

APPENDIX A

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

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| <p>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.</p> | <p>Application 08-01-027 (Filed January 30, 2008)</p> |
| <p>And Related Matters.</p> | <p>Application 08-01-023 Application 08-01-024 (Filed January 30, 2008)</p> |

**PARTIAL SETTLEMENT AGREEMENT BETWEEN THE DIVISION OF
RATEPAYER ADVOCATES AND CALIFORNIA-AMERICAN WATER COMPANY
ON MONTEREY WATER AND WASTEWATER ISSUES**

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November 24, 2008

**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.

Application 08-01-027
(Filed January 30, 2008)

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

**PARTIAL SETTLEMENT AGREEMENT BETWEEN THE DIVISION OF
RATEPAYER ADVOCATES AND CALIFORNIA-AMERICAN WATER COMPANY
ON MONTEREY WATER AND WASTEWATER ISSUES**

1. GENERAL

1.1 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 (“California American Water”) (collectively, “the Parties”) have agreed on the terms of this Settlement Agreement, which they now submit for approval. The Parties, desiring to avoid the expense, inconvenience and the uncertainty attendant to litigation of the matters in dispute between them have agreed on this Settlement Agreement, which they now submit for approval.

1.2 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.)

1.3 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.

1.4 The Parties agree that this Settlement Agreement is an integrated agreement, so that if the Commission rejects any portion of this Settlement Agreement, each Party has the right to withdraw. Furthermore, the Settlement Agreement is being presented as an integrated package such that the 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 Agreement is void.

1.5 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.

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

1.7 Resolution of a number of the differences between California American Water's and DRA's original estimates resulted in either DRA or California American Water moving from its original position to concur in whole or in part with the other's position. Many stipulated items are the consequence of additional discussions between the Parties leading to a compromise of positions, the overall results of which led to agreements in amounts between California American Water's original estimates and DRA's original estimates.

2. SUMMARY

2.1 This Settlement Agreement addresses issues in California American Water's Monterey Water District and Monterey Wastewater District. This settlement does not reflect any changes in the Cost of Capital that is being determined in a separate proceeding (A. 08-05-003). Because of their potential complexity, the Parties will submit a separate settlement that addresses issues regarding rate design for the Monterey Water District.

3. MONTEREY WATER

3.1 California American Water agreed to accept DRA's position that the Endangered Species Act ("ESA") costs (DRA Project Number 29) should continue to receive memorandum account treatment, rather than utility plant in service treatment as originally proposed by California American Water.

3.2 The parties agree that California American Water should recover the following amounts for the Comprehensive Planning Study (DRA Project Number 15) and the Los Padres Dredging Study (DRA Project Number 16): \$450,000 in lieu of California American Water's original proposal of \$915,176 for the Comprehensive Planning Study (CPS) and \$200,983 for the Los Padres Dredging Study.

3.3 The parties agree that California American Water should amortize the expenses for the CPS and the Los Padres Dredging Study over the three-year GRC period. The annual average unrecovered and unamortized balance should accrue interest at the 90-day commercial paper rate for the unamortized portion of the expenses.

3.4 Investment Project IP-0540-175, 176, 179, and 180, Booster Station Rehabilitation (DRA Project Number 14)

As a result of negotiation, California American Water agreed that the 2008, 2009 test year, and the 2010 escalation year estimates for this investment project should be a total of \$529,000 (e.g., \$88,500 in 2008; \$220,250 in 2009; and \$220,250 in 2010), rather than the original requested amount of \$100,057 in 2008; \$250,000 in 2009; and \$250,000 in 2010.

3.5 Investment Project 05400513, Second (New) Segunda Tank (DRA Project Number 20)

As a result of negotiation and reviewing information provided in California American Water's rebuttal testimony, DRA accepted California American Water's original request of \$2,905,598 for completion of this Advice Letter project in this GRC. DRA's original position was \$2,223,098 for this Advice Letter project in this GRC. The parties further agreed that this project would continue to receive Advice Letter treatment and DRA would withdraw that part of its testimony that alleges California American Water had inadequate planning for this project.

