

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of California-American Water Company (U210W) for Authorization to Increase its Revenues for Water Service in its Monterey District by \$24,718,200 or 80.30% in the year 2009; \$6,503,900 or 11.72% in the year 2010; and \$7,598,300 or 12.25% in the year 2011 Under the Current Rate Design and to Increase its Revenues for Water Service in the Toro Service Area of its Monterey District by \$354,324 or 114.97% in the year 2009; \$25,000 or 3.77% in the year 2010; and \$46,500 or 6.76% in the year 2011 Under the Current Rate Design.

And Related Matters

A.08-01-027
(Filed January 30, 2008)

A.08-01-023
A.08-01-024
(Filed January 30, 2008)

**SETTLEMENT AGREEMENT BETWEEN
THE DIVISION OF RATEPAYER ADVOCATES AND
CALIFORNIA-AMERICAN WATER COMPANY ON CONSERVATION
RATE DESIGN ISSUES**

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TABLE OF CONTENTS

I. GENERAL.....1

II. BACKGROUND.....2

III. PILOT PROGRAM.....3

 A. Overview:.....3

 B. Conservation Rates:.....4

 C. Rate Design Parameters:.....5

 D. Customer Class Miscategorizations.....5

 E. Related Accounting Mechanisms:.....5

IV. RESIDENTIAL CUSTOMERS.....6

V. NON-RESIDENTIAL CUSTOMERS.....10

VI. AMBLER PARK: SEPARATE RATE DESIGN.....13

VII. AMBLER PARK: SEPARATE WRAM/MCBA.....14

VIII. CHUALAR.....14

IX. RALPH LANE.....14

X. EMERGENCY CONSERVATION RATES.....14

XI. EMERGENCY RATIONING RATES.....15

XII. PRIVATE FIRE SERVICE AND PRIVATE FIRE HYDRANT.....16

XIII. SPECIAL USE CUSTOMERS.....16

XIV. MECHANISMS FOR DECOUPLING SALES and REVENUE.....16

XV. WATER REVENUE ADJUSTMENT MECHANISM (WRAM).....17

XVI. THE MONTEREY WRAM WILL REPLACE THE CURRENT EMERGENCY WRAM 18

XVII. MODIFIED COST BALANCING ACCOUNT.....18

XVIII. MAINTAINING LEAST-COST WATER MIX.....18

XIX. RECOVERY AND REFUND OF BALANCING ACCOUNTS.....19

XX. SEASIDE WATERMASTER FEES.....20

XXI. MONITORING AND DATA COLLECTION.....20

XXII. RETURN ON EQUITY.....21

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I. GENERAL

- A. Pursuant to Article 12 of the Rules of Practice and Procedure of the California Public Utilities Commission ("Commission"), the Division of Ratepayer Advocates ("DRA"), and California-American Water Company (collectively, "the Parties") have agreed on the terms of this Settlement Agreement, which they now submit, for approval. This Settlement Agreement addresses conservation-oriented increasing block rates and the related decoupling mechanisms, Water Revenue Adjustment Mechanisms ("WRAMs") and Modified Cost Balancing Accounts ("MCBAs").
- B. Because this Settlement Agreement represents a compromise by them, the Parties have entered into each stipulation contained in the Settlement 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 Settlement 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, Commission's Rules on Practice and Procedure.)

- C. The Parties agree that no signatory to the Settlement 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. Furthermore, the Settlement Agreement is being presented as an integrated package such that Parties are agreeing to the Settlement as a whole, as opposed to agreeing to specific elements of the Settlement. If the Commission adopts the Settlement Agreement with modifications, all Parties must consent to the modifications or the Settlement is void.
- D. 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.
- E. The Parties agree to use their best efforts to obtain Commission approval of the Settlement Agreement. The Parties shall request that the Commission approve the Agreement without change and find the Settlement Agreement to be reasonable, consistent with the law, and in the public interest.

II. BACKGROUND

- A. California American Water provides service to approximately 39,447¹ customers (including Private Fire Service) in its Monterey District, which is comprised of the Monterey Main System and the Ambler, Hidden Hills, Ryan Ranch, Bishop, Chualar, and Ralph Lane subsystems.
- B. The tariff sheets for California American Water's Monterey District are listed below, and include General Metered Service, Private Fire Protection Service and Private Fire Hydrant Service. The current tariff sheets are available on California American Water's website. The proposed tariff sheets are not available, as there is not an adopted revenue requirement for 2009 and on.
 - 1. Schedule No. MO-1; Monterey District Tariff Area, General Metered Service
 - 2. Schedule No. MO-1-68; Monterey District Tariff Area, General Metered Service, Hidden Hills and Ryan Ranch Subdivision
 - 3. Schedule No. MO-1AB; Monterey Peninsula District Tariff Area, General Metered Service, Ambler Park and Bishop Service Area
 - 4. Schedule No. MO CO-1; Monterey District Tariff Area, General Metered Service, Ralph Lane and Chualar Service Areas
 - 5. Schedule No. MO-4; Monterey Peninsula District Tariff Area, Private Fire Protection Service

¹ Customers at year-end 2007, as presented in A.08-01-027, Exhibit A, Chapter 5, Section 1, Table 1B. California-American Water recently acquired another subsystem called Toro. Toro customers are not included in this total and the Toro Subsystem is not addressed in this settlement.

