STATE OF CALIFORNIA EDMUND G. BROWN JR., *Governor*

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

F I L E D
08-26-11
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August 26, 2011

Agenda ID #10628
Ratesetting

TO PARTIES OF RECORD IN APPLICATION 10-07-019

This is the proposed decision of Administrative Law Judge (ALJ) Hecht, previously designated as the presiding officer in this proceeding. It will not appear on the Commission's agenda sooner than 30 days from the date it is mailed. This matter was categorized as ratesetting and is subject to Pub. Util. Code § 1701.3(c). Upon the request of any Commissioner, a Ratesetting Deliberative Meeting (RDM) may be held. If that occurs, the Commission will prepare and publish an agenda for the RDM 10 days beforehand. When the RDM is held, there is a related ex parte communications prohibition period. (See Rule 8.3(c)(4).)

When the Commission acts on the proposed decision, it may adopt all or part of it as written, amend or modify it, or set it aside and prepare its own decision. Only when the Commission acts does the decision become binding on the parties.

Parties to the proceeding may file comments on the proposed decision as provided in Article 14 of the Commission's Rules of Practice and Procedure (Rules), accessible on the Commission's website at www.cpuc.ca.gov. Pursuant to Rule 14.3, opening comments shall not exceed 25 pages.

Comments must be filed pursuant to Rule 1.13 either electronically or in hard copy. Comments should be served on parties to this proceeding in accordance with Rules 1.9 and 1.10. Electronic and hard copies of comments should be sent to ALJ Hecht at jhe@cpuc.ca.gov and assigned Commissioner. The current service list for this proceeding is available on the Commission's website at www.cpuc.ca.gov.

/s/ KAREN V. CLOPTON
Karen V. Clopton, Chief
Administrative Law Judge

KVC:avs

Attachment

Decision **PROPOSED DECISION OF ALJ HECHT** **(Mailed 8/26/2011)**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of San Gabriel Valley Water Company (U337W) for Authority to Increase Rates Charged for Water Service in its Los Angeles County Division by $10,232,700 or 17.8% in July 2011, $1,767,700 or 2.6% in July 2012, and $2,245,800 or 3.2% in July 2013 and in its Fontana Water Company division by $1,252,200 or 2.1% in July 2011.	Application 10-07-019 (Filed July 16, 2010)

(See Appendix F for List of Appearances)

DECISION APPROVING SETTLEMENT AND AUTHORIZING REVENUE REQUIREMENTS FOR THE SAN GABRIEL VALLEY WATER LOS ANGELES DIVISION

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DECISION APPROVING SETTLEMENT AND AUTHORIZING REVENUE REQUIREMENTS FOR THE SAN GABRIEL VALLEY WATER LOS ANGELES DIVISION

1. Summary

This decision approves a settlement between San Gabriel Valley Water Company and the Division of Ratepayer Advocates, resolves other issues related to San Gabriel's Los Angeles District, and authorizes a revenue requirement for this district. The revenue requirement for the Los Angeles District is $64,151,400, an 11.71% increase for the 12 months beginning July 1, 2011. The rates will be adjusted for 2012 and 2013 consistent with the existing water company rate case plan (Decision 07-05-062). Most issues related to the San Gabriel Water General Office Division are deferred to the next San Gabriel Water Company Fontana District General Rate Case.

In addition to adopting the partial settlement between San Gabriel Valley Water Company and the Division of Ratepayer Advocates, this decision declines to adopt a balancing account requested by San Gabriel Valley Water Company for its employee health and dental expenses, and finds that, consistent with Commission Decision 10-10-018, expenses related to San Gabriel Valley Water Company's Water Quality Litigation Memorandum Account must be subtracted from the credit balance in that account before being collected from ratepayers. This decision also finds that outside legal costs incurred to enforce a contract stemming from a settlement agreement related to water contamination, as ongoing legal expenses required to enforce a contract, will be considered A&G expenses and collected as part of the company's revenue requirement.

This proceeding is closed.

2. Background

The Commission regulates water service provided by Class A water utilities pursuant to Article XII of the California Constitution and the Public Utilities Code.[1] For Class A water utilities, Pub. Util. Code § 455.2, as implemented in Decision (D.) 04-06-018 and updated in D.07-05-062, provides for a general rate case proceeding every three years.

San Gabriel Valley Water Company (San Gabriel) is a Class A water company that provides public utility water service in the counties of Los Angeles and San Bernardino through two operating divisions and a general office division (the General Division). San Gabriel serves approximately 48,000 customers in the Los Angeles Division and an additional 44,000 customers in San Bernardino County through its Fontana Division as of December 2009. The General Division provides services common to the Los Angeles and Fontana Divisions, the costs of which are allocated to these divisions.

On July 16, 2010, San Gabriel filed the above-captioned application to increase rates charged for water service in its Los Angeles Division by $10,232,700 or 17.8% in July 2011, $1,767,700 or 2.6% in July 2012, and $2,245,800 or 3.2% in July 2013. In its application, San Gabriel also sought to increase rates charged for water service in its Fontana Division by $1,252,200 or 2.1% in July 2011, due to expenses in its General Division. This application involves only the Los Angeles Division and the General Division serving both areas.

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[1] A Class A utility is defined as an investor-owned water utility with over 10,000 service connections.

3. Procedural Background

On July 16, 2010, San Gabriel filed its general rate case (GRC) Application (A.) 10-07-019. The Division of Ratepayer Advocates (DRA), the City of El Monte, and the City of Fontana all filed timely protests to the application by August 20, 2011. The assigned Administrative Law Judge (ALJ) held a prehearing conference on September 2, 2010; representatives of the Cities of Fontana and El Monte participated in the prehearing conference via telephone. At the prehearing conference, the city of El Monte requested that a public participation hearing (PPH) be held in the El Monte area.

On October 27, 2010, then-assigned Commissioner Bohn and the assigned ALJ issued a scoping memo setting the procedural schedule for A.10-07-019. According to this schedule, evidentiary hearings were to be held December 15-22, 2010. Settlement negotiations started in early December 2010 after the service of opening and rebuttal testimony, and continued through the period originally reserved for evidentiary hearings, which were delayed at the parties' request. At a brief evidentiary hearing on January 5, 2011, the parties informed the ALJ that all but three issues raised in the application had been settled, and that the parties were willing to forego extensive evidentiary hearings, have the witnesses' prepared testimony and other exhibits received into the record with only limited cross examination related to two of the three unresolved issues, and address the remaining issues in briefs.