3.6 Investment Project IP-0540-151, IP-0540-152 and IP-0540-153, Valve Replacement (DRA Project Number 10)

As a result of negotiation, DRA agreed to accept California American Water's original request of \$559,000 over the 2008, 2009 test year, and the 2010 escalation years (e.g., 32,504 in 2008; \$263,243 in 2009; and \$263,243 in 2010), and move away from its recommendation to disallow the cost of this project.

3.7 Investment Project 05400541, Withers Pump Station (DRA Project Number 18)

Upon receiving additional data from California American Water, DRA accepted California American Water's original request of \$461,500 for 2008 and moved away from its recommendation that the Commission disallow the costs of this project. This investment project is complete and in service, and the dollars represent the completed cost.

3.8 Investment Project IP-0540-135, New Tanks at Hidden Hills (DRA Project Number 23)

Based on information provided in California American Water's rebuttal testimony, DRA has agreed to accept California American Water's original request of \$322,000 for construction of two new tanks, and without Advice Letter Treatment. DRA had originally recommended that California American Water construct only one tank at a cost of \$161,000 with Advice Letter treatment.

3.9 Investment Project 05400194, CRV Production and Distribution System Improvements (DRA Project Number 30)

Upon receiving additional data from California American Water, DRA accepted California American Water's original request of \$1,527,352 for 2008 and moved away from its recommendation that the Commission disallow the costs of this project. This investment project is complete and in service, and the dollars represent the completed cost.

3.10 Investment Project IP-0540-162, Combined Hydrant Replacement (DRA Project Number 11)

The Parties agree that the 2008, 2009 test year, and the 2010 escalation year estimates for this investment project should be \$598,000 (\$2,578 in 2008; \$375,081 in 2009; and \$220,341 in 2010) rather than California American Water's original requested amount of \$758,000. DRA's original recommended amount was \$363,000.

3.11 Investment Project IP-0540-156, 158, and 160, Hydrant Replacement (DRA Project Number 12)

The Parties agree that the 2008, 2009 test year, and the 2010 escalation year estimates for this investment project should be included under the Combined Hydrant Replacement project, IP-0540-162. California American Water had originally requested \$160,000 over the same three years, while DRA originally recommended disallowance for this project.

3.12 Investment Project 05400527, Bishop Iron/Manganese Removal Facilities (DRA Project Number 19)

California American Water accepted DRA's recommendation of an Advice Letter cap of \$750,000 for the 2009 test year. California American Water's original request was \$1,308,782.

3.13 Investment Project IP-0540-245 and IP-0540-246, ASR System (DRA Project Number 21)

With the recognition that "DRA supports Cal Am's and MPWMD's efforts to reduce California American Water's summer pumping from the Carmel River that would be facilitated by this project" (DRA Report, p. 7-56.), California American Water agrees with DRA's position that costs be "tracked in a Memorandum Account and recovered from rates only when the project is used and useful." (DRA Report, p. 7-56.) California American Water does so with the understanding that moving project costs out of the Memorandum Account and into Rate Base will be considered during the filing of the 2012-2014 State-Wide General Rate Case, scheduled for filing in the spring of 2010. Parties agree to include the ASR system in the memorandum account with the understanding that DRA and the Commission reserve the right to review all costs both below and above the \$14,380,000 for reasonableness in the 2012-2014 GRC. The Parties agree to cap the costs at \$14,380,000. California American Water agrees to demonstrate that no costs booked under the ASR project in the 2012-2014 GRC are booked under the Coastal Water Project Proceeding, A.04-09-019.

3.14 Investment Project IP-0540-198, MLOG System (no DRA Project Number)

DRA accepted California American Water's original request of \$716,000 for 2008 and the 2009. DRA's original position was \$553,218 over that same time period.