6. Schedule No. MO-4AB; Monterey Peninsula District Tariff Area, Private Fire Protection Service, Ambler Park and Bishop Service Area
7. Schedule No. MO-4H; Monterey Peninsula District Tariff Area, Private Fire Hydrant Service

C. Current Monterey Main System Rate Design

1. Residential, multi-residential and low-income residential customers currently have increasing block rates with 5 blocks and seasonal rate changes. The block widths and seasonal rate changes for these customers depend on the customer-specific characteristics including the number of people per residence, size of lot, and number of large animals. There are also two elevation zone surcharges in tariff Schedule MO-1.
2. Commercial, industrial, public authority, and golf course customers have an increasing block rate with two blocks, where the block breakpoint is based on a customer-specific allotment. There are also two elevation zone surcharges in tariff Schedule MO-1. Special use customers, which are currently sale for resale and fire hydrant customers, have a uniform rate.

D. Current Hidden Hills and Ryan Ranch Rate Design

1. Hidden Hills residential customers have an increasing block rate with four blocks. Hidden Hills and Ryan Ranch non-residential customers, other than private fire service, have a uniform rate.

E. Current Ambler Park, Bishop, Chualar, and Ralph Lane Rate Design

1. All customers in Ambler Park, Bishop, and Chualar currently have a uniform rate. Customers in Ralph Lane have an increasing block rate.

F. The only flat rate customers are Private Fire Protection Service customers.

G. All Monterey customers are billed on a monthly basis.

III. PILOT PROGRAM

A. Overview:

1. The Parties agree that the conservation rate designs and related decoupling mechanisms Water Revenue Adjustment Mechanism (WRAM) and Modified Cost Balancing Account (MCBA) in the Monterey Main System, Hidden Hills, Bishop, Ryan Ranch and Ambler Park constitute a Pilot Program to become effective as soon as the Commission decision is ordered and California American Water is able to institute the necessary changes in its billing system. Prior to implementing these rate changes, California American Water will provide notifications to customers including a description of the new rate design and rate impacts and will conduct workshops in the community to explain the rate design to customers.
2. The Parties agree that this Pilot Program will be reviewed in the next general rate case ("GRC") filing. The filing date for the next GRC is July 1, 2010.

3. The Parties agree that if implementation of the proposed Pilot Program results in a disparate impact on ratepayers or shareholders, the Parties will meet to discuss adjustments to the proposed Pilot Program.

B. Conservation Rates:

1. This settlement proposes changes to the conservation rate designs for all customer classes except private fire protection service, private fire hydrant service, and Chualar and Ralph Lane customers.² The customer classes included in the conservation rate design proposals are: residential, low-income residential (customers participating in the Help To Others (H2O) program), multi-residential, sale for resale, commercial, industrial, public authority, golf courses (potable use), golf courses (non-potable – Visciano tank), and dedicated irrigation meter customers.
2. Customers in the Monterey Main System, Ryan Ranch, Hidden Hills, and Bishop will be on the same rates and rate design. The Parties agree that there will be a six-year transition period for all block rates in Bishop, and a three-year transition period for the proposed top three block rates in Hidden Hills.
3. The Parties agree that California American Water will attempt to bill its customers in tens of cubic feet instead of 100s of cubic feet (see Section IV. G. 1.). This change will allow an even distribution of water for individual use in each block, and allow California American Water to be able to bill customers accurately according to water rations that would be available during rationing.
4. Service or Meter Charges: The Parties agree to move additional fixed costs from the meter charge into the quantity charge for the following customer classes: residential, low-income residential (customers participating in the H2O program), multi-residential, sale for resale, commercial, industrial, public authority, golf courses (potable use), golf courses (non-potable – Visciano tank), metered fire hydrant, and dedicated irrigation meter customers. Service or meter charges are used to recover a portion of fixed costs. The Parties agree the service or meter charges will recover approximately 15% of California American Water Monterey District's fixed costs.
5. Quantity Rates for Residential Customers:
 - a. The Parties agree that residential customers will have an increasing quantity (or block) rate design with five blocks and that the quantity or volumetric rates will recover approximately 85% of fixed costs and 100% of the variable cost.
 - b. The Parties agree that block one and two will only have an adjustment for the number of people and number of large animals. Block one will also include an adjustment for medical needs, if applicable.
 - c. The Parties agree that an equivalent amount of water will be allotted to each person in each block. Specifically, each person will be allowed 1.5 Ccf in each and every block.

² The proposed rates in the Settlement Agreement are based upon an estimate of the revenue requirement that will be set forth in the GRC decision in A.08-01-127.

- d. The Parties agree that blocks three, four, and five will have an allotment for landscape in summer months (with decreasing amount per acre above 1 acre) as well as the per person allotment and the large animal allotment. This allotment for landscape in summer months is significantly lower than the current allotment for landscape during summer. Summer months are defined here as May, June, July, August, September and October.
 - e. The Parties agree that the allotment for large animals will remain the same.
6. Quantity Rates for Non-Residential Customers (except private fire service, private hydrant service, and fire hydrant customers):
- a. The Parties agree that non-residential customers will have an annual allotment, calculated on an individual customer-specific basis with a three-level increasing block rate. The block widths and rates are discussed in Section V below. The following customer classes are included in this rate design: commercial, industrial, public authority, golf courses (potable use), golf courses (non-potable – Visciano tank), dedicated irrigation meter customers.

C. Rate Design Parameters:

1. Revenue Requirement: The Parties agree the revenue requirement will continue to be shared among all customer classes. For a description of the revenue tracked in the Water Revenue Adjustment Mechanism balancing accounts see section (XV).
2. Consumption Data: California American Water agrees to run all the new parameters through a rate model (i.e., the different block widths and landscape adjustments) to determine the base rate in conjunction with the parameters agreed to in this proposal based on 2007 usage patterns to approximate or project a revenue neutral rate design assuming California American Water sells the same number of units as projected in the rate application. The base rate calculated in this model would apply to residential and non-residential customer classes.

