Decision 04-03-040 March 16, 2004

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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 Redwood Valley District by $566,100, or 78.3%, in 2003, by $205,600, or 16.0% in 2004, by $200,300, or 13.4%, in 2005, and by $201,000, or 11.9% in 2006.	Application 02-11-020 (Filed November 8, 2002)

OPINION ON GENERAL RATE CASE

(See Appendix G for Appearances.)

I. Summary

California Water Service Company (Cal Water) initially requested authorization to increase present revenues in the Redwood Valley District by 78.3%, or $566,100 in 2003, 16.0%, or $205,600 in 2004, 13.4%, or $200,300 in 2005, and 11.9%, or 201,000 in 2006. This decision authorizes Cal Water an overall general rate increase for test year 2004 of $197,600 (about 28%), as well as the ability to file (by advice letters) for attrition year adjustments in 2005 and 2006. This decision also adopts a rate of return (ROR) of 8.11% and a return on equity (ROE) of 9.32%.

One of the reasons for the large difference between Cal Water's original request and our authorized rate increase is that during hearings, the parties agreed to take the estimated costs of new water treatment plants for the Lucerne

and Coast Springs Divisions out of rate base now. The parties anticipate that the funds will be made available under a low interest loan from the Safe Drinking Water State Revolving Fund (SDWSRF) administered by the Department of Health Services (DHS). If DHS approves the loan, we anticipate that Cal Water will apply to the Commission to increase the Redwood Valley District's rates in order to assist in repayment of this loan. We will address this issue if and when Cal Water applies.

Under our adopted rate design, all of the divisions of the Redwood Valley District located in Sonoma County would receive uniform rates. Lucerne and Coast Springs, located in Lake and Marin Counties respectively, would receive stand-alone rates. Because this is the first rate case for the Redwood Valley District as a unified district, and many divisions have not had a rate increase in many years, the increase in the average monthly bill among all the divisions is not equal. Lucerne's current rates were the most out of line with the reasonable cost of service, and they are increasing by about 58%, the most of any of the divisions. However, this is the lowest increase possible for Lucerne under the various rate design proposals presented.

II. The Redwood District

The Redwood Valley District serves about 1,896 customers. Before Cal Water acquired the area that now comprises this district, six small water companies served these customers. In Sonoma County, the Armstrong Valley Water Company and the Noel Heights Water Company served Guerneville. The Rancho del Paradiso Water Company served Duncan Mills. The Hawkins Water Company served a group of homes near Santa Rosa. The Coast Springs Water Company served Dillon Beach in Marin County, and the Lucerne Water Company served Lucerne in Lake County.

Dominguez Water Company (Dominguez) acquired all of these companies in 1997 and 1998, and Cal Water acquired Dominguez in 2000. (See Decision (D.) 00-05-047, 2000 Cal. PUC LEXIS 314.) The last rate increases for Redwood Valley District customers were authorized about seven years ago, prior to Dominguez acquiring the companies.

III. Procedural History

The Assigned Commissioner and Administrative Law Judge (ALJ) issued a January 14, 2002 Scoping Memo and Ruling (Scoping Memo). The Scoping Memo confirmed the Commission's preliminary categorization of this proceeding in Resolution ALJ-176-3101 as ratesetting, with hearings needed.

The Commission held public participation hearings on April 23 in Guerneville and on April 24 in Lucerne. It held evidentiary hearings from May 27 through May 29, 2003. In addition to Cal Water, the Office of Ratepayer Advocates (ORA) and intervenors Jeffrey Young and Marcos Pareas participated in the hearings. On June 27, 2003, Young filed a request for oral argument before the Commission but subsequently withdrew this request. The proceeding was submitted on November 12, 2003, with the filing of additional rate information as requested by the ALJ.

IV. Discussion

A. Stipulations

During the course of hearings, the parties modified their positions so as to result in substantial agreement between the parties concerning nearly all of the issues in this application. For example, ORA agrees with Cal Water's estimates for customers, consumption, and purchased power, as well as most if its estimates for plant. These stipulated numbers are reasonable estimates and are reflected in the results of operations tables attached hereto.

