

Decision 03-10-005 October 2, 2003

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of CALIFORNIA WATER SERVICE COMPANY (U 60 W), a corporation, for an order authorizing it to increase rates charged for water service in the ANTELOPE VALLEY district by \$60,300, or 5.8%, in 2003, by \$130,600 or 11.8%, in 2004, by \$126,900, or 10.2%, in 2005, and \$127,500, or 9.3% in 2006.

Application 02-11-021
(Filed November 8, 2002)

In the Matter of the Application of CALIFORNIA WATER SERVICE COMPANY (U 60 W), a corporation, for an order authorizing it to increase rates charged for water service in the KERN RIVER VALLEY district by \$913,200, or 46.9%, in 2003, by \$148,800 or 5.3%, in 2004, by \$137,500, or 4.6%, in 2005, and \$139,000, or 4.4% in 2006.

Application 02-11-022
(Filed November 8, 2002)

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Attorney at Law, for California Water Service
Company, applicant.
Jack L. Chacanaca and Roger Berger, for Leona Valley
Cherry Growers Association; and, Roger Berger, for
Leona Valley Town Council, interested parties.
Monique Steele and Monica L. McCrary, Attorneys at
Law, for the Office of Ratepayer Advocates.

OPINION RESOLVING GENERAL RATE CASES

OPINION RESOLVING GENERAL RATE CASES

I. Summary

This decision adopts an all-party settlement agreement entered into by California Water Service Company (CWS), the Office of Ratepayer Advocates (ORA), the Leona Valley Cherry Growers Association (CGA), and the Leona Valley Town Council (LVTC).¹ The settlement agreement resolves all issues in the Antelope Valley District and Kern River Valley District rate increase applications of CWS.

CWS is authorized to change its Antelope Valley District rates by amounts designed to reduce revenue by \$151,800, or 14.05% for 2003 and to increase revenue by \$95,300, or 10.27% for 2004; \$68,800, or 6.72% in 2005; and \$68,800, or 63% for 2006. CWS is also authorized to change its Kern River Valley District rates by amounts designed to increase revenue by \$183,100, or 9.36% for 2003; \$230,100 or 10.76% for 2004; \$131,600, or 5.56% in 2005; and \$131,600, or 5.26% for 2006. The adopted rates are based on an interim 8.90% return on rate base (ROR) and a 9.70% return on equity (ROE).

CWS shall file advice letters revising the rates adopted in this order to reflect adoption of a revised ROR and ROE in CWS' pending Application (A.) 03-01-034 et al. Those advice letters shall be filed within 30 days after the effective date of a decision in A.03-01-034, and shall go into effect upon the Water Division determination that they conform to this order.

¹ CGA and the LVTC are parties only to the Antelope Valley District. As such, neither entity has any standing in regards to provisions of the settlement applicable to the Kern River Valley District. These entities agreed to only those provisions of the settlement applicable to the Antelope Valley District.

As a result of the revenue changes granted by this decision, the 2003 average residential customer's monthly bill in the Antelope Valley District using 34 hundred cubic feet (Ccf) of water with a 5/8" by 3/4" meter would decrease by \$6.83, or 13.11% from \$52.10 to \$45.27. The 2003 average residential customer's monthly bill in the Kern River Valley District using 11 Ccf of water with a 5/8" by 3/4" meter would increase by \$3.52, or 9.16% from \$79.15 to \$84.52 for the remainder of 2003.

II. Applications

On November 8, 2002, CWS filed general rate applications for its Antelope Valley District and Kern River Valley District. CWS requested to increase rates in its Antelope Valley District by \$60,300, or 5.8%, in 2003; by \$130,600, or 11.8%, in 2004; by \$126,900, or 10.2%, in 2005; and, \$127,500, or 9.3%, in 2006. It also requested to increase rates in its Kern River Valley District by \$913,200, or 46.9%, in 2003; by \$1,48,800, or 5.3%, in 2004; by \$137,500, or 4.6%, in 2005; and, \$139,000, or 4.4%, in 2006. Customers were advised of these proposed rate increases through newspaper publications and bill inserts.

