Decision _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of California Water Service Company (U60W), a corporation, for authority to Implement a Low-Income Ratepayer Assistance Program in compliance with Decision 03-09-021 in Application 01-09-062.	Application 05-10-035 (Filed October 28, 2005)

DECISION APPROVING SETTLEMENT AGREEMENT BETWEEN THE DIVISION OF RATEPAYER ADVOCATES AND CALIFORNIA WATER SERVICE COMPANY

1. Summary

This decision adopts the proposed settlement between the Division of Ratepayer Advocates and California Water Service Company (Cal Water).[1] In connection with Cal Water's Low-Income Ratepayer Assistance (LIRA) program, the settlement authorizes Cal Water to (1) create a LIRA Balancing Account; (2) modify the existing LIRA Memorandum Account; (3) implement a temporary surcharge to reduce the current balance of the LIRA Memorandum Account related to undercollection of non-discretionary LIRA charges; (4) increase the LIRA surcharge rate; and (5) adopt a mechanism to allow annual adjustment and

[1] The parties filed the Motion to Adopt Settlement Agreement Between the Division of Ratepayer Advocates and California Water Service Company (U60W) (Joint Motion), which attached the proposed Settlement Agreement.

true up of LIRA balances pursuant to a Tier 2 Advice Letter (AL). This decision resolves all issues raised in Cal Water's Petition to Modify Decision 06-11-053.

2. Background

Pursuant to Decision (D.) 06-11-053, California Water Service Company (Cal Water) implemented its Low-Income Ratepayer Assistance (LIRA) program on January 1, 2007 in all of its ratemaking districts. The LIRA program provides assistance to qualifying low-income ratepayers by discounting their monthly service charge. This subsidy is to be funded by a surcharge paid by ratepayers not participating in the LIRA program. Costs associated with the program were to be tracked in a separate LIRA Memorandum Account.

On February 9, 2012, Cal Water filed the Petition to Modify D.06-11-053 (Petition) asserting that, because the rate of enrollment in the LIRA program has been unexpectedly high, there is a significant deficit in the funds collected through the surcharge on non-LIRA customers. Cal Water asked for the following changes to bring the costs more in line with the current situation (1) create a LIRA balancing account; (2) modify the existing LIRA Memorandum Account; (3) implement a temporary surcharge to reduce the current balance of the LIRA Memorandum Account related to undercollection of non-discretionary LIRA charges; (4) increase the LIRA surcharge rate; and (5) adopt a mechanism to allow annual adjustment and true up of LIRA balances pursuant to a Tier 1 AL. In discussing the urgency of these requests, Cal Water cited the fact that, beginning in 2012, automatic enrollment will take effect. Under automatic enrollment, customers who have qualified for low-income assistance with their energy accounts will automatically be enrolled in the LIRA program.

On March 9, 2012, Division of Ratepayer Advocates (DRA) filed a response to the Petition requesting that a prehearing conference (PHC) be set and that

more time be allowed for DRA's analysis of the issues raised in Cal Water's Petition.

The parties filed a joint PHC statement on April 16, 2012 stating that the parties were in settlement discussions.

On April 18, 2012, a PHC took place in San Francisco to establish the service list for the proceeding, discuss the scope of the proceeding, and develop a procedural timetable for the management of the proceeding.

On May 14, 2012, Commissioner Sandoval and the assigned Administrative Law Judge (ALJ) issued the Assigned Commissioner's and Administrative Law Judge's Scoping Memo and Ruling (Scoping Memo), which set forth the scope and schedule of the proceeding, and addressed other procedural matters. In particular, the Scoping Memo confirmed the preliminary categorization that this proceeding was ratesetting and confirmed that hearings would not be necessary.

On May 25, 2012, Cal Water and DRA filed their request for approval of the Settlement Agreement.[2] A copy of the Settlement Agreement is attached as Appendix A to this decision. On July 31, 2012, Cal Water and DRA filed a revised Preliminary Statement for the new LIRA Balancing Account which replaces the Preliminary Statement for the new LIRA Balancing Account submitted as Attachment A to the Settlement Agreement. The revised Preliminary Statement is attached as Appendix B to this decision.

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[2] Motion to Adopt Settlement Agreement Between the Division of Ratepayer Advocates and California Water Company (U06W) (Joint Motion). The Settlement Agreement was attached as Appendix 1 to the Joint Motion.

Because evidentiary hearings were not held in this proceeding, there was no opportunity to enter testimony and exhibits into the record. On July 6, 2012, Cal Water made its Motion of California Water Service Company (U60W) to enter Testimony of Thomas F. Smegal into Evidence. The testimony was previously served on the service list. No party has objected to Cal Water's motion. We therefore grant Cal Water's motion and receive into evidence the Prepared Direct Testimony of Thomas F. Smegal dated February 2012 (Smegal Testimony).

