

Decision 08-01-043 January 31, 2008

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application of the
GOLDEN STATE WATER COMPANY
(U133W) for an order authorizing it to
increase rates for water service by
\$2,812,100 or 32.61% in 2008; by -\$178,700
or -1.51% in 2009; and by \$109,900 or
0.92% in 2010 in its Arden Cordova
Customer Service Area.

Application 07-01-009
(Filed January 5, 2007)

And Related Matters.

Application 07-01-010
Application 07-01-011
Application 07-01-012
Application 07-01-013
Application 07-01-014
Application 07-01-015
(Filed January 5, 2007)

**OPINION GRANTING RATE INCREASES FOR SEVEN DISTRICTS IN THE
REGION I SERVICE AREA OF GOLDEN STATE WATER COMPANY**

TABLE OF CONTENTS

Title	Page
OPINION GRANTING RATE INCREASES FOR SEVEN DISTRICTS IN THE REGION I SERVICE AREA OF GOLDEN STATE WATER COMPANY.....	2
1. Summary	2
2. Background	4
3. Procedural History	4
4. Public Participation.....	6
5. DRA/Golden State Stipulation & Standard of Review.....	9
6. Summary of Rate Increase for Region I.....	12
7. Common Issues for All Seven Districts	13
7.1. Water Usage/Consumption.....	13
7.2. Water Loss and Unaccounted for Water.....	14
7.3. Number of Customers	15
7.4. Operating Revenues	15
7.5. Administrative and General Expenses.....	16
7.6. Operation and Maintenance Expenses.....	17
7.7. Labor Expenses	19
7.7.1. Vacant Positions	20
7.7.2. Request for New Positions.....	21
7.7.3. Northern District Water Conservation Coordinator	21
7.7.4. Coastal District Engineering Technician III	22
7.7.5. Los Osos Water Supply Operator II & Simi Valley Water Supply Operator II	22
7.7.6. Merit Increase	24
7.8. General Office Allocation A.06-02-023	24
7.9. Master Plans	24
7.10. Property, Payroll and Local Taxes	26
7.11. Income Taxes	27
7.12. Plant	28
7.13. Depreciation and Amortization.....	29
7.14. Construction Work in Progress	30
7.15. Capital Budget Overhead	31
7.16. Overhead Pool Account.....	32
7.17. Capital Budget Contingency Rate	34

7.18.	Rate of Return.....	34
7.19.	Cost of Capital & Capital Structure	36
7.20.	Low-Income Rates for Region I	38
7.21.	Rate Design	39
7.22.	Escalation Year 2009 and Escalation Year 2010.....	39
7.23.	Tariff Map Modifications.....	40
7.24.	Water Quality	40
8.	District Specific Issues.....	41
8.1.	Rates for the Seven Districts.....	41
8.2.	Arden Cordova CSA	42
8.3.	Bay Point CSA	43
8.4.	Clearlake CSA	46
8.5.	Los Osos CSA	48
8.5.1.	Lewis Lane Electrical Improvements.....	49
8.5.2.	Cuesta-by-the-Sea Loop Closures.....	50
8.5.3.	Interconnection with LOCSD	51
8.5.4.	Rosina Plant and Pipelines for Nitrate Treatment	52
8.6.	Ojai CSA.....	52
8.6.1.	City of Ojai	54
8.6.2.	Well Pump Replacement.....	54
8.6.3.	Main and Valve Replacements.....	55
8.6.4.	Installation of Services.....	55
8.7.	Santa Maria CSA.....	56
8.7.1.	Sisquoc System-Foxen Canyon Well Pump	57
8.7.2.	Nipoma System-La Serena Plant Site Work.....	58
8.7.3.	Miscellaneous Bowl Replacement	58
8.7.4.	Orcutt Well and Orcutt Hill Reservoir Capacity.....	59
8.7.5.	Woodmere Plant-Backup Power.....	60
8.8.	Simi Valley CSA.....	60
8.8.1.	Rebecca Plant Improvements	62
8.8.2.	Miscellaneous Bowl Replacement	62
8.8.3.	Runkle Canyon Storage Tank.....	63
8.8.4.	Fire Hydrant Replacements.....	63
8.8.5.	Service Line Replacement	64
8.8.6.	Crater Tanks.....	64
8.8.7.	Niles Study Upgrades and Improvements.....	65
9.	Comments on Proposed Decision	65
10.	Assignment of Proceeding.....	66

Findings of Fact	66
Conclusions of Law	71
ORDER	76

ATTACHMENTS

Attachment A	DRA/Golden State Stipulation – August 17, 2007
Attachment B	Summary of Earnings for Test Year 2008
Attachment C	Test Year 2008 Rate Schedule
Attachment D	Adopted Quantities
Attachment E	Bill Comparisons
Attachment F	Adopted Rate Base
Attachment G	Income Tax Calculation

**OPINION GRANTING RATE INCREASES
FOR SEVEN DISTRICTS IN THE REGION I SERVICE
AREA OF GOLDEN STATE WATER COMPANY**

1. Summary

This decision approves various general rate increases for the years 2008, 2009, and 2010 for seven Golden State Water Company (Golden State) customer service areas (CSAs). These seven CSAs are Arden Cordova, Bay Point, Clearlake, Los Osos, Ojai, Santa Maria, and Simi Valley. Together, these CSAs are referred to as Region I of Golden State's service area. While the rates for year 2008, the test year, are set by this decision, the rate adjustments for the second and third years, 2009 and 2010, will be specifically determined when advice letters for those two years are filed prior to years 2009 and 2010. Golden State's requested rate increases and our adopted rates for 2008 are set forth below in Table 1.

**Table 1
Adopted Rate Increases**

		Requested Rate Increase						Adopted Increase	
		2008		2009		2010		2008	
Application	District	\$	%	\$	%	\$	%	\$	%
A.07-01-009	Arden Cordova	2,812,100	32.61	178,700	1.51	109,900	.92	1,928.0	22.05
A.07-01-010	Bay Point	492,400	8.57	122,500	1.94	160,000	2.47	355.2	6.18
A.07-01-011	Clearlake	214,200	12.99	20,500	1.10	32,800	1.72	151.6	9.09
A.07-01-012	Los Osos	1,107,00	52.69	69,900	2.17	145,400	4.43	909.8	43.24
A.07-01-013	Ojai	1,432,900	43.95	-\$89,500	-1.89	33,000	0.71	1,138.9	34.92
A.07-01-014	Santa Maria	2,937,400	36.15	455,100	4.09	310,900	2.67	1,119.4	13.65
A.07-01-015	Simi Valley	1,605,100	16.96	113,300	1.02	222,000	1.97	767.5	7.69

In today's decision, we also approve low-income rates for each of the seven districts.

In addition, this decision finds the Stipulation filed by DRA and Golden State on August 17, 2007 (Stipulation) consistent with Rule 12.1 of the Commission's Rules of Practice and Procedure (Rules) and we adopt it.

Where DRA and Golden State failed to agree, we adopt Golden State's requests for rate recovery for a number of capital projects and additional new positions. Overall, these capital projects and new positions will result in customers experiencing rate increases. However, the approved capital projects and new positions are needed to achieve the goals set forth in the Water Action Plan 2005 to improve water quality, service reliability, and upgrade aging infrastructure.

On several issues, we reject Golden State's request. Golden State's request for a higher contingency rate is not adopted and, instead, we adopted a lesser amount. Regarding overhead rate, we also adopt different amounts than requested by Golden State.

On the issue of water quality and customer service, consistent with the goals of the Water Action Plan 2005, we find that Golden State's performance has been sufficient. However, we expect Golden State to make certain improvements, as noted below. Golden State is also specifically directed to file an advice letter to inform the Commission of the costs of fluoridating the water delivered to the Bay Point CSA.

In response to concerns raised by numerous city officials from the City of Ojai, we also impose a specific meet and confer requirement on Golden State to meet with the City Manager of Ojai to resolve any outstanding disagreement on water quality and reliability.

This proceeding is closed.

2. Background

Golden State, a California corporation, is a subsidiary of American States Water Company. In addition to Region I, Golden State provides water service in various other areas in California including the counties of Contra Costa, Imperial, Lake, Los Angeles, Orange, Sacramento, San Bernardino, San Luis Obispo, Santa Barbara and Ventura and electric service in the vicinity of Big Bear Lake in San Bernardino County. As one of California's largest Commission-regulated water utilities, it serves approximately 240,000 customers in districts throughout the state. Golden State filed this application pursuant to the Commission's Rate Case Plan (RCP) for Class A water general rate cases (GRCs), which, at the time Golden State filed its GRC, was governed by Decision (D.) 04-08-016. On May 24, 2007, we adopted a revised RCP in D.07-05-062. Therefore, Golden State's next GRC filing must be filed consistent with the framework set forth therein and, on a going forward basis, we expect Golden State to conform its practices in Region I to the requirements set forth in D.07-05-062.

3. Procedural History

Golden State filed these seven applications on January 5, 2007. The Commission in Resolution ALJ 176-3185 preliminarily determined these applications to be ratesetting proceedings and indicated that these proceedings were expected to go to hearing. On February 9, 2007, the Division of Ratepayer Advocates (DRA) protested Golden State's application as unreasonable or insufficiently justified.

A scoping memo, issued on March 30, 2007, confirmed the category and need for hearings, defined the issues, established a schedule, and designated Administrative Law Judge (ALJ) Regina DeAngelis as the presiding officer.

The ALJ held a prehearing conference on February 26, 2007, at which time she consolidated all seven applications into one docket to facilitated management of the cases and directed Golden State to file supplemental testimony proposing low income rates for each CSA in Region I. Golden State filed this supplemental testimony on June 25, 2007. Two formal motions to intervene were filed, one by the City of Ojai and the second by Latino Issues Forum. The ALJ granted both motions. ALJ DeAngelis, with assistance from other ALJs, conducted public participation hearings (PPHs) during April and May 2007 in Pittsburg, Clearlake, Rancho Cordova, Santa Maria, Ojai, Los Osos, and Bay Point. Attendance and participation by the public at these PPHs is discussed in detail below. DRA submitted a report of its analysis of the requested rate increases on May 14, 2007. Golden State submitted additional testimony responding to DRA's report on June 11, 2007.

Evidentiary hearings were held in San Francisco in June 2007. During the evidentiary hearings, DRA and Golden State indicated that both parties had engaged in settlement discussions as required by the scoping memo and that the parties intended to continue these discussions after the close of hearings. The parties further indicated that they anticipated offering the Commission a settlement on a variety of issues. On August 17, 2007, DRA and Golden State filed a joint motion requesting that the Commission adopt their stipulation, with supporting exhibits (Stipulation). The Stipulation, with the supporting reconciliation exhibits, is attached to today's decision at Attachment A.

On August 24, 2007, the ALJ issued a ruling seeking to include additional evidence in the record on the issue of fluoridation in the Bay Point CSA. After reviewing Golden State's response to this ruling, the ALJ issued a subsequent ruling to include the evidence, in part, into the record.

The consolidated proceeding was submitted on October 4, 2007.

On November 19, 2007, Golden State filed a request for interim rate relief after the ALJ advised parties that the Commission would be unable to approve final rates due to delays within the Commission. In response to this motion, the ALJ issued a ruling granting interim rates in accordance with Section 455.2 of the Public Utilities Code.

4. Public Participation

During this course of this proceeding, the Commission received valuable input from the public at the PPHs and through letters and electronic mail sent to the Commission's Public Advisor's Office. Overall, the communities served by Golden State in all seven districts stressed the following points: (1) the magnitude of the rate increases is unreasonable; (2) service quality is not reliable; and; (3) water quality, in a general sense, requires improvement. The evidentiary record lends support to these concerns and today's decision seeks to address these matters. In some service areas, the community raised more specific concerns. In Bay Point, fluoridation was raised by the Director of Public Health, Contra Costa Health Services. In Ojai, the issue of service reliability was raised by the City Manager of the City of Ojai and other city officials. A brief summary of the valuable input we received from the public is below.

In Bay Point, Mr. Michael Kent, of the Contra Costa Health Services read a letter into the record sent to the ALJ by Wendel Brunner, the Director of Public Health. The letter expressed opposition to the rate increase in Bay Point, which

is described as one of the lowest income communities in Contra Costa. The Director of Public Health's letter also expressed grave concern about the water quality to Bay Point residents because Golden State's water supply to Bay Point is not fluoridated and contains high levels of trihalomethanes. (Reporter's Transcript (RT) Vol. 7, 311-314.) Mr. Scow, a representative of a public interest group, Food and Water Watch, urged the Commission to consider the consolidation of the Bay Point district into the larger Contra Costa Water District. (RT Vol. 7, 306:23-28, 307: 1-28.) A member of the Bay Point Municipal Advisory Council, Ms. Zumwalt, told us that "The rate increase that they're asking for is more than the cost of living, and it's just too much. We have a senior community. We have people who just cannot afford that rate increase. But more concerning really is the quality of water." (RT Vol. 7, 293:19-23.)

One speaker prepared an analysis of his home bills from the last seven years, and calculated that Golden State's service fee had increased by 89%, from \$113 to \$214.60, for each two-year period. An apartment owner reported that the fixed charges for her apartment building have gone up 70% in seven years. The public also noted that conservation suffers because the very high monthly service fee offers no incentive to conserve.

In Clearlake, Ms. Judy Thein, the mayor of the City of Clearlake, spoke on behalf of the Clearlake City Council and her constituents. She expressed her strong opposition to the rate increase and contrasted Golden State's rates with the lower rates of the two other companies providing water service to the Clearlake area. (RT Vol. 2, 28-29.) Others expressed the same opinion.

