



April 27, 2011

Advice Letter No. 1444-W

(U 133 W)

### California Public Utilities Commission

Golden State Water Company (GSWC) hereby transmits one original and three conformed copies of the following tariff sheets applicable to its Bay Point District:

<u>CPUC Sheet No.</u>	<u>Title of Sheet</u>	<u>Canceling CPUC Sheet No.</u>
Original No. 6105-W	Preliminary Statements PartVV, Page 49	
Revised No. 6106-W	Table of Contents Page 1 of 4	Revised No. 6104-W

**SUBJECT: Request to Establish the Bay Point Water Supply Memorandum Account (BPWSMA)**

#### Purpose

This advice letter filing requests California Public Utilities Commission (Commission) approval of a modification to GSWC's Preliminary Statement, Part VV, to reflect the establishment of the Bay Point Water Supply Memorandum Account (BPWSMA). The BPWSMA will track the cost incurred in securing a reliable source of water supply for its Bay Point customers.

#### Background

On August 6, 2009, GSWC filed Application No. (A.) 09-08-004 requesting authorization to implement corrective measures to address water quality problems in its Bay Point Customer Service Area. This application filing was in response to 1) the Commission's directive in GSWC's A. 07-01-009 decision, D.08-01-043, to propose a means to fluoridate its water, and 2) an order from the California Department of Public Health in early 2008 for GSWC to cease violating the total trihalomethanes (TTHM) Maximum Contaminant Level (MCL) in its drinking water.

In A.09-08-004, GSWC evaluated three alternatives to permanently comply with California's water standards for TTHM MCL and also provide its customers a fluoridation system. The three alternatives were:

- Alternative 1 – Expansion of coagulation and sedimentation basins at Golden State’s existing Hill Street Water Treatment Plant (Hill Street plant), in combination with chloramination;
- Alternative 2 – Continue to operate the existing Hill Street plant and add a new membrane treatment process to remove THM precursors;
- Alternative 3 – Retire the Hill Street plant and purchase the total system demand for treated water from Contra Costa Water District (CCWD).

On February 17, 2010, GSWC and the Division of Ratepayer Advocates (DRA) filed a motion requesting the Commission to accept a Settlement reached between GSWC and DRA settling all issues in GSWC’s A.09-08-004.

On June 24, 2010 the Commission issued D.10-06-034 conditionally approving the Asset Lease Agreement with Contra Costa Water District and rejecting the Proposed Settlement between GSWC and DRA. Both the rejected settlement and D.10-06-034 contemplated GSWC including the \$4.7 million asset lease agreement in rate base.

D.10-06-034 ordered GSWC to modify the Asset Lease Agreement and file a Tier 3 advice letter requesting Commission approval of the executed Asset Lease Agreement subject to the following changes being made:

- a. Removal of Section 3.2;
- b. Modification of Section 4.2.1 to remove language that specifies the ratemaking treatment for the Hill Street Water Treatment Plant; and
- c. Golden State Water Company requesting the Contra Costa Water District to remove the engineering construction cost escalation index in Section 1.2.2. We do not make changes to Section 1.2.2 a condition of our approval.

D.10-06-034 also directed that the ratemaking issues be further reviewed in GSWC’s pending general rate case proceeding, A.10-01-009. The Commission then issued D.10-12-059 in GSWC’s A.10-01-009 on December 16, 2010 which further deferred to a separate decision the ratemaking treatment for the abandonment of Bay Point’s Hill Street water treatment facility and the replacement water agreement with CCWD.

In December 2010, GSWC and CCWD entered into the First Amended Agreement which incorporated the required changes to the Asset Lease Agreement as required in D. 10-06-034 by removing Section 3.2 and modifying Section 4.2.1 by removing the words “and (ii) the continuation of the non-depreciated value of GSWC’s Hill Street Water Treatment Plant in GSWC’s rate base for the ratemaking district that includes the Bay Point Water System. In addition the First Amended Agreement extended the Automatic Termination clause of the Lease Agreement in Section 6.2 to June 30, 2011. GSWC also requested that the CCWD remove

the engineering construction cost escalation index in Section 1.2.2. CCWD respectfully declined to do so as it was part of the negotiated contract.