The ALJ directed the parties to submit any settlement agreement in the case no later than 30 days after the close of the evidentiary hearing, and San Gabriel and DRA filed their motion for adoption of the settlement agreement on January 27, 2011. On January 28, 2011, San Gabriel and DRA filed opening briefs on the remaining disputed issues; the same parties filed reply briefs on

February 18, 2011. Subsequently, the City of El Monte withdrew its request for a PPH. Consultation with the Commission's Public Advisor's office showed that no parties had contacted either the Commission or San Gabriel in connection with this proceeding, and that previous PPHs held for general rate cases affecting this area had been sparsely (if at all) attended. As a result, the PPHs scheduled for this proceeding were cancelled, and the record was submitted for decision as of March 22, 2011.

4. The Settlement

On January 27, 2011, San Gabriel and DRA (the settling parties) filed a joint motion for adoption of a settlement agreement addressing most issues in the proceeding. The settlement describes in detail the parties' initial positions, areas of disagreement, and the final resolution of each item. Settlement was achieved in a number of ways: parties agreed on one party's original position for some issues; in other cases new or corrected information was provided altering one party's initial position; or a compromise position was agreed upon by the parties. The settlement resolves all but three disputed issues, two of which relate to the treatment of specific legal costs incurred by San Gabriel. The final disputed issue is San Gabriel's request for balancing account treatment of employee health and dental expenses. Those issues are addressed later in this decision.

Though the settlement is not an all-party settlement (because the cities of El Monte and Fontana chose not to become signatories), the motion for approval of the settlement agreement notes that the settling parties understood that no parties would oppose the settlement. Consistent with this assertion, no parties filed comments on the settlement during the 30-day comment period allowed in

Rule 12.2.[2] The following section summarizes the final settlement; the final settlement itself, as adopted in this decision, is contained in Appendix E to this decision.

4.1. Los Angeles District: Settlement of Issues Affecting Revenues

4.1.1. Customer Forecasts

In testimony, San Gabriel and DRA disagreed on the forecasted number of customers in the "Residential – Single Family" and "Residential – Multi-Family" customer classes within the Los Angeles district for the period covered in this general rate case, but agreed on estimates for the other eight customer classes. San Gabriel estimated that the number of customers in these two residential classes would not change during this rate case cycle, whereas DRA estimated that the number of customers in these two classes would grow or shrink at their 5-year recorded average rates. The absolute difference between the two estimates was small, and the settlement agrees to use the San Gabriel estimates for the two disputed categories. The following tables show the projected customer estimates, by customer class, agreed on in the settlement:

[2] All references to rules are to the Commission's Rules of Practice and Procedures, unless otherwise specified. These rules are available on the Commission's Web site at: http://www.cpuc.ca.gov/word_pdf/RULES_PRAC_PROC/63835.doc.

Customer Class	Number of Customers		
	Test Year 2011-2012	**2012-2013**	**2013-2014**
Residential – Single Family	38,122	38,122	38,122
Residential – Multi-Family (Small)	3,086	3,086	3,086
Residential – Multi-Family (Large)	155	155	155
Commercial (Small)	4,705	4,705	4,705
Commercial (Large)	237	237	237
Industrial (Small)	14	14	14
Industrial (Large)	24	24	24
Public Authority (Small)	298	298	298
Public Authority (Large)	97	97	97
Recycled Water	28	30	31
Total	**46,766**	**46,768**	**46,769**

4.1.2. Forecast Sales per Customer

San Gabriel and DRA disagreed on the forecast sales per customer for all customer classes for both the test year and the escalation years. San Gabriel estimated that the number of customers in these two residential classes using the generally accepted New Committee Method, but made annual downward adjustments to reflect expected water conservation. In contrast, DRA initially argued that conservation adjustments were not allowed under the Commission's Rate Case Plan for certain customer classes. The absolute difference between the parties' estimates for most customer classes was small. Under the settlement agreement, parties accepted San Gabriel's forecast for all customer classes other than the Industrial (Small) class, and the DRA forecast was accepted for that one class. Parties also accepted the tier allocation (Tier 1 - 55%/Tier 2 - 45%) adopted

in D.10-04-031. The following table shows the projected sales estimates, by customer class, agreed on in the settlement:

Customer Class	Per Customer Sales (in hundreds of cubic feet)		
	Test Year 2011-2012	2012-2013	2013-2014
Residential – Single Family	187.84	186.2	186.2
Residential – Multi-Family (Small)	582	572	572
Residential – Multi-Family (Large)	5,011	4,953	4,953
Commercial (Small)	292	286	286
Commercial (Large)	7,536	7,412	7,412
Industrial (Small)	1,308	1,308	1,308
Industrial (Large)	32,764	32,181	32,181
Public Authority (Small)	523	510	510
Public Authority (Large)	7,847	7,618	7,618

4.1.3. Projected Water Loss

In testimony, San Gabriel projected a water loss percentage from water production based on the trend from 2007-2009, whereas DRA projected water loss based on a 5-year average. The settlement agreement uses the DRA projected water loss percentage of 5.6%, in conjunction with the settlement estimate on the number of customers and per-customer water usage described above.

4.1.4. Other Operating Revenue

In testimony, San Gabriel did not include future reimbursements from polluters under settlements related to San Gabriel Plants 4 and 8 as part of other operating revenues in Account 614; DRA's testimony assumed that San Gabriel would continue to receive such reimbursements. As a part of the

settlement agreement, DRA accepted San Gabriel's Test Year forecast, and in turn, San Gabriel agreed to record future reimbursements associated with Plants 4 and 8 in the Water Quality Memorandum Account.

4.2. Los Angeles District: Settlement of Issues Affecting Expenses

4.2.1. Forecasting Methodology and Escalation Factors

Despite using consistent inflation factors developed by the Commission, San Gabriel and DRA used different forecasting methodologies to develop the test year expense dollars. The settlement agreement notes that DRA identified errors in the inflation adjustments, which San Gabriel corrected in its rebuttal testimony, and the corrected numbers are reflected in the expense estimates used in the settlement. Parties agreed on escalation factors provided by DRA.