3. Timeliness of Petition

D.06-11-053 was effective on November 30, 2006 and Cal Water began offering the LIRA subsidy in 2007. Rule 16.4(d) of the Commission's Rules of Practice and Procedure requires petitions for modification of a decision to be filed and served within one year of the effective date of the decision. If more than one year has elapsed, the petitioner must explain why the petition could not have been presented within one year. Cal Water states that subscribership to the LIRA program has been unexpectedly high, resulting in a significant undercollection. Resolving this undercollection quickly is necessary to minimize rate shock to non-LIRA customers and to avoid intergenerational inequity. Therefore, Cal Water requests that its petition be accepted despite the fact it is beyond the one-year effective date of D.06-11-053. Cal Water provides a reasonable explanation for filing its petition beyond the one-year effective date of D.06-11-053. We will accept and consider Cal Water's Petition.

4. Proposed Settlement Agreement

Cal Water and DRA met and conferred over several days in order to negotiate the proposed settlement. On May 25, 2012, the parties filed the Motion to Adopt Settlement Agreement Between the Division of Ratepayer Advocates

and California Water Service Company (U60W) on May 25, 2012 (Joint Motion). The proposed Settlement Agreement is attached to the Joint Motion. The proposed Settlement Agreement is an all-party settlement and resolves all issues raised in the Petition. No protests or comments were filed in response to the Joint Motion. The key terms of the Settlement Agreement are summarized below.

4.1. Creation of new LIRA Balancing Account

Under the Settlement Agreement, a LIRA Balancing Account will be created to track LIRA subsidies and surcharges.

Currently, the non-discretionary amounts are tracked in the LIRA Memorandum Account along with other, discretionary charges. A memorandum account allows the utility to request approval of the tracked amounts in its next rate proceeding or by AL. In contrast, a balancing account does not require the same type of further Commission review. Therefore, balancing accounts are typically only used for amounts that are non-discretionary. Here, the Commission already approved the LIRA subsidies and surcharges in the last rate proceeding. Therefore, these amounts are not discretionary. Other amounts, such as administrative costs for the LIRA program, are discretionary and will not be tracked in this balancing account.

Cal Water proposed the balancing account in its petition, and DRA agreed that a balancing account to track these non-discretionary amounts is an efficient regulatory mechanism with the goal of keeping the balance in the account low.

4.2. Modify Existing LIRA Memorandum Account

Under the Settlement Agreement, the existing LIRA Memorandum Account, authorized in the last rate proceeding, will be modified to track only

administrative costs related to the LIRA program. These costs are discretionary and subject to reasonableness review.

The current balance in the LIRA Memorandum Account includes: (1) the costs of administering the program; (2) the difference between the aggregate subsidies being provided to customers and surcharges collected from customers; and (3) franchise fees and uncollectibles.

As discussed in Section 4.1, under the Settlement Agreement the difference between the surcharges and subsidies would be tracked in the balancing account, so these costs will no longer be included in the LIRA Memorandum Account.

Franchise fees and uncollectibles (FF&U) consist of factors for franchise fees and uncollectible account expenses established in the general rate case for use of public rights-of-way and to account for bad debt. Although the purpose of the FF&U factors is to increase the accuracy of tracked balances, the evidence shows, and the parties agree, that the administrative burden of applying the factors outweighs the minimal improvement in accuracy. Therefore, FF&U will no longer be tracked in either of the LIRA-related accounts.

The Settlement Agreement also clarifies that the cost of data-sharing with energy companies as required by D.11-05-020 will be tracked in this account.

Cal Water proposed these changes to its LIRA Memorandum Account in the Petition, and DRA agreed that the changes are reasonable and in the public interest.

In its upcoming general rate case, Cal Water must identify LIRA program related costs (if any) that are still included in rates, so that incremental program costs can be identified in the future. For example, some of these costs may currently be embedded in base rates as part of doing business. Now that the program has been implemented, Cal Water should take extra care to make sure

all LIRA costs are properly identified. By tracking these costs, Cal Water and the Commission will be able to assess the success of the LIRA program.

4.3. Amortize Existing Balance in the LIRA Memorandum Account by Applying a Temporary Surcharge

The Settlement Agreement requires Cal Water to calculate the balance of the non-discretionary LIRA amounts currently in the LIRA Memorandum Account and amortize this amount over 36 months by applying a temporary surcharge to non-LIRA customers. Any amount remaining in the LIRA Memorandum Account after collection of the temporary surcharge will be addressed in the July 2012 general rate case.

Cal Water proposed the temporary surcharge, including both the calculation methodology and a 24-month amortization period. DRA agreed that the temporary surcharge and proposed calculation methodology are reasonable and in the public interest, but argued for a longer amortization period to reduce the amount of the monthly temporary surcharge for customers. The Settlement Agreement compromised on a 36-month amortization period.

The 36-month amortization period will result in a surcharge of approximately $0.0182 per one hundred cubic feet (ccf) of water for metered non-LIRA customers. A monthly surcharge ranging from $0.44 to $0.75 will be charged to non-metered non-LIRA customers. The following table shows the approximate surcharge amounts for flat-rate non-LIRA customers.