CWS stated that these rate increases are necessary to pass through to its customers increased expenses to CWS for services and commodities furnished by it and changes in both water uses and rate bases. It cited stringent water quality standards enacted by the United States Environmental Protection Agency as the most significant factor requiring rate increases.

III. The Systems

CWS provides water service for domestic and industrial purposes in California through 25 non-integrated districts. Two of those districts are the subjects of this proceeding.

CWS serves approximately 1,300 customers in its Antelope Valley District located in the communities of Lancaster, Leona Valley, Lake Hughes and adjacent vicinity in Los Angeles County, and Fremont Valley and adjacent vicinity in Kern County. The primary source of supply is obtained from seven Company-owned wells that vary up to 556 feet in depth. Water from the wells is pumped directly into the distribution system and storage. The storage capacity for the district is 1,319,000 gallons contained in ten surface tanks.

CWS also provides water service to approximately 4,200 customers in its Kern River Valley District serving the communities of Arden, Bodfish, Kernville, Lakeland, Mountain Shadows, Onyx, Southlake, Squire Mountain, Split Mountain and adjacent vicinities in Kern County. The primary sources of supply are 63 Company-owned wells and purchases under contract from the City of Bakersfield. Water from the wells is pumped directly into the distribution system and storage. The storage capacity for the district is 3,931,000 gallons contained in 31 surface tanks. Purchased water is delivered directly into the distribution system by way of a water treatment plant.

IV. Procedural History

By Resolution ALJ 176-3101, dated November 21, 2002, the Commission preliminary designated the captioned applications as “ratesetting” with hearings indicated. A Prehearing Conference (PHC) was held on January 8, 2003, to establish issues and a hearing schedule. At that time, the Antelope Valley District and Kern River Valley District general rate applications were consolidated. Subsequent to the PHC, Commissioner Wood issued a January 28, 2003 Scoping Memo and Ruling setting a schedule that included public participation hearings (PPHs) and an evidentiary hearing (EH). Administrative Law Judge (ALJ) Galvin was designated the principal hearing officer.

On April 7, 2003, and prior to the PPHs, ORA distributed two reports on the requested rate increases. The first report addressed the Antelope Valley District and the second addressed the Kern River Valley District. Respectively, these reports are Exhibits 8 and 9 in this proceeding. Based on these reports, ORA recommended an increase in the Antelope Valley District rates of 1.7% in each test and attrition year, 2003 through 2006.² ORA also recommended an increase in the Kern River Valley District rates of 1.0% in each test and attrition year, 2003 through 2006.³

On April 9, 2003, ALJ Galvin conducted two PPHs in Lancaster for the Antelope Valley District. Attendance was light with only two of the five attending customers speaking. One person was dissatisfied with CWS' repair of broken pipes, and the other was dissatisfied with water quality and the planned rate increase.

On April 10, 2003, the ALJ conducted two PPHs in Lake Isabella for the Kern River Valley District. Attendance was heavy with 35 of the more than 100 attending customers speaking. Those customers were almost uniformly critical of CWS' current and proposed rates, saying that their rates are already higher than those of surrounding areas and that the increases would far exceed inflation over the years, discourage outside watering, and become unaffordable

² This increase represented normalizing a calculated 30.8% decrease in 2003; a 20.2% increase in 2004; a further 16.8% increase in Attrition Year 2005; and, a 0.7% increase in Attrition Year 2006.

³ This increase represented normalizing a calculated 5.3% decrease in 2003; a 2.3% increase in 2004; a further 4.9% increase in Attrition Year 2005; and, a 2.2% increase in Attrition Year 2006.

for senior and fixed income customers. There was also great concern about water quality.