Because the ROR and ROE are being fully litigated in Application (A.) 03-01-034, et al., Cal Water and ORA agreed it would be reasonable, as well as more efficient and less burdensome, to stipulate to interim cost of capital calculations for this proceeding pending resolution of A.03-01-034. These stipulations are 8.11% for an interim ROR and 9.32% for an interim ROE. The parties further agreed that, upon resolution of A.03-01-034, Cal Water's authorized ROR and ROE for that proceeding will be applied prospectively to the Redwood Valley District. The interim cost of capital would apply only to the Redwood Valley District and only to this application.

We agree that the interim ROE and ROR are reasonable to apply to this application. However, we will adopt these figures for use throughout this rate case cycle for this district only. Cal Water and ORA agreed to use the ROE and ROR adopted in A.03-01-034 for prospective use for this district, based on the assumption that the parties would fully litigate these issues in A.03-01-034. However, there is currently a settlement pending in that application. In settlements, the parties do not fully litigate the issues, but rather, make case-specific tradeoffs. We cannot determine on this record whether or not the tradeoffs made in A.03-01-034 are reasonable for this district. We therefore adopt an 8.11% ROR and a 9.32% ROE purposes of the test year and attrition year rate adjustments approved in this application.

B. Cost of Lucerne Treatment Plant and Upgrades to Coast Springs

Cal Water and ORA agree that the estimated costs of the new Lucerne treatment plant should not be included in rates in this decision. They anticipate that a low interest loan from the SDWSRF will fund the Lucerne project. DHS has the authority to approve eligibility for the loan while the Department of

Water Resources (DWR), as the lending agency, actually approves terms and issues the loan.[1]

Cal Water argues that the Commission should authorize it to establish a memorandum account to track the expenditures and capitalized interest for the Lucerne treatment plant as well as the costs of a backup generator, should one be necessary. According to Cal Water, a memorandum account is appropriate here because, ordinarily, this treatment plant would be included in rate base. To the extent Cal Water does not receive SDWSRF funds to cover the expenses, Cal Water believes it should be guaranteed recovery, and argues that a memorandum account is reasonable to protect Cal Water against the possibility that funding will not be available for all or part of the treatment plant.

ORA believes that the Commission should not establish a memorandum account at this time. ORA notes that the amount at issue for the Lucerne treatment plant is an estimated $1.3 million, or 51% of Cal Water's total proposed 2003 rate base for Redwood. ORA argues that DHS has issued the Lucerne project a priority "D" rating, which usually results in the issuance of funding. Thus, ORA believes the Lucerne project will be funded through the SDWSRF monies.[2] If not, ORA believes that Cal Water can file an application

[1] The SDWSRF is under the California Safe Drinking Water Bond Act, Water Code § 13850 et seq.

[2] ORA has also made additional recommendations that (1) DHS/DWR surcharges be set to cover the costs of the treatment facilities; (2) all of the plant funded by SDWSRF be permanently excluded from rate base; and (3) service connection fees be established for vacant lots. These are more appropriate issues to raise in the advice letter process when, at the appropriate time, Cal Water requests approval for a surcharge based on an approved DWR loan.

requesting an appropriate change to rates. ORA believes this is the more prudent course, given the large amount of the project.

We find that the costs of the Lucerne treatment plant can have a large impact on rates. It is probable that Cal Water will receive substantial, possibly full, funding from DWR. Cal Water can then file by advice letter to seek Commission approval for a rate adjustment to repay the DWR loan. If DWR does not approve the loan, Cal Water should file an application requesting increased rates to offset the increased rate base. In that way, the Commission would have current cost information, as well as information as to why DWR did not approve the loan, before making a decision that could severely impact rates.

For similar reasons, we reach the same result for upgrading the Coast Springs water treatment plant and drilling a new well. This project has also received a priority "D" rating from DHS.

Young argues that should SDWSRF funding for the Coast Springs and Lucerne treatment plants prove unavailable, Cal Water should bear the burden of proving that the cause of the denial was solely due to DHS or others. The argument is premature. Issues regarding ratemaking for these projects, if SDWSRF funding is denied, can be explored in an any application Cal Water may file to request such ratemaking.