District	Temporary Monthly Surcharge on Flat-Rate Non-LIRA Customers
Bakersfield	$0.75
Chico	$0.44
Marysville	$0.46
Oroville	$0.49
Selma	$0.71
Willows	$0.58

4.4. Immediately Adjust LIRA Surcharge

Under the Settlement Agreement, in addition to the temporary surcharge described in Section 4.3, the LIRA surcharge will be immediately increased to avoid undercollection in the rest of 2012. The existing LIRA surcharge is approximately $0.01 per ccf. The surcharge increase will be calculated using the assumption that 75% of LIRA eligible customers will be enrolled in the program for the rest of 2012. The percentage of customers enrolled in LIRA ties to both the amount of subsidies that will be needed, and the number of non-LIRA customers from which the subsidy amount can be collected. This increased LIRA surcharge will be in effect until the LIRA surcharge is adjusted in January 2013 pursuant to the mechanism described in Section 4.5.

Cal Water and DRA both support the immediate increase in the LIRA surcharge to limit the extent of future undercollection. The parties agree it is in the public interest to implement this increase now in order to avoid future rate shock and intergenerational inequity.

The parties discussed and compromised on the assumptions to be used in calculating the increase for the rest of 2012. Cal Water had requested an immediate increase to the surcharge of $0.07 per ccf for metered customers and a range of $1.98 to $3.00 for flat-rate residential customers. In calculating this increase, Cal Water assumed that LIRA enrollment would increase to 90% of

eligible customers by the end of 2012. DRA questioned whether enrollment would be as high as 90% of eligible LIRA customers by the end of 2012. The parties settled on a lower percentage – 75% – as a reasonable assumption for calculating the number of participants in the LIRA program for the rest of 2012.

Based on this assumption, the current LIRA surcharge would be increased to approximately $0.06 per ccf for metered non-LIRA customers for the rest of 2012. The surcharge for flat-rate non-LIRA customers would range from $1.41 to $2.42, as more specifically set forth below.

District	Monthly Surcharge on Flat-Rate Non-LIRA Customers
Bakersfield	$2.42
Chico	$1.41
Marysville	$1.47
Oroville	$1.59
Selma	$2.30
Willows	$1.89

4.5. Annual Adjustment of LIRA Surcharges

Using the calculation methodology set forth in the Settlement Agreement, the amount of the surcharge will be adjusted annually by updating calculations to reflect current LIRA enrollment levels and by allowing the balance in the Balancing Account to be trued-up. Cal Water will file a Tier 2 AL by October 31 of each year. The AL will calculate the level of surcharges necessary to support the program for the following year. The adjustment will take effect January 1 of the following year, with the first such adjustment taking place January 2013 (based on an October 31, 2012 Tier 2 AL).

DRA agreed with Cal Water that an annual adjustment mechanism is necessary to avoid future undercollections. As the Joint Motion states, an annual adjustment will allow for an efficient regulatory adjustment mechanism that is

intended to keep the balance low. DRA proposed a Tier 2 AL, instead of the Tier 1 AL proposed by Cal Water. The Settlement Agreement provides for the Tier 2 AL advocated by DRA.

5. Standard of Review for Settlement Agreements

We review this uncontested Settlement Agreement pursuant to Rule 12.1(d)[3] which provides that, prior to approval, the Commission must find a settlement "reasonable in light of the whole record, consistent with the law, and in the public interest." We find the proposed settlement meets the Rule 12.1(d) criteria and we therefore approve the settlement. Below, we discuss each of the three criteria in detail.

The Settlement Agreement was a collaborative effort between the parties. DRA, which represents ratepayer interests, responded to the Petition. During negotiations, DRA identified areas of concern. (Joint Motion at 4.) According to the parties, the settlement negotiations took place over the course of several days and were at arms' length. (*Id.*)

The Settlement Agreement is also consistent with Commission decisions on settlements, which express a strong public policy favoring settlement of disputes if they are fair and reasonable in light of the whole record.[4] This policy supports many worthwhile goals, including reducing the expense of litigation, conserving scarce Commission resources, and allowing parties to reduce the risk that litigation will produce unacceptable results.[5] As long as a settlement, taken

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[3] All references to Rules are to the Commission's Rules of Practice and Procedure.

[4] *See* D.05-03-022 at 9.

[5] *Id.*

as a whole, is reasonable in light of the record, consistent with law, and in the public interest, it may be adopted.

5.1. The Settlement Agreement is Reasonable in Light of the Whole Record

We find that the evidentiary record contains sufficient information for us to determine the reasonableness of the Settlement Agreement.

In assessing whether the Settlement Agreement is reasonable, we consider here the evidentiary record including the Smegal Testimony, the appendices attached to Joint Motion and the undisputed material facts and conclusions set forth in the Joint Motion. (Joint Motion at 5-6.)