The magnitude of the rate increase, service quality and the need for low-income rates were the focus of the comments raised at the PPH in Rancho Cordova. Some offered support for the rate increase to the extent water quality

would improve. Mr. Larry Ladd stated, “My primary concern is the safety of the water supply here. And, so I’ll applaud where it talks about part of the rate increases for additional water testing.” (RT Vol. 3, 69:15-19.)

At the PPH in Ojai, many members of the public spoke and several city officials made statements. Jere Kersnar, the City Manager, cited to problems of water quality and service reliability. In summarizing his position, the City Manager stated, “the City of Ojai requests that the PUC take the position that no increase should be granted to Golden State Water at this time in the Ojai service area unless and until the company develops and the PUC approves a service improvement plan for the entire system that would address water quality and system reliability.” (RT Vol. 5, 169-170.) Mr. Hanstad, a member of the City Council and a board member of the Ojai Basin Groundwater Management Agency, also spoke out against the rate increase and emphasized, “The constituency seems desperate for reliable, affordable water; so much so that they are willing to spend money to try to find a situation that meets their needs. That is unusual.” Mr. Hanstad also requested the Commission to deny the requested rate increase. (RT Vol. 5, 170-171.) Mr. Olsen, a member of the Ojai City Council for 18 years, described Golden State’s rate increase a “travesty” unless infrastructure improvements resulted. (RT Vol. 5, 171-172.)

In Los Osos, the community raised an additional issue, conservation. (RT Vol. 6, 251, 5-22.) However, the magnitude of the proposed rate increase for 2008, 52%, was the focus of the PPH. As expressed by Ms. Taylor, “We need some help. We don’t need to have Golden State come in and say we need a 52.8 percent increase in our water rates. I budget, why hasn’t Golden State budgeted?” (RT Vol. 6, 238-239.)

The PPH in Santa Maria was well attended. Ms. Kathy Staples, who also participated in the proceeding as a representative of Quail Meadow East Mobil Home Park, expressed general opposition to the rate increase, and questioned the amount of the attorney's fees incurred by Golden State, \$6.4 million, in the Santa Maria Groundwater Basin litigation. Ms. Hintz read a letter to the Commission written by 4th District Supervisor, Joni Grey. Her letter indicated that "This 43 percent proposed rate [increase] is a shocking amount both to me and my constituents. It is difficult to fathom why so much money is being sought by the Golden State Water Company...I strongly urge the CPUC to deny the request...." (RT Vol. 4, 133-134.) Many others in the community spoke to these matters.

At each of the PPHs, Golden State made efforts to respond to the public's concerns. Representatives from DRA also attended each PPH and advised the communities that DRA planned to closely analyze Golden State's request to increase rates and, consistent with its statutory obligation, would advocate on behalf of the ratepayers.

5. DRA/Golden State Stipulation & Standard of Review

On August 17, 2007, DRA and Golden State filed a motion requesting that the Commission adopt their Stipulation. The motion stated that DRA and Golden State convened settlement conferences between June 15 - 20, 2007 and, prior to the meetings, provided formal notice to all parties to the proceeding of the upcoming meetings. Only DRA and Golden State attended these meetings. The August 17, 2007 motion requested the Commission to adopt the Stipulation in its entirety.

Prior to adopting any settlement, such as the Stipulation presented by DRA and Golden State, the Commission must review the settlement to ensure

that the agreement is “reasonable in light of the record, consistent with the law, and in the public interest,” as required by Article 12 of the Commission’s Rules.

We also take into consideration that the Commission has long favored the settlement of disputes. This policy supports many worthwhile goals, including reducing the expense of litigation, conserving scarce Commission resources, and allowing parties to reduce the risk that litigation will produce unacceptable results.¹

The Stipulation is not opposed by any party and the City of Ojai and Kathy Staples did not participate in the publicly noticed settlement meetings. The Commission's policy is that contested settlements, or settlements presented by less than all the parties, should be subject to more scrutiny compared to an all-party settlement.² As we explained in D.02-01-041:

In judging the reasonableness of a proposed settlement, we have sometimes inclined to find reasonable a settlement that has the unanimous support of all active parties in the proceeding. In contrast, a contested settlement is not entitled to any greater weight or deference merely by virtue of its label as a settlement; it is merely the joint position of the sponsoring parties, and its reasonableness must be demonstrated by the record.³

For these reasons, we will review the Stipulation's resolution of every contested issue, considering each issue raised by the City of Ojai and Kathy Staples.

¹ D.05-03-022, *mimeo.*, pp. 7-8.

² D.96-01-011, 1996 Cal. PUC LEXIS 23, pp. 39-40 (This more detailed review and heightened scrutiny is especially appropriate when the settlement is not all-party.)

³ D.02-01-041, *mimeo.*, p. 13.

The Stipulation presented by DRA and Golden State covers a broad array of topics in each of the seven districts. Notably, the parties actively litigated some of these matters and only resolved their disputes after evidentiary hearings.

Golden State filed its applications accompanied by direct testimony with exhibits and subsequently served rebuttal testimony to address DRA's presentations. Golden State also presented witnesses at the evidentiary hearings and filed briefs. Overall, Golden State has shown itself well capable of advocating its interests throughout this proceeding. DRA is charged with upholding the ratepayers' long-term economic best interests. In carrying out that charge, DRA evaluated Golden State's applications, exhibits and testimony, engaged in an in-depth examination of the materials, and prepared, presented and defended extensive reports and testimony setting forth its own positions. Both Golden State and DRA were represented by technical staff and legal counsel in the proceeding.

The Stipulation represents a compromise between DRA and Golden State arrived at through extensive negotiations, in the interest of avoiding the expense and uncertainty inherent in litigation. The Stipulation describes the agreement reached for each issue. The reconciliation exhibits prepared by Golden State and DRA indicate each party's initial and final positions on each line item of the summary of earnings for each district and for all proposed capital projects. We have evaluated DRA's and Golden State's exhibits and testimony as they relate to the stipulated items, reviewed in detail their initial positions, and compared them with the Stipulation and accompanying explanations. In each case, the results are supportable within the range of possible outcomes based on the whole record.

Accordingly, we conclude that the sponsoring parties are fairly representative of the affected interests and the resulting Stipulation reached is reasonable in light of the whole record. The parties state that they are not aware of any statutory provision or prior Commission decision that might conflict with any provision of the stipulation on remaining issues. The principal public interest affected by this proceeding is the delivery of safe, reliable water service at reasonable rates. The Stipulation advances the public interest. We conclude that the Golden State and DRA Stipulation is in the public interest and should be approved.

6. Summary of Rate Increase for Region I

Golden State's applications request the rate increases shown in Table 1, above, to counter the effects of substantial increases in major expense items and plant investment since the last GRCs for these districts.⁴ The last two columns show our adopted changes for test year 2008. The RCP for Class A water utilities requires Golden State to list for each seven districts the five most significant factors driving its requested increases. Some of those factors having the greatest effect on rates are the increase in allocated General Office expenses from A.06-02-023,⁵ cost of capital, labor expenses, supply expenses, depreciation expenses, rate base, cost of chemicals, regulatory expenses, purchased power, purchased water expenses, and expenses associated with water conservation.

⁴ Requested and adopted increases are shown for 2008. For 2009 and 2010, the requested increases are only estimates based on escalation factors.

⁵ This proceeding does not adjudicate Golden State's General Office costs for its headquarters in San Dimas, California. General office costs were last reviewed in A.06-02-023 and recently determined in D.07-11-037.

7. Common Issues for All Seven Districts

We will first address issues common to all districts. Then, we will address matters specific to the individual districts.

7.1. Water Usage/Consumption

To provide the Commission with estimated Operating Revenues for each of the seven CSAs at present and proposed rates, Golden State submitted estimates of the number of customers and usage/consumption for 2008, 2009, and 2010 for each CSA. DRA performed its own analysis to determine estimated number of customers and usage/consumption. DRA presented its analysis in its May 14, 2007 Reports. Both methodologies are discussed below.

For all customer classes, except for the class of customers designated by Golden State as “Commercial/Residential,” DRA and Golden State relied upon the five-year average of the change in the number of customers to estimate water usage/consumption. To determine average usage for the Commercial/Residential customers, Golden State relied upon the so-called “New Committee Method,”⁶ prescribed in the RCP attached to D.04-06-018. Golden State did not rely on the “New Committee Method” for the Arden Cordova CSA. In Arden Cordova, Golden State’s estimated average usage for the Commercial/Residential class was based on last recorded data because Golden State claimed that the five or 10-year data did not accurately reflect future trends in Arden Cordova. (Ex. GSW(ALL)-6.)

⁶ The “New Committee Method,” which employs a number of variables, such as temperature and rain together with 10 years of monthly data, is more fully described in Ex. GSW(ALL)-6 and the RCP attached to D.04-06-018.

DRA's May 14, 2007 Reports agreed with Golden State's estimates for the Bay Point, Los Osos and Ojai CSAs and differed with Golden State's estimates for Arden Cordova, Clearlake, Santa Maria, and Simi Valley CSAs. This data is set forth in Section 3.02 of the Stipulation, attached hereto as Attachment A.

Notably, DRA's and Golden State's estimates were not far apart and, after DRA and Golden State engaged in settlement discussions, the parties agreed to certain estimates. The parties submitted these estimates to the Commission for review at Section 3.02 of the Stipulation.

We have analyzed the data in the record on estimated water usage per customer in each of the CSAs and we accept the figures agreed upon by DRA and Golden State as reasonable.

7.2. Water Loss and Unaccounted for Water

DRA and Golden State both analyzed Water Loss and Unaccounted for Water in calculating average usage. Water Loss and Unaccounted for Water are amounts of water lost through general operations, leakage or other events that decrease the amount of total potable water available for sale. DRA and Golden State relied upon the same methodology, the most recent five-year average recorded data percentage multiplied by the total forecasted sales volume, to determine Water Loss and Unaccounted for Water. With the exception of Clearlake, DRA's May 14, 2007 Reports agreed with Golden State's proposed figures for Water Loss and Unaccounted for Water for the CSAs.

After the settlement discussions, DRA and Golden State compromised on the figures for Clearlake, as presented in their Stipulation.

We have reviewed the Stipulation based on all the evidence provided in this proceeding and we agree that the stipulated amounts for Water Loss and Unaccounted for Water for all seven districts, including Clearlake, are

reasonable. (Section 3.03, Stipulation, attached hereto as Attachment A).

However, we will discuss the issue of Water Loss in the Clearlake CSA further when we address topics specific to Clearlake.

7.3. Number of Customers

DRA's May 14, 2007 Reports agreed with the estimated number of customers provided by Golden State for years 2008, 2009 and 2010. These estimates were provided by Golden State in Exhibit GSW(ALL)-6. The parties requested that the Commission find these estimates reasonable in Section 3.01 of their Stipulation. We have reviewed these estimates and the testimony of all parties on this matter and we find these estimates reasonable under Rule 12.1.

7.4. Operating Revenues

Based on estimated usage/consumption and customer growth in all seven districts for 2007, Golden State estimated operating revenues for 2008, 2009, and 2010 under its current rates and also estimated sales revenues for 2008, 2009, and 2010 under its proposed rates. DRA presented similar data. We reviewed these amounts to determine the extent to which present rates and proposed rates meet Golden State's forecasted revenue requirements for the seven CSAs. Under present rates, Golden State will not achieve its requested revenue requirements for each of the seven CSAs. DRA's May 14, 2007 Reports presented slightly different estimates based on DRA's different estimates of customers and consumption. DRA and Golden State engaged in settlement discussions on this topic and stipulated to operating revenues for each CSA at proposed rates and at present rates. These operating revenues are attached as Appendix A of the Stipulation.

As indicated by the below analysis, we find these amounts reasonable based on our review of Golden State's requested revenue requirement below.⁷ We start the revenue requirement analysis by reviewing Golden State's proposed expenses including operation and maintenance (O&M) expenses and administrative and general (A&G) expenses. Then, we will review Golden State's proposed depreciation and amortization expenses, taxes, rate of return and rate base.

7.5. Administrative and General Expenses

A&G expenses⁸ include Office Supplies and Expenses, Property Insurance, Injuries and Damages, Pensions and Benefits, Business Meals, Rate Case Expenses, Outside Services, Miscellaneous, Allocated A&G, Other Maintenance of General Plant, Rent, A&G Capitalized, and A&G Labor. (Ex. GSW(ALL)-5 & Ex. GSW(ALL)-3.) Golden State provided some detail as to what type of expenses fall into each of these accounts and provided historical and estimated costs for each of these expense accounts in Exhibit GSW(ALL)-5.

DRA's May 14, 2007 Reports offered an independent analysis of the amounts for each CSA provided by Golden State. In many areas, DRA agreed

⁷ A utility's revenue requirement is derived using the following general ratemaking formula: revenue requirement = expenses + depreciation + taxes + (rate of return x rate base). Expenses means operating expense and taxes other than income taxes and taxes mean income taxes. A utility's revenue requirement is the total amount of money a utility must collect from customers to pay all operating and capital costs, including a fair return of investment.

⁸ A&G Expenses are expenses that a utility incurs as normal part of its utility operations that cannot be attributed to a specific function in the operation of water production or delivery. A&G Expenses are operating expense and are included among the expenses used to determine a utility's revenue requirement and rates.

with Golden State's estimates. However, DRA disagreed with Golden State on the appropriate level of expenses for certain accounts. In part, these disagreements stemmed from DRA and Golden State relying on a number of different methodologies for forecasting expenses. These methodologies are noted in Section 5.00 of the Stipulation.

