

# SAN GABRIEL VALLEY WATER COMPANY

April 18, 2012

Advice Letter 412-A

U337W

## TO THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

San Gabriel Valley Water Company ("San Gabriel") hereby requests ministerial review of the following changes in tariff sheets applicable to its Los Angeles County and Fontana Water Company divisions:

<b>CPUC Sheet No.</b>	<b>Title</b>	<b>Sheet No.</b>	<b>Canceling CPUC Sheet No.</b>
2108-W	Preliminary Statement (Continued)	N/A	1901-W
2109-W	Table of Contents	N/A	2107-W

This supplemental advice letter revises Advice Letter 412 to eliminate some existing language in Section I of the Preliminary Statement that is no longer required and modifies that section of the Preliminary Statement to apply to the 2012 Cost of Capital proceeding, as authorized by Decision 11-11-018 in Application 10-07-019. **This is designated as a Tier 2 Advice Letter** under Water Industry Rule 7.3.3(5).

### **Discussion**

In the last general rate case for the General Division (A.10-07-019), San Gabriel included in its forecast of the Regulatory Commission Expense the upcoming 2012 Cost of Capital Proceeding. As part of the settlement in that proceeding, San Gabriel and the Division of Ratepayer Advocates agreed that those costs should be recovered on a recorded basis rather than on a forecasted basis. Section III.D.1 of the settlement agreement between San Gabriel and the Division of Ratepayer Advocates (adopted in Ordering Paragraph No. 1 of D.11-

April 18, 2012

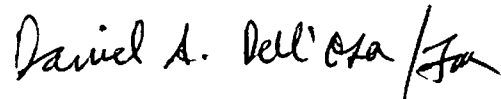
11-018), stipulated that “the cost that will be incurred for participation in the next Cost of Capital proceeding should be recorded in a memorandum account for later recovery.”

Section I of the Preliminary Statement in San Gabriel’s tariffs describes the Cost of Capital Litigation Memorandum Account utilized to record \$76,824 in costs for the 2009 Cost of Capital proceeding, of which Section III.D.1 of the Commission-approved settlement agreement authorized recovery. This supplemental advice letter deletes existing language in Section I of the Preliminary Statement that is no longer required and modifies that section to apply to the 2012 Cost of Capital proceeding as authorized by D.11-11-018. Copies of the relevant pages from D.11-11-018 are attached hereto.

No additional workpapers or earnings tests are associated with this advice letter. Distribution of this Advice Letter is being made to the attached service lists in accordance with Water Industry Rule 4.1 of General Order 96-B, and San Gabriel will post this Advice Letter on its website in accordance with Water Industry Rule 3.3. No further public notice is required because all public notices in connection with Application No. 10-07-019 have already been made in accordance with applicable law and Commission rules.

Thank you for your assistance in processing this tariff filing.

San Gabriel Valley Water Company



Daniel A. Dell'Osa  
Director of Rates and Revenue

cc: Bruce DeBerry, CPUC – Water Division  
Hani Moussa, CPUC – Water Branch, DRA  
Danilo Sanchez, CPUC – Water Branch, DRA

**PRELIMINARY STATEMENT**

(Continued)

**H. Implementation of Water Action Plan Objectives (WAP) Balancing Account For The Fontana Water Company Division**

1. Purpose: This temporary, one-way balancing account is established in accordance with Decision No. 08-08-018 in Application No. 07-08-017 to track amounts collected via the conservation expenses surcharge component and conservation expenses incurred up to an annualized limit. The prorated limit is the prorated portion of the \$305,000 annual budget.
2. The following entries will be made monthly to the WAP Balancing Account:
  - a. The recorded Conservation Surcharge revenues billed at the interim surcharge rate of \$0.015 per hundred cubic feet (credit).
  - b. Franchise fees and uncollectible account expense, based on 2a above and the CPUC-adopted rates for franchise fees and uncollectible accounts expense (debit).
  - c. Conservation program costs incurred up to the prorated portion of the \$305,000 annual budget (debit). The prorated portion of the annual budget is \$263,219 for the period August 21, 2008 through June 30, 2009. Conservation program costs will be recorded by the following categories:
    1. Education and Public Information Programs (capped at \$50,000)
    2. Residential (capped at \$228,600)
    3. Commercial, Industrial & Institutional (capped at \$262,500)
    4. Large Landscape (capped at \$123,800)
3. The balancing account will terminate when so ordered in a CPUC general rate case decision, at which time any credit (overcollection) balance will be amortized through a rate surcredit.

**I. Cost of Capital Litigation Memorandum Account**

In accordance with D.11-11-018, the Cost of Capital Litigation Memorandum Account will include the incremental costs incurred by San Gabriel Valley Water Company limited to incremental non-employee resources engaged in litigating the 2012 cost of capital proceeding. These costs are eligible for recovery in the next general rate case amortized over the life of the rate case cycle after San Gabriel Valley Water Company makes a persuasive showing in the next general rate case that the costs were incremental, reasonable, and prudently controlled and managed.