The record demonstrates that immediate Commission action is necessary. Based on the Smegal Testimony, the undercollection at the end of 2011 was $4.9 million and was expected to reach $7.38 million in mid-2012. The rate of undercollection is expected to increase significantly this year because of the implementation of the low-income customer data-sharing program. Without immediate action, the undercollection balance will increase, and future customers will bear the burden of making up the difference. Both parties agree that this would be a detriment to both the company and its ratepayers. (Joint Motion at 6.)

The methodology for calculating the new LIRA surcharges (the temporary surcharge and the annual surcharge adjustment) is reasonable.

The temporary surcharge only addresses the undercollection resulting from the difference between surcharge and subsidy amount. The Commission has already approved this. The amount of discretionary expenses – namely, the administrative costs – will be addressed in a future ratesetting proceeding. Thus, the discretionary expenses remain subject to Commission review. This is

reasonable. The undercollected amount will be amortized over 36 months, which based on the record will mitigate the impact on customers.

The amount of the adjustment to the current LIRA surcharge amount is reasonable. Cal Water and DRA both provided input into what LIRA enrollment assumptions should be used to calculate the adjustment. The parties have reached a reasonable compromise at 75%. In addition, the annual adjustment will provide another opportunity to revisit the number of customers enrolled. The first annual adjustment AL will be filed in October 2012.

Going forward, an annual adjustment to prevent significant future undercollections and overcollections is reasonable.

We find that the changes implemented by the Settlement Agreement are a reasonable way to resolve this proceeding. The Settlement Agreement will allow for an immediate reduction in the rate of undercollection and will thereby limit the shifting the burden to future ratepayers. The settlement also retains Commission review for discretionary expenses.

5.2. Settlement Agreement is Consistent with the Law

The joint parties, who represent all of the parties in the current proceeding, believe that the terms of the Settlement Agreement comply with all applicable laws and decisions. We agree that nothing in the Settlement Agreement contravenes statute or prior Commission decisions.

5.3. Settlement Agreement is in the Public Interest

We also find that the Settlement Agreement is in the public interest and in the interest of Cal Water's customers. It has the support of both parties in the proceeding, Cal Water who provides the water service and DRA who represents the ratepayers. Approval of the Settlement Agreement avoids the cost of further litigation regarding this issue and conserves Commission resources. It prevents

ratepayers from shouldering the burden of additional undercollections. As the joint parties put it, the Settlement Agreement fairly balances "Cal Water's need to bring down and prevent high uncollected balances in regulatory accounts against the needs of consumers for reasonable rates and safe, reliable water service." (*Id*. at 4.)

6. Waiver of Comment Period

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Section 311(g)(2) of the Public Utilities Code and Rule 14.6(c)(2) of the Commission's Rules of Practice and Procedure, the otherwise applicable 30-day period for public review and comment is waived.

7. Assignment of Proceeding

Catherine J.K. Sandoval is the assigned Commissioner and Jeanne M. McKinney is the assigned ALJ in this proceeding.

Findings of Fact

1. Cal Water's LIRA program was authorized in D.06-11-035 and Cal Water began offering LIRA subsidies to eligible customers in 2007.
2. The LIRA subsidy is funded by a surcharge on non-LIRA customers.
3. Enrollment in the LIRA program is higher than anticipated, resulting in a significant undercollection of the LIRA surcharge.
4. Cal Water did not file its petition within one year of the effective date of D.06-11-053 because it has taken time for the magnitude of the undercollection to become apparent.
5. Cal Water's Petition contained several proposals to eliminate current undercollection and reduce risk of future undercollections.

6. On May 25, 2012, Cal Water and DRA filed the Joint Motion requesting approval of the Settlement Agreement which addressed all of the proposals made by Cal Water in the Petition and all issues raised by DRA in its response.

7. The Settlement Agreement will do the following:

- create a LIRA balancing account;
- modify the existing LIRA Memorandum Account;
- implement a temporary surcharge to address past undercollection of non-discretionary LIRA expenses;
- increase the LIRA surcharge rate; and
- adopt a mechanism to allow annual adjustment and true up of balances pursuant to a Tier 2 AL.

8. All issues in this proceeding are encompassed by, and resolved in the Settlement Agreement.

9. The parties to the Settlement Agreement are all of the active parties in this proceeding.

10. The parties are fairly reflective of the affected interests.

Conclusions of Law

1. Cal Water's petition should be considered although it was filed more than a year after the Commission issued D.06-11-053.

2. No term of the Settlement Agreement contravenes statutory provisions or prior Commission decisions.

3. The Settlement Agreement is reasonable in light of the record, is consistent with law, and is in the public interest.

4. Adoption of the settlement has no precedential status for subsequent applications by the applicant.

5. The requirement for a 30-day period for public review and comment should be waived, pursuant to Rule 14.6(c)(2).

6. This proceeding, which was reopened by the Petition, should be closed.

7. This decision should be effective today so that the Settlement Agreement may be implemented expeditiously.

O R D E R

IT IS ORDERED that:

1. The Settlement Agreement between Division of Ratepayer Advocates and California Water Service Company, attached hereto as Appendix A, is modified to replace the Proposed Preliminary Statement for New Low-Income Ratepayer Balancing Account with the revised Preliminary Statement, attached as Appendix B to this decision.