C. Rate Design

The issue of the appropriate rate design for the Redwood Valley District was the most contested in this proceeding, because this is the first time these individual divisions have been combined into a single district, and thus, there is no precedent for the district's rate design.

1. Cal Water's Three-Rate Structure Rate Design Proposal

Cal Water advocates a three-rate structure rate design proposal. Under this proposal, four of the divisions would have the same rates, and two divisions (Lucerne and Coast Springs) would each have their own rate. Cal Water believes that a uniform rate design for Armstrong, Noel Heights, Rancho del Paradiso, and Hawkins is appropriate because these are geographically proximate divisions with relatively similar current rates.

Cal Water advocates that Coast Springs should have a separate rate design because a uniform rate design for all divisions would substantially lower the water rates of customers in Coast Springs. This could be a problem, according to Cal Water, because there is currently a water supply problem and a service moratorium in Coast Springs, and Cal Water is concerned that a substantial decrease in water rates would serve as an incentive for increased water use in that division. Cal Water disagrees with ORA that this potential issue can be adequately addressed, if necessary, by levying fines or by water rationing.

Cal Water also proposes that Lucerne have separate rate design because this would result in less of a rate increase for that division than would a uniform rate design. Cal Water objects to ORA's proposal that Cal Water have a uniform rate design but phase the Lucerne rates in over time. Cal Water estimates that the proposal would cause it to lose about $170,000 in revenues that it believes it should recover. Cal Water states that it has filed a general rate case for the Redwood Valley District at the earliest opportunity, given the acquisition history of these divisions,[3] and therefore it should not suffer financially because a large increase in rates is currently necessary.

2. ORA and Intervenor Pareas' Uniform Rate Design Proposal

ORA and Pareas propose a uniform rate design throughout the Redwood Valley District because it has a relatively small number of customers (about 1,896) and the cost of service is similar. ORA states that in order to effectively spread costs across such a small customer base, the Commission should not exclude any specific area from the rate base calculation. To do so, according to ORA, would cause the remaining customers to experience larger fluctuations in rates.

ORA and Pareas also argue that the cost of service is similar for four of the six divisions, constituting 94% of the customers. The cost of service for the remaining 6% located in Noel Heights and Rancho del Paradiso is higher because of recent upgrades to their systems. ORA and Pareas state that the remaining 94% of the customers will experience similar upgrades to their systems in the near future, which should result in similar costs of service for all customers, further justifying a uniform rate design.

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[3] Dominguez Water Company acquired the Lucerne division in 1998. According to Cal Water, the first year in which a general rate case including Lucerne could be filed was 2000, with rates effective in 2001. However, Cal Water acquired Dominguez in 2000. (See D.00-05-047, 2000 Cal. PUC LEXIS 314.) Cal Water asserts that filing a general rate case for Lucerne in that same year would have been unworkable. Cal Water then filed a general rate case for 15 of its other districts in 2001, and believed this additional rate case would have overburdened it and the Commission. Thus, Cal Water states that 2002 was the first opportunity it had to file this general rate case for the Redwood Valley District, including Lucerne.

ORA concede that the Commission has criticized a uniform rate design when a district contains geographically diverse areas, citing Suburban Water Systems, D.03-05-078, 2002 Cal. PUC LEXIS 938 **43-44. However, ORA believes the factors listed above weigh in favor of a uniform rate design, notwithstanding the geographic diversity of the Redwood Valley District. ORA also recommends that the rates for Lucerne be phased in over four years because Cal Water has never sought a rate increase for Lucerne until now, and therefore did not keep up with its increasing revenue requirement in Lucerne by filing more frequent rate cases or a rate case sooner.

ORA and Pareas agree that Coast Spring's rates will decrease under a uniform rate design, but argue that there is no evidence on the record to prove a current or future water shortage. ORA submits that the existing moratorium on additional connections serves to protect Coast Springs from increased consumption. Also, ORA argues that should Cal Water encounter increased usage as a result of decreased rates for Coast Springs, it could curtail usage to current amounts, institute a water conservation campaign, or implement penalties for overconsumption as a last resort. ORA and Pareas believe a uniform rate design is thus reasonable for Coast Springs, which is currently bearing a disproportionately high percentage of the costs.

