



July 8, 2009

Advice Letter No. 232-E

(U 133 W)

California Public Utilities Commission

Golden State Water Company ("GSWC") hereby transmits one original and six conformed copies of the following tariff sheets applicable to its Bear Valley Electric Service ("BVES") Operations:

<u>CPUC Sheet No.</u>	<u>Title of Sheet</u>	<u>Canceling CPUC Sheet No.</u>
Original No. 1652-E	Preliminary Statements Page 18, Part U	
Revised No. 1653-E	Table of Contents Page 1 of 2	Revised No. 1651-E

SUBJECT: *Shell Agreement Memorandum Account*

PURPOSE

GSWC is seeking authorization to modify its Preliminary Statement, to add Part U, to reflect the establishment and implementation of the Shell Agreement Memorandum Account ("SAMA"). The sole purpose of the SAMA is to record unrealized gains or losses on its recent Shell Purchased Power Agreement (Shell PPA). This advice letter is being filed in accordance with Ordering Paragraph No. 3 in Decision No. ("D.") 09-05-025.

BACKGROUND

On August 27, 2008, GSWC filed Application No. 08-08-021 requesting approval of the Shell PPA under a contract with Shell Energy North America (US) LP and in addition requested authorization of the special, non-interest bearing memorandum account covered by this Advice Letter.

The Commission rendered a final decision, D. 09-05-025 in this Application, dated May 21, 2009.

The key elements of the Decision addressing the SAMA are briefly covered by the following excerpts from the Decision:

At pages 9 & 10 of the Decision, the Commission summarizes their deliberations on granting the memorandum account covered by this Advice Letter:

“This decision allows Bear Valley to establish a non-interest bearing memorandum account to track the unrealized gains and losses otherwise imputed to the Shell agreement as a consequence of complying with the Financial Account Standards Board’s (FASB) Statement of Financial Accounting Standards (SFAS) No. 133, “Accounting for Derivative Instruments and Hedging Activities.” The sole intention in granting this request is to preclude the unnecessary recognition in Bear Valley’s financial statements of any unrealized gains or losses which may occur as a result of valuing the outstanding balance of the Shell agreement at market prices compared to the actual prices contained in the contracts. Bear Valley can only recover the actual and reasonable costs in rates as it acquires energy from Shell under the terms of the agreement and directly resells that energy to its customers. Bear Valley asks for a blanket memorandum account which would include all future power purchase contracts. We will only allow Bear Valley to include any existing contracts preapproved by the Commission and this contract with Shell. If Bear Valley enters into subsequent contracts it must file for authority to include them in the memorandum account. It may do so either as a part of an application for preapproval prior to contract execution or anytime after execution of a contract not subject to preapproval.”

“There would be no public benefit if Bear Valley had to recognize unrealized gains or losses on its balance sheet during the life of the agreement related to the cost of energy which will be delivered to retail customers in the remaining years of the agreement. Bear Valley did not seek and therefore does not have advance authority from the Commission to hedge or trade the commodity underlying the Shell agreement and Bear Valley, therefore, cannot record for rate recovery any realized gains or losses for any trades or sales of energy acquired under the Shell agreement. Thus, there would be no impact on rates beyond the recovery of the actual costs of the Shell agreement for energy delivered to retail customers by adopting a memorandum account.

A memorandum account would allow Bear Valley to track, solely for financial reporting purposes during the life of the agreement, any unrealized gains or losses on the outstanding balance of the contract and record either

an offsetting "refund" to ratepayers of an imputed market gain or an under collection of an imputed market loss. During contract performance,¹ Bear Valley will record and recover only its actual costs under the terms of the contract for energy delivered to retail customers. The memorandum account will be reversed and no additional costs will be recovered from (or refunded to) ratepayers."

The Commission's conclusion is stated at page 12:

"We find it is reasonable to allow Bear Valley to use a non-interest bearing memorandum account to offset the unrealized gains or losses attributable to the application of SFAS 133 to the Shell agreement. We grant this on the understanding that no actual additional cost will be recovered or refunded that is not directly incurred as a part of the good faith contract performance."

COMPLIANCE

This Advice Letter complies with the Decision by requesting the attached Shell Agreement Memorandum Account (SAMA) as a non-interest bearing memorandum account as part of its Preliminary Statement (see Findings of Fact, Conclusions of Law and the Commission Order below). The SAMA allows BVES to include any existing contracts preapproved by the Commission and the contract with Shell. If BVES enters into subsequent contracts it must file for authority to include them in the SAMA. It may do so either as a part of an application for preapproval prior to contract execution or anytime after execution of a contract not subject to preapproval.

The Finding of Facts 9 through 11 of D. 09-05-025, states,

9. *SFAS No. 133 requires Bear Valley to recognize unrealized gains or losses on the contract when the contract is marked to market for financial reporting.*
10. *A non-interest bearing memorandum account would recognize refunds or under collections offsetting the unrealized gains or losses for financial reporting purposes.*
11. *A non-interest bearing memorandum account would offset unrealized gains or losses to stabilize financial reporting.*

The Conclusion of Law 5 of D09-05-025, states,

¹ Performance is the fulfillment or accomplishment of a promise, contract, or other obligation according to its terms. Black's Law Dictionary, Fifth Edition.