Apart from input of the PPH speakers, the Commission received approximately 100 letters (which included duplicative letters addressed to the various Commissioners) protesting the Antelope Valley District proposed rate increase. The Commission also received a dozen letters protesting the Kern River Valley proposed rate increase. Those writing letters voiced the same concerns expressed at the PPHs.

On April 28, 2003, and subsequent to the PHC and PPHs, CGA filed a petition to intervene in the Antelope Valley District proceeding. CGA alleged that the requested rate increase is defective and not justified, and that CWS failed to make system improvements and upgrades used as the basis, in part, for the Commission's approval of the prior Antelope Valley District rate increase application, A.99-05-023.

V. Evidentiary Hearing

At the beginning of the May 6, 2003 EH, an additional request to participate in the Antelope Valley District rate application was received from LVTC. The ALJ granted the requests of CGA and LVTC to participate in this consolidated proceeding only to the extent that their participation is limited to the Antelope Valley District.

CGA and LVTC identified their individual concerns regarding notice, hearing schedule, and merger synergies.⁴ The EH was then recessed for three hours at the request of all parties so that they could continue settlement

⁴ Savings resulting from a merger of various water companies into CWS.

discussions.⁵ Upon the continuance of the EH, CWS informed the ALJ that an all-party settlement agreement had been reached.

Exhibits previously prepared by CWS and ORA presenting their initial positions on the rate applications were identified and received into the record. Thirteen separate exhibits were received into evidence.

CWS and ORA offered witnesses to identify and substantiate the all-party settlement agreement, the details of which were subsequently reduced to writing by the parties and submitted in an ORA brief filed on June 9, 2003, and late-filed Exhibit 13 received on June 17, 2003.

CWS and ORA witnesses underwent four hours of examination explaining their initial positions and how the settlement agreement is reasonable in light of the record as a whole, consistent with law, and in the public interest. The proposed settlement agreement is attached to this order as Attachment C. This matter was submitted on August 8, 2003.

VI. Settlement

The following table compares the initial revenue requirement changes recommended by CWS and ORA with that being proposed in the all-party settlement agreement.⁶

⁵ On April 23, 2003, and pursuant to Rule 51.1 of the Commission's Rules of Practice and Procedure (Rules), ORA provided notice to all parties of record that a settlement conference would take place on May 1, 2003.

⁶ Although CGA and LVTC were active parties to the proceeding, as it related to the Antelope Valley District, neither party had an overall revenue requirement position.

	CWS Requested		ORA Recommended		ALL-PARTY Settlement	
	\$	%	\$	%	\$	%
Antelope Valley						
2003	60,300	5.8	(345,300)	(30.8)	(151.8)	(14.05)
2004	130,600	11.8	157,400	20.2	95.3	10.27
2005	126,900	10.2	157,500	16.8	68.8	6.72
2006	127,500	9.3	7,700	0.7	68.8	6.30
Kern River Valley						
2003	913,200	46.9	119,300	(5.3)	183.1	9.36
2004	148,800	5.3	52,400	2.3	230.1	10.76
2005	137,500	4.6	116,700	4.9	131.6	5.56
2006	139,000	4.4	53,300	2.2	131.6	5.26

The major differences between CWS and ORA were in synergies, common office expenses, and rate of return (ROR). The major difference of CGA and LVTC with CWS was in synergies.

A. Synergies

Synergies accounted for test year 2003 revenue differences of \$44,072 in the Antelope Valley District and \$147,627 in the Kern River Valley District. In both instances, CWS' revenue estimate was lower than that of ORA. CGA and LVTC argued for imputed revenue to account for synergies. However, neither party recommended a specific adjustment.

This issue resulted from the merger of Dominguez Water Company (Dominguez), Antelope Valley Water Company, and Kern River Valley Water Company into CWS pursuant to Decision (D.) 00-05-047, dated May 18, 2000. By that merger, the Antelope Valley District book-value component of rate base was increased 12% to \$2,631,213 from \$2,346,079 and the Kern River District book-value component of rate base was increased 15% to \$4,843,881 from \$4,211,209. Approval of the merger was conditioned upon specific mitigating measures set

forth in Ordering Paragraph 1 of that decision, including neutrality of rates as a result of the merger.