On December 28, 2010 GSWC filed Advice Letter No. 1428-W in compliance with Ordering Paragraphs 2 and 3 of D.10-06-034. In response, Commission staff asked GSWC to waive its rights under section 4.2.1 as a condition of approval. GSWC declined to do so. Advice Letter 1428-W is still pending disposition by the Commission which has caused concern for both GSWC and CCWD.

On April 22, 2011 the Commission issued a "Modified Scoping Memorandum of the Assigned Commissioner, Extending the Time, and a Ruling Granting Party Status to the Division of Water and Audits, and Also Requiring Adequate Notice of a Proposed Settlement ("Ruling").<sup>1</sup> In addition to addressing the Division of Water and Audits Request for Party Status, the Commission noted on its Ruling:

"The assigned Commissioner issued a scoping memorandum on March 11, 2010 in this proceeding, Application 10-01-009, which is a general rate case for Golden State Water Company's (Golden State) Region 1. This proceeding is still open for one pending issue regarding the Bay Point Service Area, a portion of Golden State's Region 1. Implicit in the scoping memorandum was the expectation of completing the proceeding within 18 months pursuant to Pub. Util. Code § 1701.5."<sup>2</sup>

The Commission then found "that it is reasonable and prudent to extend the schedule to April 2, 2012."<sup>3</sup>

GSWC is currently purchasing treated water from CCWD through a Side Letter Agreement consistent with the terms and conditions of the Asset Lease Agreement which will expire on June 30, 2011. CCWD has advised GSWC that it is reluctant to extend the Side Letter Agreement beyond June 30, 2011 because 1) GSWC has been receiving treated water from CCWD for over two years without buying into the capacity of the Randall Bold Treatment Plant as required in Section 5.08.040 of Title 5 of the District's Board adopted Code of Regulations and 2) because during that two years GSWC has been unable to obtain approval to execute the Asset Lease Agreement with CCWD.

Section 4 of the Side Letter Agreement requires GSWC pay to CCWD monthly interest on the Lease Price at the actual annual rate of return earned by CCWD on its aggregate investments as determined on June 30 of each year. This has cost GSWC's Bay Point customers an additional \$10,000 to \$15,700 a month in increased purchased water costs.

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<sup>1</sup> Ruling issued on April 22, 2011

<sup>2</sup> Ibid page 2

<sup>3</sup> Ibid page 3; Ruling Paragraph 5 page 6

Even though GSWC has notified its customers of its request to include the costs of the Asset Lease Agreement in rates on two prior occasions<sup>4</sup> and even though the table on page 3 of Commission Decision 10-12-059 includes costs of the Asset Lease Agreement in the reported revenue requirement, these costs still are not reflected in the Bay Point's water rates. (As noted above, Decision 10-12-059 deferred the ratemaking treatment for the abandonment of Bay Point's Hill Street water treatment facility and the replacement water agreement with CCWD to a separate decision.)

### **Request**

Since the Commission has yet to act on GSWC's Advice Letter 1428-W, at this time, GSWC has no choice but to consider an alternative source of supply for its Bay Point customers including but not limited to all Alternatives as presented in A.09-08-004 and discussed above.

Furthermore, since the Commission has not addressed the ratemaking treatment for the replacement water agreement with CCWD and by its Ruling is not required to do so until April 2, 2012, GSWC is requesting authorization to establish the BPWSMA. The BPWSMA will track the cost incurred in securing a reliable source of water supply for its Bay Point customers.

GSWC also request that when the source of supply becomes used and useful that GSWC be allowed to file for a Rate Base offset in compliance with General Order 96-B.

### **Memorandum Account Treatment**

GSWC is aware that a memorandum account is not a guarantee of eventual recovery of expenses, nor is it carried as a regular account under the uniform system of accounts for water utilities. It is carried "off the books", as a memorandum account. Further, it is also known that Commission policy on memorandum account treatment has always been that the burden of proof of the reasonableness of expenses charged to the account is the responsibility of the utility requesting reimbursement of such expenses.

