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Mailed 5/14/2003

Decision 03-05-030 May 8, 2003

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Valencia Water Company (U 342 W), a corporation, for an Order Authorizing It to Increase General Rates Charged for Water Service in Order to Realize Increased Annual Revenues of $2,496,685 in Test Year 2003, $143,286 in Test Year 2004, and $43,439 in Attrition Year 2005, to Apply a Surcharge Calculated to Generate a Further $614,737 in Year 2003 Revenues, to Establish a Low Income Ratepayer Assistance Program, and to Make Further Changes and Additions to Its Tariff for Water Service.	Application 02-05-013 (Filed May 3, 2002)

Nossaman, Guthner, Knox & Elliott, LLP, by Martin A. Mattes, Attorney at Law, and Robert J. DiPrimio, for Valencia Water Company, applicant.
Edwin Dunn, for himself, interested party.
Michael A. Kotch, for Santa Clarita Organization for Planning the Environment, and Lynne Plambeck, for Sierra Club, intervenors.
Natalie Wales, Attorney at Law, and Daniel R. Paige, for the Office of Ratepayer Advocates.

OPINION AUTHORIZING MODIFICATIONS IN RATES AND REVENUE

OPINION AUTHORIZING MODIFICATIONS IN RATES AND REVENUE

I. Summary

In this general rate case, we find that Valencia Water Company (Valencia) is experiencing customer growth of approximately 4% per year as well as modest increases in costs. In the first Test Year, a 1.12% increase in customers' rates is necessary to achieve just and reasonable rates. In the second Test Year and the attrition year , however, rate decreases are required due to projected customer growth:

	Rate Change	**Revenue Change**
Test Year 2003	1.12%	$165,046
Test Year 2004	-1.28%	-$200,500
Attrition Year 2005	-1.16%	-$178,900

These revenue changes reflect a 9.72% return on equity, which results in a return on rate base of 9.2% for the Test Years. Valencia's proposed Low Income Ratepayer Assistance (LIRA) program is rejected due to failure to meet applicable standards requiring a well-supported and thoughtfully designed program. We do, however, order Valencia to file, within 180 days of the effective date of this order, a revised low-income discount proposal that addresses the matters discussed in this order.

II. Background and Procedural History

On April 9, 2002, Valencia filed its Notice of Intention to File General Rate Increase Application. Customers were advised of the proposed rate increase through newspaper publication and bill inserts. On May 3, 2002, Valencia filed

the above-captioned application seeking the rate increases for the period 2003-2005.

Valencia stated that its revenue must be increased because, at current rate levels, increases in operating expenses and rate base are outpacing increased revenues due to customer growth.

The Assigned Administrative Law Judge (ALJ) held a Prehearing Conference (PHC) on July 9, 2002. At the PHC, representatives of the Santa Clarita Organization for Planning the Environment (SCOPE) and Los Angeles Chapter of the Sierra Club (Sierra Club) appeared and requested party status as intervenors. The parties resolved outstanding discovery issues and set a procedural schedule for the remainder of the proceeding.

On September 6, 2002, the Commission's Office of Ratepayer Advocates (ORA) distributed its Report on Valencia's requested rate increase. ORA recommended the following rate decreases for Valencia: 6.49% for 2003, 1.22% for 2004, and 1.22% for Attrition Year 2005. ORA provided supporting analysis showing major adjustments to Valencia's proposal, including higher estimates of revenue, lower estimates of operating costs, lower forecasts of plant additions, and lower cost of capital.

A Public Participation Hearing (PPH) was held on October 7, 2002, in Valencia. Nine speakers offered comments. One customer observed that Valencia's rates are the lowest in the Santa Clarita Valley, the service was good, and the rate increase should be granted. Several speakers raised issues relating to the water company paying expenses that should be properly assigned to the its corporate affiliate, The Newhall Land and Farming Company (Newhall); other speakers emphasized that system reliability and water quality needed to be

maintained. The owner of a local golf course stated that the golf course water bills would increase by $20,000 to $30,000 per year.

Evidentiary hearings were held in San Francisco on October 15 and 16, 2002. During the hearings, Valencia and ORA were able to resolve the differences in their proposals and to present a Settlement Agreement.[1] (*See* Appendix A.) The Sierra Club opposed adoption of the Settlement Agreement and listed the following issues: (1) cost of capital and return on equity, (2) consumption, (3) additions to plant, (4) intervenor fees, (5) re-filing the service area map, and (6) recycled water rate.

On October 31, 2002, Sierra Club filed a motion seeking a determination of the applicability of the California Environmental Quality Act (CEQA) to the proceeding. Sierra Club alleged that Valencia's rate application constituted a "project" under CEQA and thus required an environmental impact report. Sierra Club stated that the proposed rate structure was "specifically constituted to enable certain projects that may have a significant effect on the environment." Sierra Club listed five such alleged projects, which primarily related to aggravation of perchlorate contamination and increased depletion of the alluvial aquifer.

On November 14, 2002, Valencia filed its response to Sierra Club's motion. Valencia stated that the Commission has a long-standing determination that routine rate cases, such as this one, which do not "give the applicant utility a

[1] The final Settlement Agreement is Exhibit 22 in the evidentiary record. Exhibits 18 through 22 were presented and identified at the hearing but were inadvertently not received into evidence. In addition, after the end of the hearings, ORA and Valencia filed and served their Comparison Exhibit, which will be numbered Exhibit 23. Exhibits 18 through 23 will be received into evidence.

right which it did not already possess" are not projects as defined in CEQA. Valencia also objected to Sierra Club's tactic of filing this motion so late in the proceeding. Valencia contrasted this proceeding to its recent Water Management Program application, where it sought to expand its service territory and the Commission found that CEQA applied and required an environmental analysis.[2]

In a second filing on October 31, 2002, the Sierra Club submitted its comments on the settlement agreement. Sierra Club opposed including costs associated with moving wells on the Pardee and Panhandle development sites. Sierra Club alleged that these wells are being moved for the convenience of a real estate developer, which is also Valencia's parent company. Sierra Club also opposed drilling any new wells, including these, in the Saugus aquifer prior to a CEQA review. Sierra Club asked the Commission to exclude all areas where Valencia has no facilities or customers from its service territory because local land use agencies may misinterpret the allocation of such service territory as capability to serve future customers. Sierra Club also sought to have corrected irrigation amounts included in the final decision. Sierra Club's final issue was the "blurring" of water use between Valencia and Newhall, its corporate parent and a real estate development company.