3.15 Recurring Project RP-0540-Q1, Process Plant Replacement (DRA Project Number 26)

As a result of negotiation, the parties agree that the 2008, 2009 test year, and the 2010 escalation year estimates for this normal recurring investment item should be \$2,500,000 rather than the original requested amount of \$3,358,863 for 2008-2010. The settled number is derived by calculating the average expenditure during the years 2006 and 2007.

3.16 Carmel River Water Rights – IP-0540-197 CWIP Balance (DRA Project Number 31)

California American Water accepted DRA's recommendation to remove this project from this proceeding. California American Water's original request was \$3,000,000 over three years.

4. MONTEREY WATER SPECIAL REQUESTS

4.1 ESA Costs Memorandum Account

DRA concurs with California American Water’s request to continue tracking compliance costs, related to operations on the Carmel River, in this memorandum account.

4.2 ESA Assessments Memorandum Account

California American Water agreed to withdraw this request to track levies imposed by NOAA for violating the ESA.

4.3 NOAA Memorandum Account

DRA concurs with California American Water’s request to continue this memorandum account to record payments California American Water makes to NOAA or its designee as specified under the 2006 settlement agreement between California American Water and NOAA.

4.4 Recovery of Any Existing Balances in Balancing Accounts

DRA agrees with California American Water’s request to recover those existing memorandum and balancing account balances (except San Clemente Dam account), that were unrecovered as of January 1, 2009, through a twelve-month surcharge that would begin on July 1, 2009. The applicable accounts have been listed in Table A.

Table A – California American Water Balancing Accounts or Memorandum Accounts

| (1) Title | (2) Settlement Position |
|--|---|
| American Jobs Creation Act | Subject to reasonableness review prior to approval. |
| Catastrophic Event Memorandum Account | PU Code requires reasonableness review of any expenses prior to approval. |
| Emergency Rationing Costs for MPWMD | Subject to reasonableness review prior to approval. |
| Expanded Conservation & Rationing Costs | Subject to reasonableness review prior to approval. |
| Emergency WRAM | Subject to reasonableness review prior to approval. |
| Carmel River Dam Abandon Project Cost | Recommend approval. |
| Conservation Balancing Accounts | Recommend approval. |
| Credit Card Payments | Recommend approval |
| Emergency Retirement Inc. Security Act (ERISA) | Recommend approval |

| (1) Title | (2) Settlement Position |
|------------------------------------|----------------------------|
| Purchased Power Memorandum Account | Recommend approval |

4.5 Request to Eliminate Requirement of Proof of Synergy Savings

DRA concurs with California American Water’s request that the Commission remove the requirement that it prove the continuation of net synergy savings generated from the purchase of Citizens’ water assets approved in D. 01-09-057.

5. TORO SERVICE AREA

5.1 IP-0548-1 Toro Arsenic Treatment

This project involves the planning, permitting, and construction of improvements to the existing treatment facility in order to meet safe drinking water standards for arsenic. Currently, this project is still in the planning and permitting stage. The federal maximum contaminant level (MCL) for arsenic in drinking water is 10 parts per billion (ppb). Since California American Water began operating the plant on January 1, 2008, the Toro system has yielded test samples for arsenic indicating between 12 to 29 ppb. Historical data indicate arsenic levels have, at times, exceeded 40 ppb. Prior to its January 1, 2008, purchase of the Toro system, and at the time it entered into the settlement agreement with DRA that the Commission approved in D.07-11-034, California American Water had little access to the system to determine its condition. At the time California American Water took ownership of Toro, its treatment system was only marginally functional.

The projected cost for this project has increased from the \$650,000 estimate that DRA and California American Water discussed at the time of the 2007 settlement. Because this project is still in the planning and permitting stage, however, there are still some uncertainties regarding the final cost. The Parties agree that once California American Water has completed the project, received all necessary permits from the Department of Public Health and begins operating the Toro Arsenic Treatment Plant, it may submit an advice letter for the arsenic treatment plant with a cap of \$685,000 and the capital amounts above that cap shall be subject to

reasonableness review by DRA prior to the approval of the rate treatment proposed in the Advice Letter.