Although CWS did not initially impute any merger related savings, ORA did. ORA imputed \$63,800 of revenue per year for the Antelope Valley District and \$141,627 for Kern River Valley District. ORA's estimates were based on a ratio of the individual district's rate base write-up to total rate base write-up and a \$4.48 million revenue requirement impact of the merger.

The parties subsequently agreed that a revenue requirement adjustment is necessary to maintain rate neutrality from the merger. However, the parties could not agree on a methodology for imputing the revenue. Accordingly, the parties agreed to impute \$44,072 of additional revenue for Antelope Valley District based on the actual merger rate base write-up applied to the agreed upon cost of capital in this proceeding, a 1.4% gross-up factor for taxes, and a 3% for amortization derived by CWS. The parties also agreed to impute \$141,627 of additional revenue for Kern River Valley District based on ORA's method.

B. Common Office Expenses

Common office expenses accounted for test year 2003 expense differences of \$79,900 in the Antelope Valley District and \$214,000 in the Kern River Valley District. In both instances, CWS' estimate was higher than that of ORA. Common office expenses consist of costs incurred at the corporate level for the benefit of all its districts. These common costs are allocated to the individual districts of CWS based on a four-factor allocation method (direct operating expenses, gross plant, number of employees, and number of customers) of the individual districts to the total of all districts.

CWS' estimates were based on a four-factor allocation calculated prior to the filing of its November 8, 2002 applications. Based on that dated allocation, CWS estimated that \$128,200 of its common office expenses should be allocated to the Antelope Valley District for the 2003 test year and \$320,500 to the Kern River Valley District.

ORA, using a more current four-factor allocation, estimated that only \$48,300 (\$79,900 lower than the estimate of CWS) of common office expenses should be allocated to the Antelope Valley District for test year 2003 and only \$106,500 (\$214,00 lower than the estimate of CWS) should be allocated to the Kern River Valley District for that same test year. ORA's four-factor allocation is the same four-factor allocation proposed in a pending general rate case (GRC) decision for several other CWS districts, A.01-09-062 et al.

The parties subsequently agreed to use ORA's more recent four-factor allocation in this proceeding.

C. Return on Rate Base

Return on rate base accounted for test year 2003 operating revenue differences of \$24,913 (CWS' \$1,107,500 estimate versus ORA's \$1,082,587⁷) in the Antelope Valley District based on present rates, and \$90,696 (CWS \$2,858,300 estimate versus ORA's \$2,767,604⁸) in the Kern River Valley District. In both

⁷ ORA's \$1,082,587 operating revenue is derived by adding CWS \$1,047,200 operating revenues at present rates to the \$35,387 result from multiplying CWS \$1,914,200 rate base times the 1.02% incremental ROR change (7.88% ROR at present rates versus the 8.90% ORA recommended ROR) times CWS 1.81244 net to gross multiplier (Exhibit 1 at Table 11-B and 11-C).

⁸ ORA's \$2,767,604 operating revenue is derived by adding CWS \$1,945,100 operating revenues at present rates to the \$822,504 result from multiplying CWS \$6,948,600 rate base times the 6.49% incremental ROR change (2.41% ROR at present rates versus the

Footnote continued on next page

instances, test year 2003 ROR and ROE estimates of CWS resulted in a higher revenue requirement than that of ORA.

As part of its applications, CWS requested a 9.61% ROR and an 11.50% ROE. ORA advocated an interim 8.90% ROR and a 9.70% ROE (the same ROR and ROE recommended by the assigned ALJ in the A.01-09-062 CWS application under Commission consideration at the time the EH for this proceeding took place).

ORA further advocated that the authorized ROR and ROE be changed 30 days after the Commission issues a decision in the A.03-01-034 application of CWS to conform to the ROR and ROE adopted in that application. ORA did not recommend litigating ROR and ROE in this proceeding because they were most recently litigated in A.01-09-032 and are currently being litigated in A.03-01-034.

