendation is more reasonable than that proposed in the agreement. Additionally, adoption of their recommendation would result in a greater cost to other ratepayers who provide the subsidy. Therefore, the subsidy proposed in the agreement is more reasonable than their recommendations.

35. The Agreement is reasonable in light of the whole record.

36. Since the Agreement does not violate any statute or Commission decision or rule, it is consistent with law.

37. The Agreement is in the public interest and should be adopted.

38. CWS acted reasonably in not seeking additional SRF funding.

39. CWS's proposal to construct an additional Fremont Valley well is reasonable.

40. Leona Valley's recommendations regarding CWS's proposed projects for main, fire hydrant and gate valve replacements should not be adopted.

41. In order to review the reasonableness of CWS's proposed projects for main, fire hydrant and gate valve replacements in the Leona Valley portion of its Antelope Valley District and forecast future costs, CWS should, as part of its next GRC application for the Antelope Valley District, include a comprehensive affirmative showing regarding the reasonableness of the projects opposed by Leona Valley in this proceeding. For each project, the showing should demonstrate the need for the replacements and the reasonableness of the recorded costs, including the unit costs.

42. CWS's request for a memorandum account for unanticipated green projects should be denied.

43. CWS should provide Visalia with the following information and any other information provided to the Commission's staff that is related to the Visalia District: (1) advice letters reporting on authorized and actual conservation expenditures related to the Visalia District; (2) CWS's annual report to the Commission on conservation; (3) data to be provided as part of CWS's "Minimum Data Requirement" for its 2012 GRC filing related to customer disconnections, bill patterns, water usage and costs; and (4) information related to long-run marginal costs, and advance notice of any conferences with DRA related to that material.

44. Future rate increase notices should indicate the rate increase proposed for the customer's district, or rate area if rates are not uniform across the district. If this is not feasible, the notice should specify the range of district increases and where individual district increases can be found. As to the electronic notices, the initial screen should indicate that a rate increase has been requested and at least

the range of proposed increases. A button can be used to give further information on individual district increases. Newspaper notices should at least indicate the proposed increases for the districts served by the newspaper.

O R D E R

IT IS ORDERED that:

1. The “Joint Motion of the Division of Ratepayer Advocates and California Water Service Company (U60W) to Approve Further Corrections to the Amended Joint Settlement filed on September 3, 2010,” filed on October 14, 2010, is granted and the revised settlement agreement attached to the motion, and included as Attachment C to this decision, is adopted.
2. The “Joint Motion of the Division of Ratepayer Advocates and California Water Service Company (U60W) to Approve Revisions Reflecting Clarifications and Errata to the Proposed Joint Settlement of Special Request #12, Filed on September 1, 2010,” filed September 23, 2010, is granted and the revised settlement agreement attached to the motion, and included as Attachment D to this decision, is adopted.
3. California Water Service Company is authorized to file Tier 1 advice letters with revised tariff schedules in compliance with this decision for each district and rate area in this proceeding. The adopted rates for test year 2011 are included as Attachment B to this decision. 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 January 1, 2011 and shall apply to service rendered on and after that date.
4. California Water Service Company is authorized to file a Tier 1 advice letter to increase fees for restoration of service after disconnection for

nonpayment to \$50 during working hours and \$90 after working hours, and to set a fire-flow test fee of \$525 for all districts.

5. California Water Service Company may file escalation advice letters for 2012 and 2013, as provided for in the Rate Case Plan adopted in Decision 07-05-062, or its successor. The budgeted amounts for employee health insurance, retiree health insurance and conservation expenses are specified in the revised settlement agreement adopted in Ordering Paragraph 1 above, and are not subject to escalation. Pursuant to the revised settlement agreement adopted in Ordering Paragraph 1 above, the escalation advice letters may include costs for up to a total of six additional Cross-Connection Control Program inspectors after they are hired.

6. Within 30 days of the effective date of this decision, California Water Service Company shall file a Tier 1 advice letter to make the necessary changes to its tariffs to implement a one-way balancing account to track the difference between actual and authorized conservation expenses required by the Commission's adoption of the revised settlement agreement in Ordering Paragraph 1.

7. Within 90 days of the effective date of rates adopted in this decision, California Water Service Company shall file a Tier 2 advice letter to close any existing conservation memorandum accounts and conservation one-way balancing accounts. The advice letter shall provide a comparison of the authorized and actual conservation expenses from the last general rate case for each district. Existing balances in the accounts shall be amortized in accordance with General Order 96-B except that for under-spending in one-way balancing accounts, the advice letter shall include a methodology for refunding to customers the unexpended funds and accrued interest for each district. The

accrual of interest and the interest rate are specified in Section 5, One-Way Balancing Account, of the revised settlement agreement adopted in Ordering Paragraph 1.