DRA and Golden State engaged in settlement discussion and, in large part, resolved their disputes. The reconciliation exhibits to the Stipulation indicate the initial position of DRA and Golden State on each A&G account for each CSA and, then, the reconciliation exhibits also indicate the amount each party compromised. Specifically, Sections 5.00 (Administrative and General Expenses) and, in part, 4.00 (Labor) of the Stipulation address each A&G account. As indicated by the Stipulation, some outstanding areas of disagreement continue to exist. The remaining disagreements are driven by the outstanding disagreements on capital budget items which ultimately impact A&G expenses. These outstanding capital budget disagreements will be discussed in greater detail below.

We note, however, that we have reviewed the accounts subject to the Stipulation in Section 5.00 and the pertinent parts of Section 4.00 and find these A&G amounts reasonable under Rule 12.1. We do, however, remind Golden State to only seek recovery of business meals and membership dues when those expenses directly concern the provision of water services. (Ex. GSW(ALL)-5.)

7.6. Operation and Maintenance Expenses

The accounts that compromised O&M expenses include Operating Expenses, which includes purchased water, purchased power, pump tax, chemicals, common customer account, allocated expense, uncollectibles, operation labor, and other operation expenses including water conservation

expenses and Maintenance Expenses, which includes maintenance labor and other maintenance expense. (Ex. GSW(ALL)-5, GSW(ALL)-3, and GSW(ALL)-6.)

One particular account requires additional explanation, the common customer account. This account includes several accounts which are allocated from the Golden State's general office, which is located in San Dimas, California and provides support services to all three of Golden State's California Regions.⁹

Even though general office expenses associated with San Dimas are included in the revenue requirement and rate calculation approved in this consolidated proceeding, the Commission does not review general office expenses in this consolidated proceeding. Instead, under the RCP for Class A water utilities set forth in D.04-06-018, general office expenses are reviewed and allocated to the various CSAs and Regions by the Commission in a separate proceeding. This review and allocation most recently occurred in A.06-02-023, recently approved by the Commission on October 18, 2007 in D.07-11-037.

In D.07-11-037, the Commission determined that the San Dimas general office costs should be allocated as follows: Golden State 92.5%, Chaparral City Water Company 2.8%, American States Utility Services 5.6%. In D.07-11-037, 19.60% was allocated to Region I.

Regarding the remaining O&M accounts, DRA's May 14, 2007 Reports offered its independent analysis of each O&M account for the seven CSAs provided by Golden State. In many areas, DRA agreed with Golden State's estimates. DRA did disagree with Golden State on the appropriate level of O&M expenses for certain accounts. In part, these disagreements stemmed from DRA

⁹ D.07-11-037, *mimeo.*, p. 1.

and Golden State relying on a number of different methodologies for forecasting expenses. These methodologies are noted in Section 6.00 (Operations and Maintenance), Section 8.00 (Supply) and, in part, Section 4.00 (Labor) of the Stipulation.

DRA and Golden State engaged in settlement discussions and, in large part, resolved their disputes. The reconciliation exhibits included as part of the Stipulation, attached hereto as Attachment A, indicate the initial position of DRA and Golden State on each O&M account for each CSA. The reconciliation exhibits also indicate the amount each party compromised. As indicated by the Stipulation, some outstanding areas of disagreement continue to exist. The remaining disagreements are driven by the outstanding disagreements on capital budget items which ultimately impact O&M expenses. These capital budget disagreements will be discussed in greater detail below.

We note, however, that we have reviewed the accounts referred to in Section 6.00, Section 8.00 and the pertinent part of Section 4.00 of the Stipulation and find these amounts for O&M expenses reasonable under Rule 12.1.

7.7. Labor Expenses

Golden State provided forecasted labor expenses, consisting of O&M Labor, Maintenance Labor and A&G Labor, in the Results of Operation for each CSA at Tables 4-B, lines 13, 16, 34, 29, 30, and 34. (Ex. GSW(ALL)-3.) Some labor expenses are allocated to affiliates when a percentage of any position performs work for an affiliate. (Ex. GSW(ALL)-3.) This allocation percentage for labor positions to affiliates is set forth in Exhibit GSW(ALL)-3.

Golden State and DRA resolved the majority of their disagreements regarding Golden State's request for new positions and labor expenses. Section 4.00 of the Stipulation and the reconciliation exhibits indicate the original

position of Golden State and DRA. Then, the exhibits indicate the labor expenses agreed to by the parties for each CSA, with the exception the four remaining disputed positions. The disputed positions include the Northern District Water Conservation Coordinator, Coastal District Engineering Technician III, Los Osos Water Supply Operator II and Simi Valley Water Supply Operator II. We will address the need for these additional positions below. Regarding Section 4.00 of the Stipulation, we have reviewed the accounts subject to stipulation and find these amounts for labor expenses reasonable under Rule 12.1.

7.7.1. Vacant Positions

DRA claims that Golden State projected its labor expenses by starting with actual and vacant position in certain CSAs. (DRA Opening Brief, pp. 44 & 78.) In comments on the proposed decision filed on January 7, 2008, Golden State indicated that the parties adjusted the labor expenses agreed upon in Section 4.00 of the Stipulation to reflect the resolution of this issue. Accordingly, we find no further adjustments are needed on this topic. However, in all future rate cases we direct Golden State to present its projections consistent with our finding in D.05-07-044. In that decision, we found that San Gabriel's proposed estimating method for labor expenses included expenses for vacant positions. We decided there, absent a showing of extraordinary circumstances, that to the extent there were vacancies in the recorded year, we should assume there would also be comparable vacancy savings in the test and escalation years.¹⁰

¹⁰ D.05-07-044, *mimeo.*, p. 10.

7.7.2. Request for New Positions

Generally, Golden State submits that the increase need for staffing has been felt throughout the company and is driven by the increasing demands of cost-effective operations, maintenance, water conservation, water quality and infrastructure replacement. (Ex. GSW(ALL)-7.) More specifically, Golden State states that additional staff is needed to ensure compliance with more stringent water quality regulation, additional data gathering requirements, and increased filing requirements with Department of Health Services (DHS). We have noted that water quality is an issue of the highest importance in our Water Action Plan 2005. Golden State also points to increased oversight by financial regulators required by Sarbanes-Oxley and its efforts to better safeguard the water supply. Regarding the positions in dispute, DRA does not agree that such positions are needed.

7.7.3. Northern District Water Conservation Coordinator

Regarding this position, DRA claims that, until we adopt a comprehensive program in Investigation (I.) 07-01-022, Golden State is acting prematurely by seeking to hire a water conservation coordinator. In response, Golden State points out that water conservation in California is nothing new and the time is right to start putting more resources in this important area. We agree. As we stated in the Water Action Plan 2005, "Water conservation is critical in California to extend limited resources as far as possible to allow for future growth. Indeed, cost efficient water conservation is the least expensive source of water."¹¹

¹¹ Water Action Plan 2005, p. 4.

Accordingly, we approve of this position with the expectation that in the near future we will see improvements in water conservation from Golden State.

7.7.4. Coastal District Engineering Technician III

Regarding the Coastal District Engineering Technician III position, DRA claimed that Golden State failed to carry its burden of proving the need for the addition of the Coastal District Engineering Technician III and that ratepayers would be better off not paying for this position in their rates. (DRA Opening Brief, pp. 81-82.) According to DRA, the current District Engineer is able to handle the existing workload by continuing to rely on supervisors from each of the CSAs to assist with the workload. (Ex. DRA(ALL)-1.) In response, Golden State pointed out that DRA unjustly minimized Golden State's need for this additional position by failing to address the workload associated with ten projects and other maintenance responsibilities. (Ex. GSW(ALL)-19.) Moreover, Golden State states that the work exists now and taking CSA employees off their assignments to do the work of an engineering technician is not a proper solution. We agree. Relying on untrained employees from the seven CSAs to perform the work of an engineering technician is not best way to use the company's resources. The work clearly exists for this new position and, therefore, we approve it.

7.7.5. Los Osos Water Supply Operator II & Simi Valley Water Supply Operator II

DRA opposed the addition of a Water Supply Operator II in Los Osos and in Simi Valley. DRA claimed that Golden State's request for these positions was made outside the present GRC cycle and, therefore, should be denied. (DRA Opening Brief, p. 47.) DRA also claimed that approval of these positions will result in double recovery of the labor expenses. (DRA Opening Brief, p. 48.)

In response, Golden State pointed out that DRA seems to misunderstand Golden State's request for these two positions and that Golden State is not asking for retroactive ratemaking or recovery of any expenses that it may have incurred in connection with these positions in 2007. Instead, Golden State explained, it is seeking to include these two positions for rate recovery in 2008.

We agree that Golden State is not seeking double rate recovery. Golden State filled these positions in 2007 but does not seek rate recovery here for the expenses it incurred in 2007. Furthermore, Golden State has justified the addition of these two positions. (Ex. GSW(ALL)-7 & GSW(ALL)-19.) With the addition of these two positions, Golden State will be able to always have a licensed, qualified water supply operator available. The water supply operator performs all the frontline activities associated with operations and maintenance of the sources of supply for the water system, including disinfection, operation of pumping facilities, recording of production figures and water quality assurance. All these functions, which will help Golden State maintain the highest standards of water quality, are encouraged by the Water Action 2005. Accordingly, we approve the addition of these two positions in the Simi Valley and Los Osos CSAs.

7.7.6. Merit Increase

At Section 4.02 of the Stipulation, the parties agree to a merit increase of 1.28% based on performance. As stated by Golden State,

[I]t is important for GSWC to retain its proficient and productive employees. When an employee's performance is above and beyond the expectations of their position, it is the Company's practice to reward them with a salary increase above the general rate of inflation. With that incentive, the best employees are less likely to search for employment outside of the Company, and the Company and ratepayers, in turn, benefit from the retention of qualified, and high performing employees. (Ex. GSW(ALL)-13.)

We agree. Accordingly, we find Section 4.02 of the Stipulation reasonable under Rule 12.1 and adopt it today.

7.8. General Office Allocation A.06-02-023

Section 8.04 of the Stipulation agrees on the allocated costs related to General Office in San Dimas that the Commission adopted in D.07-11-037. As noted above, this amount is 19.60% of the amount allocated to Golden State. We find Section 8.04 of the Stipulation reasonable under Rule 12.1 and adopt it today.

7.9. Master Plans

A Master Plan is a document based on a detailed analysis of a water system that provides a 10-year forecast to address water supply reliability, distribution, storage, and water quality as they relate to existing and anticipated demands within the system. (Ex. GSW(ALL)-8.) Golden Gate proposes that the expense associated with Master Plans be included as part of the capital budget. (*Id.*)

DRA objected to Golden State's proposal to rely on the expertise of an outside consulting firm, CH2MHILL, to prepare Master Plans for each CSA.

(Ex. DRA(CL)-1.) Moreover, DRA claimed that a conflict of interest exists in those instances where CH2MHILL prepares Master Plans and then is hired to construct a project identified as needed in a Master Plan. (DRA Opening Brief, pp. 83-87.) DRA also suggested that Golden State's own staff is more familiar with the company than CH2MHILL and, accordingly, could prepare Master Plans more efficiently and economically. (Ex. DRA (CL)-1.)

In response, Golden State pointed out that, unlike CH2MHILL, its existing staff is not properly trained to prepare Master Plans and does not have spare time to devote to developing Master Plans. (Ex. GSW(ALL)-22.) Golden State denied the existence of any conflict of interest. (*Id.*) Golden State also explained that extensive benefits exist that justify the use of a specialized consulting firm to prepare Master Plans. (*Id.*) According to Golden State, it takes a team of engineers to prepare and complete Master Plans for large water systems like those operated by Golden State. The skills needed to create Master Plans include knowledge regarding population projection, water use projection, hydraulic modeling, geographical information systems application, assessment of water supply and conveyance facilities, construction cost estimating, cost-benefit analysis, water system operation optimization, regulations compliance, application of design standards, asset management, and water rate and fee impacts. (*Id.*)

We agree that Golden State should engage CH2MHILL to prepare Master Plans. In D. 07-05-062, our decision adopting a revised RCP, we expressed our preference for Master Plans by imposing the requirement that future GRC applications contain a long-term 6-10 year Water Supply and Facilities Master

Plan as part of the Minimum Data Requirements.¹² While Golden State could divert its existing staff to the development of Master Plans, its existing staff would be unable to perform current duties and simultaneously take on a project of such magnitude. In addition, Golden State's staff does not have the highly specialized knowledge required to develop Master Plans. Accordingly, Golden State's request to rely on CH2MHILL is approved.

However, we will require competitive bidding on all jobs proposed by a Master Plan prepared by CH2MHILL on which CH2MHILL seeks to perform any type of work.

Moreover, because the useful life of these Master Plans will extend beyond the current rate cycle and to reduce the rate impact of the costs associated with these Master Plans, we accept Golden State's proposal to amortize the costs of these Master Plans in accordance with the composite rate for each district, which on average means 10.15%.

For all the reasons noted above, we approve of the costs associated with the Master Plan for Arden Cordova referred to in footnote 1 of the Stipulation.

7.10. Property, Payroll and Local Taxes

Golden State set forth its proposed property taxes,¹³ payroll taxes, and local taxes for year 2008 and, in response, DRA submitted its own estimates. After engaging in settlement discussions, DRA and Golden State found many areas of agreement. In addition, DRA and Golden State agreed to specific property tax rates for each individual CSA. These amounts are noted in Section

¹² D.07-05-062, *mimeo.*, p. A-24.

¹³ Property taxes are also referred to as *ad valorem* taxes.

7.01 of the Stipulation. DRA and Golden State also agreed to a payroll tax of 8.06% to be applied to all labor expenses at Section 7.02 of the Stipulation. For local taxes, DRA and Golden State agreed to rates for 2008 for each CSA, as noted in Section 7.03 of the Stipulation. For additional details, DRA's and Golden State's initial positions and the areas where the parties found agreement are noted in Appendix A of the Stipulation. We have reviewed the areas subject to the Stipulation in Section 7.00 and the Appendix of the Stipulation and find these amounts reasonable under Rule 12.1.