### **Revisions To Preliminary Statement**

GSWC proposes to revise its Preliminary Statement to include Part VV, Bay Point Water Supply Memorandum Account. The purpose of the BPWSMA will be to track the costs incurred in securing a reliable source of supply for its Bay Point customers including but not limited to all Alternatives as discussed above.

### **Tier Designation**

Pursuant to D. 07-01-024, this advice letter is submitted with a Tier 2 designation.

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<sup>4</sup> First in its notice of Application 09-08-004 requesting authorization to implement corrective measures to address water quality problems in its Bay Point Customer Service Area and then as part of Region 1 GRC Application 10-01-009

**Effective Date**

GSWC requests this filing become effective 30 days from its filing date.

**Protest and Responses**

Anyone may respond to or protest this advice letter. A response supports the filing and may contain information that proves useful to the Commission in evaluating the advice letter. A protest objects to the advice letter in whole or in part and must set forth the specific grounds on which it is based. These grounds are:

- (1) The utility did not properly serve or give notice of the advice letter;
- (2) The relief requested in the advice letter would violate statute or Commission order, or is not authorized by statute or Commission order on which the utility relies;
- (3) The analysis, calculations, or data in the advice letter contain material error or omissions;
- (4) The relief requested in the advice letter is pending before the Commission in a formal proceeding; or
- (5) The relief requested in the advice letter requires consideration in a formal hearing, or is otherwise inappropriate for the advice letter process; or
- (6) The relief requested in the advice letter is unjust, unreasonable, or discriminatory (provided that such a protest may not be made where it would require re-litigating a prior order of the Commission.)

A protest shall provide citations or proofs where available to allow staff to properly consider the protest.

A response or protest must be made in writing or by electronic mail and must be received by the Water Division within 20 days of the date this advice letter is filed. The address for mailing or delivering a protest is:

Tariff Unit, Water Division, 3<sup>rd</sup> floor  
California Public Utilities Commission,  
505 Van Ness Avenue, San Francisco, CA 94102  
E-mail: [water\\_division@cpuc.ca.gov](mailto:water_division@cpuc.ca.gov)

On the same date the response or protest is submitted to the Water Division, the respondent or protestant shall send a copy by mail (or e-mail) to us, addressed to:

Golden State Water Company  
ATTN: John Garon  
630 East Foothill Blvd.

San Dimas, CA 91773  
Fax: 909-394-7427 or  
E-mail: [regulatoryaffairs@gswater.com](mailto:regulatoryaffairs@gswater.com)


If you have not received a reply to your protest within 10 business days, contact this person at 909-394-3600 ext. 679.

Cities and counties that need Board of Supervisors or Board of Commissioners approval to protest should inform the Water Division, within the 20 day protest period, so that a late filed protest can be entertained. The informing document should include an estimate of the date the proposed protest might be voted on.

The actions requested in this advice letter are not now the subject of any formal filings with the California Public Utilities Commission, including a formal complaint, nor action in any court of law.

No individuals or utilities have requested notification of filing of tariffs. Distribution of this advice letter is being made to the attached service list in accordance with General Order No. 96-B.

Sincerely,



John Garon  
Manager Regulatory Affairs

c: Jim Boothe, CPUC - Division of Water and Audits  
Danilo Sanchez, CPUC- Water Branch, DRA  
Hani Moussa, CPUC- Water Branch, DRA  
Lester Wong, Advisor to President Peevey, CPUC

**PRELIMINARY STATEMENTS**

(Continued)

Page 49

**V.V. BAY POINT WATER SUPPLY MEMORANDUM ACCOUNT**

(N)

Golden State Water Company (GSWC) requests to establish a Bay Point Water Supply Memorandum Account (BPWSMA).

