CALIFORNIA PUBLIC UTILITIES COMMISSION
WATER DIVISION

Advice Letter Cover Sheet

Utility Name:	Golden State Water Company	Date Mailed to Service List:	1/17/2023
District:	Clearlake District (Crescent Bay Water System Acquisition)		
CPUC Utility #:	133 W	Protest Deadline (20th Day):	TBD
Advice Letter #:	1891-WA	Review Deadline (30th Day):	TBD
Tier	☐1 ☐2 ☒3 ☒ Compliance	Requested Effective Date:	TBD
Authorization	D.99-10-064 and General Order No. 96-B, Water Industry Rules, Section 7.3.3	Rate Impact:	N/A
Description:	Acquisition Of A Contiguous Inadequately Operated And Maintained Small Water Utility		

The protest or response deadline for this advice letter is 20 days from the date that this advice letter was mailed to the service list. Please see the "Response or Protest" section in the advice letter for more information.

Utility Contact: Ronald Moore
Phone: (909) 394-3600 x 682
Email: rkmoore@gswater.com

Utility Contact: Nguyen Quan
Phone: (909) 394-3600 x 664
Email: nquan@gswater.com

WD Contact: Tariff Unit
Phone: (415) 703-1133
Email: Water.Division@cpuc.ca.gov

DWA USE ONLY

DATE	STAFF	COMMENTS

[ ] APPROVED [ ] WITHDRAWN [ ] REJECTED

Signature: _____ **Comments:** _____

Date: _____

Golden State Water Company
A Subsidiary of American States Water Company

FILED
JAN 17 2023
PUBLIC UTILITIES COMMISSION
WATER DIVISION

January 17, 2023

Advice Letter No. 1891-WA **(U 133 W)**

California Public Utilities Commission

Golden State Water Company ("Golden State") hereby submits this advice letter filing applicable to its Clearlake Customer Service Area ("CSA"):

Subject: Acquisition of a Contiguous Inadequately Operated and Maintained Small Water Utility

SUPPLEMENT
GSWC is filing this supplement to its Advice Letter No. 1891-W to address the comments the Public Advocates Office (Cal Advocates) made in their protest, which was filed on January 9, 2023. Given the unique circumstances associated with this acquisition, GSWC is incorporating Cal Advocates' recommendations accordingly. This supplemental filing will replace Advice Letter No. 1891-W in its entirety.

PURPOSE
The purpose of this advice letter is to obtain approval from the California Public Utilities Commission ("Commission") to do the following:

(1) Authorize Golden State's proposed acquisition of Crescent Bay;
(2) Grant Golden State authority to consolidate Crescent Bay with the Clearlake Customer Service Area;
(3) Allow Crescent Bay customers to remain on their current flat rate until such time as meters can be installed on all services using state funding, then merge them on the Clearlake metered tariff. The merge will occur no sooner than January 1, 2025;
(4) Find that Golden State's proposal complies with the rules and guidelines for the acquisition of IOMSWUs, set forth by the Commission in D.99-10-064 and Standard Practice U-14-W;
(5) Find that Golden State's acquisition of Crescent Bay is in the public interest and is consistent with the law;
(6) Find that Golden State is in compliance with all State and Federal drinking water standards;
(7) To recognize/acknowledge the needed capital improvements to the Crescent Bay Water System and authorize Golden State to rate base the average debt costs on

capital investments for the period between when the costs are incurred and when the costs are reimbursed through grant funding; and

(8) Authorize Golden State to establish an Unanticipated Repair Cost Memorandum Account ("URCMA") for Crescent Bay.

The aforementioned request is made pursuant to Commission directives in D.99-10-064, which states: "To expedite improvements mandated by the Department of Health Services, the transfers of assets and related obligations of an inadequately operated and maintained small water utility may be approved by the Commission pursuant to an advice letter."[1] [2]

ADVICE LETTER PROCESS

The Commission's Standard Practice U-14-W indicates that the advice letter process is the appropriate procedural vehicle for a water utility to acquire an IOMSWU and sets forth additional procedural requirements and standards for the review, processing and disposition of such advice letter filings.[3] Finally, Water Industry Rule 7.3.3(10) of General Order 96-B specifically contemplates the use of a Tier 3 advice letter for: "Transfer of ownership of inadequately operated and maintained Class C or Class D water Utility (see D.99-10-064)."[4] Golden State files this advice letter pursuant to these Commission rules and procedures, and in conformance with the general procedures and standards governing advice letter filings set forth in the Commission's General Order No. 96-B.