7.11. Income Taxes

Golden State provided forecasts of state and federal income tax expenses. For each CSA, Golden State provided forecasts at Table 4-K of each separate Report of Operations, which includes Exhibits GSW(AC)-1, GSW(BP)-1, GSW(CL)-1, GSW(LO)-1, GSW(OJ)-1, GSW(SM)-1, GSW(SV)-1, and GSW(ALL)-4. Golden State also provided forecasts for the deferred federal income tax adjustments to the rate base. A forecast for each CSA can be found at Table 4-L of the above-noted exhibits. In response, DRA performed an analysis of Golden State's estimates and, for each CSA, DRA disagreed with Golden State's estimates. DRA's analysis is found in its May 14, 2007 Reports for each of the seven CSAs.

DRA's and Golden State's briefs do not address income tax. Instead, the parties rely on the information submitted as Appendix A to the Stipulation, i.e., seven reconciliation exhibits on the issue of income tax, one for each of the seven CSAs.

Golden State and DRA identified the areas of their agreement and disagreement in the Income Tax reconciliation exhibits for each district. Notably, the remaining disagreements are driven by the outstanding disagreements on

capital budget items, which ultimately impact the tax calculation. This decision adopts all items of agreement in the Income Tax reconciliation exhibits, computes the income tax allowance based on those agreed items, and then relies on our resolution of the disputed capital budget issues as discussed elsewhere in this decision.

7.12. Plant

In this proceeding, we review the utility's rate base, which generally consists of the net investment in facilities, equipment, and other property that a utility has constructed or purchased to provide utility service to its customers. We will first review utility plant. As indicated by Section 2.01 of the Stipulation, Golden State and DRA agreed on most components of rate base. We reviewed the components of rate base subject to stipulation in Section 2.01 of the Stipulation and find these amounts for the components of rate base/plant reasonable under Rule 12.1.

In Section 2.02 of the Stipulation, DRA and Golden State agree that three additional projects should be approved, provided certain conditions are first met, but that only two of these projects should be included in rate base for the agreed upon year. DRA and Golden State agree that the third project should be expensed.

These three projects include the (1) Arden Cordova Coloma Reservoir (replace roof support system and recoat interior), (2) the purchase of Hill Street property in the Bay Point CSA (to accommodate additional water treatment), and (3) participation in the Brineline Study (a regional study to determine the

efficacy of extending Brineline route¹⁴ to Simi Valley). We have reviewed this proposal and find Section 2.02 of the Stipulation reasonable under Rule. 12.1.

We address the remaining differences regarding plant below when we address topics specific to each CSA.

7.13. Depreciation and Amortization

Golden State presents its requests for depreciation accrual rates in Table 4-P, a separate Table 4-P is provided for each CSA's Report of Operations. (Ex. GSW(AC)-1, GSW(BP)-1, GSW(CL)-1, GSW(LO)-1, GSW(OJ)-1, GSW(SM)-1, and GSW(SV)-1.) Golden State more fully addresses this topic in its prepared testimony. (Ex. GSW(ALL)-1.)

DRA's analysis resulted in different figures for depreciation. This difference, in large part, resulted from the differences in Golden State and DRA's estimates of plant in service during the test years. DRA's analysis is found in its May 14, 2007 Reports for each of the seven CSAs. The parties did rely on the same methodology to forecast plant depreciation.

Accordingly, DRA and Golden State were able to stipulate to the methodology to determine depreciation and composite depreciation rates for each CSA. These rates are set forth at Section 2.04 of the Stipulation.

We have reviewed the depreciation rates subject to stipulation in Section 2.04 of the Stipulation and find these amounts reasonable under Rule 12.1.

¹⁴ This project is comprised of a pipeline system to collect, transport and distribute treated wastewater and brine concentrates from groundwater desalting operations.

7.14. Construction Work in Progress

Golden State presented its recorded and forecasted Construction Work in Progress (CWIP). (Ex. GSW(ALL)-8.) After analyzing Golden State's proposal, DRA concluded that it would not recommend different amounts. DRA's analysis is found in its May 14, 2007 Reports for each of the seven CSAs. Furthermore, at Section 2.03 of the Stipulation, DRA and Golden State agreed to the forecasted CWIP for 2007 for all the CSAs, except for Arden Cordova. Arden Cordova was not resolved because Golden State included the 2007 Master Plan for Arden Cordova in CWIP and parties did not stipulate to the amounts associated with work performed in 2007 on the Master Plans. The stipulated amounts for CWIP for each CSA, except Arden Cordova, are set forth at Section 2.03.

We have reviewed the stipulated forecasted CWIP at Section 2.03 of the Stipulation and find these amounts reasonable under Rule 12.1. We addressed this issue with respect to Arden Cordova above when we discussed the issue of Master Plans.

While this issue of CWIP was not heavily contested during this proceeding, DRA did take issue with Golden State's general treatment of CWIP. DRA urged the Commission to determine whether Golden State has been using its CWIP account in the appropriate manner.

According to DRA, Golden State does not complete its CWIP in a timely fashion and, accordingly, these amounts are prematurely treated as "used and useful" and the costs are passed through to ratepayers. DRA's analysis is found in its May 14, 2007 Reports for each of the seven CSAs. DRA suggests that the Commission solve this problem by treating projects which Golden State cannot complete within one year not as CWIP but, instead, allow these amounts to earn

Allowance for Funds Used during Construction (AFUDC). In this manner, DRA states Golden State will only be allowed to earn interest on the funds while the project is pending completion without earning a rate of return.

Golden State responded to DRA's findings and stated that DRA's claims lacked merit. (Ex. GSW(ALL)-22.) Nevertheless, at Section 2.03 of the Stipulation, Golden State agreed to an audit of Golden State's CWIP account to be performed by a third-party firm.

We have reviewed this proposal in Section 2.04 of the Stipulation and find it reasonable under Rule 12.1.

7.15. Capital Budget Overhead

Golden State submitted its Overhead Rate Study as part of its workpapers. (Ex. GSW(ALL)-1.) Golden State's Study, which is based on a methodology agreed upon by the parties in another proceeding, A.06-02-023 (Region II & General Office GRC), recommended the appropriate rate to allocate Golden State's indirect capitalized costs to its capital projects. The total allocated costs are included as rate base in the ratemaking process. (Golden State Opening Brief, p. 8; Ex. GSW(ALL)-18.) Golden State's proposed overhead allocation rate for 2007 is 20.75%. For 2008 and 2009, Golden State proposes to rely on overhead allocation rates of 26.81% and 33.14%. (Ex. GSW(ALL)-1; GSW(ALL)-18.)

DRA proposed different overhead allocation rates, 6.61% for 2007, 17.74% for 2008, and 20.82% for 2010. (Ex. DRA(LO)-1.) DRA also proposed that the Commission adopt a specific amount of the capitalized expenses for overhead rather than a percentage approach. (DRA Opening Brief, pp. 73-79.)

In response to DRA's arguments, Golden State argued that DRA's recommendations contain mathematical errors that, if corrected, bring DRA's

proposal more inline with Golden State's request. (Golden State Opening Brief, pp. 8-10.)

Regarding the overhead allocation rate, we find Golden State's proposal is not adequately supported by the record. (DRA Opening Brief, pp. 75-77.) We also find that DRA's analysis fails to take into account several important factors. (Golden State Opening Brief, p. 9.) Likewise, Golden State's argument that the rates in Region II (A.06-02-023) should be adopted here is not persuasive because the Commission has adopted them in D.07-11-037.

However, this decision is guided by the Commission's recent decision on overhead allocation rate for Region II, in D.07-11-037. In D.07-11-037, the Commission adopted an overhead rate of 26.12% for 2007 and 26.37% for 2008. D.07-11-037 also adopted a rate for 2006 but 2006 is not under consideration here. Similarly, D.07-11-037 did not adopt a 2009 rate, which is needed for Region I because 2009 was not under consideration in the Region II GRC. Accordingly, for 2009, we adopt a rate of 26.37%, the same rate adopted by D.07-11-037 for year 2008. We make this decision because the record in this proceeding fails to establish the reasonableness of either DRA's or Golden State's proposals. In this instance, we find that the more reliable and current information on this issue is set forth in D.07-11-037. Accordingly, we rely upon it here.

7.16. Overhead Pool Account

Golden State relies upon a methodology of zeroing out an account referred to as the overhead pool account at the end of the year by charging any remaining balance (positive or negative) included as part of the overhead rate to various capital projects on a company-wide basis. (Golden State Opening Brief, p. 9; Ex. GSW(ALL)-18.)

Golden State claims that DRA's methodology for determining the overhead pool account is flawed because it would result in Golden State writing off these unallocated expenses each year. (Golden State Opening Brief, p. 9.)

In response, DRA explains Golden State capitalizes its O&M and A&G expenses either directly to a specific capital project or, if the expenses cannot be assigned to any particular capital project, to the overhead pool account. (Ex. DRA(CL)-1.) According to DRA, this overhead pool account consists of capitalized expenses from Region I, Region II, Region III, and Bear Valley Electric Division, and Golden State's General Office, collectively forecasted to be between approximately \$13 million in each year, 2007, 2008, and 2009. (DRA Opening Brief, p. 74.) DRA points out that other larger Class A water utilities book much less to indirect costs. Lastly, DRA cites to the Uniform System of Accounts to support its argument that Golden State's indirect costs should not be lumped together in one company-wide account that is then allocated to all operating functions of the company. (Ex. DRA(LO)-1; DRA Opening Brief, pp. 74-78.)

We agree that the methodology proposed by Golden State is fair and provides a straightforward means of addressing the over-allocation issue. Accordingly, we will permit Golden State to continue to zero out the overhead pool account by charging the balance to various capital projects.

Nevertheless, we share some of DRA's concerns. Specifically, we are concerned with ongoing over-allocation to the overhead pool account. In D.06-01-025, we directed Golden State to address this issue. We reiterate our directive and advise Golden State that it must improve the allocation process so that there is less of an annual discrepancy. By July 1, 2008, as part of Golden State's GRC for Region II, Region III and General Office, Golden State must present a better more robust allocation process or risk a Commission audit.

7.17. Capital Budget Contingency Rate

The contingency rate is expressed as a percentage of the capital budget and it is used for funding unexpected capital expenditures or to fund unforeseen cost overruns of budgeted projects. (Ex. GSW(ALL)-8.) Golden State has requested a contingency rate of 10% of its capital budget. (*Id.*) DRA disagrees with Golden State's request, claims that a contingency rate is indicative of poor management, and recommends a contingency rate of 5%. (Ex. DRA(AC)-1, DRA(BP)-1, DRA(CL)-1, DRA(LO)-1, DRA(OJ)-1, DRA (SM)-1, and DRA(SV)-1.)

We find DRA's analysis convincing, especially DRA's argument that a critical management function includes accurately budgeting and pursuing cost containment. Under Golden State's proposal, budget overruns are indirectly sanctioned. We have supported a 5% contingency rate for Golden State in decisions resolving prior Golden State GRCs. For instance, in D.06-01-025, we adopted a contingency rate of 5% for Region III. Accordingly, we adopt a 5% contingency rate in this proceeding.

7.18. Rate of Return

We next adopt a capital structure for Golden State to establish a fair rate of return. A rate of return can be defined as a judgmentally determined percentage that, when multiplied by an established rate base amount, provides a return that is intended to allow a utility to (1) meet its obligation to present capital investors and (2) compete on reasonable terms in the financial markets for future capital requirements. Before we discuss the components of Golden State's rate of return, we will briefly review the legal standard that governs our determination of a fair rate of return.

We have many times over the years cited the well-established legal standard for determining a fair rate of return. In *Bluefield Water Works*,¹⁵ the Supreme Court stated that a public utility is “entitled” to earn a return on the value of its property employed for the convenience of the public and set forth parameters to assess a reasonable return. That return should be "reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economic management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties."

The Supreme Court also noted in *Bluefield Water Works* that a utility has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. In 1944, the Court again considered the rate of return issue in the *Hope Natural Gas*, stating, "[T]he return to the equity owner should be commensurate with returns on investments in other enterprises sharing corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital."¹⁶

The Court went on to affirm the important principle that, in establishing a just and reasonable rate of return, consideration must be given to the interests of both consumers and investors. In sum, while we have an obligation to set a fair rate of return, we must balance this obligation with our duty to protect customers from unjust prices.

¹⁵ *Bluefield Water Works & Improvement Company v. Public Service Commission of the State of Virginia* (1923) 262 U.S. 679.

¹⁶ *Federal Power Commission v. Hope Natural Gas Company* (1944) 320 U.S. 591, 603.

7.19. Cost of Capital & Capital Structure

To establish a fair rate of return, we must adopt a capital structure and cost of capital for each of Golden State's seven CSAs within Region I. Based on the adopted cost of capital and capital structure, we determine and adopt the appropriate rate of return on Golden State's regulated business, also referred to as its rate base. Golden State's capital structure includes two components, debt and equity. In adopting values for the various components of this formula, we take into consideration many factors in an effort to strike a balance between the interests of the ratepayers and the interests of the investor community that provide financial support to Golden State. As set forth in the legal standard discussed above, a rate of return must be high enough to cover a utility's cost of capital so that the utility can maintain its credit rating and attract additional investors but not so high as to be unfair to ratepayers. Furthermore, while we adopt a specific rate of return in this decision, Golden State is not guaranteed this rate of return. Golden State must earn this rate of return to the best of its abilities within the changing conditions of the financial markets including interest rate fluctuations and internal business practices, such as cost-control efforts.

