

Golden State Water Company

A Subsidiary of American States Water Company

August 10, 2006

Kevin P. Coughlan
Director, Water Division
Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102-3298

Re: Water Action Plan Implementation

Dear Mr. Coughlan:

Thank you for the opportunity to comment on methods to implement the *Water Action Plan* and improve the Rate Case Plan for Class A water companies.

The Water Action Plan (the Plan) adopted by the Commission in December 2005 represents a significant milestone in the history of the state's regulation of water utilities. Golden State Water Company (GSWC) is indebted to you and to the Commission for the leadership you have shown in working with the water utilities, state agencies and all stakeholders in developing the Plan and in moving forward cooperatively to ensure the Plan's practical and effective implementation.

The *four key water principles* which are the basis of the Plan and its six specific objectives must remain at the forefront of the Commission's thinking at every stage, as it grapples with the many complex implementation issues that will be presented in a variety of rulemaking and General Rate Case proceedings, namely:

- ✓ Safe, high quality water
- ✓ Highly reliable water supplies
- ✓ Efficient use of water, and
- ✓ Reasonable rates and viable utilities.

Golden State Water Company would respectfully suggest that the Commission consider establishing a timeline, comparable to the "General Rate Case" (GRC) timeline, for review and "first round" implementation of the Water Action Plan's six major objectives, with the understanding that the calendar can and will be adjusted to accelerate or slow implementation when circumstances warrant. Such a GRC timeline approach would recognize that there are both immediate actions that may reasonably be taken to "get the ball rolling," and, that other more complex issues may require additional time and study in order to be successfully implemented. Once the first round of implementation measures has been achieved, the Commission would be ready to "circle back" and move into a second phase of implementation based on the success or

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failure of past implementation as well as changed circumstances. Theoretically, full implementation of the Plan will never be complete because the regulatory model must be modified and refined to reflect changed circumstances.

As described more fully below, we believe that some issues are capable of being addressed and resolved in whole or in part in GSWC's next General Rate Case proceeding, and, that others logically lend themselves in whole or in part to more formal and extended rulemaking procedures and/or workshops. Some issues may be addressed and resolved within the CPUC itself, while others must of necessity integrate with state water resources agencies, other regulatory agencies and stakeholders. We believe it is important to make significant progress as soon as possible and make the following comments and recommendations in that light.

Recently, Golden State Water Company was proud to present to the Public Utilities Commission *Conservation Recommendations* that have been negotiated between three of the Class A water utilities and environmental stakeholders. In addition to the Mono Lake Committee and Natural Resources Defense Council, the Recommendations have been endorsed by a distinguished list of environmental and civic groups. The Recommendations present to the Commission a detailed, balanced set of proposals that position the Commission to quickly issue orders and adopt regulations that will substantially achieve the Water Action Plan's Objective to, "***Strengthen Water Conservation Programs to a Level Comparable to those of Energy Utilities.***"

The *Conservation Recommendations* provide a detailed status report indicating specific forums for adoption of each of the Conservation Recommendations' Phase One actions, including a number of pending General Rate Cases and a Policy Application that will soon be filed by Golden State Water Company. Unless significant substantive objections are presented, there is no reason to delay implementation. We encourage the Commission to move ahead with all due speed in GSWC's proceedings to advance this important objective. Doing so will not only bring the Commission and GSWC in line with public agencies across the state, and will move us into a position of leadership.

Golden State Water Company's proposed policy application will present a series of requests that will, if adopted, advance many of the objectives of the Water Action Plan and significantly benefit our customers. Adoption of these recommendations will also better align the regulatory model to modern day California water law and policy as well as rational long term planning requirements. In addition to our Conservation Recommendations (and among others), Golden State Water Company's policy filing will suggest that the Commission adopt the following policy and rate setting changes:

- Establish a water resource recovery account to track and recover costs associated with long term supply projects;
- Amend the Commission's rules to provide specific water shortage allocation policies;

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- Adopt an infrastructure system replacement charge to provide a stable funding source for pipeline replacement projects; and
- Authorize a statewide tariff which recognizes the value of the resource and includes a provision for promoting conservation without a financial disincentive to the utility.

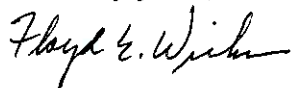
We will also make a number of specific recommendations on how to improve the Rate Case Plan.

Just as we have worked “outside the box” in the development of our Conservation Recommendations, Golden State is working with diverse stakeholders outside of the PUC in an effort to address affordability concerns. These efforts are intended to assist implementation of the Water Action Plan’s objective to, “***Set Rates that Balance Investment, Conservation and Affordability.***” We have been active and remain active participants in efforts to secure state bond funding to help pay for needed infrastructure projects, particularly for the benefit of the disadvantaged communities we serve. We are also continuing our dialogue and cooperative efforts working with public interest stakeholders and public agencies to explore the possibility of securing statewide sources of funding to assist low income ratepayers whether they are served by public agencies or regulated water utilities. We believe that the Commission is uniquely suited to support and assist the accomplishment of this objective in the legislative arena, and, that this issue will become more and more significant across California as the cost of water continues to rise.

The Commission’s Water Action Plan has proven to be very timely as California is poised to revitalize its infrastructure for the first time in many decades, and, as the Governor has demanded of his resources team, that a “new vision” for the Delta and our statewide infrastructure be developed by the end of next year. We look forward to working with you and the Commission to ensure that our customers are well represented as these statewide changes occur.

Thank you again for this opportunity to comment on implementation of the Water Action Plan and how to improve the Rate Case Plan for Class A water companies.

Sincerely yours,



Floyd E. Wicks
President and Chief Executive Officer