BACKGROUND

On October 12, 2022, Golden State and Crescent Bay Improvement Company executed a Purchase and Sale Agreement ("Purchase and Sale Agreement") of Crescent Bay, a potable water distribution system serving approximately 24 customers in the unincorporated community of Lower Lake, located in Lake County, California. The Crescent Bay Water System is currently being operated pursuant to a domestic water supply permit issued in April 2017 by the State Water Resources Control Board Division of Drinking Water ("DDW"). The permit granted Crescent Bay permission to operate a water system located within the community of Lower Lake (Public Water System No.CA1700159).

Crescent Bay does not possess the financial capacity necessary to upgrade its water system to comply with State and Federal drinking water standards.

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[1] *Id.* at Appendix D, Section 3.02.

[2] Department of Health Services is now called State Water Resources Control Board Division of Drinking Water

[3] *See id.* at §§ E-G.

[4] GO 96-B at § 7.3.3(10).

On August 3, 2020, DDW issued citation no. 02_03_20C_21 for the failure to comply with the maximum contaminant level for the disinfection byproducts, total trihalomethanes and haloacetic acids, during the fourth quarter of 2019, first quarter of 2020 and second quarter of 2020. The system has remained out of compliance.

In Senate Bill 1268, the Public Water System Investment and Consolidation Act of 1997, codified as Public Utilities Code Sections 2718, *et seq.*, the California Legislature recognized the need to upgrade public water system infrastructure. Specifically, Public Utilities Code Section 2719 states:

> (a) Public water systems are faced with the need to replace or upgrade the public water system infrastructure to meet increasingly stringent state and federal safe drinking water laws and regulations governing fire flow standards for public fire protection.
>
> (b) Increasing amounts of capital are required to finance the necessary investment in public water system infrastructure.
>
> (c) Scale economies are achievable in the operation of public water systems.
>
> (d) Providing water corporations with an incentive to achieve these scale economies will provide benefits to ratepayers.[5]

The Commission thereafter issued (i) D.99-10-064, which sets forth the general requirements regarding acquisitions and mergers of public utility water systems and provides incentives for acquisition of IOMSWUs, and (ii) Commission Standard Practice U-14-W, which provides the rules and guidelines for seeking approval of the acquisition of an IOMSWU through the advice letter process.

As discussed below, Golden State's proposals (i) to acquire Crescent Bay, (ii) consolidate Crescent Bay with Golden State's Clearlake Customer Service Area, (iii) to make capital improvements to Crescent Bay that will be paid for with principal forgiveness loan proceeds to be secured by Golden State, and (iv) to establish an URCMA for unanticipated repair expenses associated with the Crescent Bay Water System (including costs associated therewith) resulting from approval of Golden State's proposed actions in this filing that are not otherwise provided for in a general rate case application or decision are consistent with the incentives set forth in D.99-10-064 and

[5] Pub. Util. Code § 2719 (West 2015)

the Commission's Standard Practices U-14-W[6] and in the public interest, therefore, the Commission should authorize each of the foregoing requests.

TECHNICAL, MANAGERIAL AND FINANCIAL ("TMF")

Prior to obtaining a water supply permit for a change of ownership, Golden State must demonstrate to DDW that they possess adequate technical, managerial and financial ("TMF") capability to assure the delivery of pure, wholesome, and potable drinking water. A completed TMF Assessment form along with all necessary attachments will be submitted to DDW and the Commission by Golden State.

