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APPENDIX A

SETTLEMENT AGREEMENT

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

In the Matter of the Application of VALENCIA WATER COMPANY (U-342-W), a Corporation, for an Order Authorizing It to Increase Rates Charged for Water Service in Order to Realize Increased Annual Revenues of $4,751,000 or 18.78% in a Test Year Beginning January 2011, $1,957,000 or 6.40% in a Test Year Beginning January 2012, $701,000 or 2.16% in an Escalation Year Beginning January 1, 2013, and to Make Further Changes and Additions to Its Tariff for Water Service.	)	Application No. 10-01-006 (Filed January 4, 2010)

SETTLEMENT AGREEMENT BETWEEN THE DIVISION OF RATEPAYER ADVOCATES AND VALENCIA WATER COMPANY

I. GENERAL PROVISIONS

1. Pursuant to Article 12 of the Rules of Practice and Procedure ("Rules") of the California Public Utilities Commission ("Commission"), the Division of Ratepayer Advocates ("DRA") and Valencia Water Company ("Valencia" or "VWC"), referred to collectively as "the Parties," have agreed to the terms of this Settlement Agreement which they now submit for review, consideration, and approval by Administrative Law Judge ("ALJ") Bruce DeBerry and the Commission. This Settlement Agreement addresses all of the issues that DRA and Valencia have been able to resolve in this proceeding.

2. The specific issues that the Parties agree to resolve through this Settlement Agreement are set forth in Section II below. For each issue, Section II describes the positions of the Parties, the difference between Valencia's rebuttal position and DRA's position, and the resolution provided by the Settlement Agreement, and provides references to Valencia's Application (A.) 10-01-006, the DRA Report on the Results of Operations (the "DRA RO Report"), the testimony of the Parties, and Valencia's response(s) to DRA Data Request(s) relevant to each settled issue.

3. Because this Settlement Agreement represents a compromise of the Parties' positions with respect to each issue addressed herein, the Parties have agreed upon the resolution of each issue addressed in the Settlement Agreement on the basis that its approval by the Commission should not be construed as an admission or concession by any Party regarding any fact or matter of law that may be in dispute in this

proceeding. Furthermore, consistent with Rule 12.5 of the Commission's Rules, the Parties intend that the approval of this Settlement Agreement by the Commission should not be construed as a precedent or statement of policy of any kind for or against any Party in any current or future proceeding with respect to any issue addressed in the Settlement Agreement.

4. This Settlement Agreement is the product of intensive settlement negotiations, including a mediation process conducted with the assistance of ALJ Linda Rochester, who served ably as mediator in this matter.

5. The Parties agree that no signatory to the Settlement Agreement assumes any personal liability as a result of his or her execution of this document. All rights and remedies of the Parties are limited to those available before the Commission.

6. This Settlement Agreement may be executed in counterparts, each of which shall be deemed an original, and the counterparts together shall constitute one and the same instrument.

7. The Parties agree to use their best efforts to achieve Commission approval of the Settlement Agreement. The Parties shall request that the Commission approve the Settlement Agreement without change and find the Settlement Agreement to be reasonable, consistent with the law, and in the public interest.

8. This Settlement Agreement represents the Parties' complete and final agreement and supersedes all informal understandings and oral agreements relating to the subject matter of the Settlement Agreement in this General Rate Case.

II. TOPICS RESOLVED BY SETTLEMENT AGREEMENT

A. NUMBER OF CUSTOMERS

ISSUE: Valencia developed its forecast for the number of metered service customers for all customer classes based on the average increases over the past five years, using 2009 estimated growth and estimated 2009 year end number of customers. In its Report on the Results of Operations (the "DRA RO Report"), DRA used the same five-year average methodology as Valencia but used actual 2009 customer growth and actual 2009 year-end number of customers, instead of estimates. In its rebuttal testimony, Valencia explained that while it did not object to DRA's approach in theory, specific circumstances relating to the growth of the multi-residential class resulted in a significant overstatement of customer usage.

RESOLUTION: The Parties agree to use the customer growth based on the 5-year average as proposed in DRA's report for all customer classes except single family residential and multi-family residential. For single family residential, the Parties agreed to shift 59 customers from the multi-family residential class to the single family residential class in order to account for 2009 installations of ¾ inch individually metered service to certain condominium properties. Of these 59 multi-family customers, 29 will be moved during 2010 (full year effect) and 30

will be moved during 2011 (half year effect). The resulting average number of customers for 2011 is summarized as follows:

	Valencia Application	Valencia Rebuttal	DRA Report	Difference	Settlement
Single Family Residential	25,552	25,499	25,455	44	25,499
Multi Family Residential	508	571	615	(44)	571
Commercial Without Magic Mountain	827	863	863	0	863
Magic Mountain	1	1	1	0	1
Industrial	376	382	382	0	382
Public Authorities	68	66	66	0	66
Dedicated Irrigation	1,290	1,275	1,275	0	1,275
Meter Construction	46	25	25	0	25
Untreated / Recycled	10	10	10	0	10
Private Fire Protection	1,366	1,366	1,366	0	1,366

Additionally, 30 customers will be moved during 2012. The table below summarizes customer growth by class for years 2012 and 2013 as agreed upon by Valencia and DRA.