For each CSA for 2008, Golden State proposed an 11.25% return on equity,¹⁷ a 7.49% cost of debt¹⁸ and a capital structure of 51.5% equity and 48.5% debt. Golden State estimated these amounts would produce a rate of return on rate base of 9.4% for 2008, 9.41% for 2009, and 9.40% for 2010. (Ex. GSW(ALL)-9.)

¹⁷ Golden State recommended a 11.25% return on equity for 2008, 2009, 2010.

¹⁸ Golden State recommended a cost of debt for 2008 of 7.49%, 2009 of 7.46% and 2010 of 7.44%.

DRA proposed 10.09% return on equity,¹⁹ a 7.49% cost of debt²⁰ and the same capital structure as proposed by Golden State of 51.5% equity and 48.5% debt which it estimated would produce a rate of return on rate base of 8.92% for 2008, 8.91% for 2009, and 8.90% for 2010. (Ex. DRA(ALL)-2.) No other parties commented on this issue.

At Section 10.00 of the Stipulation, DRA and Golden State recommend for years 2008, 2009, and 2010 a 10.2% return on equity, a 7.46% cost of debt and a capital structure of 51.5% equity and 48.5% debt which they estimated would produce a rate of return on rate base of 8.87%.

We have reviewed the stipulated cost of capital, capital structure and rate of return at Section 10.00 of the Stipulation and find the amounts to be consistent with overall trends in the industry and appropriate for Golden State's specific situation. Accordingly, we find these amounts reasonable under Rule 12.1.

As set forth below, we adopt the following capital structure, cost of debt and equity, and rate of return on rate base:

¹⁹ DRA recommended a 10.09% return on equity for years 2008, 2009, and 2010.

²⁰ DRA recommended a cost of debt for 2008 of 7.49%, 2009 of 7.46% and 2010 of 7.44%.

Cost of Capital and Rate of Return

Years 2008, 2009 & 2010			
	Capital Structure	Cost	Weighted Cost
Debt	48.5%	7.46%	3.62%
Common Equity	51.5%	10.2%	5.25%
Total	100.00 %		Rate of Return 8.87%

7.20. Low-Income Rates for Region I

At the request of the ALJ, Golden State submitted supplementary testimony proposing a low income ratepayer assistance program for Region I customers. (Ex. GSW(ALL)-10.) Golden State already has low income assistance programs in Region II and Region III service areas. These programs are referred to as California Alternative Rates for Water (CARW). DRA and Golden State offered a proposal for CARW in their Stipulation. At Section 11.00, the parties agree that a CARW program should be implemented for Region I.

The proposed monthly CARW credits for qualifying customers are based on a fixed 15% discount on a bill for 15 hundred cubic feet (Ccf) for each CSA. The discounts range from \$3.45 to \$18.75 and are set forth in Section 11.01 of the Stipulation. Certain other customers will be entitled to a flat rate discount. Golden State will establish a Region I CARW Balancing Account to track the costs and discounts for all seven ratemaking districts in Region I and will recover these costs and discounts through a volumetric surcharge of approximately \$0.04 per Ccf. Any overcollection or undercollection will be either refunded or recovered in Golden State's next Region I rate case. In the Stipulation, DRA and

Golden State estimate that this program will cost approximately \$720,000 in 2008.

We find the proposal for a CARW for Region I reasonable under Rule 12.1 and we direct Golden State to implement this program as soon as possible and within 90 days of the issuance of this decision.

7.21. Rate Design

As established in D.86-05-064, Golden State's rate design consists of allocating approximately 50% of fixed costs to the service charge and the remaining costs are recovered through a single block commodity charge. With the exception of the addition of low income rates, we make no modifications to this rate design. We do note, however, that we are addressing the topic of conservation rate design for water utilities in a separate proceeding, I.07-01-022. Golden State should modify its Region I rate design consistent with the final order in that proceeding.

7.22. Escalation Year 2009 and Escalation Year 2010

The RCP in D.07-05-062 provides for one test year and two escalation years for establishing revenue and expense components in GRCs, and two test years plus an extrapolated third year for rate base components. Golden State and DRA agreed at Section 9.01 of the Stipulation to use the most currently available inflation factors provided by DRA's Energy Cost of Service Branch. This methodology was adopted in D.07-05-062 and we find this recommendation reasonable under Rule 12.1.

7.23. Tariff Map Modifications

Golden State requests minor modifications to its existing tariff maps. (Ex. GSW(ALL)-8.) These requests are reasonable and we authorize these changes.

7.24. Water Quality

Under the RCP, in each GRC the Commission examines the utility's district-by-district compliance with water quality standards. Golden State addressed the topic. DRA did so peripherally.

While we have adopted new rules related to our water quality oversight in D.07-05-062, our requirement for utility compliance with water quality standards under D.04-06-018 is expressed in General Order (GO) 103, which states, in pertinent part, as follows:

Any utility serving water for human consumption or for domestic uses shall provide water that is wholesome, potable, in no way harmful or dangerous to health and, insofar as practicable, free from objectionable odors, taste, color and turbidity. Any utility supplying water for human consumption shall hold or make application for a permit as provided by the Health and Safety Code of the State of California, and shall comply with the laws and regulations of the state or local Department of Health Services. (GO 103(II)(1)(a).)

The Commission exercises concurrent jurisdiction with the DHS over the quality of drinking water provided by regulated water utilities and has used DHS standards in its regulatory proceedings as an integral part of its program of regulating water utilities for many years.

Golden State included sufficient information on its water quality compliance in each CSA. All of this information was admitted into evidence without cross-examination or objection. The company's presentation was based on existing data and provided descriptions of water sources, treatment methods,

problem areas and future corrective measures, where applicable, for all seven CSAs.

DRA did not address the water quality issue directly and, instead, DRA included a statement in its Report for each CSA, similar to the following statement in reference to the Clearlake CSA:

DRA performed a review of GSWC's water supply and quality documents. DRA also contacted DHS to obtain the compliance history of GSWC's water systems from 2004-2006...As informed by DHS, the Clearlake water system generally was in compliance with drinking water standards between 2004-2006.

DRA did, however, make many observations relating to water quality in the course of addressing various expenses, plant, and affordability issues. Those observations typically involved the challenges Golden State faces in its smaller systems and were broadly consistent with Golden State's water quality documents.

Golden State's water quality presentation for the seven CSAs in this proceeding meets the standard set forth in GO 103(II)(1)(a). Importantly, Golden State has made and continues to make substantial progress in improving water quality. We, in turn, will continue to monitor Golden State's water quality with the expectation that we will see results.

8. District Specific Issues

The remaining part of this decision addresses issues specific to each CSA.

8.1. Rates for the Seven Districts

The rate increases approved for each CSA are attached hereto as Attachment C. A comparison of present rates and adopted rates for 2008 is attached hereto as Attachment E.

8.2. Arden Cordova CSA

The Arden Cordova CSA is located in Rancho Cordova, California. In 2008, Arden Cordova is forecasted to serve approximately 16,515 customers. (Section 3.01, Stipulation, attached hereto as Attachment A.) The water supply for the Arden Cordova system is generated by wells owned by Golden State and surface water treated in a direct filtration treatment plant. The Commission last engaged in a comprehensive review of the rates for the Arden Cordova CSA in A.00-03-064 (filed March 28, 2000). In D.00-12-063, we issued final rates for years 2001 and 2002. Regarding 2004 rates, Golden State requested in A.03-10-057 inflationary increases over the expense levels approved in D.00-12-063. Golden State filed a transitional rate case in 2004, A.04-08-042, requesting expense and rate base adjustments to levels authorized in D.04-08-052. Then, D.05-05-025 approved rates for 2006 and 2007. However, the Arden Cordova CSA has not been comprehensively reviewed since 2000.

The five most significant issues, in terms of dollars, that result in the proposed rate increase are as follows:

Arden Cordova	Adopted by the CPUC in 2007	Test Year 2008 (Proposed by Golden State)	Revenue Impact
Allocated General Office Expenses	\$1,611,400	\$2,239,600	\$628,150
Labor Expenses	\$335,060	\$799,400	\$464,340
Supply Expenses	\$762,600	\$1,141,500	\$378,900
Amortization and Depreciation	\$1,416,400	\$1,866,900	\$450,500
Other Operation Expenses/Water Conservation	\$237,500	\$461,000	\$223,500

As noted in the Stipulation, the parties compromised on a number of matters related to Arden Cordova, including the capital budget. As a result, no disputed capital budget matters remain for the Arden Cordova CSA. For all the reasons indicated above, we approve of a rate increase for the Arden Cordova CSA.

8.3. Bay Point CSA

The Bay Point CSA is located within the unincorporated community of Bay Point, California, which lies along the southern shore of Suisun Bay, east of Concord. In 2008, Bay Point is forecasted to serve approximately 4,996 customers. (Section 3.01, Stipulation, attached hereto as Attachment A.) Golden State purchases 93% of the raw water supply for Bay Point from Contra Costa Water District via the Contra Costa Canal. The raw water is treated at the

Hill Street Treatment Plant and distributed through the distribution system. Golden State also purchases water from Contra Costa at a new interconnection and participates in a buy-in from Contra Costa's Bollman Treatment Plant. According to Golden State, water quality and distribution are high priorities in the Bay Point CSA. Accordingly, these priorities are reflected in the proposed capital expenditures.

The Commission last engaged in a comprehensive review of the rates for the Bay Point CSA in A.00-03-064 (filed March 28, 2000). In D.00-12-063, we issued final rates for years 2001 and 2002. Regarding 2004 rates, Golden State requested in A.03-10-057 inflationary increases over the expense levels approved in D.00-12-063. Golden State filed a transitional rate case in 2004, A.04-08-042, requesting expense and rate base adjustments to levels authorized in D.04-08-052. Then, D.05-05-025 approved rates for 2006 and 2007. However, the Bay Point CSA has not been comprehensively reviewed since 2000.

The five most significant issues, in terms of dollars, that result in the proposed rate increase are as follows:

Bay Point	Adopted by the CPUC in 2007	Test Year 2008 (Proposed by Golden State)	Revenue Impact
Cost of Capital	7.57%	9.41%	\$396,870
Supply Expenses	\$1,801,200	\$1,929,900	\$128,700
Labor Expenses	\$304,700	\$421,500	\$116,810
Depreciation Expenses	\$634,100	\$750,100	\$116,000
Allocated General	\$368,500	\$457,200	\$106,700

Office Expenses			
-----------------	--	--	--

As noted in the Stipulation, the parties compromised on a number of matters related to the Bay Point CSA, including the capital budget. As a result, no disputed capital budget matters remain for the Bay Point CSA. For all the reasons indicated above, we approve of a rate increase with the expectation that service quality will improve in the near term.

In this proceeding, we raised the issue of the whether Golden State should fluoridate water in Bay Point. We raised this issue in an ALJ ruling dated August 24, 2007. The ALJ ruling sought to include additional evidence in the record, specifically a letter addressed to the ALJ from Dr. Brunner, Contra Costa Health Service, the Director of Public Health (Ex. A) and a position statement by the American Dental Association (Ex. B). In response to this ruling, Golden State voiced its objection to including certain portions of Exhibit A in evidence. In a subsequent ALJ ruling, we agreed with Golden State that certain portions of Exhibit A should not be included in evidence because those portions are irrelevant to the issue of fluoridation.

As a general policy, Golden State indicated it had no objection to being directed to fluoridate the water it delivers to customers provided that the Commission determines fluoridation is in the best interest of customers and that Golden State is authorized to fully recover the related capital costs and operating expenses.

Based on Exhibit A, the letter from Dr. Brunner requesting that Golden State fluoridate the Bay Point water and the position statement by the American Dental Association found at Exhibit B, we find that fluoridation in Bay Point is in the public interest. Accordingly, we direct Golden State to file an advice letter within 180 days proposing to fluoridate the water in Bay Point. The advice letter

must describe the costs associated with fluoridation and propose a cost recovery mechanism. This advice letter will be designated as a Tier 3 advice letter and must be served on the service list of this proceeding. After review of the advice letter, if we find the costs associated with fluoridation to be reasonable, we will issue a resolution to direct Golden State to proceed.

8.4. Clearlake CSA

The Clearlake CSA is located in Clear Lake, California, adjacent to the eastern edge of Clear Lake. The Clearlake CSA is forecasted to serve 2,179 customers in 2008. (Section 3.01, Stipulation, attached hereto as Attachment A.) Golden State obtains its raw water supply from Clear Lake. The Sonoma Treatment Plant receives raw water from Clear Lake and treats it to provide the system's supply of potable water. Golden State states that water distribution-related projects are high priority in this CSA and this priority is reflected in its capital budget. The Commission last engaged in a comprehensive review of the rates for the Clearlake CSA in A.00-03-064 (filed March 28, 2000). In D.00-12-063, we issued final rates for years 2001 and 2002. Regarding 2004 rates, Golden State requested in A.03-10-057 inflationary increases over the expense levels approved in D.00-12-063. Golden State filed a transitional rate case in 2004, A.04-08-042, requesting expense and rate base adjustments to levels authorized in D.04-08-052. Then, D.05-05-025 approved rates for 2006 and 2007. However, the Clearlake CSA has not been comprehensively reviewed since 2000.

The five most significant issues, in terms of dollars, that result in the proposed rate increase are as follows:

Clearlake	Adopted by the CPUC in 2007	Test Year 2008 (Proposed by Golden State)	Revenue Impact
Rate Base	\$4,118,200	\$4,547,200	\$67,100
Depreciation Expenses	\$239,900	\$302,200	\$62,300
Cost of Capital	8.74%	9.41%	\$54,500
Supply Expenses	\$76,200	\$123,300	\$47,100
General Office Allocation	\$121,000	\$162,100	\$41,100

As noted in the Stipulation, the parties compromised on a number of matters related to the Clearlake CSA, including the capital budget. As a result, no disputed capital budget matters remain. For all the reasons indicated above, we approve of a rate increase with the expectation that service quality will improve in the near term.