3. Intervenor Young's Separate Rate Design Proposal

Young believes that Cal Water should employ a separate rate design for each division, and that Cal Water similarly should maintain separate accounting. His recommendation is based on equity, the unique characteristics of each division, and the various financial and physical challenges each division faces. Young believes that a uniform rate design has merit and should be evaluated again in Redwood Valley's next general rate case.

Young notes that he is an intervenor with interests in the Coast Springs service territory, yet is recommending a separate rate design for each division, even though he would receive a financial benefit with a uniform rate design. Young believes that it is more equitable to pay the rates that result from the conditions in the area, rather than to pay based upon the arbitrary formation of this diverse district.

4. Discussion

We begin with the following table comparing the effect on the average monthly bill of implementing each of the rate design proposals.[4]

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[4] See Exhibit 14. These rate comparisons were prepared and agreed to by the parties and do not include surcharges for the proposed treatment plants in Lucerne and Coast Springs.

Uniform Rate Design[5]

	Existing Rates				At 2004 Rates		
	Service Charge	**Quantity Charge**	**Av. Monthly Bill**		**Service Charge**	**Quantity Charge**	**Av. Monthly Bill**
Armstrong	19.95	1.82	$42.87		16.30	2.6231	$47.09
Coast Springs	30.48	6.18	$53.34		16.30	2.6231	$32.37
Hawkins	23.00	2.01	$43.70		16.30	2.6231	$43.32
Lucerne	12.90	1.17	$27.33		16.30	2.6231	$48.78
Noel Heights	19.95	1.82	$32.76		16.30	2.6231	$33.37
Rancho Del Paradiso	29.65	1.85	$42.59		16.30	2.6231	$32.48

Separate Rate Design

	Existing Rates				At 2004 Rates		
	Service Charge	**Quantity Charge**	**Av. Monthly Bill**		**Service Charge**	**Quantity Charge**	**Av. Monthly Bill**
Armstrong	19.95	1.82	$42.87		19.70	2.55185	$49.79
Coast Springs	30.48	6.18	$53.34		12.80	4.58405	$36.12
Hawkins	23.00	2.01	$43.70		21.80	2.9458	$52.14
Lucerne	12.90	1.17	$27.33		14.30	2.1942	$43.18
Noel Heights	19.95	1.82	$32.76		32.60	8.6712	$81.72
Rancho Del Paradiso	29.65	1.85	$42.59		35.00	11.1667	$87.07

[5] Exhibit 14 also shows a breakdown in all these scenarios of existing SDWBA charges and the average units which are not separately set forth in the table reproduced here.

Three-Rate Structure Rate Design

	Existing Rates				At 2004 Rates		
	Service Charge	**Quantity Charge**	**Av. Monthly Bill**		**Service Charge**	**Quantity Charge**	**Av. Monthly Bill**
Armstrong	19.95	1.82	$42.87		23.40	3.5948	$63.71
Coast Springs	30.48	6.18	$53.34		12.80	4.5841	$36.12
Hawkins	23.00	2.01	$43.70		23.40	3.5948	$60.43
Lucerne	12.90	1.17	$27.33		14.30	2.1942	$43.18
Noel Heights	19.95	1.82	$32.76		23.40	3.5948	$45.62
Rancho Del Paradiso	29.65	1.85	$42.59		23.40	3.5948	$43.66

We adopt the three-rate structure rate design for this proceeding. Under this structure, Armstrong, Hawkins, Noel Heights and Rancho del Paradiso will have a uniform rate design structure and Lucerne and Coast Springs will each have a separate rate design. This makes sense geographically, because the four areas we combine for rates are all geographically proximate. Also, Armstrong and Noel Heights' rate design has been uniform in the past, prior to Dominguez acquiring these divisions. (See D.98-11-018, 82 CPUC2d 658.) Therefore, a separate rate design for each of the Sonoma County divisions would change current practice with respect to Armstrong and Noel Heights.