	Valencia Application	Valencia Rebuttal	DRA Report	Difference	Settlement
Single Family Residential	220	219	189	30	219
Multi Family Residential	37	18	48	(30)	18
Commercial Without Magic Mountain	41	42	42	-	42
Magic Mountain	0	0	-	-	0
Industrial	0	1	1	-	1
Public Authorities	3	2	2	-	2
Dedicated Irrigation	28	25	25	-	25
Meter Construction	0	0	-	0	0
Untreated / Recycled	0	0	-	-	0
Private Fire Protection	52	52	52	-	52
Total Growth	381	359	359	0	359

REFERENCES: VWC Exh. 1 (Johnson), pp. 4-1 to 4-2 and Tables 4-1, 4-2; DRA RO Report, pp. 2-1 to 2-3; VWC Rebuttal (Johnson), pp. 3-5.

B. CONSUMPTION BY CUSTOMER

ISSUE: Valencia estimated average water usage by each customer class using multiple regression analysis using recorded monthly water sales data from 2002 through 2008, except as follows: (i) for Residential customers, using an average of recent residential usage per customer (excluding 2007), because regression results did not accurately reflect anticipated decrease in usage resulting from the implementation of conservation programs promoting water use efficiency; (ii) for Magic Mountain, using a two-year average of annual sales, because regression results did not accurately reflect conservation efforts in the Santa Clarita Valley or the fact that the park is not growing; (iii) for TPC Golf Course and Vista Valencia Golf Course ("Untreated/Recycled") using the best available data as a four-year average of annual sales; and (iv) for Meter Construction, using a five-year average of annual sales. DRA accepted Valencia's estimates for Magic Mountain and "Untreated/Recycled" and used the same regression equation to forecast usage across all other classes (with results that varied slightly from Valencia's results).

RESOLUTION: The Parties agree with the consumption per customer numbers proposed in Valencia's application for Magic Mountain and the "Untreated/Recycled" category (TPC Golf Course, Vista Valencia Golf Course and Other Untreated/Recycled). The Parties agree with the consumption per customer numbers proposed in DRA's report for multi-family residential, commercial without Magic Mountain, industrial, public authorities, dedicated irrigation and meter construction. The Parties were not able to agree on consumption per customer for single family residential, which remains an unsettled issue. The settled consumption per customer for 2011 and 2012 amounts for all customer classes (excluding single family residential) are summarized as follows (in ccf):

	Valencia Application	Valencia Rebuttal	DRA Report	Difference	Settlement
Multi Family Residential	1,333.4	1,333.4	1,335.6	(2.2)	1,335.6
Commercial Without Magic Mountain	1,155.8	1,155.8	1,158.1	(2.3)	1,158.1
Magic Mountain	490,525.0	490,525	490,525.0	0	490,525.0
Industrial	1,966.6	1,966.6	1,964.1	2.5	1,964.1
Public Authorities	5,896.4	5,896.4	5,860.6	35.8	5,860.6
Dedicated Irrigation	2,880.6	2,880.6	2,880.4	.2	2,880.4
Meter Construction	1,880.8	1,880.8	1853.9	26.9	1853.9
TPC Golf Course	156,498.8	156,498.8	156,498.8	0	156,498.8
Vista Valencia Golf Course	9,480.0	9,480.0	9,480.0	0	9,480.0
Other Untreated / Recycled	2,497.0	2,497.0	2,497.0	0	2,497.0

REFERENCES: VWC Exh. 1 (Johnson), pp. 4-2 to 4-3, Table 4-3; DRA RO Report, pp. 2-4 to 2-11; VWC Rebuttal (Johnson) 5-8.

C. EXPENSE ESCALATION FACTORS

ISSUE: Valencia used escalation factors based on the August 31, 2009 DRA Energy Cost of Service Branch ("ECSB") publication and added 3% to account for the use of updated rates published during the pendency of this general rate case ("GRC"). DRA used escalation factors based on the August 31, 2009 DRA ECSB publication, but without the additional 3%. DRA agreed that the latest escalation factors that will be available at a later point of this GRC process should be used.

RESOLUTION: The Parties agree to use the most recent factors provided in the DRA Energy Cost of Service Branch Escalation Memorandum, estimated to be available on or about June 30, 2010.

Expense numbers shown in this settlement document are based on the inflation factors used in Valencia's application, but will change based on the final escalation rates used for the final decision.

	Valencia Application	Valencia Rebuttal	DRA Report	Difference	Settlement
Escalation Factors	August 2009 ECSB Factors + 3% or Latest	Not addressed	August 2009 ECSB Factors or Latest	Reported in sections below	Latest ECSB Factors (estimated as of June 30, 2010)

REFERENCES: VWC Exh. 1 (Johnson), pp. 5-5 to 5-6; DRA RO Report, p. 3-2.