DISCUSSION

The current source of supply for the Crescent Bay water system is surface water from Clear Lake. The treatment provided is classified as diatomaceous earth filtration, and provides the necessary removal credits for *Cryptosporidium*, *Giardia* and viruses. The application of free chlorine, however, combined with dissolved organic content in the water supports the formation of disinfection byproducts. The system monitors for DBPs quarterly and has exceeded the MCLs for HAA5s consistently for several years.

Optimizing the existing treatment system may produce water that meets all regulatory standards, including for DBPs, for an interim period. However, the existing treatment is not designed to treat the poor raw water quality of Clear Lake. In addition, the location of the existing plant at the shore of the lake makes for operations and maintenance difficulties, particularly with access to supplies and discharge of waste.

Golden State intends to optimize treatment further where possible and then evaluate and seek state funding for an alternate source of supply. Two of the options under consideration are (1) a new treatment plant using the existing Crescent Bay intake of Clear Lake, and (2) using source water treated at Golden State's Sonoma treatment plant and conveying it to Crescent Bay via a pipeline along the bottom of the shallow lake.

Additionally, Golden State will seek state funding to replace the undersized water mains and relocate them to the public right-of-way, and install water meters on each water service.

The capital improvements that Golden State plans to implement are described in Exhibit X-3.

In D. 99-10-064, the Commission adopted guidelines for the acquisition and merger of certain water utilities. In particular, citing the Public Water System Investment and Consolidation Act, Pub. Util. Code sections 2718, et seq., among other things, the

[6] The incentive providing for the establishment of an URCMA for expenses associated with unanticipated repairs to an IOMSWU is provided in Appendix D to D.99-10-064 at Section 3.03(A), and Commission Standard Practice U-14-W (July 2007) at Section F.8.5.

Commission acknowledged that it is the policy of the State of California to provide incentives to the investor-owned utilities to acquire small publicly owned water systems and inadequately operated and maintained small water utilities (i.e., those serving less than 2,000 customers and subject to a DDW compliance order). This policy is designed to yield economies of scale to facilitate the upgrade of water system infrastructure to meet increasingly stringent water quality requirements, among other things.

In furtherance of this State policy and as part of the Commission's regulatory program to encourage investor-owned water utilities to acquire small publicly owned water systems and inadequately operated and maintained small water utilities, Golden State requests that the Commission make a finding that, so long as Golden State is in compliance with a DDW-approved Compliance Plan, Golden State shall be deemed to be in compliance with all State and Federal drinking water standards.

ACQUISITION OF CRESCENT BAY

Golden State's planned acquisition of Crescent Bay, which is expected to occur immediately following approval by the Commission is in the public interest. Crescent Bay is an IOMSWU, as defined in the Settlement adopted by D.99-10-064[7], because Crescent Bay Improvement Company lacks the financial capacity necessary to upgrade Crescent Bay to be in compliance with State and Federal drinking water standards. The small number of customers of Crescent Bay makes the burden of complying with DDW standards extremely difficult. Therefore, Crescent Bay lacks sufficient financial resources to provide safe drinking water to its Crescent Bay customers. By consolidating Crescent Bay with the Clearlake CSA, for both operational and ratemaking purposes, it achieves economies of scale to improve and maintain Crescent Bay water system infrastructure.

In-lieu of an appraisal, Golden State is applying the provisions of Public Utilities Code 2720(a), which states the Commission "shall use the standard of fair market value when establishing the rate base for the distribution system of a public water system acquired by a water utility. This standard shall be used for ratesetting." PU Code 2720(a)(2) defines "fair market value" as having the meaning set forth in Code of Civil Procedures 1263.320, subsection (a) of which states that fair market value is "the highest price …that would be agreed to by a seller, being willing to sell but under no particular or urgent necessity for doing, nor obligated to sell, and a buyer, being ready, willing and able to buy but under no particular necessity for doing so…"

Golden State understands that Crescent Bay assets will be transferred "as is", free and clear of all encumbrances, claims and liens. The purchase price for the assets is

[7] *See supra*, note 1.

$1,000.00 which is to be included in rate base. Given the de minimis purchase price, Golden State is not requesting a premium over existing Crescent Bay's rate base.