CWS and ORA subsequently agreed that it was in the ratepayers' and shareholders' best interest to use ORA's ROR and ROE approach. CGA and LVTC took a neutral position on the appropriate ROR and ROE. All parties concurred that CGA and LVTC could participate in the A.03-01-034 EH that began on September 29, 2003, for the limited purpose of litigating ROR and ROE for the Antelope Valley District.

VII. Discussion

The parties have submitted a proposed settlement agreement for our consideration pursuant to Rules 51 et seq. They aver that the settlement is reasonable in light of the whole record, consistent with law, and in the public interest. This is also an "uncontested settlement" as defined in Rule 51(f), i.e., a

8.90% ORA recommended ROR) times CWS 1.82388 net to gross multiplier (Exhibit 4 at Table 11-B and 11-C).

settlement that is “. . . not contested by any party to the proceeding within the comment period after service of the [] settlement on all parties to the proceeding,” and an all-party settlement.⁹

The Commission recognizes two separate, partially overlapping review standards for settlements tendered for its consideration. Rule 51.1(e) holds that the Commission will not approve settlements, whether contested or uncontested, unless they are reasonable in light of the whole record, consistent with law, and in the public interest. And in *San Diego Gas & Electric* (1992) 46 CPUC 2d 538, the Commission further defined its settlement review policy in relation to all-party settlement proposals.¹⁰ As a precondition to approval the Commission must be satisfied that:

- The proposed all-party settlement commands the unanimous sponsorship of all active parties.
- The sponsoring parties are fairly reflective of the affected interests.
- No term of the settlement contravenes statutory provisions or prior Commission decisions.
- The settlement conveys to the Commission sufficient information to permit it to discharge its future regulatory obligation with respect to the parties and their interests.

⁹ The failure of a limited-purpose or single-issue party to join in sponsoring a settlement does not deprive it of the all-party quality to which the policy would apply. *San Diego Gas & Electric*, 46 CPUC 2d 538 at 763.

¹⁰ *Id.* An all-party settlement is one sponsored by all of the parties to the Commission proceeding.

A. Unanimous Sponsorship

Under *San Diego Gas & Electric*, the Commission must be satisfied that any all-party settlement it approves commands the unanimous sponsorship of all active parties. In the Antelope Valley District application, CWS, ORA, CGA, and LVTC are the only parties eligible to participate, each of which joined to sponsor its settlement agreement. In the Kern River Valley District application, CWS and ORA are the only parties eligible to participate, each of which joined to sponsor its settlement agreement. No comments were filed in opposition to the settlement agreement submitted by ORA on June 9, 2003. The first condition for approval is satisfied.

B. Sponsoring Parties Reflective of Affective Interests

CWS had experienced counsel representing its own interests and those of its shareholders. Likewise, ORA had experienced counsel representing it at the EH and engaged in extensive settlement negotiations after the initial round of prepared exhibits were mailed. ORA's charge is to represent water utility ratepayers, and there is every indication that it has thoroughly and earnestly done so here. CGA and LVTC have also pursued the interest of commercial and city users, respectively. The sponsoring parties for the settlement agreement are indeed fairly reflective of the affected interests.

C. No Term Contravenes Prior Commission Decisions

The settling parties represent that no term of either settlement contravenes any statutory provision or any Commission decision. After reviewing the settlement, we concur.

D. Sufficient Information

In readying their team for hearings in this proceeding, CWS and ORA prepared and served reports covering all components of Antelope Valley and

Kern River Valley Districts' results of operations, cost of capital, attrition, rate design and tariff revisions. All of these reports were admitted into evidence without objection. Those documents fully define the initial positions of CWS and ORA and the settlement agreement indicates the negotiated outcome for each significant contested item.

