

Frequently Asked Questions Concerning Golden State Water's Application to Increase Water Rates in Claremont

Does the Claremont City Council establish or increase the water rates charged to residents and businesses in the City?

No. The Claremont City Council does not establish or increase rates for water service.

Water service is provided by Golden State Water Company, a publically traded company under the name American States Water Company (AWR). As a privately held utility, providing water service, rates charged by Golden State Water are established by Golden State and approved by the California Public Utilities Commission (PUC).

Does Golden State Water need permission to increase water rates in Claremont?

Yes. Golden State Water has a history of seeking double digit rate increases every three years. In fact, their most recent rate increase went into effect on January 1, 2012. Privately held, public utilities regulated by the PUC may file a General Rate Case seeking rate increases every three years. The process provides for both covering the cost of providing service and allows the utility to earn a reasonable rate of return on its investment in the water system.

What is the process used by the PUC for adopting rate increases?

There are several steps include in the PUC rate-making process. The steps include:

- *Golden State Water reviews its historical costs, projected costs, and planned water system improvements and prepares a General Rate Case application for the consideration of the PUC staff.*
- *The PUC's Division of Ratepayer Advocates (DRA) analyzes Golden State Water's application and makes a recommendation. Usually DRA recommends a smaller increase than that requested by the utility.*
- *The PUC hosts public hearings to receive input from customers on the application. Customers may also write to the PUC.*
- *The PUC holds a formal hearing, presided over by an Administrative Law Judge, which is similar to a court proceeding.*
- *The Administrative Law Judge issues a proposed (non-binding) decision.*
- *The PUC Commissioners vote on the proposed decision. New rates typically become effective five days later. The entire process can take nine months or more.*

What is the rate increase Golden State Water is currently seeking in Claremont?

Their current application is seeking to raise water rates in Region III, which includes the City of Claremont, as follows:

24.5% increase in 2013

2.35% increase in 2014

2.94% increase in 2015

Region III ratepayers, which includes Claremont residents and businesses, pay some of the highest water costs in California. Unfortunately, the City of Claremont is unable to establish its own water rate structure and is subject to rates established by the PUC.

Other cities that own and operate their own water systems are able to provide water service at lower rates because city rates may only recover the actual cost of providing water service. The biggest difference between cities that provide water service and private companies is that the private companies' rates are based on both 1) recovering the costs of providing service, and 2) a reasonable rate of return which is pure profit that the water company returns to its stock holders.

Is the City of Claremont opposing Golden State Water's rate increase?

Yes. The City of Claremont has long opposed Golden State Water's rate increases and has committed resources to ensure that Golden State Water complies with the PUC process. The City's efforts have resulted in rates that are lower than requested by Golden State Water, but unfortunately the rates continue to rapidly increase because the PUC system is designed to permit Golden State Water rate increases even when the economy is suffering and other businesses aren't guaranteed a profit. However, private water companies are guaranteed a profit by the PUC process.

How has the City of Claremont been opposing Golden State Water's current rate increase application?

As in years past, Claremont has actively opposed Golden State Water's rate application.

The City of Claremont began protesting this proposed rate increase in July of 2011 when it retained legal counsel to represent the City in the General Rate Case. The interests of the ratepayers, per the PUC state-mandated process, are to be represented in the General Rate Case proceedings by the DRA.

In December of 2011, a public hearing with the Administrative Law Judge was held in Claremont. Over 700 residents attended and presented their comments to the Judge.

On January 5, the Claremont City Council held a special meeting to discuss water issues with the public. Funds were appropriated by the Council to 1.) protest the rate increase, and 2.) research acquisition of the Claremont portion of the water system.

City staff, with the assistance from Claremont OUTRAGE, a community-based group in Claremont, collected residents' protest letter and copies of their water bills, that were then sent to the PUC Commissioners.

In addition to participating in the General Rate Case, the City of Claremont worked with and supported legislation written by State Senator Bob Huff that provides more oversight of private water companies. The legislation was passed unanimously.

Because of the significant impact the proposed water rates have to their residents and local businesses, the City of Claremont along with a coalition of cities collectively engaged in the proceedings. Also, the City of Claremont filed for official "Intervener" status so it became a formal party to the administrative process.

How does Claremont's status as an Intervener help, if at all, in the rate increase process?

The PUC process is not designed to permit a ratepayer or a city to participate in the process. Generally a ratepayer or a city can only participate in the scheduled public hearings. In order to fully participate in the PUC rate process, Claremont filed a motion for "party status" or "intervener status." Becoming an intervener enabled the City to receive all proceeding documents and to submit comments to be considered by the PUC Administrative Law Judge.