8. Within 90 days of the effective date of the rates adopted in the next general rate case, California Water Service Company shall file a Tier 2 advice letter comparing the authorized and actual conservation expenses from this general rate case for each district, and amortizing any unspent funds and accrued interest to customers through a 12-month surcredit on the service charge. The accrual of interest and the interest rate are specified in Section 5, One-Way Balancing Account, of the revised settlement agreement adopted in Ordering Paragraph 1.

9. California Water Service Company shall file an annual report with the Division of Water and Audits, with a copy to the Division of Ratepayer Advocates, by May 1 of each year, beginning in 2012, summarizing conservation activities and expenses. The reporting requirements are shown on Table 5.3 of the settlement agreement adopted in Ordering Paragraph 1.

10. California Water Service Company shall provide the Division of Water and Audits and the Division of Ratepayer Advocates with copies of its California Urban Water Conservation Council Gallons per Capita per Day reports when they are issued.

11. California Water Service Company is authorized to file ratebase offset advice letters for the projects listed in Attachment A to this decision in accordance with General Order 96-B, Water Industry Rule 7.3.3(8). The costs to be included in the advice letter filings may not exceed the caps listed in Attachment A plus associated Interest During Construction as described in Attachment A. Interest During Construction shall be accrued as described in the

revised settlement agreement adopted in Ordering Paragraph 1, Section 10, Special Request 25. The ratebase offset advice letters may be filed only after each project is complete and in service to customers. Exceptions are land purchases, which may be filed after the purchase is complete, and Project 16952, Central Plume remediation, which may be filed annually. For flat-to-meter conversion projects, the advice letters shall provide actual counts and construction costs with a detailed breakdown of employees who charged time to the project.

12. In its advice letters implementing the rates adopted herein, described in Ordering Paragraph 3 above, California Water Service Company shall amortize the differences between the adopted interim revenue requirements for 2009-10 and 2010-11 and the revenue requirements authorized herein. For each of the Rate Support Fund areas subject to the transitional interim rates for the period July 1, 2009 through January 1, 2011, proportional Rate Support Fund support will be provided for the period interim rates were in effect as provided for in the revised settlement agreement adopted in Ordering Paragraph 2. The balances (sum of the differences for the two periods) shall be amortized over 12 months for balances up to five percent of the district revenue requirement adopted herein. For balances over five percent and up to 10%, the balances shall be amortized over 24 months. Balances in excess of 10% shall be amortized over 36 months.

13. Consideration of increasing block rates for non-residential customers, as ordered in Ordering Paragraph 3 of Decision 08-08-030, shall be further addressed in California Water Service Company's next general rate case where California Water Service Company shall present a proposal for increasing block rates for non-residential customers.

14. California Water Service Company shall provide the studies and related information required by Ordering Paragraph 10 of Decision 08-07-008 in its next general rate case.

15. No surcharge or delineated rate component for a ratebase offset advice letter approved prior to the effective date of rates adopted in this decision shall be discontinued when the rates adopted in this decision become effective. The subject advice letters shall indicate whether the project is included in the revenue requirement in the revised settlement agreement approved in Ordering Paragraph 1 above. If a project is included in the revised settlement agreement revenue requirement, California Water Service Company shall file for rate recovery only for the period until the effective date of rates adopted in this decision. If the project is not included in the revised settlement agreement revenue requirement, California Water Service Company shall request a dedicated rate component, such as a surcharge, to enable the revenue requirement to survive the adoption of rates in this proceeding.

16. California Water Service Company shall file a Tier 2 advice letter within 90 days of the effective date of this decision to amortize the remaining balances in its incremental cost balancing accounts for all districts that have not met the two percent trigger specified in Decision 03-06-072.

17. California Water Service Company shall seek recovery of all memorandum account balances by filing advice letters in accordance with General Order 96-B, unless otherwise directed by the Commission.

18. The merger of the South San Francisco and Mid-Peninsula Districts into the Bayshore District is authorized.

19. The trial program adopted in Ordering Paragraph 1 of Decision 08-02-036 is extended for the duration of this rate case cycle and shall be reviewed in the next general rate case.

20. Within 90 days of the effective date of this decision, California Water Service Company shall make an information-only filing with the Division of Water and Audits to document its calculations of the impact of a hiring lag on the General Office offset approved in Decision 08-07-008.

21. In each escalation advice letter for the Bakersfield, Chico, Marysville, Oroville, Selma, Visalia and Willows Districts, California Water Service Company shall show the progress of its flat-to-meter conversions and adjust the adopted flat-rate and metered service counts for the escalation year rate design and adopted quantities to ensure escalation year Water Revenue Adjustment Mechanism adopted quantities reflect the actual progress in installing meters.

22. The ratebase offset pilot program, authorized by Decision 08-07-008, is discontinued.

23. It is no longer necessary for California Water Service Company to comply with Ordering Paragraph 9 of Decision 08-07-008, which required California Water Service Company to file a request for review of the rate base offset pilot program authorized therein.