5.2 Additional Capital Expenditures

In addition to its Arsenic Treatment Project, California American Water also included additional capital expenditures for Toro in its application. Specifically, California American Water included \$139,620 in 2008, \$616,620 in 2009 and \$99,620 in 2010. These proposed capital expenditures are for repairs, replacements and upgrades to the Toro system to bring it into compliance with applicable standards and regulations. Additional information on the condition of the Toro system and projects is attached as Attachment 1. The chart below summarizes California American Water’s requested expenditures.

| | 2008 | 2009 | 2010 |
|--|------------------|------------------|-----------------|
| SCADA | | \$75,000 | |
| Hydrant and Valve Replacement | \$25,000 | \$25,000 | \$25,000 |
| Service Replacement | \$61,500 | \$61,500 | \$61,500 |
| Meter Replacement | \$13,120 | \$13,120 | \$13,120 |
| Well Rehabilitation | | \$270,000 | |
| Miscellaneous Repairs, Upgrades and Replacements | \$40,000 | \$172,000 | |
| Total | \$139,620 | \$616,620 | \$99,620 |

After discussion of these projects and review of additional supporting materials, DRA agrees to accept California American Water’s proposed amounts.

6. **MONTEREY WASTEWATER**

The revenue requirement for 2010 and 2011 will be escalated according to the standards set forth in the Commission’s Rate Case Plan with the additional revenues shown above related to the advice letter projects, with the exception of the escalation of the Comprehensive Planning Study and the Sanitary Sewer Management Plan (CPS and SSMP respectively) amortization amounts which will be escalated in accordance with the discussion below. The increase from 2009 present rates to 2009 proposed rates based on settlement is \$1,316,600 or 77.4%.

7. WASTEWATER RATE DESIGN

7.1 The Parties agree that the Commission should authorize California American Water to organize the eight wastewater districts into two rate areas: 1) Indian Springs, Carmel Valley Ranch, Pasadera and Las Palmas; and 2) White Oaks, Spreckels, Village Green and Oak Hills. The rationale for organizing two rate areas involved recognizing the differences in technology and cost of service among the eight wastewater systems. The systems at White Oaks, Spreckels, Village Green and Oak Hills are simpler, less expensive, passive wastewater systems with a lower cost of service, while Las Palmas, Pasadera, Carmel Valley Ranch and Indian Springs are more technologically advanced active systems with higher costs of service. These points are further discussed in DRA’s Results of Operations Report and in California American Water’s rebuttal testimony. The rates for 2009 based on this agreement will then be as follows:

| | Present Rates | Two Tier Rates | Percent Increase |
|----------------|---------------|----------------|------------------|
| White Oaks | \$56.57 | \$48.78 | -13.77% |
| Spreckels | \$35.93 | \$48.78 | 35.76% |
| Village Green | \$56.57 | \$48.78 | -13.77% |
| Oak Hills | \$39.93 | \$48.78 | 22.16% |
| Las Palmas | \$56.57 | \$107.81 | 90.58% |
| Indian Springs | \$49.21 | \$107.81 | 119.08% |
| Carmel Valley | \$56.57 | \$107.81 | 90.58% |
| Pasadera | \$56.57 | \$107.81 | 90.58% |

8. WASTEWATER REVENUES

8.1 Number of Customers - As agreed to by the parties, the customer count for Pasadera should reflect the current number of customers 275, not the 261 as reflected in the application. This agreement is based on a current analysis by California American Water as presented in the spreadsheet analysis discussed with the customers at a public meeting.