D. Customer Class Miscategorizations

1. California American Water agrees to take all reasonable efforts to identify miscategorizations in customer classes. For example, there are customers that are currently categorized as commercial, but who are actually multi-residential customers with a single meter. California American Water will provide a list of the miscategorizations it found in the next GRC, and incorporate the findings into the GRC filing.

E. Related Accounting Mechanisms:

1. The Parties agree the current WRAM and Emergency WRAM account will be discontinued and a single Water Revenue Adjustment Mechanism (WRAM) will be authorized for the Monterey District including the Monterey Main system, Hidden Hills, Ryan Ranch, and Bishop. The Parties further agree there will be a single Modified Cost Balancing Account (MCBA) for purchased water and purchased power for the Monterey Main system, Hidden Hills, Ryan Ranch and Bishop.
2. The Parties agree there will be a separate WRAM and MCBA for Ambler Park.

IV. RESIDENTIAL CUSTOMERS

A. Customer classes included in this section are residential, multi-residential, low income, and sale-for-resale.

B. Service Charges

1. The Parties agree the portion of fixed cost recovered in the service charge is reduced to 15% of fixed costs. Due to the movement of additional fixed costs to the quantity charge, a greater percentage of the total revenue requirement comes from the quantity charges.
2. The Parties agree that the Elevation Zone Surcharge will be eliminated.

C. Quantity Charges and Consumption Blocks

1. The Parties propose to continue a five-level increasing block rate structure as is currently in place for the Monterey Main system. This five-level increasing block rate structure would replace the current four-level increasing block rate structure in Hidden Hills, and would replace the uniform rate in Bishop.
2. The five consumption blocks are calculated for each customer based on the number of people, season (winter/summer), size of lot, and number of large animals according to the following allotments for each characteristic:

For reference, in the following tables, 1 unit = 1 ccf = 748 gallons; which is approximately 25 gallons per day

Block Width Adjustment for Number of People

Number of people in a residence	Current block width adjustment for number of people (Ccfs per month per block)	Proposed Ccfs per month	Proposed Gallons per day
1	2	1.5	37.5
2	3	3	75
3	4	4.5	112.5
4	5	6	150
5	5	7.5	187.5
6	6	9	225
7	7	10.5	262.5

3. Block Width adjustment for large animals will remain the same.

Block Width Adjustment for Large Animals

Number of large animals	Current and proposed block width adjustment (ccf per month)	Current and proposed block width adjustment (gallons per day)
1 or 2	0.5	12.5
3 to 5	1	25
6 to 10	1.5	37.5
11 to 20	2	50
Over 20	2.5	62.5

Block Width Adjustment for Landscape (available in summer (May-October) only)

Size of Lot	Current Ccfs per month per block	Proposed Ccfs per month per block in blocks three, four, and five.	Proposed gallons per day
No outside space	0	0	0
Up to ¼ acre	1	1	25
Over ¼, up to ½ acre	2	2	50
Over ½, up to 1 acre	3	2	50
Over 1 acre, up to 2 acres	4	3	75
Over 2 acres, up to 3 acres	6	3	75
Over 3 acres, up to 4 acres	8	3	75
Greater than 4 acres	10	3	75

4. Each customer's total block widths in each block are calculated by adding block width adjustments for people, animals, and landscape (in May-October only).
5. The Parties agree that the five block quantity rates are as follows:
 - a. Each block rate will be calculated from a "base rate." At this time, the base rate is unknown as the revenue requirement is being decided concurrently with the rate design. However, the following percentages would be used to differentiate the

block rates and the quantity rates shown below are approximated based on an assumed revenue requirement.³

- i. Block 1 rates will be 50% of base rate; Block 2 rates will be, 100% of base rate, Block 3 rates will be 200% of base rate, Block 4 rates will be 400% of base rate and Block 5 rates will be 600% of base rate (shown below)

Block	Current %	Proposed % of base rate	Current quantity rate (including \$0.9846 service charge)	Proposed rate assuming base rate of \$4.04
1	50%	Note 1	\$2.7036	\$2.7036
2	100%	100%	\$4.4227	\$4.04
3	150%	200%	\$6.1418	\$8.08
4	200%	400%	\$7.8608	\$16.16
5	400%	Note 2	\$14.737	\$28.28

Note 1: the rate in block 1 would stay the same as today (\$2.7036 per Ccf).

Note 2: the rate in block 5 would be limited to twice the current block rate in block 5 (\$29.474) or 700% of the base rate, which ever is lower at the time the conservation rates are implemented.

- ii. The rates will be designed to be revenue neutral for the Monterey Main System, and the Bishop, Hidden Hills, and Ryan Ranch as compared with total adopted quantity revenue less certain exclusions as described in Section XV. A.

D. Transition Periods

1. The Parties agree that there will be a three-year transition to the new rate design for Hidden Hills residential customers. The billing criteria in Hidden Hills will be based on the same criteria (i.e., number of people, lot size, large animals and medical needs) but the actual rates will not be the same as that in the Monterey Main System. In 2009 the block rates for blocks 1, 2 and 3 will be the same as those for the Monterey Main system, but the blocks rates for blocks 4 and 5 will be set at 250% and 400%, respectively, of the base rate. In 2010, the rates in blocks 4 and 5 will be set at 300% and 500%, respectively, of the base rate. In 2011, the rates in all blocks will be the same as those in the Monterey Main system.
2. The Parties agree that there will be a six-year transition to the new rate design for Bishop residential customers. The billing criteria in Bishop will be based on the same criteria as the Monterey Main system (i.e., number of people, lot size, large animals and medical needs) but the actual rates will not be the same as that in the

³ This base rate was calculated based on an assumed revenue requirement of half the increase California American Water requested, or \$12,359,100 revenue increase in 2009. Thus, the base rate of \$4.04 was calculated by taking the midpoint between the current base rate of \$3.4381 and California American Water's proposed base rate of \$4.6345 per Ccf.