Located in Marin and Lake Counties respectively, Coast Springs and Lucerne are more geographically isolated from the rest of the divisions and have unique issues. If we directed a uniform rate design, the average monthly bill in Lucerne would increase by about 78% as opposed to 59% at the current increase. ORA would address this problem by phasing in rates over the rate case cycle. However, at the end of the four-year phase-in, Lucerne customers would still pay the higher amount, which we do not believe is necessary at this time.

However, we see merit in a uniform rate design proposal in the future, and direct Cal Water to explore this option in its next rate case application.

D. Attrition Adjustment

Cal Water believes that it should receive an attrition adjustment for 2005 and 2006, arguing that the Commission's current Rate Case Plan, set forth in D.90-08-045, 37 CPUC2d 175, 187-188, expressly authorizes utilities such as Cal Water to seek increases in rates for non-test years through attrition filings. Moreover, according to Cal Water, the rates in the Redwood Valley District are currently too low to provide for a reliable and safe water supply, and its estimated attrition increases for 2005 and 2006 are lower than the increases for test years 2003 and 2004. Cal Water concedes that significant, non-recurring expenses, such as the Lucerne and Coast Springs water treatment plants, should not be factors included in any attrition request.

ORA believes that the rate case plan does not guarantee an attrition adjustment, but rather, merely permits a utility to apply for one. ORA further states that the underlying attrition policy for all types of utilities is similar, and this particular case does not merit an attrition adjustment. ORA argues that the Commission began to rely on the attrition adjustment in the late 1970s and early 1980s to protect utilities from extraordinarily high inflation and the general economic volatility where the normal productivity gains of the utility could not keep up with the cost of inflation. Because this is not the current situation, ORA believes attrition is not warranted here. Finally, ORA agrees with Cal Water that significant non-recurring expenses should not be included as factors in any attrition request, should the Commission authorize it.

Intervenors Pareas and Young agree with ORA that an attrition increase is not warranted in this case. Young argues that there are opportunities for Cal

Water to either increase revenues or decrease costs in attrition years, including efficiency savings and increased usage or customers if the Coast Springs moratorium is lifted.

We will permit Cal Water to file for attrition adjustments for years 2005 and 2006. The prior owners of the divisions that now make up the Redwood Valley District did not routinely file general rate cases with the Commission. This is one of the reasons that there is a substantial rate increase for certain divisions at this time. In a choice between two options, we would prefer that necessary rate increases be small and more frequent, rather than very large and infrequent, so that customers and the local economy have the opportunity to adjust to the necessary increased rates.

V. Other Issues

Young also argues that the beginning rate base for the Redwood Valley District should be $901,214, as set forth in D.00-05-047 (approving the merger between Cal Water and Dominguez), and that the rate base allocations should be the same here as in that decision. However, Cal Water points out that the amount and allocations set forth in D.00-05-047 cover only Armstrong, Noel Heights, Rancho del Paradiso, and Lucerne, because Coast Springs and Hawkins were not included in Redwood Valley at the time of the merger application filed by Cal Water and Dominguez. We agree that D.00-05-047 does not accurately reflect the beginning rate base for the Redwood Valley District as it is constituted in this application, and we adopt the amount agreed to by Cal Water and ORA, as reflected in the appendices.

Young also recommends that some Coast Springs service connection moratorium-related issues be addressed here. For instance, Young argues that Cal Water has failed to make attempts to lift the moratorium or to increase the water supply, and has thereby violated past Commission decisions and should be penalized. Cal Water argues that this issue is not part of the proceeding because the issue was not specifically set forth in the Scoping Memo and because Young presented no testimony on this issue. Cal Water also believes it has made efforts to lift the service moratorium as instructed by the Commission.

Neither Cal Water nor ORA addressed the issue of the Coast Springs moratorium in their direct or rebuttal testimony. Young intervened late in the case but before the hearings and did not present testimony concerning the Commission's moratorium-related directives. Nor did the Scoping Memo set forth moratorium-related issues.[6] Also, Young has an active complaint regarding the moratorium before the Commission. (See Case 03-06-038.) Thus, we do not resolve the Coast Springs moratorium-related issues here.