D. OPERATION AND ADMINISTRATION EXPENSES

1. Payroll

ISSUE: Valencia's estimated payroll expense included the following proposed staff and associated salary increases: (a) GIS Technician for year 2009; (b) a 2nd Conservation Coordinator for year 2009; (c) Financial Analyst for year 2009; (d) Facilities Manager for year 2010; (e) Resource Conservation Manager for year 2010; (f) Administrative Assistant for year 2010; (g) Utility Supplier Diversity Program ("USDP")/Purchasing Analyst for year 2012; and (h) Water Quality Technician for year 2012. Subsequent to filing its application, Valencia voluntarily withdrew its proposal for new water softening plants and the costs associated with the Water Quality Technician position for 2012. DRA recommended that the Commission adopt Valencia's withdrawal of the request for the Water Quality Technician position but reject all of the above proposed additional positions except for those associated with the 2nd Conservation Coordinator and the Financial Analyst positions.

RESOLUTION: The Parties agree as follows: (a) the 2nd Conservation Coordinator, Financial Analyst, GIS Technician, Facility Manager, and Resource Conservation Manager positions are necessary and the salaries associated with these positions should be included in

2011 rates; (b) the 2010 salary of the Resource Conservation Manager should be increased from $65,000 to $75,000 to reflect the actual salary of the position filled in 2010, with inflationary increases thereafter (resulting in the settled amount of $78,375 contained in the 2011 table below); (c) hiring of the USDP Purchasing Analyst and the Administrative Assistant will be deferred; (d) backfilling the currently vacant Conservation Coordinator position will be deferred and the salary associated with this position removed from projected payroll expense; (e) the salary of the Facilities Manager will be added to rates by a separate advice letter filing made after the position is filled; (f) $45,000 of salary associated with the Water Quality Technician position will be removed from payroll expense for 2012; and (g) the salaries of each position need to be escalated to 2011 and 2012 using the rates from Section C above.

2011	Valencia Application	Valencia Rebuttal	DRA Report	Difference	Settlement
Conservation Coordinator (2nd)	$45,031	$45,031	$45,031	$0	$45,031
Financial Analyst	$75,770	$75,770	$75,770	$0	$75,770
GIS Technician	$48,248	$48,248	$0	$48,248	$48,248
Resource Conservation Mgr	$67,925	$67,925	$0	$67,925	$78,375
Facility Manager*	$67,925	$67,925	$0	$67,925	$67,925
Administrative Assistant	$41,800	$41,800	$0	$41,800	$0
Conservation Coordinator (1st)(Vacant)	$55,685	$55,685	$55,685	$0	$0

*Facility Manager position will be added to rates by a separate advice letter filing after the position is filled.

2012	Valencia Application	Valencia Rebuttal	DRA Report	Difference	Settlement
USDP/Purchase Analyst	$40,000	$40,000	$0	$40,000	$0
Water Quality Technician	$45,000	$0	$0	$0	$0

REFERENCES: VWC Exh. 1 (Johnson), pp. 5-1 to 5-4, Table 5-1; DRA RO Report, pp. 3-4 to 3-6, 3-8 to 3-10, 3-12 to 3-14; VWC Rebuttal (Johnson), pp. 8-10; VWC Rebuttal (Milleman), pp. 2-6; VWC Rebuttal (Abercrombie), pp. 2-3.

2. Purchased Water

ISSUE: Both Valencia and DRA developed their respective forecasts of purchased water costs using the same methodology, but different estimates of customers and consumption.

RESOLUTION: The Parties agree that purchased water expense should be calculated using the methodology in Valencia's application based on the annual total production generated from using the customer and consumption numbers agreed upon in this Settlement Agreement

(see Sections A and B, above) and the final Commission decision for Single Family residential consumption per customer.

REFERENCES: VWC Exh. 1 (Johnson), p. 5-4 to 5-5, Table 5-1; VWC Exh. 1 Workpapers (Johnson), Worksheet 5-1B; DRA RO Report, 3-15 to 3-16.

3. Purchased Power

ISSUE: Valencia proposed an estimate of purchased power expense calculated based on the five-year average of pumping power employed. DRA estimated purchased power expense using the estimated power pumped each year based on quantity of water.

RESOLUTION: The Parties agree that purchased power expense should be calculated using the methodology in DRA's RO Report because Valencia's approach did not properly account for changes in pumping power employed based on changes in water production. The purchased power expense will be based on the annual total production generated from using the customer and consumption numbers agreed upon in this Settlement Agreement (see Sections A and B, above) and the final Commission decision for Single Family residential consumption per customer.

REFERENCES: VWC Exh. 1 (Johnson), p. 5-5, Table 5-1; VWC Exh. 1 Workpapers (Johnson), Worksheet 5-1B; DRA RO Report, p. 3-16; VWC Rebuttal (Johnson), pp. 10-11.

4. Water Quality Improvement Program

ISSUE: Valencia originally proposed an additional estimated cost of $523,900 in Water Quality Improvement Program expense for year 2012 to account for operating the two new water softening plants proposed in its application. Subsequent to this original filing, Valencia withdrew the new water softening plants proposal and removed the operating cost (as well as the capital cost) of the new water softening plants from its rate application.

RESOLUTION: The Parties agree to exclude the $523,900 of annual expenses associated with operating the two new water softening plants Valencia originally proposed in its application for year 2012, but voluntarily withdrew from this general rate case filing. The remaining $180,000 allowance will fund continued operation of the existing plant. The Parties also agree that the chemical expense memorandum account will not be needed. See impact to plant in Section E.6, below.