Monterey Main System. The billing rates per block will be established as follows for Bishop customers:

- a. 2009: Block rate 1 will be set at 50% of the base rate. Block rate 2 will be set at 75% of the base rate. Block rate 3 will be set at 100% of the base rate. Block rate 4 will be set at 125% of the base rate, Block rate 5 will be set at 150% of the base rate.
 - b. 2010: Block rate 1 and 2 will be set at the same rate as the Monterey Main System. Block rate 3 will be set at 125% of the base rate. Block rate 4 will be set at 175% of the base rate, Block rate 5 will be set at 200% of the base rate.
 - c. 2011: Block rate 1 and 2 will be set at the same rate as the Monterey Main System. Block rate 3 will be set at 150% of the base rate. Block rate 4 will be set at 200% of the base rate, Block rate 5 will be set at 250% of the base rate.
 - d. 2012: Block rate 1, 2 and 3 will be set at the same rate as the Monterey Main System. Block rate 4 will be set at 250% of the base rate, Block rate 5 will be set at 400% of the base rate.
 - e. 2013: Block rate 1, 2 and 3 will be set at the same rate as the Monterey Main System. Block rate 4 will be set at 300% of the base rate, Block rate 5 will be set at 500% of the base rate.
 - f. 2014: Block rates will be the same as those in the Monterey Main System.
3. This transition is to ensure the impact on revenue for Bishop and Hidden Hills subunits is not greater than twice the overall percentage rate increase in the Monterey District.

E. Low Income Program (Help to Others or H2O)

1. The Parties agree that the rate design for customers enrolled in the Help to Others low-income program ("Low Income") will be the same as residential customers except:
 - a. Low Income customers will not pay the CWP surcharge
 - b. The discount for Low Income customers will increase as the number of residents in the household increases. Residences with 1-4 people will receive an \$8 discount, residences with 5-8 people will receive a \$12 discount, and residences with over 8 people will receive \$16 discount.
2. The Parties agree that qualifying Ambler Park and Bishop subsystem customers will be eligible to participate in the Help to Others Low Income Program.

F. Surcharges

1. The Parties agree that this settlement will not change surcharges that the Commission has currently authorized except those explicitly outlined in this settlement.

F. Miscategorizations of Customer Characteristics Used to Calculate Block Widths

1. California American Water agrees that it will take reasonable efforts to identify miscategorizations in its documentation for number of people, lot size and large animals. In part, this will be accomplished through an annual survey sent to

customers with any of the following characteristics: 6 or more people, customers with large animals, lot sizes of 2 acres and above, customers with no outside space, as well as customers who have not previously responded to a survey.

G. Billing in Tens of Cubic Feet

1. If California American Water is not able to begin to bill its customers in tens of cubic feet instead of hundreds of cubic feet by July 1, 2009, or within 60 days of a final decision in this proceeding, whichever is later, California American Water will round the large animal block width adjustments up to the nearest whole number, and for block width adjustments for people, California American Water will give a block width adjustment of 2 Ccf per block in blocks 1 and 2, and 1 Ccf per block per person in blocks 3, 4, and 5.

V. NON-RESIDENTIAL CUSTOMERS

- A. Customer classes included in this section are commercial, industrial, public authority, golf courses (potable use), golf courses (non-potable – Visciano tank), and dedicated irrigation meter customer classes.
- B. The Parties propose a conservation rate design consisting of reduced service charge, revised allotments and a three-block quantity rate using the allotments as the breakpoint between the first and second blocks for each customer class. The breakpoint between the second and third blocks will be determined based on 15% of the allotment.
- C. Quantity and Service Charges: The Parties agree that the three-block quantity rate will recover a greater percentage of fixed cost than the current two-block quantity rate consistent with the following:
 1. Service charges will be reduced by approximately 60%, with corresponding increases in the quantity rate to achieve revenue recovery neutrality.
 2. The Elevation Zone Surcharge will be eliminated.
- D. Allotment Determination: Commercial, industrial, public authority, golf courses (potable use), golf courses (non-potable), and dedicated irrigation customer classes
 1. California American Water agrees to work with the Monterey Peninsula Water Management District (MPWMD) in its plan to update the 1992 study “Calculated Average Consumptions: Commercial Uses,” water factor study that is used to set allotments.
 2. California American Water agrees to work with MPWMD and review historical records to verify the accuracy of allotments for commercial, industrial, public authority customers.
 3. The Parties agree water allotments will be based on audits based upon best management practices for the type of business or the revised MPWMD “Calculated Average Consumptions: Commercial Uses,” study. California American Water will implement a system to keep track of whether a customer’s allotment is based on the study (and if so which version of the study) or based on an audit.