Valencia responded to Sierra Club's comments on the settlement, as well as other issues raised by Sierra Club, and concluded that the issues do not justify

[2] In its decision on the Water Management Program, the Commission found that "Valencia's current and planned water supplies are sufficient to meet present and future customer needs" and that "effective and practical methods are available and in current use for high-volume treatment of water supplies contaminated by perchlorate." (Valencia Water Company Water Management Program, D.01-11-048 (November 29, 2001).)

disapproving any terms of the settlement. Each issue raised by Sierra Club is specifically addressed below. Valencia also summarized its responses to issues raised during the hearing. To answer questions about short-term lending of available cash from Valencia to Newhall, Valencia explained that the interest rate for the loan is greater than what Valencia would expect to obtain in the open market and that the terms provide for Valencia to recall the funds at any time, if needed. Sierra Club objected to the settlement adopting a 50/50 mix of groundwater and purchased water; Sierra Club contended that more purchased water should be assumed. ORA recommended 46% purchased water but agreed to the 50% advocated by Valencia because the water provider has adopted new requirements that Valencia meets by agreeing to purchase 50% of its total supply.

A. Applicability of CEQA

In D.01-11-048, the Commission conducted a CEQA review of Valencia's Water Management Plan (WMP) when considering Valencia's proposed expansion of its service territory. The Commission found that the "WMP provides a sound basis for concluding that Valencia's current and planned water supplies are sufficient to meet present and future customer needs." The Commission specifically noted that Valencia needed no further entitlement authorizations to pump water from its groundwater basin or to obtain additional supplies from the State Water Project, which has a "first come, first serve policy." The Commission also concluded that, based on persuasive record evidence, that it was reasonable to anticipate that water purveyors in the Santa Clarita Valley will effectively remediate the perchlorate pollution in the Saugus aquifer. With these conclusions, the Commission approved Valencia's proposed service territory expansion.

Sierra Club presented no new evidence to suggest that the Commission's conclusions regarding the adequacy of water supplies available to Valencia or the effects of the ammonium perchlorate pollution should be reviewed again. The actions Valencia proposes to take – serving its customers from sources identified in its WMP and including the costs in its revenue requirement – are consistent with the WMP. The rate proposal will have no reasonably foreseeable impact on the environment that has not been already considered in D.01-11-048; thus, additional CEQA review would serve no purpose. Therefore, we conclude that no further environmental review is required.

B. The Settlement Agreement

The Settlement Agreement reflects ORA's and Valencia's resolution of all disputed issues between them. The resolution results in the rate and revenue requirement changes listed above. Overall, the settlement agreement reflects ORA's position on most, but not all, controversial issues. Where Valencia's position is adopted in the settlement agreement, additional explanation is provided to support Valencia's position. Many issues were also resolved by agreeing to a point between the two positions.

For example, on Cost of Capital and Return on Equity as well as annual customer growth, the settlement agreement adopts ORA's positions entirely. On the issue of forecasted consumption per customer, the parties support using an average of the two positions, with ORA's weighted as 75% and Valencia's at 25%. On the issue of increased payroll costs to fund overtime, however, Valencia provided ORA additional information which caused ORA to agree to Valencia's estimate.

C. Sierra Club's Objections to the Settlement Agreement

Sierra Club appeared as a party to this proceeding and participated in all aspects. Sierra Club attended the PHC and settlement conferences, conducted discovery on issues not pursued by ORA, and presented testimony and cross-examined Valencia's witnesses. Sierra Club's participation required Valencia to articulate rationales for expenses and capital costs that were not otherwise in the record. When ORA and Valencia reached a comprehensive settlement agreement, Sierra Club's opposition to certain components forced the settling parties to defend the agreed-upon resolution on the record. The record in this proceeding has materially benefited from Sierra Club's participation.

We address each of Sierra Club's issues below.

1. Cost of Capital and Return on Equity

Sierra Club stated that the Settlement Agreement provided for an increase in the rate of return from 9.4% to 9.7%. Valencia pointed out that Sierra Club has confused overall rate of return with return on equity. The Settlement Agreement provides that Valencia's return on equity will decrease from its current 10.5% to 9.72% and its rate of return will decrease from 9.4% to 9.2%. The amounts set in the Settlement Agreement are the amounts requested by ORA.

ORA's testimony on return on equity and overall rate of return recommends the lowest range in the record. The Settlement Agreement is thus reasonable in light of the record.

2. Westridge Golf Course Consumption

Sierra Club stated that Valencia had omitted a forecast of consumption of recycled water for the Westridge Golf Course and that such a forecast was necessary to properly account for consumption. Valencia explained

that the Westridge Golf Course is just commencing operations, and therefore has no historical use to include in the tables. Also, the golf course will use recycled water purchased from the Castaic Lake Water Agency and delivered by Valencia. For purposes of estimating revenue from its delivery charges, Valencia assumed the same level of use as another golf course its serves. We find Valencia's treatment of Westridge Golf Course's consumption to be reasonable.

3. Additions to Plant

Sierra Club objected to the costs for moving and redrilling wells in the Pardee (Pony League) Field and panhandle areas because, Sierra Club contends, these wells are being moved to benefit Valencia's parent company, Newhall, a real estate development company.

Valencia explained that the Pardee wells had a long history of maintenance problems due primarily to their age and original use as agricultural wells. Valencia is planning to close the old wells and drill modern wells at this time because development in the area of the well field would substantially increase the cost of moving the wells at a later date.

Sierra Club has raised the important issue of whether Valencia is providing preferential treatment to its affiliated development company. Valencia, however, has provided persuasive evidence that it is making changes in this well field for the benefit of its customers in light of the surrounding development. While Valencia's corporate affiliate is the developer of the surrounding area, it is reasonable for Valencia to make well location changes before real estate development occurs. Sierra Club has presented no rationale for delaying the needed well modifications, and any such delay may substantially increase the costs. Therefore, we will allow Valencia to include the costs of these projects in its revenue requirement.

4. Intervenor Fees

Sierra Club asserted that Valencia's representatives had indicated an intention to include any intervenor compensation fees awarded by the Commission as a special line item on each customer's bill. Valencia responded that it was premature to consider this issue and that the settlement agreement

provided that any intervenor compensation award would be included in the "regulatory expense" account.

We agree that it is premature to resolve this issue. Generally, however, we expect any intervenor compensation award from Valencia to be handled in a manner consistent with our precedent and policies, which do not include special line item treatment.

5. Service Area Map

Sierra Club requested that Valencia's service area map be modified to exclude areas where Valencia does not now provide service. Sierra Club contended that local planning authorities could be misled into believing that Valencia is capable of providing service in these areas. Valencia responded that this issue is not within the scope of its rate case and that, in any event, recent state legislation requires written certification by a water system of its capability to serve prior to granting development authority. Sierra Club has not presented persuasive evidence that the service territory map is misleading to local planning authorities, which typically seek specific proof of water service availability prior to granting development authority.