	Valencia Application	Valencia Rebuttal	DRA Report	Difference	Settlement
Water Quality Improvement Program	$703,900	$180,000	$180,000	$0	$180,000

REFERENCES: VWC Exh. 1 (Alvord), p. 5-6, Table 5-1; VWC Exh. 1 Workpapers (Johnson), Worksheet 5-1C; DRA RO Report, pp. 3-18 to 3-19; VWC Rebuttal (Johnson), p. 11.

5. Customer Records (Acct 773)

ISSUE: Both Valencia and DRA estimated postage expense based on the estimated annualized average customers, except that Valencia also incorporated an escalation factor for future postage rate increases.

RESOLUTION: The Parties agree that the postage cost included in customer records expense should reflect a $.02 increase in postage rates in 2011. Postage expense will be calculated based on the customer numbers agreed upon in this Settlement Agreement (see Section A above).

REFERENCES: VWC Exh. 1 (Johnson), pp. 5-7, Table 5-1; VWC Exh. 1 Workpapers (Johnson), Worksheet 5-1D; DRA RO Report, p. 3-19; VWC Rebuttal (Johnson), pp. 11-12.

6. Uncollectibles

ISSUE: Both Valencia and DRA estimated the uncollectibles expense using a five-year average (2005-2009) of the historical rate of uncollectible expense to revenue, except that Valencia used estimated 2009 rate data and DRA used recorded 2009 rate data.

RESOLUTION: The Parties agree to use the uncollectibles rate proposed in DRA's RO Report, because it is based on more recent data than Valencia's original proposal. The Parties also agree that the uncollectibles expense should be calculated in the final Commission decision using the total revenue requirement number. Uncollectibles percentage rates are shown below:

	Valencia Application	Valencia Rebuttal	DRA Report	Difference	Settlement
Uncollectibles (% Rate)	0.3052%	Not addressed	0.2847%	0%	0.2847%

REFERENCES: VWC Exh. 1 (Johnson), pp. 5-7, Table 5-1; VWC Exh. 1 Workpapers (Johnson), Worksheet 5-1D; DRA RO Report, p. 6-6.

7. Property and Liability Insurance (Acct 793)

ISSUE: Valencia estimated property and liability insurance expense using the five-year average (2005-2009) of recorded data, adjusted for projected increases in both inflation and revenues. DRA estimated property and liability insurance expense using the same methodology as Valencia, except that DRA excluded the adjustment for projected increases in revenues. In rebuttal testimony, Valencia provided information from its insurance broker describing how Valencia's liability premiums are tied to revenues.

RESOLUTION: The Parties agree to the lower property and liability insurance expense amount proposed by DRA, as shown below.

	Valencia Application	Valencia Rebuttal	DRA Report	Difference	Settlement
Property and Liability Insurance Acct 793	$896,904	$896,904	$757,290	$139,614	$757,290

REFERENCES: VWC Exh. 1 (Johnson), pp. 5-7, Table 5-1; VWC Exh. 1 Workpapers (Johnson), Worksheet 5-1D; DRA RO Report, pp. 3-20 to 3-21; VWC Rebuttal (Milleman), pp. 6-7.

8. Employee Pensions and Benefits

ISSUE: Subsequent to filing its application, Valencia discovered that its original estimate of Retirement Plan expense was unintentionally calculated based on inclusion of a portion of retirement expenses that no longer exist. In its RO Report, DRA adjusted the Retirement Plan expense to correct this overstatement.

RESOLUTION: The Parties agree to the estimate of Retirement Plan expense proposed by DRA, because it properly reflects Valencia's test year retirement expenses. The expense is shown below:

	Valencia Application	Valencia Rebuttal	DRA Report	Difference	Settlement
Employee Pensions and Benefits, Retirement Expense Acct 795	$415,021	Not Addressed	$193,080	$221,941	$193,080

REFERENCES: VWC Exh. 1 (Johnson), pp. 5-7, Table 5-1; VWC Exh. 1 Workpapers (Johnson), Worksheet 5-1E; DRA RO Report, p. 3-21.

9. Outside Services

ISSUE: Both Valencia and DRA estimated Outside Services expense based on a five-year average (2005-2009), except that Valencia used an estimate for 2009 data and DRA used recorded data for 2009.

RESOLUTION: The Parties agree to use the Outside Services expense proposed by DRA because it is based on more recent data than Valencia's original proposal. The expense amount is shown below:

	Valencia Application	Valencia Rebuttal	DRA Report	Difference	Settlement
Outside Services Acct 798	$356,950	Not addressed	$330,270	$26,680	$330,270

REFERENCES: VWC Exh. 1 (Johnson), pp. 5-9, Table 5-1; VWC Exh. 1 Workpapers (Johnson), Worksheet 5-1E; DRA RO Report, pp. 3-21 to 3-22.

10. Miscellaneous General Expenses Other Than National Association of Water Companies (NAWC) & California Water Association (CWA) Dues

ISSUE: Valencia requested $448,891 for 2011 Miscellaneous General Expenses Other Than NAWC & CWA Dues ("Miscellaneous"). Included in this amount is $343,750 for its planned 2011 Conservation Program. DRA accepted all of Valencia's expenses, including all of the conservation programs except $60,000 in expenses for 100% of the cost of weather based irrigation controllers and $6,500 for the correction of a mathematical error related to the High Efficiency Washer program. Collectively this represents a $66,500 annual reduction, which resulted in DRA's 2011 conservation expense of $277,250. When applied to overall Miscellaneous expenses, this results in a 2011 DRA Miscellaneous expense of $382,391.