4. The Parties agree that outdoor water will be viewed as discretionary use except for properties that have to have water for the business purposes. This means that outdoor water use that is not essential to the business function will be billed at block 2 or 3 rates. For example, water used by a bar or restaurant for outdoor purposes would be billed at the block 2 or 3 rates.
5. The Parties agree that all use of a Public Authority customer, excluding any golf courses, will be combined in one bill. For example, a city that uses water for irrigating medians, city hall and a city-owned school, would be billed for the use in each location under one bill and one total allotment; within the allotment, the public authority customer would have discretion over how to allocate its use. The allotments for each use of the customer would be combined into one total allotment for each customer. Public Authority meters or premises that have water budgets would be excluded from this consideration.
6. The Parties agree that all water use on a commercial premise will be combined into one bill. A commercial customer with multiple meters on one premise would receive one bill; however, a customer with multiple meters on separate premises, would still receive separate bills for each premise. The allotments for each use on the premise will be combined into one total allotment for each premise.
7. California American Water agrees to attempt to complete the updating of all commercial, industrial, public authority, golf course (potable use), golf course (non-potable), and dedicated irrigation customers' allotments prior to implementing the rate design outlined in this settlement, but if it is unable to do so, California American Water will complete the updating of all commercial, industrial, and public authority allotments no later than September 1, 2009.

E. Calculation of Commercial Monthly Allotment and Annual True-up

1. Commercial customers will receive an annual water allotment. The customers' monthly allotment will be based on historical monthly percentage from the usage from the immediately preceding 12 months, unless there is not twelve months of history. If there is not twelve months of history, the monthly allotment will be based on 1/12 of the annual allotment.
2. The Parties agree that commercial customers' water usage charges be adjusted annually to balance the monthly allotments against the annual allotments to assure that customers who have not exceeded their annual allotment are not penalized by the allocation of the monthly allotments. California American Water will use the following method, as shown in the example below, to calculate the adjustment if necessary:

Monthly allotment = 10 Ccf

Annual allotment = 120 Ccf

Usage: Month 1 – 10 Ccf

Month 2 – 10 Ccf

Month 3 – 12 Ccf

Month 4 – 9 Ccf

Month 5 – 9 Ccf

Month 6 – 10 Ccf

Month 7 – 12 Ccf

Month 8 – 9 Ccf

Month 9 – 9 Ccf

Month 10 – 9 Ccf

Month 11 – 9 Ccf

Month 12 – 9 Ccf

In this example, the customer was billed for 4 Ccf at the higher block rate (for exceeding its allotment) in two months, yet its annual usage was 3 Ccfs under the annual allotment. The customer will be refunded the difference between the lower block rate and higher block rate for all 4 Ccf.

3. The Parties agree that California American Water will establish annual allotments and conduct the annual true-up on a water year (Oct 1 – Sept 30) schedule.
4. If California American Water is unable to implement this true-up in its billing system at the time that it implements this rate design, the Parties agree that California American Water would implement commercial rates the same way it has in the past, including all the other modifications from this settlement, and will address the true-up issue in its next GRC.

F. Commercial, Industrial and Public Authority Rate Design

1. The Parties agree that commercial, industrial and public authority customers will have a three block design. The first block will be set at the customers' monthly allotment. The second block will be set at 15% of the customers' allotment. The third block is all usage over the second block.
2. California American Water agrees that it will continue customer class separations in its billing system for the non-residential customer classes including: commercial, industrial, public authority, golf course (potable use), golf course (non-potable – Visciano tank) and dedicated irrigation meter customers so that rationing can be implemented by customer class.
3. The Parties agree the block rates for commercial, industrial, and public authority customers will be:
 - Block 1 - 100% of base rate
 - Block 2 - 300% of base rate
 - Block 3 - *% of base rate

* the top block rate for commercial, industrial and public authority customers will be the same as the top block rate for residential customers.

F. Golf Courses (potable use)

1. The Parties agree that potable use golf courses will have the same rates and rate design as commercial customers and that California American Water will assign the potable use golf courses allotments based on best management practices.

G. Golf Courses (non-potable – Visciano tank)

1. The Parties agree that all golf courses served by the Visciano tank, will be assigned an allotment based on best management practices. It is assumed that all non-potable use within this allotment will be billed at the lowest commercial block rate. Usage above the annual allotment would be billed in accordance with the same rate structure as for golf courses using potable water.
2. The Parties agree that potable water use by golf courses on reclaimed water (water supplied by California American Water to the Visciano Tank) will be billed on the same rate design as commercial customers with a 30 Acre-feet total annual allotment for Visciano Tank. (All water going to the non-potable golf course customers goes to the Visciano Tank). The Parties assume that the charges for the potable use will go to courses requiring the usage.

H. Dedicated Irrigation customers

1. The Parties agree that the dedicated irrigation customer class includes non-public authority customers, customers using dedicated irrigation for non-essential business functions, or other customers with dedicated irrigation meters other than metered fire hydrant customers (metered fire hydrant customers are addressed in the special use category).
2. California American Water agrees that it will document the customer class of each of these customers and provide a list of who the customers are and their allotments in California American Water's next GRC.
3. The Parties agree that dedicated irrigation customers will have a two block rate design. California American Water agrees that it will set the customers allotments using best management practices in accordance with section V. D. The Parties agree that dedicated irrigation customer usage up to the customer's allotment will be billed at the same rate as the residential third block rate and usage above the allotment will be billed at the same rate as the residential fifth block rate.