2. The Settlement Agreement between the Division of Ratepayer Advocates and California Water Service Company, attached hereto as Appendix A, is approved.

3. California Water Service Company shall file a Tier 1 advice letter(s) to do the following: 1) implement a Preliminary Statement for a New Low-Income Ratepayer Balancing Account consistent with that shown in Appendix B to this Decision; 2) modify the Preliminary Statement for the Low-Income Ratepayer Assistance Memorandum Account consistent with that shown in Attachment B to the Settlement Agreement; 3) adjust the existing ongoing Low-Income Ratepayer Assistance surcharge to: a) $0.06 per hundred cubic feet for metered non-Low-Income Ratepayer Assistance customers for the remainder of 2012 and b) the following amounts for flat-rate non-Low-Income Ratepayer Assistance customers for the remainder of 2012; and

District	Monthly Surcharge on Flat-Rate Non-LIRA Customers
Bakersfield	$2.42
Chico	$1.41
Marysville	$1.47
Oroville	$1.59
Selma	$2.30
Willows	$1.89

4) amortize the existing non-discretionary balance in the Low-Income Ratepayer Assistance Memorandum Account over a 36-month period by instituting: a) surcharge of $0.0182 per one hundred cubic feet for metered non-Low-Income Ratepayer Assistance customers and b) the following surcharge amounts for flat-rate non-Low-Income Ratepayer Assistance customers in the following district.

District	Temporary Monthly Surcharge on Flat-Rate Non-LIRA Customers
Bakersfield	$0.75
Chico	$0.44
Marysville	$0.46
Oroville	$0.49
Selma	$0.71
Willows	$0.58

The Tier advice letter(s) shall be filed no later than September 30, 2012.

4. California Water Service Company shall file a Tier 2 advice letter by October 31 of each year to annually adjust the Low-Income Ratepayer Assistance surcharge. The adjustment will take effect January 1 of the following year. The first adjustment shall take place January 2013 based on an October 31, 2012 Tier 2 advice letter filing.

5. California Water Service Company's motion to enter testimony of Thomas F. Smegal into evidence is granted.

6. Application 05-10-035 is closed.

This order is effective today.

Dated _____, at San Francisco, California.

APPENDIX A

APPENDIX 1

PROPOSED SETTLEMENT AGREEMENT

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of California Water Service Company (U-60-W), a Corporation, for Authority to Implement a Low-Income Ratepayer Assistance Program in Compliance with Decision No. 03-09-021 in Application No. 01-09-062.	Application 05-10-035 (Filed October 28, 2005; Amended June 12, 2006)

SETTLEMENT AGREEMENT BETWEEN THE DIVISION OF RATEPAYER ADVOCATES AND CALIFORNIA WATER SERVICE COMPANY (U-60-W) RESOLVING ALL ISSUES IN THE PETITION TO MODIFY D.06-11-053

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Acting Director
Division of Ratepayer Advocates

Dated: May 25, 2012

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of California Water Service Company (U-60-W), a Corporation, for Authority to Implement a Low-Income Ratepayer Assistance Program in Compliance with Decision No. 03-09-021 in Application No. 01-09-062.	Application 05-10-035 (Filed October 28, 2005; Amended June 12, 2006)

SETTLEMENT AGREEMENT BETWEEN
THE DIVISION OF RATEPAYER ADVOCATES AND
CALIFORNIA WATER SERVICE COMPANY (U-60-W)
RESOLVING ALL ISSUES IN THE PETITION TO MODIFY D.06-11-053

I. GENERAL

A. 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 California Water Service Company ("Cal Water") (collectively, "the Parties") have agreed on the terms of this Settlement Agreement ("Agreement") which they now submit for approval.

B. As described in greater detail below, this Agreement provides for the following changes to the administration of Cal Water's Low-Income Ratepayer Assistance ("LIRA") program:
   1. Creation of a new LIRA Balancing Account;
   2. Modification of the existing LIRA Memorandum Account;
   3. A transition to the new LIRA Balancing Account (including amortization of a portion of the balance in the existing LIRA Memorandum Account);
   4. The immediate adjustment of (ongoing) LIRA surcharges; and
   5. A mechanism for an annual adjustment of (ongoing) LIRA surcharges.

C. This Agreement addresses and resolves all issues raised by Cal Water's *Petition to Modify D.06-11-053 Authorizing a "Low-Income Ratepayer Assistance" Program* filed on February 9, 2012.

D. Since this Agreement represents a compromise by them, the Parties have entered into each stipulation contained in the Agreement on the basis that its approval by the Commission not be construed as an admission or concession by any Party regarding any fact or matter of law in dispute in this proceeding. Furthermore, the Parties intend that the approval of this Agreement by the Commission not be construed as a precedent or statement of policy of any kind for or against any Party in any current or future proceeding. (Rule 12.5.)