6. Recycled Water Rate

Valencia currently has in place a tariff for interruptible irrigation water service. The tariff provides for service at approximately half the rate for General Metered Service. Valencia has two customers on this tariff: Vista Valencia Golf Course and Bridgeport Lake. Pursuant to the settlement agreement, Valencia will cease to provide service under this tariff.

Valencia serves 50%to 70% of the Vista Valencia Golf Course's irrigation needs from a non-potable well owned by Valencia on the golf course, and Valencia uses potable water for the remainder. Bridgeport Lake has no

alternative non-potable source of supply. Valencia also plans to serve Westridge Golf Course and nearby county road medians with recycled water purchased from the Castaic Lake Water Agency and delivered by Valencia.[3]

The settlement agreement provides for a new tariff for recycled water and untreated water. This tariff will apply to untreated water from the well used to serve Vista Valencia Golf Course and the recycled water for Westridge Golf Course and the medians. The tariff will provide for a monthly service charge that is the same as for General Metered Service as well as a commodity charge that is set at 5% more than the price charged by the Castaic Lake Water Agency for recycled water. The resulting monthly charges will be about 10% to 20% lower than General Metered Service.

Sierra Club objects to the untreated water from the well at Vista Valencia Golf Course being included with the recycled water in the lower-priced tariff. Sierra Club contends that this would encourage ground water pumping. Valencia responds that under the current tariff the Vista Valencia Golf Course enjoys a 50% discount for irrigation and that the settlement agreement reduces this to about 15%. Moreover, Valencia points out that recycled water is presently unavailable to the golf course and that the untreated well at Vista Valencia is unique in Valencia's system. Thus, this arrangement helps mitigate the changes from ending the 50% irrigation discount and is unlikely to be repeated.

The settlement agreement ends the irrigation discount and relies on non-potable sources to meet irrigation needs. Due to the unique facts of this

[3] A third golf course, Valencia Golf Course, meets its irrigation needs with water from a well. Valencia Golf Course owns half the well, and Valencia owns the other half. The water company operates the well, and the golf course pays half the operating costs.

well's location on the golf course such arrangements should be limited. We encourage Valencia, however, to continue to look to recycled water for irrigation uses. We will, therefore, approve this component of the settlement agreement.

III. Memorandum and Balancing Accounts

In its application, Valencia sought Commission authorization to amortize the accrued balance in seven balancing and memorandum accounts.[4] In Rulemaking (R.) 01-12-009, the Commission evaluated existing practices and policies for processing offset rate increases and balancing accounts for Class A water utilities. Since issuing the OIR, the Commission has not authorized amortization of balancing accounts due to the expectation that new rules for amortization would be issued in the OIR. In Decision (D.) 02-12-055, the Commission addressed collections prior to November 29, 2001, and provided that utilities seeking recovery of balancing accounts for balances existing prior to November 29, 2001 should file, within 90 days from the effective date of the decision, advice letters requesting recovery pursuant to the existing balancing account procedures.

The settlement agreement allows Valencia to follow the process set out in D.02-12-055 and also finds that purchased water balancing and memorandum

[4] Water production balancing and memorandum accounts, Larwin/Poe memorandum account (earthquake repair to two tanks), Seco/East I-5 memorandum account (tank construction account, tanks completed, Valencia seeks transfer of nominal balance and termination of account), Water Quality memorandum account (inactive account, Valencia seeks to transfer nominal balance and terminate account), Perchlorate Litigation memorandum account, Catastrophic Event memorandum account (nominal balance transferred but account to remain open).

accounts are not subject to collection. The settlement agreement does, however, allow Valencia to include in its revenue requirement, subject to refund,

perchlorate litigation costs[5] that would otherwise be included in the memorandum account. The parties stated that the purpose of this revenue requirement amount is to allow Valencia to collect one-half the forecasted costs of the litigation, subject to refund, due to the substantial amount of the costs and the financial burden on Valencia. Ratepayers benefit as well by not paying interest on the costs as they would if the costs were recorded in a memorandum account and then the Commission authorized recovery.

The settlement agreement provides that all funds so collected are subject to being refunded to customers. Valencia has acknowledged that the litigation costs are subject to a reasonableness review by the Commission, which may result in some or all of the costs being disallowed. ORA has urged the subject-to-refund requirement to ensure that Valencia aggressively pursues those entities responsible for the contamination. In addition to allowing $110,000 in revenue requirement, the parties also agreed that Valencia could seek amortization of the accrued amounts after the completion of R.01-12-009, but before Valencia's next general rate case.

We are concerned that in allowing this amount to be included in revenue requirement, we may foster an expectation in Valencia that it will be able to retain these funds. The settlement agreement, and its detailed Comparison Exhibit, however, clearly establish the fact that the amounts are subject to a subsequent reasonableness review, as well as the outcome of R.01-12-009, and that the Commission may order the amounts refunded to customers. We are also

[5] Valencia and other water purveyors are plaintiffs in a lawsuit against three other parties to force cleanup of perchlorate pollution in four wells.

aware of the financing burden that expensive litigation can impose on a public utility.

In light of the safeguards for ratepayers and the need for this arrangement, we will approve the addition to revenue requirement, subject to refund, of $110,000 for perchlorate litigation costs. We will also approve the settlement agreement provision allowing Valencia to seek amortization of the balance prior to its next rate case but after the resolution of R.01-12-009.

IV. Low-Income Ratepayer Assistance Program

Although ORA and Valencia resolved all issues as reflected in the settlement agreement, the LIRA – Low-Income Ratepayer Assistance – proposal requires further consideration. Valencia proposed that qualifying low-income customers would receive a 50% reduction in the monthly service charge portion of their bill. ORA supported the proposal. However, as discussed below, we find that Valencia's proposal fails to meet our standards for such programs because Valencia has not shown that all, or even most, low income residents would be eligible for the discount.

Valencia proposed that the LIRA tariff would only apply to households that meet specific income guidelines used by California electricity and gas utilities for their low-income rate programs. Valencia estimated that approximately 1% (or 250) of its customers would qualify for the discount. Valencia proposed that all non-participating customers pay a surcharge of $0.06 per month to fund the program. Valencia further proposed that the estimated amounts would be compared to the actual revenue effects of the program and the over- or under-collection recorded in a memorandum account for amortization in its next general rate case.