RESOLUTION: See complete discussion of Conservation settlement in Section L. below. This table shows the dollar impact of the Parties' positions to Miscellaneous General Expenses Other Than NAWC & CWA Dues.

	Valencia Application	Valencia Rebuttal	DRA Report	Difference	Settlement
Non Conservation Expenses in Acct 799	$105,141	Not addressed	$105,141	0	$105,141
Conservation Expenses in Acct 799	$343,750	$337,250	$277,250	$60,000	$307,250
Total Misc. Gen. Exp. Other Than NAWC & CWA Dues Acct 799	$448,891	$442,391	$382,391	$60,000	$412,391

REFERENCES: VWC Exh. 1 (Johnson), pp. 5-9, Table 5-1; VWC Exh. 1 Workpapers (Johnson), Worksheet 5-1F; VWC Exh. 14 (Milleman), p. A-1; DRA RO Report, pp. 3-22, 10-4, 10-7 to 10-9; VWC Rebuttal (Milleman), pp. 21-23.

E. UTILITY PLANT ADDITIONS

1. Saugus Well 207

ISSUE: Valencia seeks Commission approval of its proposed and partially completed Saugus Well project, designed to utilize the Saugus Aquifer. DRA opposed the project, recommending that ratepayer funding for the project be disallowed.

RESOLUTION: The Parties agree to include the entire cost of the Saugus Well project, $2,151,000, in Valencia's 2010 plant in service because the pump station provides additional water supply needed to maintain reliable service to customers.

	Valencia Application	Valencia Rebuttal	DRA Report	Difference	Settlement
Saugus Well 207	$2,151,000	$2,151,000	$0.0	$2,151,000	$2,151,000

REFERENCES: VWC Exh. 2 (Various), Forecast p. 1, Table 2; DRA RO Report, pp. 4-3 to 4-6; VWC Rebuttal (Abercrombie), pp. 3-9.

2. V-6 Replacement

ISSUE: Valencia planned to replace booster pump station V-6 to address irremediable deterioration of the station's performance and condition and requested $618,000 in 2011 capital additions for the project. DRA opposed the V-6 Replacement project and removed the associated capital costs from 2011 plant additions.

RESOLUTION: The Parties agree to include the entire cost of the V-6 Replacement project, $618,000, in Valencia's 2011 plant in service because the pump station has exceeded its useful life.

	Valencia Application	Valencia Rebuttal	DRA Report	Difference	Settlement
V-6 Replacement	$618,000	$618,000	$0.0	$618,000	$618,000

REFERENCES: VWC Exh. 2 (Various), Forecast p. 1, Table 2; DRA RO Report, pp. 4-7 to 4-9; VWC Rebuttal (Abercrombie), pp. 9-11.

3. V-7/S-6 Improvements

ISSUE: Valencia planned to upgrade turnout V-7 and booster pump station S-6 and requested $600,000 in 2011 capital additions for the project. DRA opposed the V-7/S-6 Improvements project and removed the associated capital costs from 2011 plant additions.

RESOLUTION: The Parties agree to remove the cost of the V-7/S-6 Improvements project from this general rate case and to defer Commission consideration to a future proceeding.

	Valencia Application	Valencia Rebuttal	DRA Report	Difference	Settlement
V-7/S-6 Improvements	$600,000	$600,000	$0	$600,000	$0

REFERENCES: VWC Exh. 2 (Various), Forecast p. 1, Table 2; DRA RO Report, pp. 4-9 to 4-10; VWC Rebuttal (Abercrombie), pp. 11-12.

4. V-9 CLWA Turnout

ISSUE: Valencia planned to add a new turnout (V-9) so as to bolster system supply and reliability. Valencia requested $673,000 in year 2012 capital additions for the project. DRA opposed the V-9 CLWA Turnout project and removed the associated capital costs from 2012 plant additions.

RESOLUTION: The Parties agree to remove the cost of the V-9 CLWA Turnout project from this GRC and to defer Commission consideration to a future proceeding.

	Valencia Application	Valencia Rebuttal	DRA Report	Difference	Settlement
V-9 CLWA Turnout	$673,000	$673,000	$0	$673,000	$0

REFERENCES: VWC Exh. 2 (Various), Forecast p. 2, Table 2; DRA RO Report, pp. 4-10 to 4-11; VWC Rebuttal (Abercrombie), pp. 12-13.

5. Stevenson Ranch Zone V Tank

ISSUE: Valencia planned to construct a new 1.35 MG storage tank in Zone V in order to supplement existing emergency and fire reserve storage in the Zone, and to accomplish necessary repair work on the currently existing Stevenson Ranch Tank. Valencia requested $975,000 in year 2011 capital additions for the project. DRA opposed the Stevenson Ranch Zone V Tank project and removed the associated capital costs from 2011 plant additions.

RESOLUTION: The Parties agree to remove the cost of the Stevenson Ranch Zone V Tank project from this GRC and to defer Commission consideration to a future proceeding.