As set forth in Exhibit X-3, Golden State has a plan to provide the infrastructure improvements necessary to bring Crescent Bay into compliance with state and federal drinking water standards, and Golden State's proposed acquisition of Crescent Bay complies with the rules and guidelines for the acquisition of IOMSWUs, set forth by the Commission in D.99-10-064 and Standard Practice U-14-W. For all of the foregoing reasons, the Commission should find Golden State's acquisition of Crescent Bay in the public interest and authorize the acquisition.

CAPITAL IMPROVEMENTS

As set forth in Exhibit X-3 Golden State plans to make capital improvements to Crescent Bay in order to bring the system into compliance with State and Federal drinking water standards using principal forgiveness loan funding.

Golden State will apply for principal-forgiveness funding under the DDW's Drinking Water SRF program for the capital improvements described in Exhibit X-3. The system meets the criteria (small, disadvantaged community out of compliance with a primary drinking water standard) to be considered eligible and a high priority for funding.

Golden State requests permission to rate base the average debt costs incurred on capital investments for the period between when the costs are incurred and when the costs are reimbursed through grant funding.

CONSOLIDATION WITH CLEARLAKE CUSTOMER SERVICE AREA

The Clearlake CSA is the closest Golden State operating water system to Crescent Bay. The Clearlake CSA is contiguous to Crescent Bay (only separated by a lake (Clear Lake). Golden State's existing staff at the Clearlake CSA can be shared to service the Crescent Bay Water System. As stated above, a completed TMF Assessment form along with all necessary attachments will be submitted to SWRCB and the Commission.

After the acquisition is granted, Golden State is proposing to keep the Crescent Bay customers on their existing flat rate tariff until all the customers are metered, which will occur no sooner than January 1, 2025, after which, all Crescent Bay customers would be subject to the tariff schedules applicable to Golden State's Clearlake customers and would be part of the Clearlake CSA for both operational and ratemaking purposes. This request complies with provision 4.02, Filing of Rates, of Appendix D in D.99-10-064[8] for the acquisition of Mutual and Publicly-Owned Water Systems. Crescent Bay's current tariff sheet and Golden State's Schedule CL-1 – General Metered Service tariff schedule are in Exhibit X-4. Golden State will be filing a General Rate Case Application in July 2023 to establish rates for 2025 through 2027. The cost of service and capital

[8] This provision of rates to be charged to an IOMSWU is provided in Appendix D to D.99-10-064 at Section 4.02.

requests related to Crescent Bay, beginning in 2025, will be reflected in that General Rate Case Application.

CUSTOMER ASSISTANCE PROGRAM ("CAP")

Golden State will offer the CAP program to the Crescent Bay customers, effective upon the acquisition's approval. The key components of the CAP program are 1.) eligibility for the program is based on certain household income and household sizes, 2.) the monthly discount is a fixed amount equal to approximately 20% of the average bill for a residential customer in the Clearlake Customer Service Area, and 3.) the costs of the program are recovered through a surcharge applied to all ineligible customers. Crescent Bay will be consolidated into Golden State's Clearlake Customer Service Area and its low-income customers will be eligible to enroll for the CAP discount.

UNANTICIPATED REPAIR COST MEMO ACCOUNT ("URCMA")

Golden State proposes establishing an URCMA to track expenses associated with unanticipated repairs to Crescent Bay for later recovery in rates, subject to its prudent administration of such repairs. Because the incentives set forth in D.99-10-064 and incorporated into Commission Standard Practice U-14-W also permit a utility acquiring an IOMSWU to establish an URCMA,[9] Golden State's request is consistent with the Commission's policy. The URCMA shall track expenses that are unanticipated, crucial to the operation of the utility, and costs not already included in rates.

COMPLIANCE WITH THE REQUIREMENTS OF D.99-10-064 AND COMMISSION STANDARD PRACTICE U-14-W

This advice letter and its exhibits include all of the information required by D.99-10-064 and Commission Standard Practices U-14-W:

(1) A copy of the executed Purchase and Sale Agreement for Golden State's acquisition of Crescent Bay is attached as Exhibit X-1.