4.2.2. Operations and Maintenance Expenses

The Operations and Maintenance (O&M) expenses contained in the settlement agreement reflect parties' agreements on expenses in many areas. For some categories, the settlement adopts the position originally advocated by either San Gabriel or DRA, and in other instances, the parties developed a compromise position through negotiation. In a few cases, the parties used the same methodology and agreement on customer or sales estimates described above to resolve the conflict. The O&M expense amounts contained in the settlement are as follows:

O&M Expense Category	Settlement Amount
Purchased Power	$3,740,547
Purchased Water and Assessments	$14,056,000
Chemicals	$3,121,494
Transportation – Operation	$391,881
Transportation – Maintenance	$313,505
Materials and Supplies – Operation	$349,222
Materials and Supplies – Maintenance	$458,222
Miscellaneous – Operation	$586,549
Miscellaneous – Maintenance	$208,514
Outside Service – Operation	$1,460,248
Uncollectibles rate	0.1530 %

4.2.3. Administrative and General Expenses

The Administrative and General (A&G) expenses contained in the settlement agreement reflect parties' agreements on expenses in many areas. As in the case of the O&M expenses, in some cases the settlement adopts the position originally advocated by either San Gabriel or DRA, and in other instances, the parties developed a compromise position through negotiation. The A&G expense amounts contained in the settlement are as follows:

A&G Expense Category	Settlement Amount
Payroll expenses (Maintenance Man A)	$0
Regulatory Commission Expense (for GRC)	$161,667
Outside Legal Expense (Acct. 798) *	$205,074
Miscellaneous Expenses – Office Supplies and Other Expenses (Acct. 792)	$5,604
Administrative Expense Capitalized (Acct. 812)	($460,805) (credit)

* Partial settlement, excludes $166,000 for disputed contract litigation. See Section 8.3, below, for resolution of that disputed amount.

4.2.4. Pensions and Benefits

The Pensions and Benefits (P&B) expenses contained in the settlement agreement reflect parties agreements on expenses in many areas. As in the case of the O&M expenses, in some cases the settlement adopts the position originally advocated by either San Gabriel or DRA, and in other instances, the parties developed a compromise position through negotiation. The P&B expense amounts contained in the settlement for the Los Angeles district are as follows:

Pensions and Benefits	
Vacations, Holidays, and Sick Leave	$935,372
Pensions (401k)	$494,937
Health Insurance	$871,466
Dental Insurance	$ 59,092
Life Insurance	$ 28,741
Long Term Disability Insurance	$ 17,937

P&B amounts related to the General Division are discussed in Section 4.4.1, below.

4.2.5. Conservation Program

Conservation program issues resolved in the settlement include the conservation program budgets, a one-way balancing account for conservation expense, annual conservation reporting requirements, and a Web-site link for rebate programs. Under the settlement agreement, San Gabriel would receive a conservation program budget of $382,600, which represents a compromise between the San Gabriel and DRA litigation positions. Within the settlement agreement, San Gabriel agreed to the DRA proposal that authorized conservation expenses should be tracked in a one-way balancing account, agreed to implement the DRA recommendation that the main page of San Gabriel's Web site include a link to rebate programs, and agreed to conservation reporting requirements developed by the parties and set forth in the settlement agreement and its attachments.

4.2.6. Administration of Regulatory Accounts

In its application, San Gabriel requested authority to amortize in rates the balance in its supply cost balancing account; this treatment departed from an earlier San Gabriel plan to file an advice letter with the Commission's Division of Water and Audits seeking to amortize one or more of its regulatory accounts. After consultation with the Division of Water and Audits, parties agreed in the settlement that San Gabriel should be allowed to amortize over 12 months the October 2010 balance of $2,253,932 in its Purchased Power Balancing Account, using a surcharge of $0.1531/Ccf (per 100 cubic feet). The settlement agreement, and therefore this decision, does not address balances in any other San Gabriel Supply Cost Balancing Accounts.

4.3. Los Angeles District: Capital Projects

In its application, San Gabriel proposed a 4-year capital budget of $61,023,000 for 43 capital projects during calendar years 2010 through 2013. The settlement agreement reduces this amount, recommending approval of 38 projects, with a capital budget for this period of not more than $48,936,000. Of this total amount, $39,908,000 would be included in rate base on a forecasted basis, with up to the remaining $9,028,000 to be added by advice letter on a recorded basis after the projects are completed, are used and useful, and are placed into service. The funding difference between San Gabriel's original request and the settlement agreement reflects the parties' agreement to scale back certain projects and the fact that San Gabriel withdrew its request for funding of 5 projects from this GRC.

4.3.1. Projects in Ratebase on a Forecasted Basis

Under the settlement agreement, the parties would allow the following amounts into ratebase on a forecasted basis for the following capital projects:

Item	Amount
Plant 1	$30,000
Plant 2	$15,000
Plant 8	$42,000
Plant 12	$80,000
Plant 14	$750,000
Plant B1	$175,000
Plant B2	$6,000
Plant B6	$5,256,000

Plant B14	$248,000
Plant B15	$500,000
Plant B18	$543,000
Plant B20	$235,000
Plant G3	$912,000
Plant G4	$385,000
Plant G5	$25,000
Plant M1	$190,000
Plant M3	$1,120,000
Plant M4	$750,000
Plant W1	$360,000
Plant W6	$245,000
Central Basin	$1,895,000
Main Basin	$65,000
GIS	$530,000
Misc	$235,000
Mains	**$13,586,000**
Service	**$10,020,000**
Fire Services	$50,000
Meters	$180,000
Fire Hydrants	$600,000
Structures and Improvements	$100,000
Office Equipment	$45,000
Transportation and Equipment	$636,000
Communication	$21,000
Tools and Equipment	$78,000
Total	**$39,908,000**

4.3.2. Projects Requiring Future Advice Letter for Inclusion in Ratebase

The settlement agreement allows amounts for six capital projects to be entered into ratebase on a recorded basis through an advice letter process, with costs not to exceed the estimated per project amount included in the following table:

Item	Amount
Plant 1	$1,915,000
Plant 8	$2,880,000
Plant 11	$1,098,000
Plant B24	$600,000
Plant B27	$905,000
Plant G6	$1,630,000
Total	**$9,028,000**

The settlement provides that San Gabriel may file advice letters to enter the actual costs associated with these projects into ratebase, not to exceed the estimated amounts agreed upon in the settlement, after the project has been completed, is used and useful, and is placed into service. Under the provisions of the settlement, San Gabriel may file up to two advice letters related to these capital projects per fiscal year (July 1 – June 30), and costs for multiple completed projects may be included in a single advice letter.

4.4. General Division

General Division issues raised in this application include various costs for operating San Gabriel's central office serving both the Los Angeles and Fontana districts, as well as capital projects associated with the General Division. The settlement agreement defers several of the specific proposals related to

General Division capital projects to the next San Gabriel Fontana District GRC, which was filed in July 2011.

DRA and San Gabriel recommend a specific rate adjustment of $0.0455/Ccf to the Fontana Water Company division rate to recover the Fontana Division's portion of the General Division expenses contained in the settlement. Because the settlement defers a decision on additional issues that could affect the Fontana Division (such as General Division capital expenditures), this is the only effect on the Fontana Division's rates from this GRC. The General Division issues that are not deferred are resolved in the settlement agreement as described in the following subsections.