9. WASTEWATER EXPENSES

9.1 Payroll – DRA concurs with the need for the two additional operators; one operator in training and one certified operator. This agreement was based on a showing by

California American Water that it currently has ten operators (including temporary employees) and this level of work force is necessary due to the requirements of the system.

| <u>Original Positions (000s)</u> | | <u>Settlement (000s)</u> |
|----------------------------------|------------|--------------------------|
| <u>CAW</u> | <u>DRA</u> | |
| 819.7 | 645.9 | 810.6 |

9.2 Operation and Maintenance Expenses

(a) Source of Supply – Miscellaneous – The parties agree that temporary labor costs should be removed from the estimates because it is no longer necessary since the DRA and California American Water have agree to include expenses for ten full time employees in this settlement.

| <u>Original Positions (000s)</u> | | <u>Settlement (000s)</u> |
|----------------------------------|------------|--------------------------|
| <u>CAW</u> | <u>DRA</u> | |
| 52.1 | 39.4 | 39.4 |

(b) Water Treatment Costs – Miscellaneous - The parties agree that temporary labor costs should be removed from the estimates because it is no longer necessary since the DRA and California American Water have agreed to include expenses for ten full time employees in this settlement.

| <u>Original Positions (000s)</u> | | <u>Settlement (000s)</u> |
|----------------------------------|------------|--------------------------|
| <u>CAW</u> | <u>DRA</u> | |
| 238.6 | 190.5 | 190.5 |

(c) Distribution Costs – Miscellaneous The parties agree that temporary labor costs should be removed from the estimates because it is no longer necessary since DRA and California American Water have agree to include expenses for ten full time employees in this settlement.

| <u>Original Positions (000s)</u> | | <u>Settlement (000s)</u> |
|----------------------------------|------------|--------------------------|
| <u>CAW</u> | <u>DRA</u> | |
| 5.6 | 2.4 | 195.3 |

In its Application, California American Water proposed capitalizing the costs of the Comprehensive Planning Study (CPS) and Sanitary Sewer Management Plan (SSMP) and stated in rebuttal that California American Water has historically requested the costs of such studies be considered as part of short-term assets and included in plant in service. DRA proposed that since the studies themselves do not create a physical plant asset, the accounting treatment should consider them as expenses rather than capitalized as short term assets. As a result of the settlement negotiations, the parties agree that California American Water should not earn a return for these costs in ratebase and instead should amortize the CPS and SSMP costs over three years with the unamortized balance earning interest at the 90-day commercial paper rate. The parties further adjusted the amortization so that the first year rate increase did not exceed California American Water’s original request. Consequently, the parties agreed on the following amortization schedule: \$195,000 in 2008, \$224,000 in 2009, and \$257,500 in 2010.

(d) Customer Service Costs – Miscellaneous - The parties agree that temporary labor costs should be removed from the estimates because it is no longer necessary since the DRA and California American Water have agree to include expenses for ten full time employees in this settlement.

| <u>Original Positions (000s)</u> | | <u>Settlement (000s)</u> |
|----------------------------------|------------|--------------------------|
| <u>CAW</u> | <u>DRA</u> | |
| 9.0 | 8.5 | 8.5 |

(e) Uncollectibles – the parties agree to an uncollectible rate of 0.2643%

(f) Maintenance Costs –The parties agree that the expenses related to Greenline will continue to occur and the ten current employees will not be able to perform the work currently performed by Greenline. Greenline performs work related to cleaning of septic tanks and videoing monitoring of sewer collection lines. California American Water does not have the proper equipment to perform these tasks economically. The proposed settlement amount is higher than the original estimate of California American Water because of the use of actual year-end 2007 results in the averages (instead of the original estimates for 2007).

| <u>Original Positions (000s)</u> | | <u>Settlement (000s)</u> |
|----------------------------------|------------|--------------------------|
| <u>CAW</u> | <u>DRA</u> | |
| 248.4 | 228.4 | 254.2 |

9.3 Administrative and General Expenses

(a) Pension and Benefits – This account ties directly to the number of employees, and based on the settlement in regards to the number of employees in paragraph 4.1 above, the parties agree to the following level of expense.

| <u>Original Positions (000s)</u> | | <u>Settlement (000s)</u> |
|----------------------------------|------------|--------------------------|
| <u>CAW</u> | <u>DRA</u> | |
| 228.1 | 218.7 | 229.1 |