ORA representatives attended each of the PPHs in the Antelope Valley District and Kern River Valley District service territories. ORA had its team members examine Antelope Valley District and Kern River Valley District complaint histories with the Commission's Consumer Affairs Branch,¹¹ inquire into their compliance records with the California Department of Health Services, and inspect their facilities before making a recommendation on the adequacy of their plant and service.

CGA and LVTC representatives attended the EH and actively participated in settlement discussions.

The parties have fully defined the outcomes they have agreed to and the settlement conveys sufficient information to permit the Commission to discharge its future regulatory obligations with respect to the parties and their interests.

E. Conclusion

The major issues of synergies, common office expenses, and ROR have been equitably resolved with substantial support in the record by way of exhibits and testimony. Although the parties did not resolve the appropriate

¹¹ The Consumer Affairs Branch identified by ORA as the department maintaining a record of water utility complaints in Exhibits 8 and 9 is now part of the Consumer Protection and Safety Division.

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methodology for imputing synergies, they settled on an appropriate amount in this proceeding.

Irrespective of whether the synergy methodology used by ORA or CWA should be adopted, the impact on customers by the adoption of one method over the other is relatively small. For example, the \$19,729 difference between ORA's \$63,800 and CWS's \$44,071 Antelope Valley District synergies estimate included in the settlement agreement results in less than a \$1.30 monthly difference per customer (\$19,729 divided by 1,300 customers divided by 12 months). This is less than 10% of the current monthly general meter service charge of \$17.25 and \$14.70 for a 5/8" by 3/4" meter (Schedules AV-R-1a, AV-U-1, and AV-R-1 of the application) throughout the Antelope Valley District. This impact is even less when a customer's usage charge is added to the general meter service charge. A consistent method for calculating synergies should be adopted, however.

CWS should provide testimony in its next Antelope Valley District and Kern River Valley District GRC on what is an appropriate and consistent method for calculating synergies from the merger approved in D.00-05-047.

The agreed upon method for allocating common office expenses based on the most recent four-factor allocation is fair and reasonable. Similarly, the adoption of the interim ROR and ROE proposed by the assigned ALJ in A.01-09-062 et al. based on recent litigation subject to true up from additional litigation in A.03-01-034 is fair and reasonable. This ROR and ROE proposal benefits shareholders and ratepayers alike through reduced litigation cost and a limited number of rate changes within a one-year time period. The ROR and ROE also reflect current financial data.

The settlement agreement also addresses several of the customers' cost and water quality concerns. For example, the settlement agreement reduces CWS Antelope Valley District 5.8% rate increase request to an 8.7% reduction in 2003 and a Kern River Valley District 46.9% increase request to 15.9%. It also

addresses customers' water quality concerns through projects such as the undertaking of a water supply and facilities master plan for both districts, construction of an iron and manganese treatment facility in the Antelope Valley District, and purification and treatment projects in the Kern River Valley District.

The settlement agreement meets the Commission's requirement for an all-party settlement under *San Diego Gas & Electric*. When reviewed as a total product, each component is reasonable in light of the record, consistent with law, and in the public interest. The settlement agreement should be approved.

VIII. Comments on Proposed Decision

The proposed decision of the assigned ALJ in this matter was mailed to the parties in accordance with Section 311(d) of the Public Utilities Code and Rule 77.1.

A comment period is not necessary because this is an uncontested matter adopting an all-party settlement agreement. All parties stipulated to a 10-day review of the proposed decision and stipulated that the Commission may issue a decision on this matter less than 30 days following the service of the proposed decision. The parties were afforded a 10-day period to review the proposed decision and attached tables. No comments were filed.

IX. Assignment of Proceeding

Carl W. Wood is the Assigned Commissioner and Michael Galvin is the assigned ALJ in this proceeding.

Findings of Fact

1. CWS entered into a settlement agreement with ORA, CGA, and LVTC for the Antelope Valley District and with ORA for the Kern River Valley District. The settlement agreement resolves every issue between the parties in this proceeding.