We find the record on this issue to be insufficient to support adoption of this program at this time. We have a long history of supporting programs that result in reduced rates for low-income customers of California's public utilities. (See, e.g., Re Universal Service and Compliance with the Mandates of Assembly Bill 3643, 68 CPUC2d 524 (D.96-10-066).) Such support, however, is tempered by requirements that the programs be carefully constructed to meet clearly identified needs in an efficient and equitable manner. Valencia has not demonstrated that this low-income discount program will fairly reach all low-income persons in Valencia's service territory; moreover, the proposal suffers from other deficiencies.

First, the record on this issue is scant. Valencia's proposal consisted of a short description in its application and four paragraphs in its testimony, which focused on the memorandum account. Valencia did not include any description or assessment of the need for this program. Valencia's proposal can best be described as well intentioned but incomplete.

Second, the proposal departs significantly from our precedents regarding these programs. In D.02-01-034, we approved a lifeline rate proposal by Southern California Water Company that provided for a 15% reduction in all components of each eligible customer's water bill. We approved this proposal rather than ORA's alternative rate design that waived the entire monthly service charge. ORA contended that the overall 15% rate reduction was contrary to our conservation goals. ORA pointed to our decision for California-American Water Company's Monterey District,[6] as supporting the concept of reducing monthly

[6] California-American Water Company, 69 CPUC2d 398, 404 (D.96-12-005), revised by D.00-03-053.

service charges rather than discounts on all volumes of service. We rejected this comparison, noting that the Monterey District had a "carefully developed, inverted block rate structure that ties higher consumption levels to higher rates. All residential customers, not merely the low-income subset, pay higher rates for higher usage." (D.02-01-034, 2002 Cal. PUC LEXIS 35, at page *1.) Although approving the lifeline rate, we noted that we did not adopt it as a model for low-income rate relief in all Commission-regulated water companies.

Also in D.02-01-034, we addressed the issue of mobile home parks that provide master-metered water service to their tenants. We concluded that otherwise eligible mobile home park residents should not be excluded from the benefits of the proposed low-income program.

Turning now to Valencia's proposal, we find several components to be at odds with D.02-01-034 and our standards for low-income programs. First, Valencia chose a rate design that focuses on reducing the service charge component of a customer's bill. This rate design focus is similar to that used in California-American's Monterey District. However, Valencia elected only a 50% reduction, rather than the 100% reduction in Monterey. Valencia did not explain this rate design choice. We note also that Valencia's volumetric rate for water is the same across all consumption levels. As noted above, Monterey has an extensive inverted block rate design where higher levels of use are charged higher rates.

Second, Valencia did not explain how low-income residents of multi-family housing, such as apartments, duplexes, and some condominiums, would be eligible for the LIRA discount. Multi-family housing tends to be more affordable. The record does not disclose the proportion of the low-income water users in Valencia's service territory residing in multi-family dwellings. These

water users apparently would not be eligible for Valencia's proposed LIRA program. Thus, we are unable to conclude that the LIRA proposal would be equitably offered to low-income persons.

Third, Valencia's limitations on the applicability of the tariff would also exclude sub-metered customers in mobile home parks or multi-family dwellings. As in D.02-01-034, these customers should be eligible for the discount.

Fourth and finally, Valencia's proposal contains no means or timetable to assess or evaluate the effectiveness of the program and to implement any needed modifications.

In sum, we agree with and fully support the concept of rate relief for low-income customers. Such rate relief, however, must be accomplished through a well-thought-out and even-handed program with specific identification of need, consideration of alternative means to address that need, justification for the selected components of the program, and a plan to assess, evaluate, and modify the program as necessary. At this point, Valencia's proposal does not meet these standards. Until these standards are met, our best course is to keep water prices as low as possible for all customers. Therefore, on the facts presented, we are unable to find the LIRA program reasonable in light of the record or consistent with the law and our decisions applicable to such programs. However, we will order Valencia to present a revised low-income discount proposal.

V. Evaluation of the Joint Recommendation

Under the standard set forth in Rule 51.1(e) of our Rules of Practice and Procedure, the Commission reviews settlement agreements to ensure that they are reasonable in light of the record, consistent with the law, and in the public interest. (D.00-02-048.) We approve this settlement agreement with the exception of the proposed LIRA tariff.

The parties to the settlement agreement are Valencia and ORA, two of the three active parties to this proceeding. The other active party, Sierra Club, has presented challenges to several components of the settlement. As a result of these challenges, Valencia was required to better explain and support several components of the settlement agreement. As a result, the record for this proceeding has been substantially improved. As set out above, we have carefully evaluated the issues raised by Sierra Club and determined, based on the additional information, that the settlement agreement meets out standards. The settlement agreement resolves all issues in this proceeding and the parties entered into it after having reviewed all direct and rebuttal testimony. The recommendations are the result of significant negotiation and compromise of the parties thereto on issues substantially affecting their interests and constituents, and the parties agree that this is a fair resolution of their differences. As noted above, the settlement agreement adopts ORA's original position on many controversial issues. Overall, the settlement agreement results in a considerably lower rate increase than initially proposed by Valencia, and ORA is satisfied with this outcome. Finally, the settlement agreement is not procedurally flawed, is not contrary to law or Commission policy, and is a reasonable compromise of the dispute between Valencia and ORA. We conclude, therefore, that with one exception the settlement agreement is reasonable in light of the whole record, consistent with the law, and in the public interest. As discussed above, we reach a different conclusion with regard to the LIRA tariff, and we reject the settlement agreement solely in that regard.

VI. Comments on Proposed Decision

The proposed decision of the ALJ in this matter was mailed to the parties in accordance with Pub. Util. Code § 311(d) and Rule 77.1 of the rules of Practice and Procedure.

ORA and Valencia filed comments separately and joint reply comments. ORA requested that Valencia consult with ORA as well as the Water Division prior to Valencia filing its revised low-income tariff proposal. Today's decision has been modified to include this change.

In the comments and reply comments, Valencia pointed out several minor textual errors that required changes, all of which have been incorporated. Valencia also raised a substantive issue on the attrition calculation. Valencia, ORA, and the Water Division conferred and agreed on the proper attrition calculation. It is set out below:

Attrition Calculation

Attrition is a change in the earning (rate of return on rate base) of a utility from first test year to the second test year when utility's existing (present) tariff rates stay the same. The attrition consists of two components: operational and financial. They are calculated as follows:

Operational Attrition. Calculate the rate of return on rate base (ROR) for the first test year using the present (existing) tariff rates. Calculate the ROR for the second test year using the same present tariff rates as used for the first test year. Compute the difference by subtracting the second test year ROR from the first test year ROR. Multiply the difference by the net-to-gross multiplier and the second test year rate base to arrive at the attrition allowance.