4.4.1. General Division Expenses

General Division expenses include costs for payroll expenses (including new positions and executive salaries), General Division O&M, A&G, P&B expenses, and other expenses. The table for P&B expenses includes only those expenses related to the General Division district; the P&B expenses related to the Los Angeles District are described in Section 4.2.4 above. The settlement agreement provides the following amounts for each General Division expense category:

General Division Expense Category	Settlement Amount
Payroll	
New Positions	
Contract Administrator	$0
Billing Administrator	$46,656
Network Administrator	$89,245
Technical Writer	$0

Senior Secretary	$56,401
USDP Coordinator	$73,919
Executive Salaries	
Executive Salaries	$1,731,972
Vacant Positions Filled	$316,991
Operating and Maintenance	
Outside Services Account 756	$2,767
Miscellaneous Account 773	$15,831
Outside Account Services Acct. 773	$834
Workers' Compensation Account 794	$44,312
Umbrella Insurance Policy Account 794	$372,345
Pensions and Benefits	
Materials and Supplies	$9,323
Miscellaneous (Account 795)	
Vacations, Holidays, and Sick Leave	$635,032
Pensions (401k)	$486,871
Health Insurance	$550,738
Dental Insurance	$37,377
Life Insurance	$18,177
Long Term Disability Insurance	$11,344
Other Expenses	
Regulatory Expense (other than GRC)	$42,275
Outside Legal Fees (Acct. 798-00)	$98,011
Outside Accounting Services (Acct. 805-05)	$109,000
Outside Maintenance Services	$159,237

Administrative Expense Capitalized	($125,000)
Administrative Expense Transferred to Affiliates	($83,588)
Improved Efficiency Savings	($40,200)

4.4.2 General Division Capital Projects

In this application, San Gabriel Valley Water made several requests for funding of capital projects within its General Division. These requests include four items related to San Gabriel's new Fontana Office Complex, and funding to renovate the company's office building in El Monte. In addition, San Gabriel requested funding for replacement of standard meters, and funding to begin deployment of meters equipped for automated meter reading. Finally, San Gabriel requested capital funding for office and transportation equipment.

In the settlement, DRA and San Gabriel agreed to defer all issues related to the Fontana Office Complex to San Gabriel's Fontana Division GRC, in order to avoid a potential conflict with the findings in a previous Commission decision, D.09-06-027, in San Gabriel's last Fontana Division GRC. Pending the resolution of these issues in the future Fontana Division GRC, the settlement contains amounts for requested Fontana Office Complex expenses that rely on the findings in D.09-06-027.

The settlement agreement contains the following agreements on expenses for other capital projects in San Gabriel's General Division:

General Division Capital Expenses	Amount
Fontana Office Complex (Findings consistent with D.09-06-027, issues deferred to next Fontana Division GRC)	
Building A Investment in Rate Base	$9,945,572
Allocation of Building A investment to General Division	$2,034,322
Issues Relating to Land Investment	$302,739
Issues Relating to Rental Expense Allowance	$131,200
El Monte Office Building Renovation (by future advice letter up to actual cost)	$600,000
Meters	
Standard	$1,540,000
AMR	$0
Office Equipment (Account 372)	$1,445,900
Transportation Equipment	$362,000

4.5. Uncontested Issues and Other

San Gabriel's application contains several requests that were essentially uncontested by other parties in this case. As noted in the settlement agreement, DRA accepted San Gabriel's recommended numbers or methods for calculating the following elements of San Gabriel's GRC: federal and state income tax expenses, other tax expenses, franchise fees, working cash, Net-to-Gross multiplier, and depreciation rates used to forecast depreciation expense and depreciation reserve. To the extent that the parties' positions on these issues differed in testimony, those differences were due to differences in forecast revenues, expenses, and/or capital investments. In the settlement, parties agree

to apply San Gabriel's proposed calculation methods to the settlement amounts for revenues, expenses, and/or capital investments to determine final forecasts for these categories.

Similarly, parties agree that San Gabriel's rates should be based on the application of the conservation rate design previously authorized in D.10-04-031 to the revenue requirement developed through the settlement agreement. This rate design is reflected in the tables in Appendix C and D to this decision. In addition, San Gabriel requests a Commission finding that its Los Angeles Division has been operating in compliance with state water quality standards since its last GRC, consistent with the finding of the Commission's Division of Water and Audits in a report submitted as part of this proceeding.[3]

5. Standard of Review for Settlements

Prior to adopting any settlement, the Commission must be convinced that the parties had a sound and thorough understanding of the application and of all the underlying assumptions and data included in the record. This level of understanding of the application and development of an adequate record is necessary to meet the requirements for considering any settlement. The requirements are set forth in Article 12 of the Commission's Rules, which provides in pertinent part:

> (a) Parties may…propose settlements on the resolution of any material issue of law or fact or on a mutually agreeable outcome to the proceeding. Settlements need not be joined by all parties; however, settlements in applications must be signed by the applicant….

[3] Exhibit DWA-1.

> The motion shall contain a statement of the factual and legal consideration adequate to advise the Commission of the scope of the settlement and of the grounds on which adoption is urged. Resolution shall be limited to the issues in that proceeding and shall not extend to substantive issues which may come before the Commission in other or future proceedings…
>
> (b) Prior to signing any settlement, the settling parties shall convene at least one conference with notice and opportunity to participate provided to all parties for the purpose of discussing settlements in the proceeding….
>
> (c) Settlements should ordinarily not include deadlines for Commission approval…
>
> (d) The Commission will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with law, and in the public interest.

In short, the settlement must comport with Rule 12.1(d), which requires a settlement be "reasonable in light of the whole record, consistent with the law, and in the public interest." We address below whether the settlement meets these three requirements. The Commission also takes into consideration a long-standing policy favoring settlements. This policy reduces litigation expenses, conserves scarce Commission resources and allows parties to craft their own solutions reducing the risk of unacceptable outcomes if litigated.[4]

This is the standard of review for this settlement. San Gabriel and DRA are the only parties to the settlement, which is unopposed. San Gabriel filed an application and submitted testimony explaining its request for rate increases in detail. DRA provided its analysis of the application, and the City of Fontana

[4] D.05-03-022 at 7-8.

served testimony, all of which was admitted into the record at the hearing held on January 5, 2011. DRA and San Gabriel filed opening and reply briefs. The settlement indicates that most of the differences were resolved by use of more recent data, or clarified information, or ultimately through compromise positions between the parties. The settlement does not violate any statute, Commission decision or rule. Thus, the settlement is consistent with law.