However, in order to fully assess Cal Water's progress with respect to the moratorium, in the next Redwood Valley general rate case, we direct Cal Water to present direct testimony in the form of a separate exhibit demonstrating all of its efforts toward lifting the Coast Springs moratorium, including but not limited to showing that the company is in full compliance with D.03-03-037, D.99-07-041, and any other Coast Springs moratorium-related decisions the Commission may issue between now and the next general rate case. Cal Water shall also attach a copy of the cover page and ordering paragraphs of this decision as an exhibit to this testimony.

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[6] The Scoping Memo set forth the scope of the following scope for this proceeding: "The principal issue is whether it is appropriate for the Commission to grant CWS' requested revenue increase. Any of the estimates upon which the proposed revenue requirements and rates for the test and attrition years are based may be issues of dispute in the hearings."

Finally, Young contends that Cal Water is not permitted to file a general rate case application for Coast Springs until 2004 or to seek a rate increase until 2005. We disagree. In D.99-07-041, the Commission adopted Dominguez and Coast Springs' stipulation that Dominguez purchase and operate Coast Springs. The parties agreed that "Dominguez should not apply for a general change in rates for Coast Springs before 2004." D.99-07-041, 1999 LEXIS 509 *6. The parties agreed that rates should remain effective until at least 2004. *Id.* at *9. This agreement is consistent with filing a general rate case application prior to 2004, with new rates becoming effective in 2004.

VI. Comments on the Proposed Decision

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

On March 1, 2004, Cal Water and ORA filed joint comments on the proposed decision. Cal Water and ORA oppose the proposed decision's use of the ROE and ROR Cal Water and ORA stipulated should be used as interim, as both the interim and final ROE and ROR for this proceeding. Cal Water and ORA agreed to use an interim ROE and ROR in this proceeding pending resolution of the ROE and ROR issues by the Commission in A.03-01-034. At that point, according to these parties, Cal Water's authorized ROR and ROE for A.03-01-034 would be applied prospectively to the Redwood Valley District.

We decline to change the proposed decision on this issue. As more fully discussed above, Cal Water and ORA's stipulation was based on the assumption that the parties would fully litigate the issues in A.03-01-034. However, the parties settled the ROE and ROR issues in A.03-01-034, and in settlements, parties do not fully litigate issues but rather, make case-specific tradeoffs.

The Commission can evaluate the reasonableness of these case-specific tradeoffs in its decision in A.03-01-034. We cannot determine on this record whether or not the tradeoffs make in A.03-01-034 are reasonable to use in this case involving the Redwood Valley District. Moreover, the rates for some divisions in this district, such as Lucerne, are increasing over 50% as a result of this decision. We therefore believe that the interim ROE and ROR numbers (which are less than those reflected in the settlement in A.03-01-034) are more reasonable to use for the Redwood Valley District given the unique circumstances of this case.

VII. Assignment of Proceeding

Carl Wood is the Assigned Commissioner and Janet A. Econome is the assigned ALJ in this proceeding.

Findings of Fact

1. The Redwood Valley District serves about 1,896 customers. Before Cal Water acquired the area that now comprises this district, six small water companies served these customers. The last rate increases for Redwood Valley District customers were authorized about seven years ago.

2. Cal Water and ORA agreed it would be reasonable, as well as more efficient and less burdensome, to stipulate to interim cost of capital calculations for this proceeding pending resolution of A.03-01-034.

3. In settlements, the parties do not fully litigate the issues but rather, make case-specific tradeoffs. We cannot determine on this record whether or not the tradeoffs made in A.03-01-034 are reasonable for this district.

4. The costs of the Lucerne treatment plant are large (about $1.3 million) and can have a large impact on rates.

5. The Armstrong, Noel Heights, Rancho del Paradiso, and Hawkins divisions are all located in Sonoma County. Also, Armstrong and Noel Heights' rate design has been combined in the past, prior to Dominguez acquiring these divisions. Therefore, a separate rate design for each of the Sonoma County divisions would change current practice with respect to Armstrong and Noel Heights.

6. Located in Marin and Sonoma Counties respectively, Coast Springs and Lucerne are more geographically isolated from the rest of the divisions and have unique issues which preclude us form directing a uniform rate design at this time.