(2) A copy of the draft notice to be provided to all affected customers in Crescent Bay (i) comparing their current rates with the current rates in Clearlake and (ii) advising of Golden State's filing of this advice letter, is attached as Exhibit X-2. This notice will also be provided to existing Clearlake customers and will be posted on Golden State's website;

(3) In lieu of an appraisal of Crescent Bay, Golden State is providing cost estimate for the proposed treatment facilities, which is attached as Exhibit X-3. More discussion on the principal forgiveness loan Golden State is seeking to drill the new well and installation of the treatment facilities is discussed in Exhibit X-3;

(4) Crescent Bay's Water tariff sheet and Golden State's Schedule CL-1 – General Metered Service tariff schedule are in Exhibit X-4. Golden State will rename the existing Crescent Bay Water tariff to make it an official Clearlake tariff

[9] *Id*. at Section 3.03(A); Standard Practice U-14-W at F.8.g.

until all the Crescent Bay customers are metered and merged onto Clearlake's metered rate schedule, which will occur no sooner than January 1, 2025;

(5) A detailed description of Crescent Bay, including a list of facilities including wells, storage and structures, and a distribution system map showing pipe sizes, fire flow and pressure areas is attached as Exhibit X-5;

(6) The names and addresses of all utilities, corporations, persons or other entities, either public or private, with which Crescent Bay is likely to compete, and all cities and counties within which service will be rendered, are included in the service list attached as Exhibit X-6; no entities are likely to compete with Crescent Bay, and Crescent Bay will only provide service in the unincorporated community of Crescent Bay.

(7) A list providing the status of the franchises and health and safety permits obtained or required to operate Crescent Bay, including the status of the Technical, Managerial and Financial Capacity certification required from the DDW is attached as Exhibit X-8;

(8) An accounting of the original cost (or estimated original cost) of all plant and depreciation reserve is attached as Exhibit X-9;

(9) A service area map delineating the new service area is attached as Exhibit X-10; and

(10) The proposed Preliminary Statement for the Crescent Bay Unanticipated Repair Cost Memorandum Account is attached as Exhibit X-7.

GENERAL REGULATORY COMPLIANCE

This filing will not interfere with the operation of Golden State's other public utility operations or the water system of another public agency.

Golden State respectfully submits this advice letter in compliance with Commission Standard Practice U-14-W, Standard Practice For Preparing and Processing Advice Letters For Service Area Extensions, and Determining That A Mutual Does Not Infringe On The Service Area Of A Regulated Water Company. Golden State respectfully requests that the Commission issues a resolution that approves the acquisition of Crescent Bay pursuant to the Purchase and Sale Agreement and, in accordance with D.99-10-064, find the rates applicable to customers in Crescent Bay just and reasonable.[10]

REQUEST

As demonstrated and supported in this advice letter filing, Golden State requests that the Commission finds that Golden State has acted in good faith and grants the following:

(1) Authorize Golden State's proposed acquisition of Crescent Bay;

[10] *See* D.99-10-064 at p. 11, Conclusion of Law #5.

(2) Grant Golden State authority to consolidate Crescent Bay with the Clearlake Customer Service Area;
(3) Allow Crescent Bay customers to remain on their current flat rate until such time as meters can be installed on all services using state funding, then merge them on the Clearlake metered tariff. The merge will occur no sooner than January 1, 2025;
(4) Find that Golden State's proposal complies with the rules and guidelines for the acquisition of IOMSWUs, set forth by the Commission in D.99-10-064 and Standard Practice U-14-W;
(5) Find that Golden State's acquisition of Crescent Bay is in the public interest and is consistent with the law;
(6) Find that Golden State is in compliance with all State and Federal drinking water standards;
(7) To recognize/acknowledge the needed capital improvements to the Crescent Bay Water System and authorize Golden State to rate base the average debt costs incurred on capital investments for the period between when the costs are incurred and when the costs are reimbursed through grant funding; and
(8) Authorize Golden State to establish an Unanticipated Repair Cost Memorandum Account ("URCMA") for Crescent Bay.