VI. AMBLER PARK: SEPARATE RATE DESIGN

- A. The Parties agree that residential and multi-residential customers in the Ambler Park subsystem will have a three-level increasing block rate design approximately based on the current Hidden Hills rate design. The meter charges for Ambler customers will be the same as all other customers except those on Chualar and Ralph Lane.
- B. The Parties agree that residential and multi-residential customers in Ambler Park will have revenue shifted from the meter charge to the quantity charge and the following break points between the blocks:

1. The break point between the first two blocks would be 8 Ccf
 2. The block break point between the second and third block would be 24 Ccf
 3. The third block would include all usage above 24 Ccf
- C. The Parties agree that there will be no change in non-residential rate design for Ambler Park. However, to the extent that multi-residential customers are miscategorized as commercial customers, they would be subject to section III. D. regarding Customer Class Miscategorizations.
- D. The Parties agree that the total revenues will be defined based on the same percentage increase from current revenues as the Monterey Main system, as this is the method California American Water has used to increase revenues for this subsystem in the past. The Parties agree that California American Water will include qualifying Ambler Park customers in its low-income program, Help to Others.

VII. AMBLER PARK: SEPARATE WRAM/MCBA

- A. The Parties agree that Ambler Park will have a separate WRAM/MCBA mechanism. The WRAM and MCBA characteristics will be the same as those describe in the WRAM/MCBA sections XIV, XV, XVII, and XVIII.

VIII. CHUALAR

- A. The Parties agree that California American Water will only increase rates in the Chualar area based on the rate of inflation since the last rate change in December 2006, which is 9.17%.
- B. California American Water agrees to work with area residents and community groups to redesign the rates in a manner that brings more of the costs into the quantity rate without severely impacting any specific customers.

IX. RALPH LANE

- A. The Parties agree that rates and rate design in the Ralph Lane subarea will not change.

X. EMERGENCY CONSERVATION RATES

- A. Applicability: Emergency conservation rates apply to customers in the Monterey Main System, Hidden Hills, Ryan Ranch, and Bishop.
- B. The Parties agree that the summer landscape adjustment will be eliminated from the block width for emergency conservation rate design.
- C. The Parties agree that the emergency conservation rates for residential customers will have a five-block rate design, which would add 200% of base rate to the current rates being charged in blocks 4 and 200% to the current rate being charged in block 5.

Block	Current %	Proposed % of base rate
1	50%	50%
2	100%	100%
3	150%	200%
4	400%	600%
5	800%	800%

D. The Parties agree that public authority, industrial, and commercial customers will have a three emergency conservation block design that would add 100% of the base rate to block 2 making that rate 400% of the base rate, and 200% of base rate to block 3, making that rate exactly the same as the rate residential customers pay in block 5 in an emergency under this settlement. For non-residential customers in Hidden Hills and Bishop during emergency conservation rates, the above percentages of base rate would be added to the current rates being charged in each of those areas.

Block	Proposed Conservation Rates (% of base rate)	Proposed Emergency Conservation Rates (% of base rate)
1	100%	100%
2	300%	400%
3	*	800%

* The Parties agree that the top block rate in block 3 will be the same rate as the residential block rate in block 5.

E. The Parties agree that customers with flat block rates (fire hydrant customers) will have their rates increased by 200% of base rate.

XI. EMERGENCY RATIONING RATES

A. **Applicability:** Emergency conservation rates apply to customers in the Monterey Main System, Hidden Hills, Ryan Ranch, and Bishop.

B. **Residential Customers:** the Parties agree that residential customers will have a three-block rate design during rationing.⁴ The Parties agree that the first block will include usage up to a customer's monthly ration, as determined by MPWMD. Usage in the first block rate will be billed at 100% of the base rate. The Parties agree that California American Water will use a person adjustment for up to 12 people per residence to implement MPWMD's per-person ration. The Parties agree that California American Water will set the second block at a block width of 25% of the customer's ration and will bill usage in the second block at 300% of the base rate. California American Water will

⁴ For the purposes of settlement, the Parties assume California American Water will implement MPWMD's rationing program. However, the rationing program is being determined as part of A.07-12-010. This settlement does not preclude California American Water from implementing its Stand-alone rationing program if adopted in A.07-12-010.

set the third block at usage above 125% of the ration and will bill usage in the third block at 800% of base rate.

- C. Rations for all other customers except fire hydrant customer rations will be set by MPWMD. The Parties agree that California American Water will bill these customers at 100% of base rate up to their ration. The Parties agree that California American Water will set the second block at a block width of 25% of the customer's ration and usage in the second block will be billed at 300% of the base rate. California American Water will set the third block at all usage above 125% of the ration and usage will be billed at 800% of the base rate.
- D. The Parties agree that customer categories and percentages of allotments used to calculate rations will be based on MPWMD Ordinances.
- E. Fire Hydrant customers would receive a ration or suspension of use in accordance with MPWMD during stages 4, 5 and 6 and would be cut off in accordance with MPWMD rationing regulation XV (See Ordinance 137) during stage 7.

XII. PRIVATE FIRE SERVICE AND PRIVATE FIRE HYDRANT

- A. The Parties agree that rates for Private Fire Protection Service will not change; these rates will be maintained at current levels.

XIII. SPECIAL USE CUSTOMERS

- A. The Parties agree that California American Water will include only metered fire hydrant use customers in the special use category.
- B. The Parties agree the rate will not change from the current percentage of the base rate (200%).

XIV. MECHANISMS FOR DECOUPLING SALES AND REVENUE

- A. The goals of the decoupling mechanisms in the Pilot Program are as follows:
 - 1. Sever the relationship between sales and revenue to remove any disincentive for California American Water to implement conservation rates and conservation programs.
 - 2. Ensure cost savings resulting from conservation are passed on to ratepayers.
 - 3. Reduce overall water consumption by California American Water ratepayers.
- B. Decoupling for California American Water will be accomplished through both of the following mechanisms:
 - 1. A Water Revenue Adjustment Mechanism (WRAM) in the Monterey District ("Monterey WRAM") and a WRAM in Ambler Park ("Ambler Park WRAM").
 - 2. A Modified Cost Balancing Account (MCBA) for the Monterey District ("Monterey MCBA") and an MCBA in Ambler Park ("Ambler Park MCBA"). The Monterey

MCBA and Ambler Park MCBA will replace existing cost balancing accounts for purchased power. California American Water does not currently have pump taxes or purchased water expenses in the Monterey District, but if it did, these variable costs would also be tracked in the MCBAs.

