

VIA ELECTRONIC MAIL

August 11, 2006

Mr. Jonathan P. Tom
Water Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Subject: Reply Comments on Water Action Plan and Rate Case Plan

Dear Mr. Tom:

Park Water Company (“Park”) appreciates the opportunity to provide these reply comments pursuant to the July 7, 2006 letter from Kevin Coughlan, Director, Water Division. In its opening comments, Park stated that the necessity of workshops could best be determined after review of the comments made by the parties. Park has several areas of concern over the proposed recommendations of the other parties. Accordingly, Park recommends that workshops be held to facilitate the implementation of the Water Action Plan (“WAP”) objectives and generic changes to the Rate Case Plan (“RCP”).

Park offers these specific reply comments to the comments of the Division of Ratepayer Advocates (“DRA”), Cal-American Water Company (“Cal Am”) and the joint conservation recommendations of Cal Am, California Water Service Company and Golden State Water Company. Park’s reply comments will focus on the parties proposed recommendations that provide us with the greatest amount of concern. Park does not offer any specific reply to the comments of the California Water Association (“CWA”). Generally Park finds significant merit on CWA’s proposals, however, Park does disagree with CWA’s position that workshops are not particularly helpful.

DRA Comments

1. Recommended forum to facilitate the process to implement the WAP and to improve the RCP

DRA advocates that the Commission issue an Order Instituting Rulemaking (“OIR”) proceeding to implement the objectives of the WAP. Park does not support the notion that an OIR is necessary or required to implement the WAP objectives because the Commission has already adopted the WAP.

DRA is also strongly opposed to addressing the WAP objectives in individual rate cases of the Class A Water Utilities. Because of the operational and financial differences that exist between the Class A Water Utilities, Park believes that a GRC proceeding is the best process to evaluate how to implement the WAP objectives. In a GRC application, the Commission gives full consideration to all of the specific characteristics of the utility (revenues, expenses, financial outlook, quality of service, and other factors) and therefore allows for the most comprehensive evaluation of WAP implementation issues. Park believes that the intent of the WAP is to allow for innovation and flexibility such that alternative methods applicable to a utility can be used to satisfy the WAP objectives. An OIR should not be required to implement WAP objectives.

2. Recommendations to improve the RCP

In the attachment to its comments, DRA presents a number of recommendations to increase the efficiency of the GRC process. While DRA's recommendations may result in a reduction to the number of filings and the amount of information that it must process, it does so by compromising the Commission's ability to set rates based on accurate forecasts of the utility's cost of service. In addition, DRA's proposals that limit cost of capital review to once every three years, limit GRC updates and rebuttal testimony, and consolidate GRC filing results in increased financial risk to the utility. Park is concerned that these recommendations may be implemented without any recognition of that increased risk.

Cal Am Comments

1. Single Rate Case Applications for Multi-District Companies

Cal Am's proposal for filing a "Single Rate Case Applications for Multi-District Companies" combined with its "Four and Half Year Rate Case Application Schedule" assigning Park one "slot" either includes an oversight in excluding Apple Valley Ranchos Water Company ("AVR") from its schedule or there is an assumption that Park (Central Basin) and AVR would be filing applications in the "slot" proposed for Park.

AVR is a Class A water utility and is a subsidiary of Park. As a separate legal entity it is not a ratemaking district of Park. Any assumption that Park and AVR desire to file concurrent applications is erroneous. For a variety of reasons the negative impacts of filing concurrent applications is felt to outweigh any benefits. Should the current rate case cycle be modified any scheduling should retain a "slot" for AVR.

2. Four and Half Year Rate Case Application Schedule

Cal Am recommends that all Class A Water Utilities file their GRC applications once every four and half years as opposed to the current and traditional three year rate case cycle. A four and half year rate case plan would inevitably include another 1 ½ years of inflationary increases by inflation factors that are not tracking our actual increases (insurance, medical

insurance and pensions) in costs. Park is strongly opposed to the four and half year rate case cycle because it will have a negative impact on the utility's ability to accurately forecast the cost of providing service to its ratepayers.

3. Eighteen Month Processing Time for Rate Case Applications

Cal Am further recommends the Commission increase the schedule for processing GRC applications to eighteen months. The result of an eighteen month schedule would be that estimates could already be out of date when a Commission decision is issued. For the same reasons listed above under the four and half rate case, Park is strongly opposed to this recommendation. An eighteen month schedule would deteriorate a utility's ability to forecast expense increases above general inflation levels.

4. Promote Water Infrastructure Investment

Cal Am recommends that water utilities include ten year investment plans to support capital investments in GRC application. Park believes that this is too long a period for rate setting purposes. Holding the utility to such a time frame is too restrictive and does not allow for adjustments that are made as a result of changed circumstances such as new and emerging water quality regulations.

Joint Recommendations of Cal Am, California Water Service and Golden State

The joint recommendations of the large multi-district companies contain several detailed proposals for the Commission to consider. Park did not have any involvement with the development of the conservation recommendations nor was it afforded the opportunity to participate in this effort. Park continues to review these proposals but has not had sufficient time to complete its evaluation of the recommendations including whether or not implementation of the proposals would be problematic for Park. Park is therefore unable to provide a timely response as to whether it can support the adoption of these proposals as requirements to be placed on all of the Class A Water Utilities. Park does offer the following limited comment:

1. Increased Conservation Program Activity and Accountability

The joint recommendations (page 3) state that cost-effective water conservation program investment will be maintained at a level equivalent to 1.5% of revenues or more. Park opposes the application of this standard to all Class A Water Utilities. For the large multi-district companies, an individual district may be higher or lower than the system wide average of 1.5%. Clearly single district companies don't have the ability to perform this type of balancing between districts. Furthermore, while 1.5% of revenues may be appropriate on the average for the large multi-district companies, it may not be right level for single district companies for any number of reasons.

Conclusion

Park looks forward to participating in the process to implement the WAP objectives and increasing the effectiveness of the RCP.

Sincerely,

PARK WATER COMPANY

/S/ Edward N. Jackson

EDWARD N. JACKSON
Director of Revenue Requirements
9750 Washburn Road
Downey, CA 90241
(562) 923-0711

cc: Mr. Kevin Coughlan
Service Lists in R.03-09-005 and R.06-04-010