San Gabriel represents the interests of its shareholders. DRA represents the interests of San Gabriel's ratepayers. Thus, the settling parties fairly represent the affected interests. The Cities of El Monte and Fontana represent customers living in their areas, and are also ratepayers themselves; neither party objected to the settlement. The settlement results, overall and for most specific issues, are generally within the range defined by the testimony. Therefore, the settlement is reasonable in light of the whole record.

The settlement results in rates sufficient to provide adequate reliable service to customers at reasonable rates while providing San Gabriel with the opportunity to earn a reasonable return. The settlement provides the Commission with sufficient information to carry out its future regulatory obligations with respect to the parties and their interests. Thus, the settlement is also in the public interest.

As discussed in the preceding paragraphs, the settlement has met the standard of review for settlements in that it is reasonable in light of the whole record, consistent with the law and in the public interest. Therefore, the settlement is adopted.

6. Advice Letter Process for Certain Capital Projects

As described above, the settlement provides that part or all of certain capital projects be included in ratebase via an advice letter process after project

completion. The settlement applies this treatment to six projects in the Los Angeles District, as described in Section 4.3.2 above, and to the El Monte Office Building renovation project within the company's General Division, as noted in Section 4.4.2. Specifically, the settlement provides that the actual recorded costs of each of these projects, not to exceed the estimated amounts agreed upon in the settlement, may be placed into ratebase once construction of the particular project is completed and it is placed into service. The settlement does not specify the type of advice letter to be filed with the Commission to place these projects in ratebase, but does require that San Gabriel file not more than two such advice letters per year during the term of the settlement.

In approving the settlement, we allow these projects to be included in ratebase through an advice letter process. In addition to approving the advice letter requirements contained in the settlement, we require San Gabriel to use Tier 2 advice letters for this purpose, and to serve each advice letter on the most recent service list for this proceeding, as well as on the service list required under Commission General Order 96-B.

7. Burden of Proof Under Statute and Rate Case Plan

Pursuant to § 454(a), before implementing a rate increase, an applicant must make a "showing before the Commission," and the Commission must find that the proposed increase is "justified." As a result, the applicant in this case, San Gabriel, bears the burden of proving that its proposed rate increases are justified.

In adopting the revised Rate Case Plan, the Commission further articulated the required showing for a water utility's General Rate Case: "The utility's application for a rate increase must identify, explain, and justify the proposed increase." Specifically, the application must include testimony, with supporting

analysis and documentation, describing the components of the utility's proposed increase, for example, results of operations, and plant in service. All significant changes from the last adopted and recorded amounts must be explained, and all forecasted amounts must include an explanation of the forecasting method.

In considering each remaining disputed issue, we evaluate whether San Gabriel's showing meets our standards for justifying a rate increase or otherwise approving the San Gabriel request. As set out below, we resolve the three remaining issues in dispute.

8.1. Balancing Account Treatment for Employees Health and Dental Expenses

In its application, San Gabriel requests authorization to establish a Health and Dental Expense Balancing Account. San Gabriel explains that the requested balancing account would track changes in San Gabriel's group health and dental insurance premiums, which San Gabriel describes as volatile, unpredictable, and beyond the utility's control. San Gabriel further argues that "the even greater uncertainty and changing conditions created by the ongoing health care debate and new national law" support the company's request for a balancing account by making premium costs less predictable. In addition, San Gabriel estimates that the magnitude of the health and dental premium expenses will be approximately 1.4% of the company's proposed revenue requirement in this application, which it characterizes as a significant cost to the company and its ratepayers.[5]

DRA, on the other hand, argues that creation of a balancing account would limit San Gabriel's incentive to control the health and dental premium

[5] SGVW Reply Brief at 18.

expenses for its employees by passing these costs through to ratepayers. DRA specifically argues the costs of health and dental premiums for its employees are within San Gabriel's control, because San Gabriel could adjust the terms of the health insurance it provides for its employees, make employees cover a greater share of the premium costs for the coverage provided, or "comparison-shop" for less expensive insurance if premiums are higher than expected or desired.[6]

San Gabriel and DRA both note that the company covers 100 percent of the premium costs for its employees and 60 percent of the premium costs for employees' dependents. In proposing balancing account treatment for these premium expenses, San Gabriel appears to assume that this level of company contribution, along with the current terms of the health and dental benefits, will continue for the foreseeable future. Based on this assumption, it is understandable that San Gabriel characterizes premium costs as beyond its control, and represents that the company is exposed to volatility in costs for a defined level of coverage, with the costs of that coverage set independently by insurance providers. San Gabriel further notes that two-way balancing accounts, the sort San Gabriel requests, do not solely pass through costs to consumers, but may also pass through savings to customers if costs decrease or are lower than expected.[7]

As DRA notes, however, not all companies provide the same type and level of health or dental insurance to their employees. San Gabriel's commitment to maintaining current benefit levels for its employees is laudable, however the proposal to create a two-way balancing account would require the Commission

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[6] DRA Reply Brief at 13-14.

to perform an after-the-fact reasonableness review of San Gabriel's expenditures to determine whether the Company's ratepayers to should bear the cost of this commitment. San Gabriel is correct in stating that a balancing account does not necessarily result in increased costs to ratepayers, and under certain circumstances may result in decreased costs or even credits to ratepayers. However, despite San Gabriel's argument that it is not requesting a balancing account simply because of an increasing trend in premium expenses, but rather because of unpredictability, volatility, and lack of control,[8] San Gabriel acknowledges that the current trend for health and dental premiums is one of increasing costs. San Gabriel uses the magnitude of those forecasted increases (and specifically the fact that they are much higher than the escalation factors applied to San Gabriel's costs) to support its request for a balancing account.[9] This argument tacitly acknowledges that in this case, San Gabriel expects the costs recorded in this requested balancing account to increase, at least in the immediate future. If so, the practical effect of adopting a balancing account would be that San Gabriel would ask to pass through increased costs to ratepayers, reducing the company's incentive to limit these costs. In addition, it is not clear how volatile the health and dental expenses will be in the next few years or the effect on costs (if any) of new state and federal health care laws, making a request to change treatment of these costs on the basis of new laws premature.

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[7] SGVW Reply Brief at 16.

[8] SGVW Reply Brief at 16.

[9] SGVW Reply Brief at 17.

