

November 15, 2007

Advice Letter 358

U337W

TO THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

San Gabriel Valley Water Company ("San Gabriel") hereby requests the following changes in tariff sheets applicable to its Fontana Water Company division:

CPUC		Schedule	Canceling
Sheet No.	Title	No.	CPUC
			Sheet No.
1812-W	General Metered Service	FO-1	1779-W
1813-W	General Metered Service (cont.)	FO-1	1809-W
1814-W	Private Fire Service	FO-4	1781-W
1815-W	Construction and Tank Truck Service	FO-9C	1782-W
1816-W	Service to Tract Houses during Construction	FO-9CL	1783-W
1817-W	California Alternative Rates for Water	FO-CARW	1784-W
1818-W	Table of Contents	N/A	1811-W

An original and four copies of this advice letter are submitted in compliance with Ordering Paragraph No. 3 of Decision No. 07-04-046 in Application 05-08-021, dated April 12, 2007, to reflect in rates, the new revenue requirement based on additional rate base reflecting the Sandhill Surface Water Treatment Plant Upgrade Project. The additional rate base is offset by Facilities Fees revenues recorded in the memorandum account. Approval of this advice letter will increase the adopted annual revenue requirement by \$3,901,500 or 8.7%, but will be offset by a decrease in the annual revenue requirement in 2008 by \$1,555,100 or 3.6% by implementing a 12-month surcredit for a groundwater contamination settlement which the Commission allocated to the customers as set forth in pending Advice Letter No. 356. Approval of this advice letter and pending Advice Letter No. 356 effective January 1, 2008 as the Commission directed in D.07-04-046 will cause the monthly bill of the typical residential customer to increase by a net of \$2.56 or 5.1%.

The rates adopted in D.07-04-046 for the Fontana Water Company division became effective on July 1, 2007, pursuant to Advice Letter No. 350. Pursuant to

Advice Letter No. 353, a temporary surcharge of \$0.0739/Ccf for twenty-four months, was added and the present rates became effective on August 22, 2007.

Purpose and Background

In the most recent general rate case for this Division (D.07-04-046 in A.05-08-021), the Commission ordered:

3. Not later than November 15, 2007, and each succeeding year until San Gabriel's next GRC decision, San Gabriel shall file an advice letter in conformance with GO 96-B, proposing new revenue requirements (and corresponding revised tariff schedules) for the Fontana Division based on new rate base reflecting: (i) inclusion in utility plant of all investment recorded during the then-current calendar year in the Sandhill Surface Water Treatment Plant Upgrade Project, and (ii) inclusion in CIAC of all revenues recorded in the facilities fees memorandum account during said calendar year. The advice letter shall include appropriate supporting workpapers. The revised tariff schedules shall take effect on January 1 of the succeeding calendar year and shall apply to service rendered on or after their effective dates. The proposed revenue requirements and rates shall be reviewed by the Commission's Water Decision, which 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, in which case all revenues collected under the revised rates shall be subject to refund until the Commission has decided the matter.

D.07-04-046 also includes the following Findings of Fact that are relevant to this advice letter:

41. The Sandhill plant upgrade project is expected to cost approximately \$35 million, to which must be added staffing and maintenance. San Gabriel's TY 2006-2007 rate base includes \$12 million already expended on the Sandhill plant.
42. The Sandhill plant is cost effective and it is reasonable to construct it. The cost of construction shall be reviewed in the next GRC or by application, whichever occurs sooner.
43. For new construction the most equitable way to provide recovery in rates is to continue the solution found reasonable in D.04-07-034 to limit rate base growth to 10% per year, excluding the rate base additions caused by the Sandhill plant

upgrade. We are not disposed to dictate to San Gabriel which plant will be constructed in which order; that is a management decision.

67. Given the uncertainty and volatility of real estate development, the revenue that a facilities fee would generate is highly uncertain both in amount and timing. Facilities fee revenues should be taken into account for ratemaking purposes once they have been received, through an advice letter.
69. The following procedures for facilities fees are adopted:
1. All fees collected must be credited to CIAC at the time the fees are spent for additional plant.
 2. The utility shall show the balances in its annual report to the Commission. Fund balances should be listed as debits to Account 121-3, miscellaneous special deposits, and as credits to Account 242, other deferred credits.
 3. Interest should also be debited to Account 121-3, miscellaneous special deposits, and credited to Account 265, CIAC.
 4. When plant is replaced using funds from these fees, a debit should be made to the appropriate plant account, a credit made to Account 121-3, miscellaneous special deposits, a debit made to Account 242, other deferred credits, and a credit made to Account 265, CIAC.
 5. The fee is applicable to all applicants for installation of service connections by the utility in the territory served for premises not previously connected to its distribution mains, for additional service connections to existing premises, and for increases in size of service connections to existing premises [at] the customer's request.
 6. An estimate of the Facilities Fees shall be included in any deposit required of the applicant under Rules 15 and 16, or otherwise. The tariff sheet in effect at the time the statement of actual construction costs is provided to the applicant under Rules 15 and 16, or otherwise, shall determine the applicable amount of the Facilities Fees.

The procedure provided in Finding of Fact 69 is addressed at pages 68-69 (mimeo) of D.07-04-046 (with some differences in wording), with the additional requirement that:

“The proceeds of the facilities fees should first be used to offset the increase in ratebase resulting from the Sandhill treatment facility and then if sufficient, to offset other rate base increases subject to the 10% ratebase cap.”

Discussion

As of October 31, 2007, San Gabriel has recorded \$32,916,281 of capital expenditures for the Sandhill Surface Water Treatment Plant upgrade project. The contracts and supporting documentation for this project were provided for Commission review in general rate case Application No. 05-08-021. Invoices, job cost worksheets, and other documents to support the amounts expended thus far are included with the workpapers provided with this Advice Letter to the Water and Audit Division. San Gabriel expects the Sandhill Surface Water Treatment Plant to be completed and placed into service by December 31, 2007, though final testing and permitting is expected during the first quarter of 2008. The company anticipates that the Sandhill Surface Water Treatment Plant upgrade project will be completed within the approximate \$35 million budget

Facilities Fees are collected under Tariff Schedule No. FO-FF, which became effective on May 22, 2007.

In this advice letter, the following amount (recorded as of October 31, 2007) is requested to be added to the adopted rate base:

Utility Plant Investment in Sandhill	\$32,916,281
Investment already in rates	(\$12,000,000)
Facilities Fees collected	(\$1,926,450)
Facilities Fees already in rates	\$0
Interest accrued in memorandum account	<u>\$0</u>
Net Addition to Rate Base	\$18,989,831

The revenue requirement based on the net additional Rate Base in this advice letter produces a \$3,901,500 or 8.7% increase to the previously adopted \$44,753,200 revenue requirement. The proposed rates were designed in conformance the Commission’s Water Rate Design Policy adopted in D.86-05-064.

In accordance with the requirements of Section 4 of General Order No. 96-B, this advice letter is being sent to the parties listed on the attached distribution list. No other parties have requested notification of tariff filings related to the Fontana Water Company division. No further public notice is required because all public notices in connection with

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Application No. 05-08-021 have already been mailed to the customers or published in accordance with applicable law and Commission rules.

Conclusion

Pursuant to Ordering Paragraph No. 3 of D.07-04-046, San Gabriel requests processing by the Commission's Water and Audit Division so the rates proposed herein will become effective on January 1, 2008. Thank you for your assistance in processing this advice letter.

San Gabriel Valley Water Company

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Director of Rates and Revenue

c: Fred L. Curry, CPUC – Water and Audit Division
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