NOTICE

The notice (i) comparing the rates before and after the acquisition of Crescent Bay, and (ii) advising of Golden State's filing of this advice letter, attached as Exhibit X-2, is being provided to all affected customers by first-class U.S. mail service.

In compliance with General Rules 4.2 and 7.2 and Water Industry Rule 4.1 of General Order 96-B, this advice letter is being served on all interested and affected parties. Golden State will also post this advice letter to its website.

TIER DESIGNATION

Pursuant to Water Industry Rule 7.3.3(10) of General Order 96-B, this advice letter is submitted with a Tier 3 designation.

EFFECTIVE DATE

Golden State is requesting that this filing become effective upon regular statutory notice.

PROTEST AND RESPONSES

Anyone may submit a response or protest for this Advice Letter ("AL"). When submitting a response or protest, **please include the utility name and advice letter number in the subject line.**

A **response** supports the filing and may contain information that proves useful to the Commission in evaluating the AL. A **protest** objects to the AL in whole or in part and must set forth the specific grounds on which it is based. These grounds[11] are:

1. The utility did not properly serve or give notice of the AL;
2. The relief requested in the AL 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 AL contain material error or omissions;
4. The relief requested in the AL is pending before the Commission in a formal proceeding; or
5. The relief requested in the AL requires consideration in a formal hearing, or is otherwise inappropriate for the AL process; or
6. The relief requested in the AL 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 may not rely on policy objections to an AL where the relief requested in the AL follows rules or directions established by statute or Commission order applicable to the utility. A protest shall provide citations or proofs where available to allow staff to properly consider the protest.

WD must receive a response or protest via email (**or** postal mail) within 20 days of the date the AL is filed. When submitting a response or protest, **please include the utility name and advice letter number in the subject line.**

The addresses for submitting a response or protest are:

Email Address:	**Mailing Address:**
Water.Division@cpuc.ca.gov	CA Public Utilities Commission Water Division 505 Van Ness Avenue San Francisco, CA 94102

On the same day the response or protest is submitted to WD, the respondent or protestant shall send a copy of the protest to Golden State Water Company at:

Email Address:	**Mailing Address:**
regulatoryaffairs@gswater.com	Golden State Water Company Attn: Ronald Moore 630 East Foothill Blvd. San Dimas, CA 91773

[11] G.O. 96-B, General Rule 7.4.2

Cities and counties that need Board of Supervisors or Board of Commissioners approval to protest should inform WD, 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.

REPLIES[12]
The utility shall reply to each protest and may reply to any response. Any reply must be received by WD within five business days after the end of the protest period, and shall be served on the same day on each person who filed the protest or response to the AL.

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.

Sincerely,
/s/ Ronald Moore

Ronald Moore
Regulatory Affairs Department
Golden State Water Company

c: Jim Boothe, CPUC - Water Division
Bruce DeBerry, CPUC- Water Division
Jeremy Ho, CPUC- Water Division
Victor Chan, CPUC- PAO
Richard Rauschmeier, CPUC- PAO

[12] G.O. 96-B, General Rule 7.4.3

GOLDEN STATE WATER COMPANY

SERVICE LIST

CLEARLAKE DISTRICT

Highlands Water Company
14580 Lakeshore Drive
Clearlake, CA 95422

Konocti County Water District
15844 – 35th Street
Clearlake, CA 95422
kcwd@mchsi.com

City Clerk
City of Clearlake
14050 Olympic Drive
Clearlake, CA 95422
mswanson@clearlake.ca.us

City Attorney
City of Clearlake
14050 Olympic Drive
Clearlake, CA 95422

Local Agency Formation Commission
P. O. Box 2694
Granite Bay, CA 95746
j.benoit4@icloud.org

Fred G. Yanney
Yanney Law Office
17409 Marquardt Ave., Unit C-4
Cerritos CA 90703
FredYanney@gmail.com

Downey Brand LLP
455 Market Street, Suite 1500
San Francisco, CA 94105
MSomogy@DowneyBrand.com
tmacbride@DowneyBrand.com
mday@DowneyBrand.com