3. Together, the Monterey WRAM and the Monterey MCBA combination as well as the Ambler Park WRAM and Ambler Park MCBA combination will ensure recovery of the adopted fixed costs recovered through the quantity charge and the actual variable costs for purchased power, purchased water, and pump taxes.⁵ The fixed costs not included in these accounts will be recovered through the service charge, which is a monthly charge that customers pay regardless of consumption.
4. In accordance with established Commission practice, the WRAM and MCBA accounts will accrue interest at the 90-day commercial paper rate.

XV. WATER REVENUE ADJUSTMENT MECHANISM (WRAM)

- A. The Monterey WRAM will track the difference between the total quantity charge revenues authorized by the Commission (“Total Adopted Quantity Revenues”), and the total revenues actually recovered through the quantity charge based on actual sales (“Total Actual Quantity Revenues”) during conservation rates, emergency rates, or rationing rates, excluding:
 1. Revenue from Ambler Park, Ralph Lane, Chualar, Toro;
 2. Private Fire Protection Service (Schedule No. MO-4), and Private Fire Hydrant Service (Schedule No. MO-4H);
 3. Revenue from the Coastal Water Project surcharge or equivalent water supply project (to be revisited when a new water supply project comes online); and
 4. Miscellaneous charges.
- B. The Ambler Park WRAM will track the difference between the total quantity charge revenues authorized by the Commission for Ambler Park, and the total revenues actually recovered through the quantity charge based on actual sales, excluding private fire protection service and miscellaneous charges.
- C. The Parties agree that there will be no net change in taxes associated with the WRAM accounts.
- D. The Parties agree that replenishment fees will continue to be booked in a memorandum account until such time as California American Water incurs them. At that time, California American Water would file an advice letter to transfer these costs to a separate balancing account (see section XX).

⁵ The revenue decoupling mechanisms also ensure recovery of other variable costs (such as chemicals and uncollectibles), which are *de minimus*, at adopted levels.

XVI. THE MONTEREY WRAM WILL REPLACE THE CURRENT EMERGENCY WRAM

- A. The Parties agree the current Emergency WRAM would no longer function, and instead, California American Water will use the Monterey WRAM balancing account when emergency conservation rates or rationing rates are implemented.

XVII. MODIFIED COST BALANCING ACCOUNT

- A. The Parties agree that the Monterey Modified Cost Balancing Account (MCBA) will track variable costs on a going forward basis, specifically, the account will track:
1. The difference between the total variable costs authorized by the Commission ("Total Adopted Variable MCBA Costs"), and the total variable costs actually incurred ("Total Actual Variable MCBA Costs").⁶
 2. An MCBA tracks changes in price and quantity (amount of consumption), and will capture both cost savings and cost increases.
- B. The Parties agree that the Ambler Park MCBA will operate in the same way, but will just track variable costs for Ambler Park on a going forward basis.
- C. The Parties agree the MCBAs will capture the cost savings and cost increases associated with purchased water, purchased power, and pump taxes (all of which are recovered through the quantity charge under both the current and proposed rate designs). Although California American Water does not currently have any purchased water or pump taxes currently in the Monterey District, if it did they would be tracked in the MCBA as they are in other California American districts.

XVIII. MAINTAINING LEAST-COST WATER MIX

- A. With regard to changes in the water mix that result in changes in variable costs tracked in the MCBAs, California American Water stipulates that it will exercise due diligence in ensuring the least-cost water mix of its water sources, within the constraints of Order 95-10 and the Seaside Groundwater Basin adjudication.
- B. California American Water agrees to make a showing in the next GRC filing demonstrating that it has exercised due diligence in ensuring the least-cost mix for its water sources.

⁶ The other *de minimis* variable costs described in footnote 5, *supra*, are not tracked in the MCBAs because they are a small amount and do not vary significantly. Recovery of these other variable costs at adopted levels is ensured, however, because any under- or over-collection of the revenues associated with these costs is included in the WRAM balance. See Section XV.