Conclusions of Law

1. The adopted summaries of earnings presented in Appendix A, and the quantities and calculations included in Appendix D that underlie them, are reasonable for ratemaking purposes and should be adopted.

2. It is reasonable to adopt a ROR of 8.11% and a ROE of 9.32% for this proceeding.

3. The costs of the new Lucerne and Coast Springs treatment plants should not be included in Redwood Valley District's rate base in this decision.

4. Cal Water is not authorized to establish a memorandum account to track expenditures associated with the proposed Lucerne and Coast Springs treatment plants.

5. In the event that DWR does not approve the SDWSRF loan to fund the Lucerne and Coast Springs treatment plants, Cal Water should file an application if it wishes to increase rates to offset the increased rate base. Cal Water shall serve such application on, among other necessary persons, the service list of this proceeding.

6. A three-rate structure rate design should be adopted for this proceeding.

7. Cal Water may apply for attrition year adjustments for 2005 and 2006.

8. In the next general rate case, Cal Water should present direct testimony in the form of a separate exhibit demonstrating all of its efforts toward lifting the Coast Springs moratorium, including but not limited to showing that the company is in full compliance with D.03-03-037, D.99-07-041, and any other Coast Springs moratorium-related decisions that the Commission may issue between now and the next general rate case. Cal Water should also attach a copy of the cover page and ordering paragraphs of this decision as an exhibit to this testimony.

9. The revised rates and step increases set forth in Appendix B are justified.

10. Cal Water should be authorized to implement the rate changes set forth in this order.

11. This decision should be made effective immediately to allow Cal Water to earn the return found reasonable for it in test year 2004.

O R D E R

IT IS ORDERED that:

1. California Water Service Company (Cal Water) is authorized to file in accordance with General Order 96, and make effective on not less than five days' notice, the revised tariff schedules for 2004 attached as Appendix B to this order. The revised tariff schedules shall apply to service rendered on and after their effective date. The revised tariff schedules shall be consistent with the summary of earnings and the revised schedules attached to this order.

2. Advice letters for 2005 and 2006 may be filed in accordance with General Order 96-A no earlier than November 1 of the preceding year. The filing shall include appropriate work papers. The increase shall be the amount authorized

herein, or a proportionate lesser increase if Cal Water's rate of return on rate base, adjusted to reflect rates then in effect, normal ratemaking adjustments, and the adopted change to this pro forma test, for the 12 months ending September 30 of the preceding year, exceeds the lower of (a) the rate of return on rate base found reasonable by the Commission for Cal Water for the preceding year in the then most recent rate decision, or (b) the return on rate base authorized herein for the preceding year. The advice letters shall be reviewed by the Commission's Water Division for conformity with this decision, and shall go into effect upon the Water Division's determination of compliance, not earlier than January 1 of the year for which the increase is authorized, or 30 days after filing, whichever is later. The tariffs shall be applicable to service rendered on or after the effective date. The Water Division shall inform the Commission if it finds the proposed increase does not comply with this decision or other Commission requirements.

3. The summaries of earnings presented in Appendix A, and the quantities and calculations included as Appendix D which underlie them, are adopted.

4. In the event that the Department of Water Resources does not approve the Safe Drinking Water State Revolving Fund loan to fund the Lucerne and Coast Springs treatment plants, Cal Water shall file an application if it wishes to increase rates to offset the increase to rate base. Cal Water shall serve such application on, among other necessary persons, the service list of this proceeding.

5. A three-rate structure rate design is adopted for this proceeding.

6. In the next general rate case, Cal Water shall present direct testimony in the form of a separate exhibit demonstrating all of its efforts toward lifting the Coast Springs moratorium, including but not limited to showing that the company is in full compliance with Decision (D.) 03-03-037, D.99-07-041, and any

other Coast Springs moratorium-related decisions that the Commission may issue between now and the next general rate case. Cal Water shall also attach a copy of the cover page and ordering paragraphs of this decision as an exhibit to this testimony.

7. In its next general rate case, Cal Water shall explore, among other rate designs, a uniform rate design proposal.

8. This proceeding is closed.

This order is effective today.

Dated March 16, 2004, at San Francisco, California.

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