24. California Water Service Company shall complete compliance with Ordering Paragraphs 3, 4, 5 and 8 of Decision 08-03-020 and make an information-only filing with the Division of Water and Audits within 90 days of the effective date of this decision demonstrating its full compliance with the ordering paragraphs.

25. California Water Service Company is authorized to establish a pension cost balancing account as provided for in the revised settlement agreement adopted

in Ordering Paragraph 1, Section 10, Special Request 21, Pension Cost Balancing Account, and shall file a Tier 1 advice letter within 30 days of the effective date of this decision making the necessary changes to its tariffs to implement it.

26. California Water Service Company shall file a Tier 2 advice letter to amortize the balance in the pension cost balancing account if the balance exceeds two percent of its total company adopted revenue requirement.

27. California Water Service Company is authorized to establish a health care expense memorandum account as provided for in the revised settlement agreement adopted in Ordering Paragraph 1, Section 10, Special Request 22, Memorandum Account For Health Care Expenses, and shall file a Tier 1 advice letter within 30 days of the effective date of this decision making the necessary changes to its tariffs to implement it.

28. California Water Service Company shall accrue Interest During Construction, consistent with Statement of Financial Accounting Standards 34, as specified in the revised settlement agreement adopted in Ordering Paragraph 1 above. This method shall be applied to California Water Service Company's General Office building expansion, Bakersfield water treatment plant and Palos Verdes pipeline project, which shall be addressed in separate applications.

29. California Water Service Company shall file a Tier 1 advice letter within 30 days of the effective date of this decision to modify its preliminary statement M to reflect the inclusion of recycled water revenue and costs in its Water Revenue Adjustment Mechanism and Modified Cost Balancing Account as provided for in the revised settlement agreement adopted in Ordering Paragraph 1, Section 10, Special Request 28, Modified WRAM/MCBA for Recycled Water. California Water Service Company shall concurrently close its recycled water

memorandum account and request amortization of any balance in its next general rate case.

30. California Water Service Company is authorized to file a Tier 2 advice letter for a memorandum account to track costs required to comply with International Financial Reporting Standards (IFRS) after the Securities and Exchange Commission provides clear guidance on the timelines and actions necessary to implement IFRS. The memorandum account, if authorized, will expire at the beginning of the test year for the next general rate case.

31. In its next general rate case, California Water Service Company shall make an affirmative showing indicating the frequency and location of complaints regarding water smell or stains left in toilets, etc. in the Redwood Valley District's Coast Springs and Lucerne areas, and the causes and corrective actions it has taken or will take to remedy the complaints and any underlying problems that led to the complaints.

32. For the Redwood Valley District's Unified and Coast Springs areas annual Water Revenue Adjustment Mechanism (WRAM)/Modified Cost Balancing Account reporting, California Water Service Company shall calculate the difference in rate support due to sales changes as a component of the WRAM balance, and transfer funds between the Rate Support Fund balancing account and the WRAM balancing account to ensure the rate support remains proportional to revenue.

33. California Water Service Company shall, as part of its next general rate case application for the Antelope Valley District, include a comprehensive affirmative showing regarding the reasonableness of the projects opposed by Leona Valley and listed in Section 8.3 of this decision. For each project, the

showing shall demonstrate the need for the replacements and the reasonableness of the recorded costs, including the unit costs.

34. California Water Service Company's request for a memorandum account for unanticipated green projects is denied.

35. California Water Service Company shall provide a report, as a "Minimum Date Requirement" in its next general rate case filing, addressing customer usage patterns, disconnection activity, and other data as specified in the settlement adopted in Ordering Paragraph 1, above.

36. California Water Service Company shall provide the City of Visalia with the following information and any other information provided to the Commission's staff that is related to the Visalia District: (1) advice letters reporting on authorized and actual conservation expenditures related to the Visalia District; (2) its annual report to the Commission on conservation; (3) data to be provided as part of its "Minimum Data Requirement" for its 2012 general rate case filing related to customer disconnections, bill patterns, water usage and costs; and (4) information related to long-run marginal costs, and advance notice of any conferences with the Division of Ratepayer Advocates related to that material.

37. California Water Service Company's future rate increase notices shall indicate the rate increase proposed for the customer's district or rate area within a district if rates are not uniform across the district. If this is not feasible, the notice shall specify the range of district increases and where individual district increases can be found. As to the electronic notices, the initial screen shall indicate that a rate increase has been requested and at least the range of proposed increases. A button can be used to give further information on

individual district increases. Newspaper notices shall at least indicate the proposed increases for the districts served by the newspaper.

38. Except as set forth in this decision, Application 09-07-001 is denied.

39. Application 09-07-001 is closed.

This order is effective today.

Dated _____, at San Francisco, California.