Financial Attrition. The financial attrition is calculated by subtracting the second test year's total weighted cost of debt and equity from the attrition year's total weighted cost of debt and equity.

The attrition allowance is computed by adding the operational and financial attrition amounts. The attrition allowance could be positive or negative.

VII. Assignment of Proceeding

Geoffrey F. Brown is the Assigned Commissioner and Maribeth Bushey is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. As set forth in the Settlement Agreement between ORA and Valencia and accompanying tables, attached hereto as Appendix A, Valencia and ORA resolved all outstanding issues in this proceeding.

2. The Settlement Agreement sets forth a rate increase that is substantially less than Valencia's initial proposal.

3. Sierra Club opposed the Settlement Agreement on six issues.

4. Sierra Club's opposition to the Settlement Agreement on cost of capital and rate of return is based on an erroneous reading of the Settlement Agreement, which adopts ORA's recommendations on these points.

5. Sierra Club's issues relating to Westridge Golf Course consumption have been resolved by Valencia's further explanation of its forecasting assumptions.

6. Sierra Club's concerns that Valencia may be providing preferential treatment for its corporate affiliate, a land development company, are not supported by record evidence.

7. Any intervenor fee awards from Valencia will be handled consistent with Commission policy and precedent.

8. Sierra Club did not present sufficient evidence to require modifications to Valencia's service territory map.

9. The Settlement Agreement ends the irrigation discount and relies on non-potable sources to meet irrigation needs.

10. The Settlement Agreement was the result of negotiation and compromise between the parties after all testimony had been filed.

11. Valencia did not present sufficient evidence to enable the Commission to fulfill its responsibilities under Pub. Util. Code § 739.8 to consider rate relief for low income ratepayers.

12. Valencia's low-income water rate proposal did not fully and completely addresses the matters discussed in this Order and contained in Pub. Util. Code § 739.8 including but not limited to: availability of the program to all low income families served with water directly or indirectly by Valencia; costs of the program; conservation effects of the program; and ratemaking treatment of program costs.

13. The Commission opened R.01-12-009 to evaluate existing practices and policies for processing offset rate increases and balancing accounts for Class A water utilities and has addressed existing account balances in D.02-12-055.

14. The Settlement Agreement provides for $110,000, approximately half of forecasted annual costs, to be included in Valencia's revenue requirement for percholorate litigation costs, and that this amount is subject to refund and subsequent reasonableness review. Allowing this amount in revenue requirement, subject to refund, will reduce litigation financing costs for the utility while retaining full protection for ratepayers.

15. In D.01-11-048, the Commission conducted a CEQA review of Valencia's WMP and found that the "WMP provides a sound basis for concluding that

Valencia's current and planned water supplies are sufficient to meet present and future customer needs," and that it was reasonable to anticipate that water purveyors in the Santa Clarita Valley will effectively remediate the perchlorate pollution in the Saugus aquifer. Valencia providing service to its customers from sources identified in its WMP and including the costs in its revenue requirement is consistent with the WMP.

16. Sierra Club presented no new evidence to suggest that the Commission's conclusions regarding the adequacy of water supplies available to Valencia or the effects of the ammonium perchlorate pollution should be reviewed again.

17. The rate proposal will have no reasonably foreseeable impact on the environment that has not been already considered in D.01-11-048.

18. Valencia is providing satisfactory water service, and the water furnished meets current state drinking water standards.

Conclusions of Law

1. With the exception of the LIRA proposal, the Settlement Agreement is reasonable in light of the record, consistent with the law, and in the public interest.

2. The revenue changes reflected in the Settlement Agreement will result in just and reasonable rates for Valencia.

3. The revenue changes reflected in the Settlement Agreement should be approved for Valencia.

4. Valencia did not present sufficient evidence to enable the Commission to fulfill its responsibilities under Pub. Util. Code § 739.8 to consider rate relief for low income ratepayers and Valencia's LIRA proposal should be rejected.

5. Within 180 days of the effective date of this order and in consultation with the Commission's Water Division and ORA, Valencia should file an application

with a low-income water rate proposal that fully and completely addresses the matters discussed in this Order and contained in Pub. Util. Code § 739.8 including but not limited to: availability of the program to all low income families served with water directly or indirectly by Valencia; costs of the program; conservation effects of the program; and ratemaking treatment of program costs.

6. In light of the safeguards for ratepayers and the need for this arrangement, we should approve the addition to revenue requirement, subject to refund and subsequent reasonableness review, of $110,000 for perchlorate litigation costs, and Valencia should track this amount on a per customer basis in the memorandum account for perchlorate litigation costs.

7. No new evidence supports review of the Commission's conclusions regarding the adequacy of water supplies available to Valencia or the effects of the ammonium perchlorate pollution.

8. Additional CEQA review would serve no purpose and no further environmental review is required.

O R D E R

IT IS ORDERED that:

1. Excluding the Low Income Ratepayer Assistance (LIRA) proposal, the Settlement Agreement between Valencia Water Company (Valencia) and the Office of Ratepayer Advocates (ORA) is adopted.

2. Valencia is authorized to implement the following:

	Rate Change	**Revenue Change**
Test Year 2003	1.12%	$165,046

Test Year 2004	-1.28%	$472,093
Attrition Year 2005	-1.16%	-$178,900

3. Valencia is authorized to file in accordance with General Order (GO) 96-A, and to make effective on not less than five days' notice, tariffs eliminating Schedule No. 3-ML and containing the test year 2003 increase as provided in the revenue requirement tables in Appendix B through E to this decision and the revised tariff pages in Appendix F to this decision. The revised rates shall apply to service rendered on and after the tariffs' effective date.

4. Valencia is authorized to include $110,000 per year in revenue requirement, subject to refund and subsequent reasonableness review, to be tracked on a per customer basis in the memorandum account for perchlorate litigation.

5. On or after November 5, 2003, but no later than March 5, 2004, Valencia is authorized to file an advice letter, with appropriate supporting workpapers, requesting the step rate decreases for 2004 included in Appendix F, Schedule 1; or requesting a proportionate lesser decrease, if the rate of return on rate base, including normal ratemaking adjustments for the 12 months ending September 30, 2003, falls short of the rate of return found reasonable in this case. This filing shall comply with GO 96-A. The requested step rates shall be reviewed by the Commission's Water Division (Division) to determine their conformity. The Division shall inform the Commission if it finds that the proposed rates are not in accord with this decision. The effective date of the revised tariff schedule shall be no earlier than January 1, 2004, or 40 days after filing, whichever is later. The revised schedules shall apply to service rendered on and after their effective date.