5. *A non-interest bearing memorandum account reasonably offsets unrealized gains or losses created by the financial reporting impacts of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities."*

Ordering Paragraph No. 3 of D. 09-05-025, states,

3. *Golden State Water Company's Bear Valley Electric Service Division shall establish a non-interest bearing memorandum account to record refunds or under-collections to offset the unrealized gains or losses of the Shell agreement created by the financial reporting impacts of the Financial Account Standards Board's Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." Golden State Water Company's Bear Valley Electric Service Division shall file a Tier 3 advice letter, pursuant to General Order 96 B § 5.3(2)*

TIER DESIGNATION

Pursuant to D. 09-05-025, this advice letter is submitted with a Tier 3 designation.

NOTICE AND PROTESTS

A protest is a document objecting to the granting in whole or in part of the authority sought in this advice letter.

A response is a document that does not object to the authority sought, but nevertheless presents information that the party tendering the response believes would be useful to the CPUC in acting on the request.

A protest must be mailed within 20 days of the date the CPUC accepts the advice letter for filing. The Calendar is available on the CPUC's website at www.cpuc.ca.gov.

A protest must state the facts constituting the grounds for the protest, the effect that approval of the advice letter might have on the protestant, and the reasons the protestant believes the advice letter, or a part of it, is not justified. If the protest requests an evidentiary hearing, the protest must state the facts the protestant would present at an evidentiary hearing to support its request for whole or partial denial of the advice letter. The utility must respond to a protest with five days.

All protests and responses should be sent to:

California Public Utilities Commission, Energy Division

ATTN: Tariff Unit

505 Van Ness Avenue

San Francisco, CA 94102

E-mail: Honesto Gatchalian (ijnj@cpuc.ca.gov) or Maria Salinas (mas@cpuc.ca.gov)

July 8, 2009

Copies should also be mailed to the attention of the Director, Energy Division, Room 4004 (same address above).

Copies of any such protests should be sent to this utility at:

Golden State Water Company

ATTN: Ronald Moore

630 East Foothill Blvd.

San Dimas, CA 91773

Fax: 909-394-7427

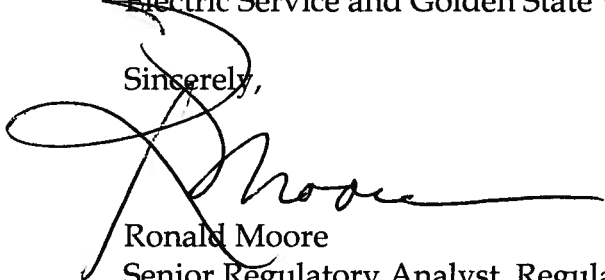
E-mail: regulatoryaffairs@gswater.com

If you have not received a reply to your protest within 10 business days, contact Ronald Moore at (909) 394-3600 ext. 682.

No individuals or utilities have requested notification of filing of tariffs. A copy of this advice letter is being furnished to the entities listed to the attached BVES service list via U.S. mail service and electronically via e-mail.

In accordance with Public Utilities Code Section 491, notice to the public is hereby given by filing and keeping the advice letter filing open for public inspection at Bear Valley Electric Service and Golden State Water Company Headquarters.

Sincerely,



Ronald Moore

Senior Regulatory Analyst, Regulatory Affairs

c: Donald Lafrenz, CPUC - Energy Division

R. Marc Pocta, DRA

PRELIMINARY STATEMENTS

(Continued)

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U. SHELL AGREEMENT MEMORANDUM ACCOUNT

(N)

Golden State Water Company ("GSWC") shall maintain the Shell Agreement Memorandum Account ("SAMA") for its Bear Valley Electric Service District.

1. PURPOSE

The purpose of the SAMA is to track the unrealized gains and losses otherwise imputed to the Shell agreement as well as additional contracts preapproved by the Commission as a consequence of complying with the Financial Account Standards Board's (FASB) Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." This memorandum account is in compliance with Ordering Paragraph No. 3 in Decision No. 09-05-025.

2. APPLICABILITY

The SAMA applies to all customer classes, except for those specifically excluded by the Commission.

3. RATES

The SAMA does not have a rate component.

4. ACCOUNTING PROCEDURES

GSWC shall maintain the SAMA by making entries at the end of each month as follows:

- a. Entries shall be made to the SAMA at the end of each month to record the unrealized gain or loss attributable to the application of SFAS 133 to the Shell agreement and any other contracts preapproved by the Commission.
- b. This is a non-interest bearing memorandum account.

5. EFFECTIVE DATE

The SAMA shall go into effect on the effective date of Advice Letter 232-E.

6. DISPOSITION

At the conclusion of the memorandum account's operation, the account will be reversed and no additional costs will be recovered from (or refunded to) ratepayers as noted in the Commission's decision establishing this memorandum account.

(N)

ISSUED BY

Date Filed _____

Advice Letter No. 232-E

R.J. Sprowls

Effective Date _____

Decision No. 09-05-025

President

Resolution No. _____

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(Continued)

Advice Letter No. 232-E

ISSUED BY
R.J. Sprowls

Date Filed _____

Decision No. 09-05-025

President

Effective Date _____

Resolution No. _____

GOLDEN STATE WATER COMPANY

DISTRIBUTION LIST

BEAR VALLEY ELECTRIC DIVISION

Big Bear City Community Services Dist
P. O. Box 558
Big Bear City, CA 92314

City Clerk
City of Big Bear Lake
P. O. Box 2800
Big Bear Lake, CA 92315

City Attorney
City of Big Bear Lake
P. O. Box 2800
Big Bear Lake, CA 92315

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