One issue in Clearlake not addressed by the Stipulation is Water Loss. In Clearlake, Golden State forecasted Water Loss to be 47.48% in 2008 and DRA estimated this figure to be 35.35%. These figures are significantly above the Water Loss experienced in the other CSAs and significantly above the 7% target we adopted in D.07-05-062. Accordingly, we expect Golden State to make progress on reducing its Water Loss and to seek any additional Commission approvals necessary to accomplish this goal. At a minimum, Golden State must file an advice letter within 120 days of the date of this decision proposing a solution to reduce Water Loss in the Clearlake CSA.

8.5. Los Osos CSA

The Los Osos CSA is comprised of the Los Osos and Edna Road Water systems. The Los Osos and Edna Road systems are both located in the County of San Luis Obispo. The Los Osos CSA is forecasted to supply water to approximately 3,314 customers in 2008. (Section 3.01, Stipulation, attached hereto as Attachment A.) Water supply to Los Osos is furnished by eight active company-owned wells and one standby well that pumps water from the Los Osos and Edna Valley Groundwater Basins. All current water supply needs are being met by existing groundwater production. Groundwater offers the benefit of being low in cost and flexible in operation. However, additional sources of water will be needed to supply the Los Osos CSA by 2020. In the near term, Golden State will be planning to diversify and increase its water supply, increase its storage capabilities, and upgrade its infrastructure. Consistent with the procedural history of the other CSAs described above, the Commission last addressed a GRC for the Ojai CSA in D.05-05-025 and has since approved of several rate changes via advice letters.

The five most significant issues, in terms of dollars, that result in the proposed rate increase are as follows:

Los Osos	Adopted by the CPUC in 2007	Test Year 2008 (Proposed by Golden State)	Revenue Impact
Cost of Capital	4.88%	9.41%	\$699,700
Labor Expenses	\$186,300	\$331,300	\$145,000
Chemicals	\$19,100	\$158,900	\$139,800
Rate Base	\$7,474,200	\$8,666,200	\$103,700
Depreciation Expenses	\$367,300	\$452,700	\$85,400

For all the reasons indicated above, we approve of a rate increase with the expectation that service quality will improve in the near term. As noted in the Stipulation, the parties compromised on a number of matters related to the Los Osos CSA, including capital budget. However, certain items regarding capital budget remain in dispute. We address these disputed items below.

8.5.1. Lewis Lane Electrical Improvements

Golden State proposes to upgrade the electrical service to the Lewis Lane wells. Currently, two wells at Lewis Lane are operated by a single motor control center. This single motor control center cannot operate both wells simultaneously. The proposed upgrade is intended to provide Golden State with the ability to operate both wells simultaneously at variable speeds. According to Golden State, this will allow both wells to operate at a lower production rate per well, which will result in a shallower drawdown in each well. As a result of this shallower drawdown, Golden State notes that this upgrade will keep selenium concentrations below the Maximum Contaminant Level (MCL) from both wells

and eliminate entrained gas. (Ex. GSW(ALL)-22; Golden State Opening Brief, p. 13.)

DRA objected to the funding of this capital project. Based on DRA's analysis, the additional pumping capacity is not needed under the factors set forth in Title 22, California Code of Regulations, § 64562. DRA presents a strong argument.

However, we remain concerned about Golden State's claim that the project "could keep selenium concentrations below MCL" and "aid in improving water quality to ensure customer satisfaction." DRA did not address these issues. Based on the evidence regarding MCL improvement, we approve of this project as proposed by Golden State. We anticipate that water quality and customer satisfaction will improve accordingly.

8.5.2. Cuesta-by-the-Sea Loop Closures

Golden State proposes certain main extensions that involve loop closures to improve water circulation, prevent stagnation, and the loss of chlorine residual in deadend pipes. The loop closures will also improve fire flow and address the seven fire hydrants located near these lines that do not currently meet minimum fire flow requirements.

DRA claimed that Golden State's request and the related costs are not supported by the facts. DRA suggested that the Commission approve only a small portion of this project.

While DRA presented a solid argument in opposition to most of this project, we remain concerned about the public health and safety issues related to the fire hydrants. Golden State alleges that this project is necessary to "upgrade this system to improve fire flow to comply with local fire codes and to comply with Commission standards for fire flow. In addition, looping the system to

improve water circulation and fire flow is a public health and safety issue.” (Golden State Opening Brief, p. 14.) Accordingly, we approve of this project in full as proposed by Golden State.

8.5.3. Interconnection with LOCSD

Golden State proposes to establish two interconnections with the Los Osos Community Service District (LOCSD). These interconnections, named the 10th Street Interconnection-LOCSD and the Nipomo-Santa Ynez Interconnection-LOCSD, will provide the necessary operational flexibility to shift pumping patterns from the lower zone, where seawater intrusion is occurring, and shift the pumping to upper zones to address nitrate contamination. As a result, according to Golden State, this project will improve significant basin-wide water quality issues that present challenges to sustainable water supply from the basin. (Golden State Opening Brief, pp. 14-15; Ex. GSW(ALL)-22; Golden State Reply Brief, p. 11.)

DRA objected to this project. DRA raised concerns about Golden State’s cost estimate for its portion of the project. DRA claimed that the costs of the project should be divided between LOCSD, Sunset Terrace, a small mutual water company, and Golden State. In DRA’s view, Golden State has failed to indicate how the cost of this project will be divided. DRA further questioned the veracity of Golden State’s claim that this project will address contamination concerns. (DRA Opening Brief, pp. 36-38.)

We have reviewed the record and conclude that DRA’s concerns lack merit. We want to encourage Golden State to improve water quality in situations where supply is limited. Accordingly, we approve of this project as proposed by Golden State.

8.5.4. Rosina Plant and Pipelines for Nitrate Treatment

Golden State proposes to recover costs associated with site construction and installation of certain equipment to enable Basin Water Ion Exchange at the Rosina Plant to treat nitrate-laden water from Skyline and Pecho wells. This project would enable Golden State to blend treated water with Rosina well source water before the water enters the distribution system. The project includes piping modifications, construction of concrete pads to support salt storage and waste vessels and accommodations for the Ion Exchange unit. Golden State stated that the various components of this project are needed to provide the operational flexibility to deal with the nitrate contamination and seawater intrusion problems relating to the Los Osos Groundwater Basin. (Golden State Opening Brief, p. 15; Ex. GSW(ALL)-22.)

DRA expressed concerns over costs and suggested that the funds could be better spent by buying land and drilling new wells. (DRA Opening Brief, p. 43.)

Based on the evidence in the record, we find sufficient information to justify the project. Golden State should proactively seek to improve water quality in areas, such as Los Osos, where water supply sources are limited to groundwater. Accordingly, this project is approved as requested by Golden State.

8.6. Ojai CSA

The Ojai CSA is located in the Ojai Valley within the northwest corner of Ventura County. It is located approximately fifteen miles north of the City of Ventura. The Ojai CSA is the primary water purveyor to the City of Ojai as well as some unincorporated areas outside the city limits including a portion of the community near Meiners Oaks, just west of Ojai. In 2008, the Ojai CSA is

forecasted to serve 2,889 customers. (Section 3.01, Stipulation, attached hereto as Attachment A.) Water supply is furnished by five wells and five interconnections with the Casitas Municipal Water District. Consistent with the procedural history of the other CSAs, the Commission reviewed a GRC for the Ojai CSA in D.05-05-025 and has since approved of several rate changes via advice letters.

The five most significant issues, in terms of dollars, that result in the proposed rate increase are as follows:

Ojai	Adopted by the CPUC in 2007	Test Year 2008 (Proposed by Golden State)	Revenue Impact
Depreciation Expenses	\$354,600	\$666,500	\$311,900
Rate Base	\$11,090,700	\$12,561,500	\$232,000
Supply Expenses	\$399,800	\$627,500	\$227,700
Cost of Capital	8.74%	9.41%	\$151,900
Other Maintenance Expenses	\$130,500	\$267,900	\$137,400

For all the reasons indicated above, we approve of a rate increase with the exception that service quality will improve in the near term.

As noted in the Stipulation, the parties compromised on a number of matters. However, certain matters related to capital budget remain in dispute. In addition, the City of Ojai testified in favor of efforts to reduce the incidences of water main breaks. (Ex. OJ-1; Ex. OJ-2; RT 652.) We seek to address these concerns as we decide the disputed items below. First, however, we address the

specific situation in Ojai, as described to us by the City Manager of the City of Ojai.

8.6.1. City of Ojai

The City of Ojai expressed concern that rate increases in Ojai would not be accompanied by an increase in customer service and water quality. While we expect to see improvements in water quality and service reliability as a result of the projects approved herein, we understand the residents are frustrated. Accordingly, we direct Golden State to meet with the City of Ojai, at the City's invitation, to discuss matters related to water quality and service reliability. Furthermore, we direct the City of Ojai to contact the Director of the Water Division with any unresolved concerns regarding water quality and service reliability at the conclusion of these meetings. Then, the Director of the Water Division shall recommend a procedure to the Commission for investigating this matter further.

8.6.2. Well Pump Replacement

Golden State proposes to recovery costs associated with replacing the water-lubricated pumps at the Gorham and San Antonio No. 4 Wells with submersible pumps. Golden State claims this replacement is necessary because the pumps fail to function properly. (Golden State Opening Brief, p. 16; Ex. GSW (ALL)-22.)

DRA suggested that Golden State should have known that water-lubricated pumps would not properly function at the deep well. Accordingly, DRA requests complete disallowance of the amount needed to replace the pumps. (DRA Opening Brief, p. 68.)

Based on the evidence, it appears that Golden State, in fact, did not know that water-lubricated pumps would fail to work properly in a deep well.

Therefore, we reject DRA's basis for disallowance. The project is approved as proposed by Golden State.

8.6.3. Main and Valve Replacements

Golden State seeks funds to replace old, inoperative valves within the water distribution system. According to Golden State, such replacements are needed to reduce the impact on customers when field operations personnel perform emergency shutdowns and to aid with system flushing which, to some extent, improves water quality. (Ex. GSW(ALL)-22.)

On the basis of data provided by Golden State on its historical replacement rate of valves in the Ojai area, DRA claimed that Golden State will replace less valves than it claims within its budget. (DRA Opening Brief, p. 70.) Under DRA's recommendation, the Commission should only approve a budget to replace two valves per year in the Ojai CSA.

While we are convinced that Golden State has not replaced valves as rapidly as it proposes to in the future, we still approve of the requested amount. We provide this approval with the expectation that Golden State fully intends to replace valves in Ojai on a more expedited schedule. To the extent that valve replacement improves water quality and reliability, as claimed by Golden State, we find that these replacements will address concerns raised by the City of Ojai. Accordingly, we approve of this project as proposed by Golden State.

8.6.4. Installation of Services

Golden State requests rate recovery for installation of service to infill lots that possess a service entitlement. DRA did not object to the project but suggested the costs are too high. DRA relied upon more recent data to calculate costs. (DRA Opening Brief at p. 71.) Because DRA is relying on more current cost figures and Golden State fails to justify its methodology, we accept DRA's

suggestion. Accordingly, we approve of the project at the reduced costs presented by DRA.

8.7. Santa Maria CSA

The Santa Maria CSA is comprised of five systems: Orcutt, Nipoma, Tanglewood, Lake Marie, and Sisquoc. In 2008, this CSA will supply water to an estimated 13,254 customers in these five water systems. (Section 3.01, Stipulation, attached hereto as Attachment A.) The Santa Maria CSA is located in the counties of Santa Barbara and San Luis Obispo. These water systems and their primary sources of water are as follows: the Orcutt, Lake Maria, Nipomo, and Sisquoc systems obtain their entire water supply from groundwater sources within the Santa Maria Valley Basis. The Tanglewood system is a closed system and obtains its entire annual water supply from the State Water Aqueduct. Consistent with the procedural history of the other CSAs in Region I, the last GRC docket that established rates for the Santa Maria CSA was D.05-05-025 and since that decision, the Commission has approved several rate increases via advice letter.

The five most significant issues, in terms of dollars, that result in the proposed rate increase are as follows:

Santa Maria	Adopted by the CPUC in 2007	Test Year 2008 (Proposed by Golden State)	Revenue Impact
Rate Base	\$20,424,400	\$27,915,200	\$1,166,500
Depreciation Expenses	\$1,044,300	\$1,600,400	\$556,100
Cost of Capital	8.74%	9.41%	\$333,200
Supply Expenses	\$1,375,000	\$1,725,800	\$350,800
Allocated GO Expenses	\$907,500	\$1,178,700	\$271,200
Labor Expenses	\$465,300	\$712,900	\$247,600

For all the reasons indicated above, we approve of a rate increase with the expectation that service quality will improve in the near term. As noted in the Stipulation, the parties compromised on a number of matters related to capital budget. However, certain items remain in dispute. We address these disputed items below.

8.7.1. Sisquoc System-Foxen Canyon Well Pump

Golden State seeks the recovery of costs associated with the purchase and installation of a diesel-powered generator to provide backup power for the Foxen Canyon Well pump.

DRA objected to the project. DRA claimed that existing storage capacity is sufficient in the event of a typical power outage, which only last a few hours. (DRA Opening Brief, p. 4.)

In response, Golden State pointed out that the Foxen Canyon Well pump is the only source of water to the Sisquoc system and emergency backup power is needed in the event of an extended power outage. (Golden State Opening Brief, p. 17; Ex. GSW(ALL)-22.)