City officials submitted testimony, City officials and staff participated in the public hearings held by the Administrative Law Judge, and the City was involved in the settlement proceedings that included the PUC's Division of Ratepayers Advocates (DRA). The DRA's mandated function is to "obtain the lowest possible rate for service consistent with reliable and safe service levels." In addition to the City of Claremont, a coalition of cities has been working with the public interest group "The Utility Reform Network" (or TURN) to oppose the Golden State Water's rate increase application.

What is being recommended by the Division of Ratepayers Advocate (DRA)?

Following the DRA's proceedings, the DRA announced that Golden State Water should not be granted a water rate increase at the levels requested in its original application. However, DRA, together with TURN filed a joint motion recommending a settlement with Golden State Water. The proposed settlement terms are non-binding and reflect the recommendation that DRA will advance to the Administrative Law Judge and ultimately to the PUC Commissioners for consideration.

The Division of Ratepayers Advocate's (DAR) has advanced a non-binding "Settlement Agreement" to the Administrative Law Judge recommending the following rate increases:

Original Application
24.5% increase in 2013

DRA Settlement Agreement
15.1% increase in 2013

2.35% increase in 2014
2.94% increase in 2015

2.0% increase in 2014
1.8% increase in 2015

What is most troubling about the proposed settlement terms is that DRA's initial assessment suggested that Golden State should only receive a 9% rate increase, yet DRA is now supporting a 15% increase. Even the Administrative Law Judge demanded that DRA explain how its proposal would impact rate payers.

As is the case with many legal negotiations, interested parties are required to enter into confidentiality agreements. A confidentiality agreement was required in the DRA's "settlement" phase of the proceeding. While the City of Claremont takes very serious its obligation to adhere to all confidentially agreements, we can state that Claremont fully participated in the process and opposed the Golden State Water rate increase application throughout the DRA proceedings.

The Administrative Law Judge now will decide whether to hold a hearing on the matter or simply proceed to issue a decision, denying or approving the proposed settlement. The Administrative Law Judge's decision will then be presented to the PUC Commissioners for final approval. Claremont will continue to participate in the process.

A final decision is expected in December 2012 with the new rates going into effect on January 1, 2013. However, if the rate process is delayed the rates will go into effect when finally approved, but Golden State Water will still be able to retroactively capture rates that will show up on the water bill as a "surcharge," per the PUC regulations.

The City of Claremont is on record opposing the DRA's recommendation to the PUC. Our opposition indicates the rate increases in the proposed agreement are unreasonable and, in some instances, the DRA agreement awarded high dollar amounts to Golden State Water than were included in their application.

What is the next step in the process for Golden State Water's rate increase application?

The City of Claremont will continue to oppose Golden State Water's rate increase application. A hearing on the contested DRA motion to settle may be scheduled by the Administrative Law Judge; it's at the sole discretion of the Judge.

The PUC will likely review the Administrative Law Judge's recommendation on Golden State Water's application for a water rate increase this Fall. The state-mandated process prohibits the City of Claremont, as a party to the proceeding, from communicating directly with the PUC Commissioners at this time. Such communication is considered "ex-parte communication" and is deemed inappropriate.

However, members of the public may communicate directly with the PUC Commissioners regarding this matter at any time.

Ratepayers may contact the Public Utility Commissioners by email or in writing. A link has been provided below that may be used to email the PUC Chairman and Commissioners your comments regarding Golden State Water's rate increase application.

<http://www.cpuc.ca.gov/PUC/aboutus/commissioners/>

Comments in writing should be sent to:
Chairman Michael Peevey and Commissioners
Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

What can Claremont, its businesses and residents do to ensure that water rates do not continue to increase merely to generate profits for a private water company?

Unfortunately there is no easy answer to this question. The State of California has a broken regulatory system that protects private utility companies and allows them to generate high profits for their share holders at the expense of regular citizens. The City and its residents may continue to oppose the rate applications, knowing realistically the CPUC will approve increases every three years and may even approve interim increases through the advice letter process.

However, the City of Claremont has made it one of its highest priorities to complete a legally required due diligence process that is required before considering whether to purchase the water system.

The due diligence process will answer questions such as whether it is feasible for the city or another public entity to operate the system in order to better serve the public; whether the system can be operated more efficiently within a rate system governed by Proposition 218 rather than the PUC process; whether rates can be held down while continuing to provide water service and maintain the system, among other questions.

The City Council is expected to receive a financial appraisal of the water system in October.