5. On or after November 5, 2004, but no later than March 5, 2005, Valencia shall be authorized to file an advice letter, with appropriate supporting workpapers, requesting the attrition rate decreases for 2005 included in Appendix F, Schedule 1; or requesting a proportionate lesser decrease, if the rate of return on rate base, including normal ratemaking adjustments for the 12 months ending September 30, 2004, falls short of the rate of return found reasonable in this case. This filing should comply with GO 96-A. The requested attrition rate increase shall be reviewed by the Division to determine their conformity. The Division shall inform the Commission if it finds that the proposed rates are not in accord with this decision. The effective date of the revised tariff schedule shall be no earlier than January 1, 2005, or 40 days after filing, whichever is later. The revised schedule shall apply to service rendered on and after their effective date.

6. Valencia's proposed LIRA tariff is rejected. Within 180 days of the effective date of this order and in consultation with the Division and ORA, Valencia shall file an application with a low-income water rate proposal that fully and completely addresses the matters discussed in this Order and contained in Pub. Util. Code § 739.8 including but not limited to: availability of the program to all low income families served with water directly or indirectly by Valencia; costs of the program; conservation effects of the program; and ratemaking treatment of program costs.

7. Exhibits 18 through 22, which were presented and identified at the hearing, and Exhibit 23, the ORA and Valencia Comparison Exhibit, are received into the evidentiary record.

8. This proceeding is closed.

This order is effective today.

Dated May 8, 2003, at San Francisco, California.

MICHAEL R. PEEVEY
President
CARL W. WOOD
LORETTA M. LYNCH
GEOFFREY F. BROWN
SUSAN P. KENNEDY
Commissioners

APPENDIX A
Settlement

1. The parties to the Settlement ("Parties") are the Office of Ratepayer Advocates ("ORA") and the Valencia Water Company ("VWC").

2. The Parties agree to fully support this Settlement inasmuch as their negotiations have resulted in the resolution of all contested issues raised in A.02-05-013 and in ORA's two reports relating to the cost of capital and the results of operation.[1]

3. This Settlement would have the following revenue effect for the Test Years 2003 and 2004 and the Attrition Year 2005.

	VWC Requested		ORA Recommended		Settlement	
	Amount	Percent	Amount	Percent	Amount	Percent
2003	$2,496,600	17.33%	-$966,900	-6.49%	$205,398	1.39%
2004	$143,300	0.83%	-$177,200	-1.22%	-$197,489	-1.26%
2005	$43,439	0.24%	-$170,400	-0.98%	-$189,745	-1.24%

4. For each of the disputed issues, the paragraphs that follow describe the request of VWC, the analysis of ORA and the basis on which the Parties agree. The paragraph numbers correspond to paragraphs in ORA's Report on A.02-05-013.

Cost of Capital and Return on Equity (ORA's Report on Cost of Capital)

	ORA	VWC	Settlement
2003	9.72%	12.00%	9.72%
2004	9.72%	12.00%	9.72%

[1] *Report on the Application for a General Increase in Rates of Valencia Water Company*, Water and Natural Gas Branch, Office of Ratepayer Advocates (September 6, 2002) ("ORA's Report on A.02-05-013" or "ORA's Report"); *Water and Natural Gas Branch's Report on the Cost of Capital for Valencia Water Company* (September 2002) ("ORA's Report on Cost of Capital").

Upon review of current market conditions, VWC accepts ORA's recommended return on equity of 9.72% which would result in a return on ratebase of 9.20% for the Test Years.

Customer Growth (Paragraph 2.3)

	ORA	VWC	Settlement
2003	1,224	970	1,224
2004	1,224	970	1,224

Upon review of recent growth experienced in its service area, VWC accepts ORA's projections.

Consumption (Paragraph 2.5 to 2.8)

	Hundred Cubic Feet (Ccf)		
2003	ORA	VWC	Settlement
Residential	248.2	241.5	246.5
Special-Residential	2,140.8	1,530.8	1,988.3
Multi-Residential	2,650.8	2,772.1	2,681.1
Business	2,676.2	2,627.5	2,664.0
Public Authority	3,148.1	2,933.5	3,094.5
Irrigation	123,655.0	114,566.7	121,382.9
Industrial	1,785.3	1,490.8	1,711.7
2004			
Residential	248.2	239.8	246.5
Special-Residential	2,140.8	1,433.2	1,988.3
Multi-Residential	2,650.8	2,837.9	2,681.1
Business	2,676.2	2,457.2	2,664.0
Public Authority	3,148.1	2,837.5	3,094.5
Irrigation	123,655.0	110,294.6	121,382.9
Industrial	1,785.3	1,432.2	1,711.7

The Parties agree that no mathematical model would likely accurately predict the amount of water each customer would use in the Test Years; however the Parties agree that the values obtained by ORA's method, which is termed the Committee or Bean Method, should be weighted 75% and the values obtained by VWC's method should be weighted 25%. Such weighting would recognize an overall trend of decreasing consumption that is evident in VWC's service area, as well as the litigation risk of either Party's preferred method being adopted by the CPUC in this proceeding. The Parties agree that, prior to filing its next

application for a general increase in rates, VWC will consult with ORA regarding the appropriate method for estimating consumption.

Loss of Water (Paragraph 2.9)

	ORA	VWC	Settlement
2003	4.00%	6.00%	5.00%
2004	4.00%	6.00%	5.00%

The Parties' proposed estimates of percentage of water that will be lost during the Test Years varied due to analyses of different historical time periods. The Parties agree that a loss of water factor of 5% is consistent with the normal trend of the last three years.

New Employees (Paragraph 4.4)

	ORA	VWC	Settlement
2003	0	2	1
2004	0	0	0

As indicated in the discussion about Customer Growth (Paragraph 2.3), the Parties agree to ORA's estimates of a steady increase in customers. The Parties have reviewed more recent data that shows a likely increase in VWC's workload as a result of the additional customers. The Parties thus agree that, even with the automation of certain processes, one additional Customer Service Representative would be required to handle the increase in the number of customers it will serve in the Test Years.

Overtime (Paragraph 4.5)

	ORA	VWC	Settlement
2003	2.50%	5.00%	5.00%
2004	2.50%	5.00%	5.00%

ORA has reviewed information that was not included in the Application regarding the overtime charges recorded in 2001 and 2002 for personnel paid on an hourly basis. ORA agrees that VWC's estimate is appropriate for the Test Years.