E. Parties agree, without further consideration, to execute and/or cause to be executed, any other documents and to take any other action as may be necessary, to effectively

consummate this Agreement. The Parties shall take no action in opposition to this Agreement.

F. The Parties agree that no signatory to the Agreement assumes any personal liability as a result of their agreement. All rights and remedies of the Parties are limited to those available before the Commission. The provisions of this Agreement are not severable. If any part of the Agreement is disapproved or modified, the remaining provisions of the Agreement shall be void, with the Parties returning to their positions in this proceeding as if the Agreement were never reached.

G. The Parties acknowledge that unless expressly and specifically stated otherwise herein, the California Public Utilities Code, Commission regulations, orders, rulings, and/or decisions shall govern the interpretation and enforcement of this Agreement.

H. This 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.

II. CHANGES TO LIRA REGULATORY MECHANISMS

A. Creation of new LIRA Balancing Account

1. A **LIRA Balancing Account** will be created to track amounts associated with the **LIRA subsidies** provided to qualifying customers, the **LIRA surcharges** applied to non-LIRA customers that fund the LIRA program,[1] and related interest. Ongoing LIRA surcharges to fund the LIRA program will be based on amounts tracked in the LIRA Balancing Account.
2. The ongoing LIRA surcharges will be **adjusted on an annual basis** to accomplish the following goals:[2]
   a) To update the LIRA surcharge rates to reflect current LIRA enrollment levels; and
   b) To true up any positive or negative balances tracked in the LIRA Balancing Account.
3. By **October 31st** of each year, Cal Water shall file a **Tier 2 advice letter** with proposed adjustments to the ongoing LIRA surcharge rates that are to become effective beginning January 1st of the following year. The **calculation methodology** that should be used for the annual adjustment is described in **Section III.**
4. A draft **preliminary statement** for the new LIRA Balancing Account is provided as **Attachment A.**

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[1] LIRA surcharges are applied to the bills of all non-LIRA customers (residential and non-residential). For all metered customers, there is one LIRA rate per ccf of water usage. For the six remaining Cal Water districts with flat-rate customers, there is a flat monthly LIRA charge on flat-rate customers' bills that varies by district.

[2] However, in the event that applying the annual adjustment mechanism (described in Section III) to the LIRA Balancing Account would change the ongoing LIRA surcharge for metered customers by less than $0.005 per ccf, the parties agree that no adjustment is necessary. In that case, Cal Water should file an Information-Only advice letter advising the Commission that it will not propose an adjustment to the ongoing LIRA surcharge for that year.

B. Modification of existing LIRA Memorandum Account

1. The **LIRA Memorandum Account** will be modified to only track amounts associated with administering the LIRA program.
2. The requirement to apply the **franchise fee and uncollectible account** expense factors to memorandum account balances will be eliminated.[3]
3. Recovery of any amounts tracked in the LIRA Memorandum Account will only be allowed for **incremental costs and related interest**.
4. In the event that the balance in the modified LIRA Memorandum Account meets the Commission's standard trigger for amortizing a memorandum account, Cal Water has the option of filing a **Tier 3 advice letter** to amortize those costs according to the Commission's standard practices for memorandum accounts. Otherwise, the modified LIRA Memorandum Account will be reviewed and amortized in **Cal Water's general rate cases**.
5. In addition to reflecting the above modifications, the **preliminary statement** for the LIRA Memorandum Account will also be updated to reflect the separate tracking of costs related to the data-sharing process that the Commission ordered in D.11-05-020.[4] A draft preliminary statement for the modified LIRA Memorandum Account is provided as **Attachment B.**

C. Transition to new LIRA Balancing Account (Use of Temporary LIRA Surcharge)

1. With the creation of the new LIRA Balancing Account and modification of the existing LIRA Memorandum Account, a portion of the amounts tracked in the existing LIRA Memorandum Account shall be amortized via a **temporary LIRA surcharge** on non-LIRA customers over a 36-month period.
2. The "amortized portion" will consist of the **difference between the LIRA subsidies and LIRA surcharges** that have been tracked in the existing LIRA Memorandum Account as of the month of a Commission decision adopting this Agreement.
3. The "amortized portion" will <u>not</u> include costs associated with **administering the LIRA program**, which will remain in the modified LIRA Memorandum Account for later disposition as appropriate.
4. The **calculation methodology** for the temporary LIRA surcharge and the procedure for amortization are described in **Section III.**

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[3] "Franchise fees and uncollectible account" expenses refer to the portion of rates designed to recover Cal Water's authorized expenses for both the use of public rights-of-way (franchise fees) and bad debts (uncollectible accounts expense).

[4] Commission-regulated energy utilities provide certain energy discounts to low-income customers in their California Alternative Rates for Energy ("CARE") programs. Pursuant to D.11-05-020, the Commission is requiring the regulated water utilities and the regulated energy utilities to exchange low-income customer data in order to increase enrollment in both LIRA and CARE. Furthermore, D.11-05-020 specifies that the "one-time" costs of data-sharing are to be tracked, while Cal Water's current LIRA Memorandum Account instead specifies that "initial" costs of the LIRA program are to be tracked. The Parties agree that the Preliminary Statement for this memorandum account should refer to "one-time" costs for tracking both data-sharing costs, and other LIRA program costs.