For these reasons, we decline to approve San Gabriel's request for balancing account treatment of health and dental insurance premium expenses. We do not necessarily advocate a reduction in employees' benefits or an increase in the employee share of premium costs, as suggested by DRA; however, we note that there are many ways in which San Gabriel (or any company) may act to limit health and dental insurance premium expenses. It is reasonable to maintain the current funding mechanism for these costs, which ensures that San Gabriel has incentives to manage health and dental expenses in a cost-effective manner. The San Gabriel request for balancing account treatment of health and dental insurance premium expenses is denied for these reasons.

8.2. Request to Amortize Cost Balance from the WQLMA

In this application, San Gabriel requests authority to amortize in rates approximately $3.5 million in costs recorded in the company's WQLMA. San Gabriel argues that, based on Commission policy set in D.10-10-018, the company should be allowed to collect the amounts spent on water quality litigation. San Gabriel states that it should be able to collect from ratepayers both amounts spent as a defendant against customers complaining about water quality (as has been allowed in previous Commission decisions), and as a plaintiff attempting to collect expenses from polluters.[10] San Gabriel further argues that, under the terms of Commission Resolutions W-4089 (approving the creation of the first WQLMA for Southern California Water Company and encouraging other companies to file for their own, similar accounts) and W-4094 (approving San Gabriel Advice Letter 300 and authorizing its WQLMA), the only

[10] SGVW Opening Brief at 6-11.

amounts appropriately included in these accounts are litigation costs relating to water contamination lawsuits.

San Gabriel also suggests that D.10-10-018 supports its request to amortize recorded costs because it provides a mechanism for water companies to periodically collect those costs.[11] D.10-10-018 adopts a "combined trigger" default mechanism to allow water companies to avoid major delays in receiving funding for their litigation costs. Under this mechanism, water companies may recover costs recorded in their balancing accounts "which ever of the following occurs first, reaching the monetary threshold of 2% of revenue requirement or the elapsing of three years from the date the memorandum account was established."[12] Because San Gabriel's memorandum account was created by the company's Advice Letter 300, effective January 29, 1998, San Gabriel states that it meets the trigger mechanism criterion that more than three years have elapsed since the account's establishment, and it should be allowed to recover the recorded costs. San Gabriel further notes that in past GRCs, it has been allowed to recover costs related to defending itself against litigation related to water contamination, which the company says establishes a precedent for recovering at least defense-related costs from customers, leaving only the plaintiff-related costs and as-yet-unrecovered defense related costs at issue here. San Gabriel asserts in its briefs that the $11 million credit balance currently in its WQLMA represent proceeds from general damage settlements from polluters and accrued interest, and that "none of those proceeds relate to or result from San Gabriel's defense of

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[11] San Gabriel Opening Brief at 9-10.

[12] D.10-10-018 at 54.

toxic tort litigation,"[13] once again drawing a distinction between plaintiff and defense-related amounts recorded in the account, as well as between expenses incurred through litigation as opposed to through other contamination-related activities.

DRA opposes the request to amortize some or all of the costs, arguing that the same decision cited by San Gabriel, D.10-10-018, requires water companies to subtract costs from the gross proceeds of insurance amounts, settlements, or awards, before collecting any net costs from ratepayers. Based on this interpretation, DRA argues that the approximately $3.5 million in costs recorded in the WQLMA should be offset from the approximately $11 million credit in the WQLMA, in which case no money would need to be collected from ratepayers at this time.

D.10-10-018 deals largely with rules for the sharing between ratepayers and utility shareholders of contamination-related proceeds collected from polluters, government entities, insurance companies, or others. As noted by San Gabriel, that decision does establish an interim method for recovering costs when cost recovery has been delayed. However, in discussing the sharing of proceeds, D.10-10-018 also addresses the issue of cost recovery from ratepayers in its definition of "net proceeds" for the purpose of sharing between ratepayers and shareholders. D.10-10-018 defines net proceeds as:

> Gross proceeds received minus all (1) reasonable legal expenses related to litigation, (2) costs of remedying plants, facilities, and resources to bring water supply to a safe and reliable condition…, and (3) all other reasonable costs and expenses that are a direct result and would not have been

[13] SGVW Reply Brief at 9.

> incurred in the absence of such contamination, including all relevant costs already recovered from ratepayers (for which they have been, or will be, repaid or credited).[14]

This definition does not distinguish between defense-related and plaintiff-related costs, and in adopting this definition, the Commission clearly stated that all costs "that are a direct result and would not have been incurred in the absence of such contamination," not only litigation costs, should be subtracted from gross proceeds before sharing of those proceeds. This is consistent with the principle expressed in Resolution W-4089, which allowed the creation of the first WQLMA by Southern California Water Company and allowed other water companies to request similar accounts, which ordered the affected utilities to "use every means possible to maximize insurance proceeds and to seek restitution from the polluters… so as to lessen any possible regulatory burden on… customers."[15] Though Resolutions W-4089 and W-4094 do appear to limit the WQLMAs to litigation costs, San Gabriel has been required to record proceeds from litigation or settlements related to litigation, resulting in the credit balance in that account today.

As exemplified in our past orders, the Commission has consistently provided that, to the extent possible, ratepayers should be shielded from costs stemming from water contamination. Neither the original advice letter and resolutions establishing San Gabriel's WQLMA nor D.10-10-018 distinguish between defense-related and plaintiff related costs for the purposes of cost recovery. The Commission requires that water companies in general (and

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[14] D10-10-018 at 46.

[15] Res. W-4089, OP 2.

therefore San Gabriel in particular) are to collect as much as possible from insurers, polluters, and other non-ratepayer sources to cover costs related to contamination, and D.10-10-018 contemplates those proceeds including costs of remediation, litigation, and "all other reasonable costs and expenses that are a direct result and would not have been incurred in the absence of such contamination" being recorded in the utilities' WQLMAs and offset against costs before sharing residual amounts (beyond expenses) between ratepayers and shareholders. D.10-10-018 further requires a utility to share with ratepayers any proceeds in excess of those costs, again without regard to whether those proceeds were collected from litigation in which the company was a plaintiff or a defendant, or from a settlement, insurance claim, or other action related to contamination. In fact, the definition of net proceeds assumes that before sharing between ratepayers and shareholders takes place, costs previously collected from ratepayers would be refunded to consumers. Consistent with the principle that ratepayers should be shielded from bearing contamination-related costs to the extent possible, D.10-10-018 assumes that amounts collected from ratepayers will be refunded to them out of gross proceeds before a determination is made of the net proceeds amount that can be shared between ratepayers and shareholders.