Capitalized Payroll (Paragraph 4.6)

	ORA	VWC	Settlement
2003	18.35%	15.00%	16.00%
2004	18.35%	15.00%	16.00%

ORA's initial estimates were based on five years of historical data, while VWC's initial estimates were based on future projections. The Parties have reviewed recent data relating to the involvement of VWC's administrative staff in construction and replacement of plant and agree that estimates based on three years of most current data appropriately reflect future trends.

Mixture of Groundwater and Purchased Water (Paragraph 4.7)

	ORA	VWC	Settlement
2003	46.00%	50.00%	50.00%
2004	46.00%	50.00%	50.00%

ORA has reviewed new regulations of the Castaic Lake Water Agency that require VWC to purchase a set amount of water each year. By purchasing 50% of its total supply, VWC would meet those requirements.

Purchased Power (Paragraph 4.8)

	ORA	VWC	Settlement
2003	$1,536,900	$1,491,852	$1,550,500
2004	$1,601,500	$1,512,895	$1,615,800

The Parties' initial estimates for Purchased Power were based on differing assumptions for number of customers, consumption, loss of water, and mixture of groundwater and purchased water. The Parties now agree to Purchased Power estimates that reflect the agreements on those factors reached elsewhere in this Settlement, and on an average expense of $0.105 per kilowatt-hour for electric energy as determined by current billing of VWC by Southern California Edison Company.

Source of Supply (Paragraph 4.9)

	ORA	VWC	Settlement
2003	$33,037	$61,367	$49,900
2004	$33,731	$92,184	$50,900

ORA initially estimated ordinary maintenance expenses for the Test Years based on expenditures recorded as Source of Supply expenses. ORA initially excluded expenses of $21,300 per year for a new program for testing and inspecting wells. The Parties now agree on ordinary maintenance expenses that are lower than those originally proposed by both ORA and VWC. However, after reviewing additional data in support of the new program, ORA also agrees that the new program is desirable because it provides useful data, otherwise unavailable, that is needed to conduct efficient operations.

Expense of Pumping (Paragraph 4.10)

	ORA	VWC	Settlement
2003	$73,848	$124,338	$98,000
2004	$75,399	$126,824	$100,000

ORA's method for calculating its initial estimates excluded certain expenses that were not specifically identified in the Expense of Pumping account. After clearly identifying and reviewing expenses in the account, the Parties agree to decrease estimations for certain expenses, but to retain a $27,000 a year expense for a new program that tests and repairs booster meters for maximum accuracy.

Water Quality (Paragraph 4.11)

	ORA	VWC	Settlement
2003	$195,993	$255,200	$195,993
2004	$200,108	$239,800	$200,108

VWC has examined current expenses for Water Quality and agrees that the pattern of recent expenditures estimated by ORA would be reasonable for the Test Years.

Expense of Transmission and Distribution (Paragraph 4.12)

	ORA	VWC	Settlement
2003	$423,058	$614,380	$523,311
2004	$431,945	$641,900	$544,618

The Parties agree to use ORA's estimates for five of the eight categories in this account. For repairing leaks, the Parties also agree to base the estimate on expenditures occurring in 2002. After reviewing additional data, the Parties also agree that a $70,000 program for testing and replacing defective meters is reasonable. For the Parties' agreement on the category of storage facilities, see the discussion relating to the repainting of tanks in Paragraph 4.13, below.

Amortization of the Expense of Painting Tanks (Paragraph 4.13)

Amortization expense:

	ORA	VWC	Settlement
2003	$16,757	$23,695	$22,000
2004	$17,109	$39,402	$33,000

Rate base additions:

	ORA	VWC	Settlement
2002	$328,000	$328,000	$220,000
2003	$0	$145,000	$220,000
2004	$0	$314,000	$220,000

The expense of painting tanks normally is treated separately from other plant additions for rate setting purpose. In the present case, as part of the Expense of Transmission and Distribution, above, VWC proposes to repaint eight tanks over a period of ten years at a total cost of $2,200,000. This equates to $220,000 being added to rate base each year and $11,000 in related amortization (over a 20-year life) being added to recoverable expense each year for rate setting purposes. ORA has reviewed VWC's schedule for repainting its tanks. The Parties agree that an appropriate approach for accounting for tank repainting in Test Years 2003 and 2004 is to assume, for ratemaking purposes, that the tank repainting program began in 2002 and that it will proceed at a steady pace over ten years, with the costs to be amortized over 20 years. Thus, for ratemaking purposes, the Parties agree that amortization equal to two years' average tank repainting costs in Test Year 2003, and three years' average tank repainting costs in Test Year 2004, is appropriate. This will result in total amortization expense of $22,000 and $33,000, respectively, with annual rate base additions of $220,000 beginning this year.

Customer Accounts (Paragraph 4.14)

	ORA	VWC	Settlement
2003	$208,919	$249,393	$242,000
2004	$213,306	$254,381	$249,000

Upon review of recent additional charges imposed by VWC's outside billing service, the Parties agree on revised estimates of expense for Customer Accounts.

Office Expenses (Paragraph 5.3)

	ORA	VWC	Settlement
2003	$278,663	$318,330	$290,663
2004	$284,515	$324,696	$296,515

The Parties agree to adopt ORA's estimates of Office Expenses, which are based on an average of recent charges to the account, plus $12,000 per year for customary bank fees that were not included in ORA's initial estimates.

Outside Services (Paragraph 5.4)

	ORA	VWC	Settlement
2003	$25,000	$547,333	$200,000
2004	$26,000	$493,333	$200,000

As indicated in ORA's Report, ORA's initial estimates were based on a limited set of data. VWC has provided extensive historical data that provides additional support for VWC's proposed Outside Services expenses. Based on this new data, ORA increased its estimates to calculate reasonable expenditures for general legal and consulting activities. The Parties agree that a reasonable average expenditure for general legal and consulting activities is $150,000 per year. The Parties also agree that the program that monitors the condition of aquifers from which VWC obtains one half of its supply should be continued, and that an expense of $50,000 per year is reasonable for the program. Finally, the Parties agree to exclude from this account expenses relating to the Water Management Program approved in D.01-11-048.

Regulatory Expense (Paragraph 5.6)

	ORA	VWC	Settlement
2003	$42,569	$60,000	$60,000
2004	$42,569	$60,000	$60,000

ORA's initial estimates were based on historical data relating to the regulatory expenses VWC incurred as a result of its previous rate case. Unlike in its last rate case, however, VWC is using outside expert consultants for this rate case, and additional intervening parties are participating. Taking these additional expenses into account, the Parties now agree that VWC's original estimate appears reasonable.