III. CALCULATION METHODOLOGIES[5]

A. Calculating the initial increase of (ongoing) LIRA surcharges

1. Upon Commission approval of this Agreement: Cal Water will calculate an increase in the ongoing LIRA flat and metered surcharges based upon the assumptions below.
2. Assumptions for LIRA enrollment in 2012-2013 for initial surcharge increase:[6]
   a) 75% of eligible LIRA customers will be enrolled in the LIRA program by the end of 2012, and enrollment will remain at that level through the end of 2013.[7]
   b) 135,328 residential customers in Cal Water's territory are "eligible" for LIRA, consistent with calculations by the Division of Water & Audits in September 2011.
3. Notwithstanding that the above calculation is designed to reflect anticipated LIRA enrollment in 2013, the annual adjustment methodology described in Section III.B will still be applied in October 2012 (for a LIRA surcharge adjustment beginning January 1, 2013) in order to reflect actual enrollment data available at that time.

B. Calculating the regular annual adjustment of (ongoing) LIRA surcharges

1. On January 1st of each year, the LIRA surcharges on non-LIRA metered and flat-rate customers will be adjusted to meet the goals described in Section II.A(2), above. Calculations for the adjustment will be provided in an annual Tier 2 advice letter submitted by October 31st of the previous year.
2. Assumptions for LIRA enrollment for regular annual adjustment:
   a) Cal Water will estimate the year-end balance in the LIRA Balancing Account based on the assumption that the level of LIRA enrollment in September of that year will continue through the end of the year.
   b) Cal Water will estimate the total amount of LIRA subsidies needed for the following year assuming LIRA enrollment at the same September level.
3. Based upon the above assumptions, an adjusted LIRA surcharge will be calculated to approximate a zero balance in the LIRA Balancing Account by the end of the following year.

C. Calculating the one-time Temporary LIRA Surcharge

1. Upon Commission approval of this Agreement: Cal Water will determine the balance in the existing LIRA Memorandum Account that is attributable to the

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[5] All calculations should be based on adopted numbers (e.g. adopted sales amounts) unless otherwise specified.

[6] These assumptions impact both the anticipated LIRA subsidy needs for the year, as well as the non-LIRA usage amounts (and the number of non-LIRA flat-rate customers) that may be surcharged to fund the program.

[7] This percentage is intended to reflect the level of LIRA enrollment that will likely result from the 2012 implementation of the "low-income customer data sharing program" between Cal Water and Commission-regulated energy companies that the Commission mandated in D.11-05-020.

difference between LIRA subsidies and LIRA surcharges, as of the end of the month in which the Commission approves this Agreement.

2. The above balance will be amortized over three years through a temporary LIRA surcharge that is applied to non-LIRA customers in the same manner that the ongoing LIRA surcharges are applied.

D. Implementation of Agreement

1. Within 30 days of the end of the month in which the Commission adopts a decision approving this Agreement, Cal Water shall file one or more Tier 1 advice letters to modify its tariffs consistent with this Agreement.
2. These modifications will include introduction of a new preliminary statement for the LIRA Balancing Account, modification of the current preliminary statement for the LIRA Memorandum Account, application of temporary three-year LIRA surcharges as discussed above, and adjustments to existing ongoing LIRA surcharges as discussed above.

Signed:

Joseph P. Como **Acting Director** **The Division Of Ratepayer Advocates** *// s //*	**Thomas F. Smegal** **Vice President, Regulatory Matters & Corporate Relations** **California Water Service Company** *//s //*

May 25, 2012

ATTACHMENT A

PROPOSED PRELIMINARY STATEMENT FOR NEW LIRA BALANCING ACCOUNT

CALIFORNIA WATER SERVICE COMPANY
1720 North First Street, San Jose, CA 95112
(408) 367-8200

Revised Cal. P.U.C. Sheet No. _____

Canceling Revised Cal. P.U.C. Sheet No. _____

Preliminary Statement
(continued)

__ Low-Income Ratepayer Assistance (LIRA) Balancing Account

1. PURPOSE: The purposes of this balancing account are to track the LIRA credits provided, to track the LIRA surcharges collected, and to adjust the LIRA surcharges on January 1 of each year.

2. TIMING AND FREQUENCY: An advice letter to adjust the LIRA surcharges will be filed by October 31st of each year. The adjusted surcharge will be calculated to zero out the forecasted balance anticipated to be in the account at the end of that year, as well as in the account at the end of the following year.