(D)  
(N)  
|  
(N)

(To be inserted by utility)

Advice Letter No. 412-A

Decision No. 11-11-018

Issued by

R.W. Nicholson  
NAME

President  
TITLE

(To be inserted by Cal. P.U.C.)

Date Filed \_\_\_\_\_

Effective \_\_\_\_\_

Resolution No. \_\_\_\_\_

**TABLE OF CONTENTS**

The following listed tariff sheets contain all effective rates and rules affecting the rates and services of the utility, together with information relating thereto:

<u>Subject Matter of Sheet</u>	<u>C.P.U.C. Sheet No.</u>
Title Page	1559-W
Table of Contents	2106-W 2109-W (C) 2032-W 1563-W 1637-W 2029-W
Preliminary Statement	634-W, 390-W, 2088-W, 2024-W, 2108-W, 2025-W, 2089-W, 2071-W, (C) 2060-W, 2061-W
Service Area Maps:	
Fontana Water Company	1533-W
Los Angeles County Division	
Service Area - East Portion	1183-W
- South Portion	869-W
- West Portion	1171-W
Area Maps of Less Than 40 p.s.i.g.	871-W 691-W to 697-W

<u>Rate Schedules</u>	<u>Schedule Number</u>		
All Tariff Areas			
Surcharge to Fund Public Utilities			
Commission Reimbursement Fee	AA-UF		1807-W
Fontana Water Company			
General Metered Service - General	FO-1		2063-W 2096-W
General Metered Service - Conservation	FO-1C		2101-W
Private Fire Service	FO-4	2066-W	1087-W 1476-W
Construction and Tank Truck Service	FO-9C		2067-W 1516-W
Service to Tract Houses During Construction	FO-9CL		2068-W
California Alternative Rates For Water	FO-CARW		2069-W 2098-W
Facilities Fees	FO-FF		1875-W 1876-W

*(continued)*

(To be inserted by utility)

*Issued by*

(To be inserted by Cal. P.U.C.)

Advice Letter No. 412-A

R. W. Nicholson

Date Filed \_\_\_\_\_

Decision No. 11-11-018

NAME

Effective \_\_\_\_\_

President  
TITLE

Resolution No. \_\_\_\_\_

Decision 11-11-018 November 10, 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**

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 \$63,973,500, 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.

## **APPENDIX E**

**Settlement Agreement Between DRA and San Gabriel Valley Water  
Company on Issues Presented in the Above-Captioned General Rate Case**

**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 )  
\$1,252,000 or 2.1% in July 2013. )

Application No. 10-07-019  
(Filed July 16, 2010)

**SETTLEMENT AGREEMENT BETWEEN THE DIVISION OF  
RATEPAYER ADVOCATES AND SAN GABRIEL VALLEY WATER COMPANY  
ON ISSUES PRESENTED IN THE ABOVE-CAPTIONED GENERAL RATE CASE**

**I. GENERAL PROVISIONS**

1. Pursuant to Article 12 of the Rules of Practice and Procedure ("Rules") of the California Public Utilities Commission ("Commission"), the Division of Ratepayer Advocates ("DRA") and San Gabriel Valley Water Company ("San Gabriel"), referred to collectively as "the Parties," have agreed on the terms of this Settlement Agreement which they now submit for review, consideration, and approval by the Commission. This Settlement Agreement settles all outstanding issues in this proceeding except for the following:

- San Gabriel's proposal to include forecasted outside legal expenses for defending against contract disputes under the Baldwin Park Operable Unit Project Agreement in Test Year Miscellaneous Expense – Outside Legal Expense (Acct. 798-00);
- San Gabriel's proposal to create a Health and Dental Expense Balancing Account;  
and
- San Gabriel's proposed amortization of outside legal expenses recorded in its Water Quality Litigation Memorandum Account.

2. The issues that the Parties agree to resolve through this Settlement Agreement are set forth in Sections II, III, and IV below. Section II addresses issues primarily relating to the Los Angeles County Division, while Section III addresses issues primarily relating to the General Office Division, but in some cases, as will be noted, the issues cross these boundaries. For each issue, Sections II and III describe the positions of the Parties, the difference between San Gabriel's



	San Gabriel Application	San Gabriel Rebuttal	DRA Report	Difference	Settlement
Life Insurance: LA	\$33,985	\$28,741	\$28,741	\$0	\$28,741
GO	\$21,494	\$18,177	\$18,177	\$0	\$18,177

REFERENCES: Exhibit SG-6 (Dell'Osa), pp. 8-9; Exhibit SG-10 (Nicholson), p. 6; Exhibit DRA-2 (Aslam) pp. 1-25 to 1-26; Exhibit SG-16 (Dell'Osa), p. 14; Exhibit SG-19 (Nicholson), p. 5.

f. Long Term Disability Insurance

ISSUE: San Gabriel based its forecast on recorded expenses and quotes for future insurance increases. DRA noted that San Gabriel had since renewed its insurance policy and used the actual premium. San Gabriel reflected this renewal in its rebuttal testimony.