XIX. RECOVERY AND REFUND OF BALANCING ACCOUNTS

- A. The Parties agree that conservation rates may cause the amount of water consumed, and thus the cost of water production, to vary from adopted levels.
- B. The Parties agree that the desired outcome and purpose of using a WRAM and MCBA is to ensure that the utility and ratepayers are proportionally affected when conservation rates are implemented.
 1. In the context of this Settlement Agreement, a proportional impact means that, if consumption is over or under the forecast level, the effect on either the utility or ratepayers (as a whole) should reflect that the costs or savings resulting from changes in consumption will be accounted for in a way such that neither the utility or ratepayers are harmed, or benefited, at the expense of the other party.
- C. Reporting and Interest Accrual Requirements: The Parties agree that the amounts in the WRAM and MCBA accounts will be reported as follows:
 1. By March 31st of each year, California American Water will provide the Water Division (with a copy to DRA) with a written report on the status of the WRAMs (Monterey Main System and Ambler) and MCBAs (Monterey Main System and Ambler) as described herein. The WRAM/MCBA for the Monterey Main system, Hidden Hills, Bishop, and Ryan Ranch tracks certain revenues for those systems. The Ambler Park WRAM/MCBA is separate because Ambler Park has a separate rate design and separate water supply.
 - a. WRAMs: The written report will include a section on the WRAM showing the revenue over- or under-collection with respect to actual (or recorded) water sales, by customer class, as of December 31st of the preceding calendar year. Differences between Total Adopted Quantity Revenues and Total Actual Quantity Revenues will be tracked in the WRAM and accrue interest at the 90-day commercial paper rate.
 - b. MCBAs: The written report will include a section on the MCBA comparing Total Adopted MCBA Costs with Total Actual MCBA Costs as of December 31st of the preceding calendar year. Differences between Total Adopted MCBA Costs and Total Actual MCBA Costs will be tracked in the MCBAs and accrue interest at the 90-day commercial paper rate.
 - c. The written report will include a section listing the monthly balance in the Monterey WRAM, Monterey MCBA and the net balance. The purpose of these balances is to track whether the over or under collections were due to conservation rates, emergency conservation rates, or rationing rates.
- D. The Parties agree that the net balances of the WRAM and MCBA accounts will be resolved in the following manner:
 1. The WRAM and MCBA accounts will always be considered together for the purposes of determining the need for additional revenue recovery from, or for refunds to, ratepayers, and will be netted prior to any refund or recovery.

2. California American Water will track revenues in the WRAM account by customer class for analysis purposes, but implementation of a surcharge or surcredit will be done considering the net balance of the WRAM and MCBA accounts for all customer classes.
3. If the annual report shows a combined under-collection in the WRAM/MCBA, California American Water would wait until the next GRC to request recovery unless the net balance exceeds 2.5% of the total recorded revenue requirement for the prior calendar year. If the net balance of the WRAM and MCBA accounts exceeds 2.5% under-collection, California American Water will file an advice letter within 30 days to either collect the amount of the under-collection via a rate element similar to that used for purchased water, or through a surcharge. This would be concurrent with California American Water's attrition step rate increases. Whether it is a rate element or a surcharge, the amount of revenues collected through the rate element or surcharge will be tracked in a balancing account compared to the total amount of the under-collection. California American Water would revisit this rate change 6 months later to see if it has stabilized and provide a report to the Water Division and DRA with the results.
4. If the annual report shows that there is a combined over-collection in the WRAM/MBCA net balance that exceeds 2.5% of the total recorded revenue requirement for the prior calendar year, California American Water will file an advice letter within 30 days that refunds the balance in the WRAM and MCBA account within one year. Refunds of over-collections will be passed on to ratepayers through a flat surcredit for each account (residential and non-residential) that is subject to the WRAM/MCBA.
5. If the 2.5% threshold is not met, these balancing accounts will be refunded or recovered in the next GRC.

XX. SEASIDE WATERMASTER FEES

- A. The Parties agree that the Seaside Watermaster administrative and replenishment fees will continue to be tracked in the current memorandum account and will be transferred to a separate balancing account after they are actually paid to be recovered via a separate surcharge.

XXI. MONITORING AND DATA COLLECTION

- A. California American Water agrees to track data including billing and usage data by meter size, by month, and by class of customer, for use in analyzing customer response to the proposed conservation rates so that it is readily available to the Commission and the Parties to evaluate the results of this Pilot Project.
- B. California American Water agrees to present usage data in the next GRC as follows:
 6. California American Water will present customer usage data to DRA in a table (in Excel format) showing how much water customers used annually and monthly by Ccf level.

7. In the same table, California American Water will also present information showing each customer's allotment as well as the same customer's usage for the past 12 months. Customer turnover will be noted in the table.
8. California American Water will develop a method to keep track of and maintain historical allotment data and will report this data to the Commission in the next GRC for the time period between a decision in this case and the next GRC.
9. California American Water will track revenues by customer class. California American Water will keep track of how much is refunded through the WRAM/MCBA by customer class so that the information can be evaluated in the next GRC to determine if the rate design and WRAM/MCBA mechanism is reasonable.

XXII. RETURN ON EQUITY

- A. The Commission opened Investigation ("I.") 07-01-022 (Water Conservation OII) to consider conservation rates and programs for Class A water utilities.
 1. In Phase 1A of I.07-01-022, the Commission adopted WRAM/MCBA mechanisms for California Water Service Company (CWS") and Park Water Company ("Park"), in conjunction with conservation rate designs, in D.08-02-036. Additionally, in D.08-06-002, the Commission adopted WRAM/MCBA mechanisms for California American Water's Los Angeles District, in conjunction with conservation rate designs. The Parties agree that the WRAM/MCBA mechanisms proposed in this settlement are substantially similar to the WRAM/MCBA mechanisms adopted for CWS and Park in D.08-02-036 and California American Water's Los Angeles District in D.08-06-002.
 2. In the consolidated proceeding A.08-05-002, -003, and -004, the Commission is currently considering the effect of the WRAM/MCBA mechanisms on the returns on equity ("ROEs") of CWS and California American Water. The Parties agree that California American Water's Monterey District ROE would be subject to the same ROE adjustment the Commission adopts in A.08-05-003 for CWS and California American Water Los Angeles District.

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Respectfully submitted,

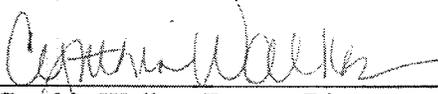
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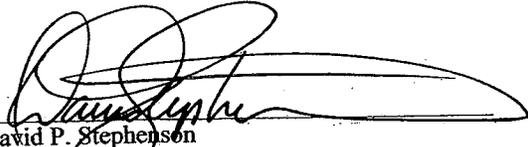
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(END OF APPENDIX A)