	Valencia Application	Valencia Rebuttal	DRA Report	Difference	Settlement
Stevenson Ranch Zone V Tank	$975,000	$975,000	$0	$975,000	$0

REFERENCES: VWC Exh. 2 (Various), Forecast p. 2, Table 2; DRA RO Report, pp. 4-11 to 4-13; VWC Rebuttal (Abercrombie), pp. 13-16.

6. Water Quality Improvement Program

ISSUE: Valencia planned to construct two new water softening plants that would be fully operational by 2012. The cost of the two new plants was estimated to be $8,392,000. Subsequent to filing its application, Valencia voluntarily withdrew the project and proposed to remove all associated costs from this application. Therefore, no resolution of this issue was necessary.

	Valencia Application	Valencia Rebuttal	DRA Report	Difference	Settlement
Water Quality Improvement Program	$8,392,000; adjusted to $0 prior to DRA Report	Not Applicable	Not Applicable	Not Applicable	Not Applicable

REFERENCES: VWC Exh. 2 (Various), Forecast p. 6, Table 2; DRA RO Report, pp. 3-18 to 3-19; VWC Rebuttal (Johnson), pp. 3, 11 (noting withdrawal).

F. DEPRECIATION AND AMORTIZATION EXPENSE AND RESERVE

ISSUE: Both Valencia and DRA followed the straight line remaining life methodology to determine depreciation accruals and reserves, but used different estimates of plant in service and Contributions in Aid of Construction ("CIAC") related to the settlement proceeds for perchlorate litigation.

RESOLUTION: The Parties agree to calculate Depreciation and Amortization Expense and Reserve for 2011 and 2012 using settled plant in service and final Commission determination regarding settlement proceeds made in this GRC. The depreciation rates by specific plant in service classification are shown on Valencia Exhibit 1 Table 7-2 or DRA RO Report Table 5-2A p. 5-2.

	Valencia Application	Valencia Rebuttal	DRA Report	Difference	Settlement
Composite Depreciation (% Rate)	2.80%	Not addressed	2.80%	0.0%	2.80%

REFERENCES: VWC Exh. 1 (Johnson), pp. 7-1 to 7-2, Tables 7-1, 7-2; DRA RO Report, pp. 5-1 to 5-4.

G. RATE BASE

ISSUE: Both Valencia and DRA used the same methodology to estimate rate base. Differences between Valencia's requested amounts and DRA's recommendations are entirely attributable to different estimates of plant additions, depreciation reserve, working cash and the treatment of CIAC related to the settlement proceeds for perchlorate litigation. Differences in estimates of working cash are attributable to differences in expense estimates as discussed in Section D above.

RESOLUTION: The Parties agree that rate base should be calculated using: (1) the accepted methodology; (2) settled plant in service, depreciation reserve and working cash; and (3) the Commission's final determination in this GRC regarding CIAC related to settlement proceeds for perchlorate litigation.

REFERENCES: VWC Exh. 1 (Milleman), pp. 8-1 to 8-3, Tables 8-1 to 8-5; DRA RO Report, pp. 6-1 to 6-6; VWC Rebuttal (Milleman), pp. 7-11.

H. INCOME TAXES

ISSUE: Differences between Valencia's and DRA's estimates of income tax expense are attributable to: (1) different estimates of revenues, expenses and rate base, (2) different methodologies used to estimate the federal deduction of California Corporate Franchise Tax ("CCFT") and the Domestic Production Activities Deduction ("DPAD"), and (3) the fact that Valencia did not use the current 9% DPAD percentage available for years 2010 and after.

RESOLUTION: The Parties agree to calculate Income Tax expense using revenues, expenses and rate base as adopted in the Commission's final decision in this GRC. The Parties further agree to use Valencia's methodology used in its filing to deduct the previous year's CCFT in the calculation of federal income tax expense. Further, the Parties agree to use a $119,000 DPAD to calculate 2011 federal income tax expense at proposed rates.

REFERENCES: VWC Exh. 1 (Milleman), p. 9-1, Table 9-3; DRA RO Report, p. 7-1; VWC Rebuttal (Milleman), pp. 11-19.

I. TAXES OTHER THAN INCOME

1. Ad Valorem Taxes

ISSUE: DRA accepted Valencia's methodology for calculating ad valorem taxes using the actual ad valorem tax percentage of 0.88% from 2009. Differences between Valencia's and DRA's estimates are entirely attributable to different estimates of plant in service.

RESOLUTION: The Parties agree to calculate ad valorem taxes using the accepted methodology and plant in service amounts adopted in the Commission's final decision in this GRC.

REFERENCES: VWC Exh. 1 (Johnson), p. 9-1, Table 9-2; DRA RO Report, p. 7-4.

2. Franchise Tax Expense

ISSUE: Both Valencia and DRA estimated the franchise tax expense amount using the five-year average of franchise tax rates, but applied this average rate to different estimates of revenues.

RESOLUTION: The Parties agree that franchise tax expense should be calculated using the total revenue requirement in the final decision. The Parties also agree to use the franchise tax rate shown below:

	Valencia Application	Valencia Rebuttal	DRA Report	Difference	Settlement
Franchise Tax Expense Rate	1.390%	Not addressed	1.390%	none	1.390%

REFERENCES: VWC Exh. 1 (Johnson), p. 5-7, Table 5-1; VWC Exh. 1 Workpapers (Johnson), Worksheet 5-1E; DRA RO Report, p. 7-5.