Intervenor Fees (Paragraph 5.7)

As of the date of this Settlement, the Commission has not awarded any intervenor fees that are subject to payment by VWC. The Parties agree that if such fees are awarded prior to the submission of this proceeding, the expense should be included in this proceeding as an additional one-time Regulatory Expense.

Miscellaneous Expense (Paragraph 5.8)

	ORA	VWC	Settlement
2003	$139,900	$184,900	$177,000
2004	$142,800	$190,000	$180,600

Parties agree to accept ORA's proposed estimates for most subaccounts comprising Miscellaneous Expenses. The most significant discrepancy between the Parties' initial estimates relate to a conservation program that VWC has committed to offer as part of the Water Management Program approved by D.0-11-048. ORA now agrees that the program is beneficial and that estimated costs of $55,825 for 2003 and $56,942 for 2004 are reasonable.

Balancing Account for Purchased Water (Paragraphs 6.2 to 6.6)

For the reasons stated in ORA's report , the Parties agree that the under-collection of approximately $1,900,000 shown in a balancing account for purchased water should not be subject to collection.

Balancing Account for Purchased Power and other Memorandum Accounts (Paragraphs 6.7 to 6.12)

The Parties agree that the disposition of the Purchased Power Balancing Account and four memorandum accounts should be deferred until the outcome of Rulemaking 01-12-009 relating to processing offset increases in rates and balancing accounts inasmuch as the order of the Commission could affect the amount of any recovery. The Parties also agree that the net over-collection that existed in these accounts as of March 31, 2002 is less than 2% of VWC's revenue and would not be subject to amortization under the standard practices of the Commission's Water Division.

Memorandum Account for Litigation Against Parties Responsible for Contamination (Paragraph 6.12)

As noted above, the Parties agree that VWC's memorandum accounts should not be amortized until the Commission acts on R. 01-12-009. The Memorandum Account for Litigation Against Parties Responsible for Contamination, however, shows an under-collection of $366,000 as of March 31, 2002 and the additional expense of litigation is increasing the under-collection at a rate exceeding $110,000 during each Test Year. The Parties agree, therefore, that VWC should be authorized to include $110,000 per year in rates, subject to refund, to be tracked on a per customer basis in its memorandum account established for this litigation. The Parties further agree that VWC should be authorized to file for settlement of this account, in a manner consistent with

Resolution W-4094, prior to filing its next application for a general increase in rates.

Hillcrest Tank (Paragraph 7.2)

ORA	VWC	Settlement
$0	$516,000	$516,000

A developer in the area served by the Hillcrest Tanks contributed $239,000 to the tanks' installation. ORA's initial estimate was based on the analysis that additional contributions could be obtained from developers. ORA has further reviewed the conditions surrounding the construction of the Hillcrest Tank. ORA now agrees that VWC obtained the maximum contribution from the developer that was possible under the provisions of Rule 15 covering Main Extensions, and that the lack of land now available for development precludes the possibility of contributions by additional developers. The Parties agree, therefore, that the amount booked should remain in Plant.

Copperhill Bridge (Paragraph 7.3)

ORA	VWC	Settlement
$0	$314,000	$0

The Parties agree that, because the pipeline placed on the Copperhill Bridge is not completely used and useful at this time, the amount should be removed from Plant until such time as development occurs and the full capacity of the line is in use.

Valencia Boulevard Bridge (Paragraph 7.4)

ORA	VWC	Settlement
$0	$768,000	$768,000

ORA has further reviewed the relocation of the pipeline caused by construction of the bridge. ORA agrees that the bridge provides a regional benefit to traffic circulation and that VWC was required to relocate those facilities in accordance with its franchise agreements with the County of Los Angeles and the City of Santa Clarita. The Parties agree, therefore, that the amount booked should remain in Plant.

Pipeline along Valencia Boulevard (Paragraph 7.5)

ORA	VWC	Settlement
$0	$269,000	$0

The Parties agree that the pipeline placed along Valencia Boulevard is not completely used and useful at this time. This amount should therefore be removed from Plant until such time as development occurs and the full capacity of the line is in use.

Pipeline along The Old Road (Paragraph 7.5)

ORA	VWC	Settlement
$0	$485,000	$0

The Parties agree that the pipeline placed along The Old Road is not completely used and useful at this time. This amount should therefore be removed from Plant until such time as development occurs and the full capacity of the line is in use.

Pipeline along State Route 126 (Paragraph 7.6)

ORA	VWC	Settlement
$0	$126,000	$126,000

ORA has further reviewed the relocation of the pipeline caused by widening State Route 126 and agrees that the line serves existing customers and would only incidentally serve new development. The Parties agree, therefore, that the amount booked should remain in Plant.

Additions to Plant (Paragraphs 7.7 and 7.8)

	ORA	VWC	Settlement
2003	$4,779,000	$7,349,000	$4,779,000
2004	$4,779,000	$3,442,000	$4,779,000

The Parties agree to estimate Additions to Plant on the basis of the average additions over a period of five years because such a method would form a reasonable estimate of VWC's actual practice of replacing mains, wells, and other facilities. The Parties further agree that this estimate would not limit the calculation of ratebase in VWC's next filing of an application for a general increase in rates.

Re-filing Service Area Map (Paragraph 10.5)

The Parties agree that re-filing VWC's Service Area Map would serve no useful purpose at this time because of a change in policy of the Commission's Water Division that now requires the filing of an Advice Letter when a company submits a water supply questionnaire for a subdivision.

Irrigation Service (Paragraph 11.6)

VWC has offered interruptible service rates for evening hours at approximately 50% of the rate for General Metered Service. Due to the availability of untreated and recycled water, the Parties now agree that VWC should withdraw its tariff covering discounted irrigation service.

Recycled Water (Paragraph 11.7 and 11.8)

VWC proposes to serve the Westridge golf course with recycled water supplied through a separate distribution system. VWC's rate design for General Metered Service allows 50% of VWC's fixed costs to be recovered through a monthly service charge, with the balance recovered through the commodity charge. VWC initially proposed a service charge equal to that for General Metered Service, and a commodity charge equal to VWC's purchase price for the recycled water. The Parties now agree, however, that the commodity charge for recycled water should be increased to recover those fixed costs not recovered through the service charge.

Thus, the Parties agree that VWC should file a tariff for recycled water and untreated water, with the service charge set at the same level as the service charge for General Metered Service, and with the commodity charge set at a level 5% above the wholesale price VWC pays for recycled water. The Parties believe that such a design would not create a burden on general ratepayers and would offer sufficiently low rates to attract potential customers.

VALENCIA WATER COMPANY

By _____
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President
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Dated _____

OFFICE OF RATEPAYER ADVOCATES

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Dated _____

(END OF APPENDIX A)