Under D.10-10-018, whether the costs (or credits) reflected in the WQLMA represent plaintiff-related or defense-related activities is not relevant to the determination of how or when they should be recovered from or shared with ratepayers. Similarly, D.10-10-018 provides that all proceeds in WQLMAs, regardless of whether they are labeled as "litigation-related," shall be used to reduce the burden of litigation costs on ratepayers. Given the consistently expressed principle that ratepayers should not be charged for contamination expenses that can be recovered from a more appropriate source, it would not be

reasonable to collect from ratepayers any costs recorded in San Gabriel's WQLMA when that account holds a credit balance. Doing so would require ratepayers to cover, at least in the short term, costs that not only can be, but apparently have been, collected from another source.

For these reasons, San Gabriel's request to amortize the expenses recorded in its WQLMA is denied. San Gabriel did not request sharing of the credit balance in its WQLMA in this GRC, and such a determination is not within the scope of this proceeding. In addition, it appears from the information available in the record that San Gabriel continues to be involved in litigation and other activities that may affect the credit or expense balances in this account, which could make such a sharing request premature. As a result, the record in this case does not include sufficient information to determine a "net proceeds" amount for sharing or a sharing allocation between ratepayers and shareholders, so that question is not resolved in this decision. Other issues of cost recovery or sharing of balances in the WQLMA may be included in the scope of a future proceeding, as appropriate.

8.3. Outside Legal Costs Related to Baldwin Park Operables Unit Settlement Agreement

San Gabriel asserts that its forecasted annual expenses of $166,000 for outside legal services to defend against contract disputes arising from administration of the Baldwin Park Operable Unit (BPOU) Project Agreement should be included in its test year revenue requirement. San Gabriel included this amount in its original estimate of test year A&G expenses, and notes that foreseeable outside legal services are generally considered a component of a company's A&G expenses for the purposes of determining the test year revenue requirement. In addition, San Gabriel states that these costs are "necessary

ongoing costs for implementing a complex contract which is very beneficial to San Gabriel's customers."[16] As a legal expense that is foreseeable, ongoing, beneficial to San Gabriel's customers, and relates to disputes over a contract that is currently in place (not specifically to ongoing litigation that stems from water contamination lawsuits), the company asserts that these costs meet the requirements for inclusion in the test year A&G expenses and therefore in the company's test year revenue requirement.[17]

In contrast, DRA suggests that these annual costs should be recorded in San Gabriel's WQLMA, and are not appropriate for inclusion in the test year revenue requirements. DRA explains that the legal services funded by this item relate to disputes over a contract that ultimately stems from a settlement agreement between San Gabriel and various entities accused of contaminating the San Gabriel water supply. The settlement agreement resolves earlier litigation among those parties related to water contamination of the company's Baldwin Park Operables Unit. Because the costs relate to a settlement agreement resolving contamination litigation, the legal costs are "contamination-related legal expenses" that must be handled through the WQLMA. DRA cites D.10-10-018 in support of its position, stating that the decision requires all contamination-related costs to be included in the litigation memorandum account.[18] DRA also states that this is consistent with Resolutions W-4089 and W-4094, which authorize San Gabriel's WQLMA.

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[16] SG Reply Brief at 4 and testimony SG-11 at 2-3.

[17] Parties settled other aspects of this category, as discussed in Section 4.2.3 above, leaving this issue unresolved.

[18] DRA Opening Brief at 3-4.

The parties characterize their dispute as turning on the question of whether the money at issue is fundamentally a water quality litigation expense and (as such) necessarily handled through the WQLMA, or an ongoing foreseeable expense over a new contract dispute, which is traditionally recovered through rates. These characterizations are not mutually exclusive. As both parties implicitly acknowledge, the amount at issue is an ongoing and foreseeable expense, and that expense ultimately stems from water quality litigation (in this case, a settlement agreement or contract ostensibly resolving that litigation). In this case, the more relevant questions are: should this particular ongoing and foreseeable expense be collected in rates even though the contract stems from water contamination, or should it be included in the WQLMA because it ultimately stems from water contamination, despite the fact that the expense is an ongoing and foreseeable expense that otherwise would be considered in the A&G budget?

Unfortunately, neither D.10-10-018 nor the resolutions establishing San Gabriel's WQLMA explicitly address the treatment of ongoing costs from long-term contracts or other agreements arising from water quality litigation. The resolution that orders San Gabriel to submit an advice letter requesting the WQLMA states that, in addition to including the costs of defending itself against lawsuits related to water contamination, "[r]easonable legal expenses associated with [attempts to collect from insurance companies or polluters] would also be considered appropriate for inclusion in the memorandum account." This stops short of requiring that specific expenses be included in the WQLMA.

Neither the original Commission resolution authorizing the WQLMA nor any more recent Commission decision require that predictable ongoing expenses should be included in the WQLMA, and consistent with general

ratemaking principles, we find that such costs should be paid as they are incurred, by the ratepayers benefiting from the expenditures. Despite the fact that these costs relate to enforcement of a contamination-related settlement agreement, they are predictable expenses that are appropriately included in forecast A&G expenses. We find that the disputed costs, as ongoing legal expenses required to enforce a contract, should be considered A&G expenses and collected as part of the company's revenue requirement.

9. Motion for Interim Rates

When a proposed decision was not issued by May 24, 2011, the final date to allow for a proposed decision to undergo the standard 30-day review and comment period and appear on the Commission's last June 2011 agenda, it became apparent that a decision was not likely to be issued by July 1, 2011, the date that current rates were due to expire. On May 27, 2011, San Gabriel filed a motion for interim rate relief to begin on July 1, 2011; San Gabriel followed this with an amended motion for interim rate relief filed on May 31, 2011. On June 24, 2011 consistent with D.07-05-062 (at 16), the Revised Rate Case Plan for Class A Water Utilities, the assigned ALJ in this proceeding issued a ruling granting interim rate relief in the company's Los Angeles District at the level of previous rates for the district, as requested in the amended motion filed on May 31, 2011. The June 24, 2011, ruling also authorized San Gabriel to create a memorandum account, the Interim Rates Memorandum Account, to track differences between the interim rates charged and those ultimately adopted through this proceeding. On June 29, 2011, San Gabriel filed an additional motion, requesting additional interim rate authority for its Fontana Division, which was unintentionally omitted from its amended motion for rate relief. This rate authority was also granted via ruling by the assigned ALJ.

This decision authorizes San Gabriel to amortize the difference between its interim rates and those adopted in its decision, as recorded in the memorandum account authorized in the June 24, 2011 ALJ ruling. San Gabriel may file a Tier 2 advice letter within 10 days of the effective date of this decision to amortize any balance in its Interim Rates Memorandum Account into the rates of relevant customers.