3. Payroll Taxes

ISSUE: DRA accepted Valencia's methodology for calculating payroll taxes using projected payroll amounts and the effective tax rates for Federal Insurance Contribution Act ("FICA"), Federal Unemployment Insurance ("FUI") and State Unemployment Insurance ("SUI"). Differences between Valencia's and DRA's estimates are attributable to different estimates of

payroll expense and DRA's adjustment of the statutory limit on employee salary subject to social security from Valencia's projected limit to the actual 2010 limit.

RESOLUTION: The Parties agree to calculate payroll taxes using: (1) the settled methodology; (2) the statutory limits subject to social security taxation proposed by DRA; and (3) payroll expense as adopted in the Commission's final decision in this GRC.

REFERENCES: VWC Exh. 1 (Johnson), p. 9-1, Table 9-1; DRA RO Report, pp. 7-5 to 7-6.

J. TAX DEPRECIATION

ISSUE: Both Valencia and DRA estimated Tax Depreciation based on allowed depreciation methods. Differences between Valencia's and DRA's estimates are entirely attributable to different estimates of plant in service.

RESOLUTION: The Parties agree to calculate Tax Depreciation using adopted plant in service amounts in the final decision by the Commission.

REFERENCES: VWC Exh. 1 (Milleman), pp. 9-2 to 9-3, Table 9-5; VWC Exh. 1 Workpapers (Johnson), Worksheets 9-5 to 9-5AC; DRA RO Report, p.6-1.

K. NET-TO-GROSS MULTIPLIER

ISSUE: Both Valencia and DRA calculated the net-to-gross ("N-T-G") multiplier using the same methodology, except that DRA deducted the DPAD prior to calculating the federal income tax expense, thereby reflecting this specific tax deduction in the N-T-G multiplier calculation.

RESOLUTION: The Parties agree to calculate the N-T-G multiplier using Valencia's methodology that excludes deducting the DPAD prior to calculating the federal income tax expense since the DPAD does not fluctuate with revenues.

	Valencia Application	Valencia Rebuttal	DRA Report	Difference	Settlement
Net-To-Gross Multiplier	1.69067	1.69067	1.65202	0.00035	1.69032

REFERENCES: VWC Exh. 1 (Johnson), p. 11-1; DRA RO Report, p. 6-6; VWC Rebuttal (Milleman), pp. 19-20.

L. WATER CONSERVATION

1. Weather based Irrigation Controllers ("WBIC") Rebate Program

ISSUE: Valencia proposed the continuation of its WBIC Rebate Program, which covers the costs of purchase and installation of weather-based irrigation controllers to residential customers. Valencia requested a total of $100,000 for the program, with $60,000 to cover

equipment costs and $40,000 to cover installation costs. Because the WBIC Rebate Program is not available to all of Valencia's customers, DRA recommended the Commission only approve the $40,000 to cover installation costs and require program participants to bear the equipment cost. In rebuttal testimony, Valencia detailed planned efforts to make the WBIC Rebate Program available to more customers.

RESOLUTION: Compromising their respective positions on coverage of equipment expense, the Parties agree to an annual total of $70,000 for the WBIC Rebate Program with $40,000 for installation and $30,000 for equipment. Customers receiving WBIC rebates will have to cover one half of the cost of equipment and Valencia will cover the remaining half. **The table below shows the specific dollar impact of this settlement item for illustrative purposes only, as the expense component of it is incorporated in Section D. 10. above.**

	Valencia Application	Valencia Rebuttal	DRA Report	Difference	Settlement
WBIC Rebate Program	$100,000 ($60,000 for equipment; $40,000 for installation)	$100,000 ($60,000 for equipment; $40,000 for installation)	$40,000 for installation	$60,000	$70,000 ($30,000 for equipment; $40,000 for installation)

REFERENCES: VWC Exh. 14 (Milleman), p. 6; DRA RO Report, p. 10-9; VWC Rebuttal (Milleman), pp. 22-23.

2. High Efficiency Toilet (HET) Rebate Program

ISSUE: Valencia requested $31,250 to provide rebates of $125 for 250 HETs per year. In response to Data Request BM2-1, Valencia stated that the rebates would be provided for customers purchasing HETs of 1.28 gallons per flush (gpf) to replace toilets with a volume of as little as 1.6 gpf. During settlement discussions, DRA noted that replacing 1.6 gpf toilets with 1.28 gpf toilets provided relatively small savings, and recommended that Valencia only provide rebates to replace toilets with a volume greater than 1.6 gpf (3.5 gpf is a typical volume for toilets manufactured before 1992).

RESOLUTION: Valencia and DRA agreed that rebates of no more than $50 would be provided to replace existing toilets with a volume of 1.6 gpf, while still allowing rebates of $125 for replacement of toilets using more than 1.6 gpf. This measure would make the rebate program cost effective and increase the number of toilet replacements. Valencia will request documentation of the flush volume of toilets being replaced through the rebate program to ensure that the larger ($125) rebates are only provided to customers replacing relatively high-volume (greater than 1.6 gpf) existing toilets. This requirement will also assist Valencia in reporting on savings from the HET rebate program.