2. The settlement agreement commands the sponsorship of all active parties in this proceeding.

3. The active parties with respect to the settlement agreement are fairly reflective of the affected interests in this proceeding.

4. No term of the settlement agreement contravenes statutory provisions or prior Commission decisions.

5. The settlement agreement conveys sufficient information to permit the Commission to discharge its future regulatory obligations with respect to the parties and their interests.

6. There is no opposition to the proposed settlement agreement.

7. All parties stipulated a 10-day review of the proposed decision and stipulated that the Commission may issue a decision on this matter less than 30 days following the service of the proposed decision.

8. The summaries of earnings presented in Appendix A and the quantities and calculations included in Appendix D which support them are reasonable for ratemaking purposes.

Conclusions of Law

1. The participation of CGA and LVTC in this consolidated proceeding has been properly limited to matters relating to the Antelope Valley District.

2. The settlement agreement is an uncontested settlement as defined in Rule 51(f) and all-party settlements under *San Diego Gas & Electric*.

3. The all-party settlement agreement is reasonable in light of the whole record, consistent with law, and in the public interest.

4. The settlement agreement should be adopted.

5. The revised rates, step increases, and tariff rule revisions set forth in the attached Appendices are justified.

6. CWS should address the appropriate method to calculate synergies in its next GRC.

7. This decision should be made effective immediately to enable CWS to implement the settlement agreement without delay.

O R D E R

IT IS ORDERED that:

1. The all-party settlement agreement (set forth in Attachment C) between California Water Service Company (CWS), the Office of Ratepayer Advocates (ORA), the Leona Valley Cherry Growers Association (CGA), and the Leona Valley Town Council (LVTC) for the Antelope Valley District of CWS and between CWS and ORA for the Kern River Valley District of CWS is adopted.

2. CWS is authorized to file in accordance with the General Order 96 Series (GO 96-A or its successor), and to make effective on not less than five days' notice and upon approval of the Commission's Water Branch, tariffs containing the test year 2003 changes and the tariff rule revisions shown in Appendix B to Attachments A and B to this order and to concurrently cancel its present schedules for such service. The revised rates and rules shall apply to service rendered on and after the tariffs' effective date.

3. CWS shall file advice letters revising the rates adopted in this order to reflect the Commission's adoption of a revised rate of return (ROR) on rate base and a revised return on equity (ROE) in CWS' pending Application (A.) 03-01-034. Those advice letters shall be filed within 30 days after the effective date of a decision on the A.03-01-034 proceeding and shall go into effect upon the Water Division determination that they conform to this order.

4. On or after November 5, 2003, November 5, 2004, and November 5, 2005, CWS is authorized to file advice letters in conformance with GO 96-A, with appropriate supporting work papers, requesting the step rates authorized in Appendix E of this decision and adjusted to reflect the impact of the subsequent adoption of the ROR and ROE in A.03-01-034 for 2004, 2005, and 2006, respectively. The requested rates shall be reviewed by the Commission's Water Division and shall go into effect after Water Division's determination that they conform to this order. Water Division shall inform the Commission if it finds that the proposed rates do not conform to this order or other Commission decisions. The revised tariff schedules shall be effective no earlier than January 1, 2004, January 1, 2005, and January 1, 2006, respectively, and shall apply to service rendered on or after their effective date.

5. CWS shall provide testimony in its next general rate case proceeding for the Antelope Valley District and Kern River Valley District on what is an appropriate and consistent method for calculating synergies from the merger approved in Decision 00-05-047.

6. The summaries of earnings presented in Appendix A of Attachments A and B to this order, and the quantities and calculations included in Appendix D, to those attachments which underlie them, are adopted.

7. A.02-11-021 and A.02-11-022 are closed.

This order is effective today.

Dated October 2, 2003, at San Francisco, California.

MICHAEL R. PEEVEY
President
CARL W. WOOD
LORETTA M. LYNCH
GEOFFREY F. BROWN

Commissioners

Commissioner Susan P. Kennedy, being necessarily absent, did not participate.