10. Comments on Proposed Decision

The proposed decision of ALJ Jessica T. Hecht in this matter was mailed to the parties in accordance with § 311 of the Public Utilities Code and comments are allowed pursuant to Rule 14.3 of the Commission's Rules of Practice and Procedure. Opening comments were filed by _____ on _____, and reply comments were filed by _____ on _____.

11. Assignment of Proceeding

Catherine J.K. Sandoval is the assigned Commissioner and Jessica T. Hecht is the assigned ALJ in this proceeding.

Findings of Fact

1. The San Gabriel Valley Water Company and DRA served a Settlement Agreement resolving most aspects of this proceeding on January 27, 2011.
2. San Gabriel and DRA are the only parties to the Settlement Agreement.
3. No parties oppose the settlement agreement.
4. The settlement agreement results in a Test Year 2011-2012 revenue requirement for the San Gabriel Los Angeles District of over $63 million.
5. The settlement agreement would allow a capital budget of $48,936,000 for San Gabriel's Los Angeles District during the term of this GRC, with $39,908,000 included in rate base on a forecasted basis, and up to $9,028,000 to be added by

advice letter on a recorded basis after the projects are completed, used and useful, and placed into service.

6. DRA and San Gabriel recommend a specific rate adjustment of $0.0455/Ccf to the Fontana Division rate to recover the Fontana Division's portion of the General Division expenses contained in the settlement.

7. The settlement agreement defers most capital requests related to San Gabriel's General Division to the next San Gabriel Fontana Division Rate Case.

8. A two-way balancing account passes increased or decreased costs directly to ratepayers if the Commission finds that those costs were incurred reasonably.

9. San Gabriel has some control over the costs of its employees' health and dental insurance premiums.

10. To the extent possible, all costs related to water quality contamination and related litigation should be borne by polluters.

11. San Gabriel did not request sharing of the credit balance in its WQLMA in this GRC, and such a determination is not within the scope of this proceeding.

12. Outside legal expense costs incurred to protect San Gabriel's rights under the BPOU Project Agreement, a contract between San Gabriel and other parties to settle contamination claims, are a predictable and ongoing expense that is appropriately included San Gabriel's A&G revenue requirement.

13. San Gabriel requested and received authority to collect interim rates beginning on July 1, 2011, the first day of its new test year.

14. San Gabriel is tracking the difference between interim rates and the rates adopted for Test Year 2011-2012 in its Interim Rates Memorandum Account.

Conclusions of Law

1. Rule 12.1(d) provides that the Commission will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with law, and in the public interest.

2. The settlement agreement is reasonable in light of the whole record, consistent with the law, and in the public interest.

3. It is reasonable to maintain the current funding mechanism for health and dental insurance costs, to ensure that San Gabriel has incentives to manage health and dental expenses in a cost-effective manner.

4. It is reasonable to require that contamination-related costs are collected from polluters to the extent possible.

5. It is reasonable for predictable, ongoing expenses to be collected as part of San Gabriel's revenue requirement.

6. It would not be reasonable to collect from ratepayers any costs recorded in San Gabriel's WQLMA when that account holds a credit balance.

7. It is reasonable to allow San Gabriel to amortize in rates, and collect from (or refund to) customers, the difference between its authorized interim rates tracked in its Interim Rate Memorandum Account and the rates adopted in this decision for Test Year 2011-2012.

O R D E R

IT IS ORDERED that:

1. The joint motion of San Gabriel Valley Water Company and the Division of Ratepayer Advocates to approve the settlement found at Appendix E is granted, as set forth in this Order.

2. The revenue requirement for the San Gabriel Valley Water Los Angeles District in Test Year 2011-2012 is $64,151,400, as shown in Appendix A.

3. San Gabriel Valley Water Company (San Gabriel) is authorized a capital budget of $48,936,000 for its Los Angeles District during the term of this general rate case. Of this total, $39,908,000 shall be included in ratebase on a forecasted basis, and up to $9,028,000 may be added by advice letter on a recorded basis after the projects are completed and placed into service.

4. A specific rate adjustment of $0.0455 per hundred cubic feet is adopted for San Gabriel Valley Water Company's Fontana Division to recover that division's portion of the General Division expenses contained in the settlement.

5. Capital requests related to the Fontana Office Complex are deferred to the next San Gabriel Valley Water Company Fontana District general rate case.

6. San Gabriel Valley Water Company may request the addition to ratebase of seven capital projects identified in this decision, upon completion of those projects, a showing the projects are used and useful, and their entry into service, through not more than two Tier 2 advice letters per fiscal year (July 1 – June 30). Each advice letter may contain costs related to more than one project, and shall be served on the most recent service list for this proceeding as well as the service list required under Commission General Order 96-B.

7. The request of San Gabriel Valley Water Company to create a balancing account for employee health and dental insurance premiums is denied.

8. The request of San Gabriel Valley Water Company to amortize in rates the costs currently included in its Water Quality Litigation Memorandum Account is denied.

9. The estimated costs of outside legal services related to defending the settlement agreement addressing water contamination in San Gabriel Water

Company's Baldwin Park Operable Unit shall be included in the company's A&G forecast and collected as part of the company's revenue requirement.

10. San Gabriel Valley Water Company is authorized to file by Tier 1 advice letter the revised tariff schedules attached to this order as Appendices A, B, C, and D, and to concurrently cancel its present schedules for such service. This filing shall be subject to approval by the Commission's Division of Water and Audits. The effective date of the revised schedule shall be five days after the effective date of this decision.

11. For escalation years 2012-2013 and 2013-2014, San Gabriel Valley Water Company shall file Tier 2 advice letters in conformance with General Order 96-B on or before May 16, 2012 and May 16, 2013 proposing new revenue requirements and corresponding revised tariff schedules, as set forth in the Commission's Rate Case Plan (Decision 07-05-062) for Class A Water Utilities. These advice letters shall include appropriate supporting workpapers. The revised tariff schedules shall take effect no earlier than July 1, 2012 and July 1, 2013, 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 Division of Water and Audits. The Division of Water and Audits 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, shall reject the filing.

12. San Gabriel shall file a Tier 2 advice letter within 10 days of the effective date of this decision to amortize in rates, and collect from (or refund to) customers, the difference between its authorized interim rates tracked in its Interim Rate Memorandum Account and the rates adopted in this decision for Test Year 2011-2012.

13. Application 10-07-019 is closed.

This order is effective today.

Dated _____, at San Francisco, California.

APPENDIX F
(List of Appearances)

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Last Updated on 23-AUG-2011 by: AMT A1007019 LIST

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