1. Purpose

The BPWSMA will track the costs incurred in securing a reliable source of water supply for its Bay Point Customers including but **not limited** to Alternative 1 – expansion of coagulation and sedimentation basins at Hill Street Water Treatment Plant (HSWTP) and Alternative 2- continue operating the HSWTP and add a new membrane treatment process.

2. Applicability

The BPWSMA will track the cost incurred in securing a safe and reliable source of supply for the Bay Point district.

GSWC shall maintain the BPWSMA by making entries at the end of each month as follows:

- a. A debit entry shall be made to the BPWSMA at the end of each month to record the expenses.
- b. Interest shall accrue to the BPWSMA on a monthly basis by applying a rate equal to one-twelfth of the 3-month non-financial Commercial Paper Rate, as reported in the Federal Reserve Statistical Release, to the average of the beginning-of-month and the end-of-month balances.

3. Effective Date

The BPWSMA shall go into effect on the effective date of Advice Letter 1444-W.

4. Disposition

Disposition of amounts recorded in the BPWSMA will be determined in GSWC's next GRC or in a subsequent regulatory proceeding, as authorized by the Commission.

(N)

ISSUED BY

**F.E. WICKS**

President

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

Effective Date: \_\_\_\_\_

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

Advice Letter No. 1444-W

Decision No. \_\_\_\_\_

TABLE OF CONTENTS

Page 1 of 4

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

<u>Subject Matter of Sheet</u>	<u>Sheet No.</u>
Title Page	4905-W
Table of Contents	6106-W, 6099-W, 6098-W, 5976-W (T)
Preliminary Statements: 3251-W, 1372-W, 3140-W, 3141-W, 3142-W, 4733-W, 4911-W, 4913-W, 4942-W, 4973-W, 5081-W, 5096-W*, 5097-W*, 5102-W, 5783-W, 5223-W, 5278-W, 5284-W, 5322-W, 5440-W, 5441-W, 5442-W, 5503-W, 5556-W, 5562-W, 5576-W, 5614-W, 5631-W, 5640-W, 5701-W, 5831-W, 5846-W, 5848-W, 5850-W, 5852-W, 5937-W, 5939-W, 5979-W, 5981-W, 6055-W, 6101-W, 6103-W, 6105-W (C)	
Tariff Area Maps:	
All Tariff Areas	1078-W
Arden - Cordova	
Arden	5248-W
Cordova	5249-W
Barstow	5560-W
Bay	5250-W
Calipatria-Niland	4151-W
Clearlake	5251-W
Desert	
Morongo Valley	2733-W
Apple Valley North	5802-W
Apple Valley South	5803-W
Desert View	5804-W
Lucerne Valley	5805-W
Los Osos	
Edna Road	5252-W
Los Osos	5253-W
Metropolitan	
Artesia-Norwalk	2736-W
Bell-Florence	3694-W
Culver City	2738-W
Gardena East	2739-W
Southwest	3693-W
Ojai	5703-W, 5704-W
Orange County	
Bolsa Chica	4381-W
Cowan Heights	3384-W
Cypress-Los Alamitos-Stanton	2703-W
Placentia-Yorba Linda	2967-W
Pomona Valley (now Claremont)	2705-W
San Dimas	3158-W
San Gabriel Valley	2707-W
Santa Maria	
Lake Marie	5705-W
Orcutt	5558-W
Sisquoc	5257-W
Tanglewood	5258-W
Nipomo	5259-W
Simi Valley	5260-W
Wrightwood	2710-W

(Continued)

Advice Letter No. 1444-W

**R. J. SPROWLS**

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

Decision No. \_\_\_\_\_

President

Effective Date: \_\_\_\_\_

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

**CALIFORNIA PUBLIC UTILITIES  
COMMISSION  
DIVISION OF WATER AND  
AUDITS  
Advice Letter Cover Sheet**

(Date Filed / Received Stamp by CPUC)