3. ANNUAL SURCHARGE ADJUSTMENT: Calculation of the adjusted surcharge will reflect:
   a) A forecast of the December 31st balance in the LIRA balancing account for the current year that reflects:

   (i) the most recent recorded balance;

   (ii) the assumption that the proportion of LIRA to non-LIRA enrollment in September will remain constant as a proportion of adopted numbers for October through December; and

   (iii) the assumption that current LIRA surcharges will be applied to the estimated non-LIRA portion of adopted sales (adopted sales minus estimated LIRA sales based on the proportion of LIRA to non-LIRA customers in September), plus interest; and

   b) A forecast of the December 31 balance in the LIRA balancing account for the following year that reflects:

   (i) the assumption that the proportion of LIRA to non-LIRA enrollment in September of the previous year will remain constant as a proportion of adopted numbers; and

   (ii) the assumption that the new surcharges will be applied to the estimated non-LIRA portion of adopted sales (adopted sales minus estimated LIRA sales based on the proportion of LIRA to non-LIRA customers in September of the previous year), plus interest.

4. ACCOUNTING PROCEDURE: The LIRA balancing account will reflect the following entries:

   a) The recorded LIRA customer credits for service provided under Schedule No. LIRA (debit);

   b) Recorded surcharges collected from non-LIRA customers (credit);

   c) Monthly interest expense calculated at 1/12 of the most recent month's interest rate on Commercial Paper (prime, 90-day), published in the Federal Reserve Statistical Release (debit or credit).

ATTACHMENT B

PROPOSED PRELIMINARY STATEMENT FOR MODIFIED LIRA MEMORANDUM ACCOUNT

CALIFORNIA WATER SERVICE COMPANY
1720 North First Street, San Jose, CA 95112
(408) 367-8200

Revised Cal. P.U.C. Sheet No. _____

Canceling Revised Cal. P.U.C. Sheet No. -

Preliminary Statement
(continued)

H. Low-Income Ratepayer Assistance (LIRA) Memorandum Account

1. PURPOSE: The purpose of this memorandum account is to track the costs of the LIRA program.

2. ACCOUNTING PROCEDURE: The following entries will be made monthly to the LIRA memorandum account:

   a) Costs related to the data sharing process adopted in D.11-05-020, with one-time and ongoing separately

   b) All other costs related to the LIRA program except those in (a), above, with one-time and ongoing expenses tracked separately (tracking only);

   c) Incremental LIRA program costs not reflected in authorized rates, with those costs in (a) and (b), above, identified separately (debit);

   d) Monthly interest expense calculated at 1/12 of the most recent month's interest rate on Commercial Paper (prime, 90-day), published in the Federal Reserve Statistical Release (debit or credit).

3. RATE RECOVERY: There is currently no ratemaking component to the LIRA memorandum account. Requests for recovery of any balance will be processed according to General Order 96-B (or its successor) and Standard Practices or requested in a general rate case.

(END OF APPENDIX A)

APPENDIX B

CALIFORNIA WATER SERVICE COMPANY
1720 North First Street, San Jose, CA 95112
(408) 367-8200

Revised Cal. P.U.C. Sheet No. _____
Canceling Revised Cal. P.U.C. Sheet No. _____

Preliminary Statement
(continued)

__ Low-Income Ratepayer Assistance (LIRA) Balancing Account

1. PURPOSE: The purposes of this balancing account are to track the LIRA credits provided, to track the LIRA surcharges collected, and to adjust the LIRA surcharges on January 1 of each year.

2. TIMING AND FREQUENCY: An advice letter to adjust the LIRA surcharges will be filed by October 31st of each year. The adjusted surcharge will be calculated to zero out the forecasted balance anticipated to be in the account at the end of that year, as well as in the account at the end of the following year.

3. ANNUAL SURCHARGE ADJUSTMENT: Calculation of the adjusted surcharge will reflect:
   a) A forecast of the December 31st balance in the LIRA balancing account for the current year that reflects:

      (i) the most recent recorded balance;

      (ii) the assumption that the proportion of LIRA to non-LIRA **residential** enrollment in September will remain constant as a proportion of adopted numbers for October through December; and

      (iii) the assumption that current LIRA surcharges will be applied to the estimated non-LIRA portion of adopted sales (adopted sales minus estimated LIRA sales based on the proportion of LIRA to non-LIRA **residential** customers in September), plus interest; and

   b) A forecast of the December 31 balance in the LIRA balancing account for the following year that reflects:

      (i) the assumption that the proportion of LIRA to non-LIRA **residential** enrollment in September of the previous year will remain constant as a proportion of adopted numbers; and

      (ii) the assumption that the new surcharges will be applied to the estimated non-LIRA portion of adopted sales (adopted sales minus estimated LIRA sales based on the proportion of LIRA to non-LIRA **residential** customers in September of the previous year), plus interest.

4. ACCOUNTING PROCEDURE: The LIRA balancing account will reflect the following entries:

   a) The recorded LIRA customer credits for service provided under Schedule No. LIRA (debit);

   b) Recorded surcharges collected from non-LIRA customers (credit);

   c) Monthly interest expense calculated at 1/12 of the most recent month's interest rate on Commercial Paper (prime, 90-day), published in the Federal Reserve Statistical Release (debit or credit).

(END OF APPENDIX B)