We agree with Golden State. Providing backup power is a reasonable and prudent measure to ensure reliable supply to the Sisquoc system. Furthermore, the consequences of no longer having water in the water mains, dewatering the system, are significant and present a potential health risk to customers. This project is approved as proposed by Golden State.

8.7.2. Nipoma System-La Serena Plant Site Work

Golden State is requesting funds to install landscaping at the La Serena Plant, as required by the California Environmental Quality Act of 1970 (CEQA) Environmental Study/Negative Declaration. Golden State also seeks authorization for funds for paving to provide all weather access to the site.

DRA objected on the basis that the project is an unauthorized rate burden. (DRA Comments, pp. 18-19.)

Upon close review of this matter, we conclude that Golden State has not acted improperly. As explained by Golden State, these projects are not yet in rate base for ratemaking purposes and Golden State seeks to obtain authorization for rate base treatment here. (Golden State Reply Brief, p. 3.) Accordingly, we authorize the project as proposed by Golden State.

8.7.3. Miscellaneous Bowl Replacement

Golden State is requesting funds for emergency replacement of pumps and motors, column extensions required due to declining pumping levels, and replacing pumps and motors operating at below acceptable efficiencies.

DRA claimed that Golden State failed to provide sufficient supporting data. (DRA Opening Brief, p. 10.)

In response, Golden State cited to specific information in its testimony and in its responses to data requests from DRA that support its request. (Golden State Reply Brief, p. 5.) Specifically, Golden State provided historical average spending patterns for the last ten years without inflation.

We find that Golden State provide sufficient information to carry its burden of proof on this issue. Accordingly, we approve of this project as proposed by Golden State.

8.7.4. Orcutt Well and Orcutt Hill Reservoir Capacity

Golden State seeks funds to increase the capacity of the Orcutt Hill Reservoir and the Orcutt Well. Golden State claims that it is experiencing a water shortage serving its current customers and a developer has proposed to construct approximately 700 homes in the Orcutt system. The developer will contribute to the costs of drilling the new well so that the well meets the developer's capacity needs.

DRA recommended disallowing this request. DRA claimed that Golden State has failed to prove that its existing customers are experiencing a water supply shortage. (DRA Opening Brief, p. 21.)

In response Golden State claimed that it has provided the necessary factual support that its existing customers together with the proposed development of the area will result in water shortages.

We have carefully reviewed the record and find that Golden State has carried its burden of proof on this matter. Accordingly, the project is approved as proposed by Golden State.

8.7.5. Woodmere Plant-Backup Power

Golden State is requesting rate recovery for the purchase and installation of a diesel-powered generator at the Woodmere Plant. Two wells are located at the Woodmere Plant. These wells are major producers for the Orcutt system. The Orcutt system currently has no permanent back-up of power generation at the Woodmere Plant and is dependent on water storage at the Orcutt Hill Reservoir in the event of a power outage or other emergency. As a result, should an extended power outage occur, customers in this Orcutt system would be without water. According to Golden State, a generator at Woodmere Plant will permit the wells to continue to produce in such an emergency.

DRA recommended complete disallowance of the project even though DRA also pointed out that 10,000 or more customers rely on this water supply. (DRA Opening Brief, p. 19.) According to DRA's analysis, a power outage would have to last approximately five hours to deplete the water supply and such an occurrence is so unlikely that the costs for backup power are unjustified.

We disagree. The back-up power is needed to ensure adequate water supply to thousands of customers in the event of a power outage. While DRA claimed that such an event, lasting more than five hours is unlikely, we are not willing to take that risk. The project is approved as requested by Golden State.

8.8. Simi Valley CSA

The Simi Valley CSA is a single, interconnected system serving a portion of the City of Simi Valley and areas in eastern Ventura County. The CSA will supply water to an estimated 13,405 customers in 2008. (Section 3.01, Stipulation, attached hereto as Attachment A.) Water supply to the Simi Valley CSA is provided by two active wells and five connections to the Calleguas Municipal Water District. Groundwater supplied to Simi Valley comes from the

Simi Valley Groundwater Basin and Golden State treats this water to improve water quality. To ensure that customers in this CSA continue to receive quality water, modern telemetry and water sampling stations are included in Golden State's proposed budget. As the other CSAs in Region I, the last GRC decision that established rates for the Simi Valley CSA was D.05-05-025, which approved rates for test years, 2005, 2006 and 2007. Since D.05-05-025, the Commission has approved several rate changes via advice letters. The expense levels in Simi Valley have not been comprehensively reviewed since 2000.

The five most significant issues, in terms of dollars, that result in the proposed rate increase are as follows:

Simi Valley	Adopted by the CPUC in 2007	Test Year 2008 (Proposed by Golden State)	Revenue Impact
Purchased Water	\$4,519,500	\$5,336,500	\$817,100
Allocated GO Expenses	\$1,042,200	\$1,385,000	\$342,800
Labor Expenses	\$243,800	\$471,000	\$227,200
Purchased Power	\$238,700	\$319,200	\$80,500
Regulatory Expenses	\$45,900	\$83,200	\$37,300

For all the reasons indicated above, we approve of a rate increase with the expectation that service quality will improve in the near term. As noted in the Stipulation, the parties compromised on a number of matters. However, certain capital budget items remain in dispute. We address these disputed items below.

8.8.1. Rebecca Plant Improvements

Golden State is seeking rate recovery to replace a motor control center at Rebecca Plant because of the age of the equipment and to meet current safety and code requirements. Golden State also seeks to replace the booster pumps because they have exceeded their useful life and the yard piping to accommodate the new booster and to meet current hydraulic demands.

DRA objected to the amount Golden State is seeking to recover but supported replacing the motor control center, booster pumps, and, in addition, performing additional electric work. (DRA Opening Brief, pp. 40-52.) DRA claimed that its three recommended projects can be accomplished for \$108,000 and Golden State seeks \$186,000 for two projects, the control center and booster pumps.

In response, Golden State noted that it agrees with DRA that additional electric work is needed, but Golden State decided to defer this work to lessen the rate impact of these projects. (Ex. GSW(ALL)-22.) Regarding the costs for the control center and pumps, Golden State claimed that DRA is relying on costs for equipment not properly suited to the site. (Ex. GSW(ALL)-22.)

DRA presents solid arguments but Golden State's claim that its costs are justified to properly equip the site are convincing. Accordingly, we approve of this project as proposed by Golden State.

8.8.2. Miscellaneous Bowl Replacement

Golden State is requesting funds for emergency replacement of pumps and motors, column extensions required due to declining pumping levels, and replacing pumps and motors operating at below acceptable efficiencies. DRA claimed that Golden State failed to provide sufficient supporting data. (DRA Opening Brief, pp. 52-54.) In response, Golden State cited to specific

information in its testimony and responses to data requests that support its request. (Golden State Reply Brief, p. 5.) Specifically, Golden State provided historical average spending patterns for the last 10 years without inflation. We find that Golden State provided sufficient information to carry its burden of proof on this issue. Accordingly, we approve of this project as proposed by Golden State.

8.8.3. Runkle Canyon Storage Tank

Golden State seeks funds to increase the capacity of the Runkle Canyon Storage Tank, a tank being built by the developer of Runkle Canyon, to address the need for redundant storage for peak hours, fire flow and emergency demand in the lower pressure zones of the Simi Valley CSA.

DRA claimed that Golden State has failed to carry its burden of proving the necessity for this project. (DRA Opening Brief, p. 53.)

DRA's claim is not convincing. Persuasive support for this project exists in the evidentiary record. (Ex. GSW(ALL)-8; GSW(SV)-3; GSW(ALL)-22.) Specifically, the increased storage capacity will address low pressure issues experienced by customers at the highest elevations in the Pineview Booster Zone and aid in meeting emergency demand in that area. Accordingly, this project is approved as proposed by Golden State.

8.8.4. Fire Hydrant Replacements

Golden State is requesting rate recovery for the purpose of replacing obsolete fire hydrants located in the older sections of the distribution system.

Based on Golden State's failure to replace hydrants in the past, DRA recommended disallowing this request. (DRA Opening Brief, p. 58.)

We remain concerned about the public health and safety issues related to the fire hydrants. Golden State alleged that this project "will increase firefighting

capabilities.” (Golden State Opening Brief, p. 20; Ex. GSW(ALL)-8.)

Accordingly, we find this project necessary to adequately protect public health and safety. We approve of this project as proposed by Golden State.

8.8.5. Service Line Replacement

Golden State is seeking rate recovery for replacing 30-year old plastic service lines that have exceeded their useful life. These pipes leak with regularity. (Golden State Reply Brief, p. 20.)

DRA claimed that, according to Golden State’s data, continuing to repair the lines is a more cost-efficient than replacing them. (DRA Opening Brief, p. 59.)

In response Golden State pointed out that, in this area, 30 service line leaks and failures have been repaired in the past nine years. Golden State seeks to replace all the original 30-year old lines, which would amount to 45 lines per year. (Ex. GSW(ALL)-8.)

We support Golden State’s proactive efforts to replace aging infrastructure on a regular and planned basis rather than continuing to respond to line breaks. Accordingly, this project is approved as proposed by Golden State.

8.8.6. Crater Tanks

Golden State is requesting rate recovery for removal and site razing of the Crater Tanks. The tanks have deteriorated beyond their useful life.

DRA claimed that Golden State has failed to prove the necessity for this work or support the requested costs. DRA suggests that the job could be accomplished at much less expense. (DRA Opening Brief, p. 61.)

In response, Golden State suggested that DRA relied on inaccurate data to form its conclusions. (Golden State Reply Brief, p. 22.)

DRA's presentation on this matter is strong but not convincing. We understand that the Tanks have reached the point where Golden State is concerned with their imminent failure. (Ex. GSW(ALL)-8.) Accordingly, we support this project as proposed by Golden State.

8.8.7. Niles Study Upgrades and Improvements

Golden State seeks rate recovery to cover a portion of distribution improvements identified by the Niles Study, a study conducted by CH2MHILL, which indicates that Golden State can take steps to optimize groundwater production. To achieve this goal, Golden State must make modifications to the exiting well pumps, booster pumps, control system and plant piping. (*Id.*)

DRA opposed this project based on Golden State's failure to prove that the project is needed to address total dissolved solids when only a few customer complaints have been recorded on this matter. (DRA Opening Brief, p. 65.)

In response, Golden State pointed out that the project will reduce costs to ratepayers and increase system reliability by decreasing Golden State's reliance on purchased water. According to Golden State, the project is not specifically targeted at reducing total dissolved solids. (Golden State Opening Brief, p. 21.)

We support Golden State's efforts to increase system reliability while decreasing costs for ratepayers. Accordingly, the project is approved as proposed by Golden State.

9. Comments on Proposed Decision

The proposed decision of the ALJ in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on January 14, 2008 by DRA and on January 15, 2008 by Golden State. Reply comments were filed on January 7, 2008 by Golden State

and January 8, 2008 by DRA. With the exception of minor clarifications and edits, we do not modify the proposed decision in response to comments.

10. Assignment of Proceeding

Dian M. Grueneich is the assigned Commissioner and Regina DeAngelis is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. Golden State filed seven applications on January 5, 2007, A.07-01-009, A.07-01-010, A.07-01-011, A.07-01-012, A.07-01-013, A.07-01-014 and A.07-01-015, seeking rate increases in the customer service areas of Arden Cordova, Bay Point, Clearlake, Los Osos, Ojai, Santa Maria, and Simi Valley. Together, these customer service areas are referred to as Region I of Golden State's service area.
2. The ALJ consolidated these proceedings on February 26, 2007.
3. This consolidated proceeding was submitted on October 4, 2007.
4. During this course of this proceeding, the Commission received valuable input from the public at the PPHs and through letters and electronic mail sent to the Public Advisor's Office.
5. Overall, the communities served by Golden State in all seven districts stressed the following points: (1) the magnitude of the rate increases is unreasonable; (2) service quality is not reliable; and (3) water quality, in a general sense, requires improvement.
6. In some service areas, the community raised more specific concerns. In Bay Point, fluoridation was raised by the Director of Public Health, Contra Costa Health Services. In Ojai, the issue of service reliability was raised by the City Manager of the City of Ojai.
7. At each of the PPHs, Golden State responded to the public's concerns. Representatives from DRA also attended each PPH and advised the communities

that DRA planned to closely analyze Golden State's request to increase rates and, consistent with its statutory obligation, would advocate on behalf of the ratepayers.

8. DRA and Golden State filed a motion requesting that the Commission adopt a Stipulation on August 17, 2007. The motion stated that DRA and Golden State convened a settlement conference between June 15 - 20, 2007 and, prior to meeting, provided formal notice to all parties to the proceeding of the upcoming meeting. Only DRA and Golden State attended the meeting. The August 17, 2007 motion requested the Commission to adopt the Stipulation in its entirety.

9. The Stipulation is not opposed by any party although the City of Ojai and Kathy Staples did not participate in the publicly noticed settlement meetings.

10. The Stipulation describes the agreement reached for each issue. The reconciliation exhibits prepared by Golden State and DRA indicate each party's initial and final positions on each line item of the summary of earnings for each district.

11. We have evaluated DRA's and Golden State's exhibits and testimony as they relate to the stipulated items, reviewed in detail their initial positions and compared them with the Stipulation and accompanying explanations.

12. One of Golden State's O&M accounts, referred to as the common customer account, includes several accounts which are allocated from the Golden State's general office located in San Dimas, California. This general office provides support services to all three of Golden State's Regions.