RESOLUTION: San Gabriel agreed with and accepted DRA's forecast.

	San Gabriel Application	San Gabriel Rebuttal	DRA Report	Difference	Settlement
LTD Insurance: LA	\$29,674	\$17,937	\$17,937	\$0	\$17,937
GO	\$18,766	\$11,344	\$11,344	\$0	\$11,344

REFERENCES: Exhibit SG-6 (Dell'Osa), pp. 8-9; Exhibit SG-10 (Nicholson), p. 7; Exhibit DRA-2 (Aslam) pp. 1-26 to 1-27; Exhibit SG-16 (Dell'Osa), p. 14; Exhibit SG-19 (Nicholson), p. 5.

D. Other Expenses

1. Regulatory Commission Expense (Other Than GRC) – Account 797-00

ISSUE: The forecasted Regulatory Expense for the General Division was intended to amortize the cost of participating in the generic cost of capital proceedings, OIIs, and OIRs anticipated to occur during the rate case cycle. San Gabriel forecasted \$200,000 in expense for the future (2012) cost of capital proceeding, another \$200,000 for future OIIs and OIR, and \$112,543 for incremental costs of San Gabriel's recently concluded Cost of Capital application, A.09-05-004, for which accrual of incremental costs in a memorandum account was authorized by D.09-07-038. DRA recommended a complete disallowance of San Gabriel's forecasted expense, criticizing a lack of documentation and noting the uncertain nature of future Commission OIIs and OIRs. DRA stated that San Gabriel could request memorandum account treatment during such future OIIs and OIRs. DRA also recommended disallowance of the \$112,543 estimate for the recent Cost of Capital proceeding, representing that the memorandum account should be addressed outside this GRC. In rebuttal testimony, San Gabriel explained its concern to provide for future regulatory proceedings, but adjusted the forecast of incremental costs for the recent Cost of Capital proceeding downward to match the actual incremental costs incurred of \$76,824.

RESOLUTION: DRA agreed to allow: 1) the \$76,824 recorded incremental expense to be included in Revenue Requirement from San Gabriel's expenses from the 2009 Cost of Capital proceeding that had been tracked in a memorandum account; and 2) \$50,000 for future OIRs, while 3) the cost that will be incurred for participation in the next Cost of Capital proceeding should be recorded in a memorandum account for later recovery. The amount allowed in rates is one-third of the \$126,824 total, which will be amortized over the three-year GRC cycle.

	San Gabriel Application	San Gabriel Rebuttal	DRA Report	Difference	Settlement
Regulatory Expense	\$170,848	\$158,941	\$0	(\$158,941)	\$42,275

REFERENCES: Exhibit SG-5 (Batt), pp. 11-15; Exhibit SG-6 (Dell'Osa), pp. 9-10; Exhibit DRA-1 (Esule), pp. 4-6 to 4-8; Exhibit DRA-2 (Aslam), pp. 1-27 to 1-29; Exhibit SG-15 (Batt), pp. 6-10; Exhibit SG-16 (Dell'Osa), pp. 14-15.

2. Outside Services – Legal Fees (Acct. 798-00)

ISSUE: San Gabriel based its request for outside legal services on a 5-year average of recorded costs escalated to the Test Year estimate of \$142,134. DRA noted that the 2007 recorded expense of \$276,836 was "unusually high," including two specific payments totaling \$172,333 that DRA considered "nonrecurring in nature." DRA therefore excluded the entire 2007 expense and used the average of the remaining four years to estimate \$98,011 for the Test Year. San Gabriel provided rebuttal testimony explaining the "unique and valuable services" for which the two identified payments were made, disputing DRA's forecasting methodology, and contending that it was wrong for DRA to label the expenses at issue as "nonrecurring."

RESOLUTION: After extended discussion, San Gabriel accepted DRA's estimate.

	San Gabriel Application	San Gabriel Rebuttal	DRA Report	Difference	Settlement
Legal Fees	\$142,134	\$139,194	\$98,011	(\$41,183)	\$98,011

REFERENCES: Exhibit DRA-2 (Aslam), p. 1-30; Exhibit SG 16 (Dell'Osa), pp. 12 to 13.

3. Outside Services – Accounting Fees (Acct. 798-00)

ISSUE: DRA challenged San Gabriel's forecast of a 10% per year increase in outside accounting fees, discounting San Gabriel's claim that the Sarbanes Oxley Act continues to affect the supply of accounting services to a substantial degree. DRA cited a downward trend in the costs of accounting services for San Gabriel, applying a CPI inflation factor and a 4-year historical average to determine its estimate. San Gabriel responded that there continues to be a shortage of qualified accounting services, which justifies the higher estimate.

RESOLUTION: The Parties agreed to a forecast of \$109,000, which reflects five years of recorded costs, escalated by the regular CPI inflation factors.