REFERENCES: VWC Exh. 14 (Milleman), pp. 6-7; Response to DRA DR BM2-1, p. 5.

3. Water Savings Goal (Annual)

ISSUE: DRA recommended Valencia establish annual water savings targets measured in gallons per capita per day ("GPCD"). In rebuttal testimony, Valencia suggested that DRA's recommendation was premature because the Department of Water Resources ("DWR") is in the process of developing a methodology for all water utilities to use in order to meet the goal of a 20% per capita reduction in consumption by 2020.

RESOLUTION: The Parties agree that Valencia will set an annual water savings goal after DWR has set the base year and Valencia completes its 2010 Urban Water Management Plan (due to DWR by July 1, 2011).

REFERENCES: DRA RO Report, p. 10-10; VWC Rebuttal (Milleman), pp. 27-28.

4. Balancing Account

ISSUE: DRA recommended a one-way balancing account, with any unspent funds subject to refund to ratepayers at the end of the three-year rate case cycle. In Rebuttal testimony Valencia proposed a two-way balancing account to track conservation expenses, requested flexibility to spend the authorized overall conservation budget amongst its various conservation programs based on customer demand, and proposed that the balancing account function over a cumulative three-year period to address the potential for program delays or accelerations.

RESOLUTION: The Parties agree to a one-way balancing account with unspent funds subject to refund to ratepayers. The Parties also agree that Valencia shall have a conservation budget consistent with the following three categories: (1) General Residential programs at 61% or $187,250; (2) Outdoor programs at 29% or $90,000; and (3) Miscellaneous programs at 10% or $30,000. Valencia has the limited flexibility to shift its conservation budget among the three categories by up to 10%, with an internal cap on Residential Audits of $120,000 per year. To illustrate, if customer demand for outdoor programs is higher than expected, Valencia can shift up to 10% of another category's budget (e.g., $18,725 from General Residential or $3,000 from Miscellaneous) out of that category into the outdoor programs budget. The balancing account shall function over the three-year GRC period and funds do not need to be expended evenly each year.

REFERENCES: DRA RO Report, pp. 10-11 to 10-12; VWC Rebuttal (Milleman), pp. 28-29.

5. Conservation Reporting

ISSUE: DRA proposed instituting additional reporting requirements that would call for Valencia to submit an annual report that shows conservation activities it has implemented each year, as more fully detailed in Chapter 10 of the DRA RO Report. In rebuttal testimony, Valencia explained that while it did not object to being required to report its conservation activities per se, it was already subject to reporting requirements that would make such additional requirements duplicative and burdensome.

RESOLUTION: The Parties agree that Valencia will provide the data requested by DRA by submitting such data as part of Schedule E-3 of its CPUC annual report.

REFERENCES: DRA RO Report, pp. 10-12 to 10-13; VWC Rebuttal (Milleman), pp. 29-30.

M. MISCELLANEOUS ISSUES

1. Cost of Capital

SIDE NOTE: The Commission will adopt a rate of return for Valencia in Valencia's separate Cost of Capital Application 09-05-001, filed on May 1, 2009, for authority to adjust Valencia's Cost of Capital. The Parties agree, for illustrative purposes, to use Valencia's current rate of return of 9.55%, adopted in D.07-06-024, to develop the revenue requirements in this GRC. The final decision in A.09-05-001 will determine the Cost of Capital issues for Valencia.

REFERENCES: VWC Exh. 1 (Johnson), p. 11-1, Table 11-1; DRA RO Report, pp. 1-2 to 1-3.

2. Final Decision Tables

ISSUE: Valencia proposes that its rate case model be used to generate the tables to accompany the Final Decision.

RESOLUTION: DRA does not oppose the use of Valencia's rate case model to generate Final Decision tables, but that is a determination for the Commission to make.

[SIGNATURE PAGE TO FOLLOW]

Respectfully submitted,

DIVISION OF RATEPAYER ADVOCATES

By: _____

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Dated: July 14, 2010

Respectfully submitted,

VALENCIA WATER COMPANY

By: _____

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Dated: July 14, 2010

VIA ELECTRONIC MAIL AND HAND DELIVERY

July 16, 2010

Hon. Bruce DeBerry
Administrative Law Judge
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102-3214

Re: Valencia Water Company Application No. 10-01-006: Settlement Agreement

Dear Judge DeBerry:

Enclosed please find the Settlement Agreement entered into this week by Division of Ratepayer Advocates ("DRA") and Valencia Water Company ("Valencia") with respect to the above-referenced general rate case. The Settlement Agreement, if approved by the Commission, would resolve most of the previously contested issues in this proceeding.

Because Valencia and DRA are the only parties to this proceeding, the Settlement Agreement constitutes an all-party settlement. The sponsoring witnesses, Jose Cabrera for DRA and Greg Milleman for Valencia, will be prepared to offer testimony with respect to all aspects of the Settlement Agreement at next week's evidentiary hearing.

Respectfully submitted,

Martin A. Mattes
of Nossaman LLP

Darryl Gruen
Division of Ratepayer Advocates

MAM/jw/djg

Enclosure
cc: Service List (via electronic mail)