<b>AL # 1444-W</b>	<b>Date Mailed to Service List:</b> 4/27/11	<b>Requested Effective Date:</b> 5/27/2011	<b>Requested Tier:</b> <input type="checkbox"/> Tier 1 <input checked="" type="checkbox"/> Tier 2 <input type="checkbox"/> Tier 3	
<b>Replacing AL#:</b>	<b>Authorized by:</b>	<b>Compliance Filing?</b> No	<b>Rate Impact</b>	<b>\$</b> N/A <b>%</b>

**The public has 20 days from Date Mailed (above) to protest this advice letter. If you chose to protest or respond to the advice letter, send Protest and/or Correspondence within 20 days to:**

Director  
Division of Water and Audits  
505 Van Ness Ave.  
San Francisco, CA 94102

**and if you have email capability, also email to:** [water\\_division@cpuc.ca.gov](mailto:water_division@cpuc.ca.gov)

**Your protest also must be served on the Utility** (see attached advice letter for more information and grounds for protest)

<b>Company Name: Golden State Water Company</b>	<b>CPUC Utility Number:</b> WTA <u>133-W</u>
<b>Address: 630 East Foothill Blvd.</b>	<b>WTB</b> _____
<b>City, State, Zip: San Dimas, CA 91773</b>	<b>WTC</b> _____
	<b>WTD</b> _____
	<b>SWR</b> _____

	<b>Contact Name:</b>	<b>Phone No.</b>	<b>Fax No.</b>	<b>Email Address:</b>
<b>Filer</b>	John Garon	909-394-3600 ext. 679	909-394-7427	igaron@gswater.com
<b>Alternate</b>	Keith Switzer	909-394-3600 ext. 759	909-394-7427	kswitzer@gswater.com

**Description:**

- Advice letter is in compliance with D. 10-12-059.
- Advice letter requests the establishment and implementation of the Bay Point Water Supply Memorandum Account.
- n/a

(FOR CPUC USE ONLY)			
<b>WTS Budget/Activity/Type</b> _____/_____/_____	<b>Process as:</b> <input type="checkbox"/> Tier 1 <input type="checkbox"/> Tier 2 <input type="checkbox"/> Tier 3		
<b>Project Manager:</b>	<b>20th Day</b>	<b>30th Day</b>	
<b>Analyst:</b>	<b>Suspended on:</b>		
<b>Due Date:</b>	<b>Extended on:</b>		
<b>Completion Date:</b>	<b>Resolution No.:</b>		
	<b>AL/Tariff Effective Date:</b>		

**GOLDEN STATE WATER COMPANY**

**DISTRIBUTION LIST**

**BAY POINT DISTRICT**

City of Brentwood  
708 Third Street  
Brentwood, CA 94513

City of Antioch  
P. O. Box 5007  
Antioch, CA 94531  
[PHarrington@ci.antioch.ca.us](mailto:PHarrington@ci.antioch.ca.us)

Diablo Water District  
P. O. Box 127  
Raley's Shopping Center, 2107 Main St.  
Oakley, CA 94561-0127

Contra Costa Water District  
Public Affairs Department  
P. O. Box H2O  
Concord, CA 94520

Director of Financer  
East Bay Municipal Utility District  
375 – 11<sup>th</sup> Street, MS #801  
Oakland, CA 94607  
[gbreaux@ebmud.com](mailto:gbreaux@ebmud.com)

City of Martinez  
525 Henrietta Avenue  
Martinez, CA 94553

Contra Costa County Water Agency  
651 Pine Street  
4th Floor Northwing  
Martinez, CA 94553

Bay Point Project Area Committee  
c/o Contra Costa County  
Redevelopment Agency  
651 Pine St., 4th Flr, N.Wing  
Martinez, CA 94553  
[mtoms@cd.cccounty.us](mailto:mtoms@cd.cccounty.us)

Bay Point Municipal Advisory Council  
P. O. Box 5038  
Bay Point, CA 94565

Clerk of the Board  
County of Contra Costa  
651 Pine Street, 1<sup>st</sup> Floor  
Martinez, CA 94553

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Los Angeles, CA 90013

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Michael Kent  
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597 Center Ave., Suite 100  
Martinez, CA 94553-4670