13. Even though general office expenses associated with San Dimas are included in the revenue requirement and rate calculation approved in this consolidated proceeding, the Commission does not review general office expenses in this consolidated proceeding. Instead, under the RCP for Class A

water utilities set forth in D.04-06-018, general office expenses are reviewed and allocated to the various CSAs and Regions by the Commission in a separate proceeding. This review and allocation most recently occurred in A.06-02-023, approved by the Commission on October 18, 2007 in D.07-11-037.

14. In D.07-11-037, the Commission determined that the San Dimas general office costs should be allocated as follows: Golden State 92.5%, Chaparral City Water Company 2.8%, and American States Utility Services 5.6%. In D.07-11-037, 19.60% was allocated to Region I.

15. The increase need for staffing has been felt throughout the company and is driven by the ever-increasing demands of cost effective operations, maintenance, water conservation, water quality and infrastructure replacement. More specifically, additional staff is needed to ensure compliance with more stringent water quality regulation, additional data gathering requirement, and increased filing requirements with DHS. We have noted that water quality is an issue of the highest importance in our Water Action Plan 2005. Additional staff is also needed to address increased oversight by financial regulators required by Sarbanes-Oxley and to better safeguard the water supply.

16. Golden State seeks an additional position, referred to as the Northern District Water Conservation Coordinator, to promote water conservation throughout Region I.

17. Water conservation is critical in California to extend limited resources as far as possible to allow for future growth. Cost-efficient water conservation is the least expensive source of water.

18. Golden State seeks an additional position, referred to as the Coastal District Engineering Technician III position, because Golden State has been relying on untrained employees from the seven CSAs to perform the work of an

engineering technician. Relying on untrained employees from the seven CSAs to perform the work of an engineering technician is not best way to use the company's resources. The work clearly exists for this new position.

19. Golden State seeks two other additional positions, referred to as the Los Osos Water Supply Operator II and the Simi Valley Water Supply Operator II. With the addition of these two positions, Golden State will be able to always have a licensed, qualified water supply operator available. Golden State is not asking for retroactive ratemaking or recovery of any expenses that it may have incurred in connection with these positions in 2007.

20. A Master Plan is a document based on a detailed analysis of a water system that provides a 10-year forecast to address water supply reliability, distribution, storage, and water quality as they relate to existing and anticipated demands within the system.

21. In D.07-05-062, our decision adopting a revised RCP, we expressed our preference for Master Plans by imposing the requirement that future GRC applications contain a long-term, 6-10 year Water Supply and Facilities Master Plan as part of the Minimum Data Requirements.

22. Golden State's proposal to rely on the expertise of an outside consulting firm CH2MHILL is reasonable but we find that the possibilities for conflicts of interest exist.

23. Golden State capitalizes its O&M and A&G expenses either directly to a specific capital project or, if the expenses cannot be assigned to any particular capital project, to the overhead pool account.

24. The contingency rate is expressed as a percentage of the capital budget and it is used for funding unexpected capital expenditures or to fund unforeseen

cost overruns of budgeted projects. A critical management function includes accurately budgeting and pursuing cost containment.

25. To establish a fair rate of return, we must adopt a capital structure and cost of capital for each of Golden State's seven CSAs within Region 1. Based on the adopted cost of capital and capital structure, we will determine and adopt the appropriate rate of return on Golden State's regulated business, also referred to as its rate base.

26. Golden State has proposed a low-income program in this proceeding and already has low-income assistance programs in Region II and Region III service areas. These programs are referred to as (CARW).

27. Golden State proposes a number of capital projects for each CSA.

28. We raised the issue of the whether or not Golden State should fluoridate water in Bay Point in an ALJ ruling dated August 24, 2007. The ALJ ruling sought to include additional evidence in the record, specifically a letter addressed to the ALJ from Dr. Brunner, Director of Public Health, Contra Costa Health Service, (Ex. A) and a position statement by the American Dental Association (Ex. B).

29. In a subsequent ALJ ruling, we agreed that certain portions of Exhibit A should not be included in evidence because those portions were irrelevant to the issue of fluoridation.

30. Golden State stated it had no objection to being directed to fluoridate the water it delivers to customers provided that the Commission determines fluoridation is in the best interest of customers and that Golden State is authorized to fully recover the related capital costs and operating expenses.

31. In Clearlake, Golden State forecasted Water Loss to be 47.48% in 2008 and DRA estimated this figure to be 35.35%. These figures are significantly above the

Water Loss experienced in the other CSAs and significantly above the 7% target we adopted in D.07-05-062.

32. The City of Ojai expressed concern that rate increases in Ojai would not be accompanied by an increase in customer service and water quality. We expect to see improvements in water quality and service reliability as a result of the projects approved herein.

33. Golden State's application included information on its water quality compliance in each CSA. All of this information was admitted into evidence without cross-examination or objection. The company's presentation was based on existing data and provided descriptions of water sources, treatment methods, problem areas and future corrective measures where applicable, for all seven districts.

Conclusions of Law

1. This decision approves various general rate increases for the years 2008, 2009, and 2010 for seven Golden State CSAs. These seven CSAs are Arden Cordova, Bay Point, Clearlake, Los Osos, Ojai, Santa Maria, and Simi Valley. Together these CSAs are referred to as Region I of Golden State's service area.

2. While the rates for year 2008, the test year, are set by this decision, the rate adjustments for the second and third years, 2009 and 2010, will be specifically determined when advice letters for those two years are filed prior to years 2009 and 2010.

3. The evidentiary record supports concerns raised by the public and today's decision seeks to address these matters.

4. Prior to adopting any settlement, such as the Stipulation presented by DRA and Golden State, the Commission must review the settlements to ensure that the agreement is "reasonable in light of the record, consistent with the law,

and in the public interest,” as required by Article 12 of the Commission’s Rules of Practice and Procedure.

5. We also take into consideration that the Commission has long favored the settlement of disputes. This policy supports many worthwhile goals, including reducing the expense of litigation, conserving scarce Commission resources, and allowing parties to reduce the risk that litigation will produce unacceptable results.

6. The Commission's policy is that contested settlements or settlements entered into by some, but not all, of the parties should be subject to more scrutiny compared to an all-party settlement.

7. For these reasons, we will review the Stipulation's resolution of every contested issue, considering each issue raised by the City of Ojai and Kathy Staples.

8. DRA is charged with upholding the ratepayers’ long-term economic best interests.

9. The Stipulation represents a compromise between DRA and Golden State arrived at through extensive negotiations in the interest of avoiding the expense and uncertainty inherent in litigation.

10. In each case, the results are supportable within the range of possible outcomes based on the whole record.

11. We conclude that the sponsoring parties of the Stipulation are fairly representative of the affected interests.

12. The Stipulation is reasonable in light of the whole record consistent with applicable law, and in the public interest.

13. The principal public interest affected by this proceeding is the delivery of safe, reliable water service at reasonable rates. The Stipulation advances that interest.

14. There is a strong public policy in favor of settling disputes to avoid costly and protracted litigation. The Stipulation promotes that policy as well.

15. Throughout this decision, each provision of the Stipulation is separately analyzed to ensure consistency with the reasonableness standard set forth in Article 12 of the Commission's Rules of Practice and Procedure.

16. We conclude that the Stipulation is in the public interest and should be approved.

17. In D.07-11-037, the Commission determined the percentage of the San Dimas general office costs to be allocated to Region I.

18. In future rate cases, we direct Golden State to present its labor expense projections consistent with our finding in D.05-07-044.

19. We approve of Golden State's request to add a Northern District Water Conservation Coordinator position based on our priority to pursue water conservation efforts.

20. We approve of the additional position referred to as the Coastal District Engineering Technician III position because relying on untrained employees from the seven CSA to perform the work of an engineering technician is not best way to use the company's resources.

21. We approve of the addition of a Water Supply Operator II in Los Osos and in Simi Valley to help Golden State maintain the highest standards of water quality, as encouraged by the Water Action 2005.

22. Because of the high level of skill needed to create Master Plans, we approve of Golden State's request to contract with CH2MHILL to complete the Master Plans.

23. We will require competitive bidding on all jobs proposed by a Master Plan designed by CH2MHILL on which CH2MHILL seeks to perform any type of work.

24. Because the useful life of these Master Plans will extend beyond the current rate cycle and to reduce the rate impact of the costs associated with these Master Plans, we accept Golden State's proposal to amortize the costs of these Master Plans in accordance with the composite rate for each district, which on average means 10.15%.

25. Regarding the overhead allocation rate, we find Golden State's proposal is not adequately supported by the record. We also find that DRA's analysis fails to take into account several important factors. Accordingly, based on our recent findings in D.07-11-037, we adopt overhead rates of 26.12% (2007), 26.37% (2008), and 26.37% (2009).

26. We will permit Golden State to continue to zero out the overhead pool account by charging the balance to various capital projects. However, we are concerned with ongoing over-allocation to the overhead pool account. We advise Golden State that it must improve the allocation process so that there is less of an annual discrepancy. Therefore, by July 1, 2008, as part of Golden State's GRC for Region II, Region III and General Office, Golden State must present a better more robust allocation process or risk a Commission audit.

27. We have supported a 5% contingency rate for Golden State in a prior decision resolving a Golden State's GRC.

28. While we have an obligation to set a fair rate of return, we must balance this obligation with our duty to protect customers from unjust prices.

29. We find the proposal for CARW for Region I reasonable under Rule 12.1.

30. With the exception of the addition of low income rates, we make no modifications to rate design.

31. Golden State requests minor modifications to its existing tariff maps. These requests are reasonable.

32. As indicated herein, we approve of the capital projects requested by Golden State with the exception of the request for costs associated with installation of services in the Ojai CSA.

33. We find that fluoridation in Bay Point is in the public interest.

34. We expect Golden State to make progress on reducing its Water Loss in Clearlake and to seek any additional Commission approvals necessary to accomplish this goal.

35. Golden State's water quality presentation for the seven districts in this proceeding meets the requirements set forth in GO 103. Importantly, Golden State has made and continues to make substantial progress in improving water quality. We, in turn, will continue to monitor Golden State's water quality with the expectation that we will see results.

O R D E R

IT IS ORDERED that:

1. The Joint Motion of Golden State Water Company (Golden State) and Division of Ratepayer Advocates (DRA) to Adopt Stipulation filed on August 17, 2007 is granted. The Stipulation, attached to that motion is approved.
2. Golden State is authorized to file in accordance with General Order (GO) 96-B and make effective on not less than five days' notice revised tariff schedules via a Tier 2 advice letter for each district and rate area in this proceeding, reflecting the adopted rates for test year 2008 included as Attachment C to this order. The revised tariff schedules shall apply to service rendered on and after the date this decision is mailed and no sooner than January 1, 2008.
3. For escalation years 2009 and 2010, Golden State shall file advice letters in conformance with GO 96-B proposing new revenue requirements and corresponding revised tariff schedules for each district and rate area in this proceeding. Golden State's advice letters shall follow the escalation procedures set forth in the Commission's Rate Case Plan for Class A Water Utilities set forth in D.07-05-062 and shall include appropriate supporting workpapers. The revised tariff schedules shall take effect on January 1, 2009 and January 1, 2010, respectively and shall apply to service rendered on and after their effective dates. The proposed, revised revenue requirements and rates shall be reviewed by the Commission's Water Division. Water Division shall inform the Commission if it finds that the revised rates do not conform to the Rate Case Plan, this order, or other Commission decisions, and if so, reject the filing.

4. The capital structure, cost of debt, rate of return on equity, and rate of return on rate base shown in the Stipulation are adopted for the 2008, 2009, and 2010 General Rate Case (GRC) cycle.

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

6. We direct Golden State to implement its California Alternative Rates for Water (CARW) program for Region I as soon as possible within 90 days of the issuance of this decision.

7. We find that fluoridation in Bay Point is in the public interest. Accordingly, we direct Golden State to file an advice letter within 180 days proposing to fluoridate the water in Bay Point. The advice letter must describe the costs associated with fluoridation and propose a cost recovery mechanism. This advice letter will be a Tier 3 advice letter and must be served on the service list of this proceeding. After review of the advice letter, if we find the costs associated with fluoridation reasonable, we will issue a resolution to direct Golden State to proceed.

8. By July 1, 2008, as part of Golden State's scheduled GRC, Golden State must present an improved overhead allocation process or risk a Commission audit.

9. We expect Golden State to make progress on reducing its Water Loss in Clearlake and to seek any additional Commission approvals necessary to

accomplish this goal. Toward this end, Golden State must file an advice letter within 120 days of the date of this decision with a proposal to reduce Water Loss in the Clearlake CSA. Upon reviewing this advice letter and finding the proposal reasonable, Water Division shall issue a resolution either approving of the advice letter or requiring further improvement on the situation.

10. We direct Golden State to meet with the City of Ojai, at the City's invitation, to discuss matters related to water quality and service reliability. Furthermore, we direct the City of Ojai to contact the Commission with any unresolved concerns regarding water quality and service reliability at the conclusion of these meetings. Then, the Director of the Water Division shall recommend a procedure to the Commission for investigating this matter further.

11. The summaries of earnings are presented herein at Attachment B, the adopted rate bases at Attachment F herein, and the quantities and income tax calculations are included at Attachments D and G to this order. A comparison of present rates and adopted rates for 2008 is attached hereto as Attachment E.

12. In the future, Golden State must conform its practices in Region I to the requirements set forth in D.07-05-062.

13. Golden State's requests in Application (A.) 07-01-009 through A.07-01-015 are granted as set forth above, and in all other respects are denied.

14. A.07-01-009, A.07-01-010, A.07-01-011, A.07-01-012, A.07-01-013,
A.07-01-014 and A.07-01-015 are closed.

This order is effective today.

Dated January 31, 2008, at San Francisco, California.

MICHAEL R. PEEVEY
President
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
TIMOTHY ALAN SIMON
Commissioners