

SAN GABRIEL VALLEY WATER COMPANY

April 13, 2009

Advice Letter 371

U337W

TO THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

San Gabriel Valley Water Company (“San Gabriel”) hereby submits for filing with the Commission an original and four copies of this advice letter. Included are the following proposed changes in tariff schedules applicable to all customers and which are attached hereto:

CPUC <u>Sheet No.</u>	<u>Title</u>	Schedule <u>No.</u>	Canceling CPUC <u>Sheet No.</u>
1883-W	Preliminary Statement (cont.)	N/A	N/A
1884-W	Table of Contents	N/A	1882-W

The purpose of this advice letter filing is to request authority to establish a Cost of Capital Proceeding Memorandum Account. This memorandum account will track San Gabriel’s costs of participating in the generic cost of capital proceeding (to the extent not presently in rates) that will commence in May 2009 in accordance with D.07-05-062 (Opinion adopting Revised Rate Case Plan for Class A Water Utilities).

By filing this advice letter, San Gabriel does not seek an increase in its current rates or charges. San Gabriel understands that establishing this memorandum account and recording related outside expert fees and legal expenses will allow San Gabriel the opportunity to seek recovery of those costs through a future rate filing with the Commission but that by authorizing this memorandum account the Commission does not guarantee recovery of such cost.

Background

1. History of the Cost of Capital Proceeding

As provided in the Commission’s Revised Rate Case Plan for Class A Water Utilities, the Commission evaluates Class A water utilities’ cost of capital on a consolidated basis in order to streamline the regulatory process, consistent with the objectives of the Commission’s Water Action Plan. San Gabriel is among six Class A water utilities

required to participate in such a consolidated generic cost of capital proceeding to commence in May 2009.

2. San Gabriel will incur substantial costs as a result of participating in this proceeding that could not be forecasted in its general rate cases.

Because of the complexity of the issues, San Gabriel will need the assistance of cost of capital experts and outside legal counsel to participate in the proceeding. Such costs will be in addition to costs normally incurred in the company's general rate cases.

3. The Commission Regularly Authorizes the Recovery of Expenses Through Rates.

This proceeding involves the participation of multiple water utilities and is a separate, additional proceeding beyond the traditional general rate case. Before establishing the generic cost of capital proceeding, the Commission reviewed San Gabriel's cost of capital as part of the company's general rate case proceedings. The costs reasonably incurred to present the company's general rate case, including outside legal costs and fees for expert witness reports and testimony on the cost of capital, were amortized in rates over the three-year rate case cycle. San Gabriel must still incur those costs but since they will not be amortized as part of the general rate case, the requested memorandum account will allow the company to record and separately track these costs for possible future recovery.

Discussion

San Gabriel's request to establish the Cost of Capital Proceeding Memorandum Account meets the test for determining the appropriateness of memorandum accounts. In Resolution W-4276, the Commission held that memorandum accounts are appropriate when:

- The expense is caused by an event of an exceptional nature that is not under the utility's control;
- The expense cannot have been reasonably foreseen in the utility's last GRC and will occur before the utility's next scheduled rate case;
- The expense is of a substantial nature in the amount of money involved; and
- The ratepayers will benefit by the memorandum account treatment.

San Gabriel's request meets each of these requirements.

First, the cost of capital proceeding is for the first time separate from the general rate case and is exceptional in nature because this is the first *generic* cost of capital proceeding in which the Commission requires San Gabriel to participate.

Second, the expense could not have been reasonably foreseen or estimated in San Gabriel's most recent general rate cases in the company's two ratemaking divisions, which were filed in July 2007 and July 2008, respectively.

Third, the expense to participate in the cost of capital proceeding is expected to be substantial due to the complexity of the issues, the multiple water companies participating, and likely interveners.

Finally, the ratepayers will benefit by memorandum account treatment because these necessary costs will be normalized and can be amortized over the three-year cycle of the generic cost of capital preceding

Tier Designation and Effective Date

This advice letter is submitted with a Tier 2 designation in accordance with Industry Rule 7.3.2 of General Order 96-B. San Gabriel requests that this advice filing become effective upon staff approval but no later than May 13, 2009.

In compliance with Section 4 of General Order 96-B, a copy of this advice letter has been mailed to all interested and affected parties.

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, 3rd floor
California Public Utilities Commission,
505 Van Ness Avenue, San Francisco, CA 94102
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:

San Gabriel Valley Water Company
11142 Garvey Avenue
El Monte, CA 91733
dadellosa@sgvwater.com
Phone: (626) 448-6183
Fax: (626) 448-5530

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.

Very truly yours,

Daniel A. Dell'Osa
Director of Rates and Revenue

cc: Fred L. Curry, CPUC – Water & Audits Division
Danilo Sanchez, CPUC – Division of Ratepayer Advocates
Hani Moussa, CPUC – Division of Ratepayer Advocates