(b) Outside Services - The parties agree that temporary labor costs should be removed from the estimates because it is no longer necessary since the DRA and California American Water have agree to include expenses for ten full time employees in this settlement.

| <u>Original Positions (000s)</u> | | <u>Settlement (000s)</u> |
|----------------------------------|------------|--------------------------|
| <u>CAW</u> | <u>DRA</u> | |
| 3.9 | 1.3 | 1.3 |

(c) Other Administrative and General - The parties agree that temporary labor costs should be removed from the estimates because it is no longer necessary since the DRA and California American Water have agree to include expenses for ten full time employees in this settlement.

| <u>Original Positions (000s)</u> | | <u>Settlement (000s)</u> |
|----------------------------------|------------|--------------------------|
| <u>CAW</u> | <u>DRA</u> | |
| 216.5 | 223.8 | 205.8 |

(d) Rents – The parties agree that rents should be based on current allocated lease cost of the Monterey Office.

| <u>Original Positions (000s)</u> | | <u>Settlement (000s)</u> |
|----------------------------------|------------|--------------------------|
| <u>CAW</u> | <u>DRA</u> | |
| 8.9 | 9.1 | 9.1 |

10. WASTEWATER CAPITAL PROJECTS

10.1 The parties agree that California American Water should recover the following amounts for the Comprehensive Planning Study and the Sanitary Sewer Management Plan: \$140,000 in lieu of \$197,000 for the CPS and \$175,000 in lieu of \$280,000 for the condition-based assessment part of the SSMP.

10.2 The parties agree that California American Water should amortize the expenses for the Comprehensive Planning Study and the SSMP over three years as discussed above.

10.3 Project RP-0549-L1 SCADA Equipment and System

The parties agree that the 2008, 2009 test year, and the 2010 escalation year estimates for this normal recurring investment item should be \$10,000 in each year rather than the original requested amount of \$10,000 in 2008; \$20,000 in 2009; and \$30,000 in 2010.

10.4 Routine Project RP-0549-Q1 Process Plant Replacement

The parties agree that the 2008, 2009 test year, and the 2010 escalation year estimates for this normal recurring investment item should be \$23,700 in each year rather than the original requested amount of \$23,700 in 2008; \$193,300 in 2009; and \$175,000 in 2010

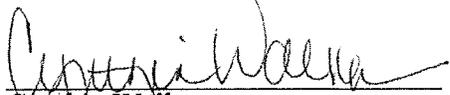
10.5 Clarifier and Sludge Removal

The Parties agree that California American Water should withdraw this request without prejudice and re-submit it in the next General Rate Case without prejudice.

11. DEPRECIATION, GENERAL TAXES AND INCOME TAXES

11.1 The parties agree to the level of depreciation, general taxes and income taxes based on the agreed upon plant investment and the number of employees.

Respectfully submitted,

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November 24, 2008

The parties agree that the 2008, 2009 test year, and the 2010 escalation year estimates for this normal recurring investment item should be \$23,700 in each year rather than the original requested amount of \$23,700 in 2008; \$193,300 in 2009; and \$175,000 in 2010

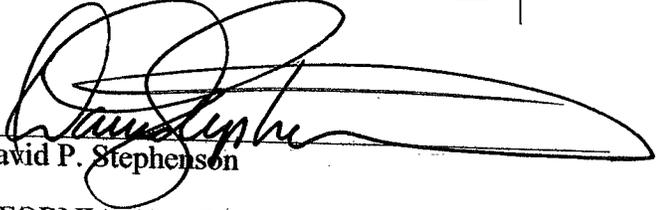
10.5 Clarifier and Sludge Removal

The Parties agree that California American Water should withdraw this request without prejudice and re-submit it in the next General Rate Case without prejudice.

11. WASTEWATER DEPRECIATION, GENERAL TAXES AND INCOME TAXES

11.1 The parties agree to the level of depreciation, general taxes and income taxes based on the agreed upon plant investment and the number of employees.

Respectfully submitted,

| | |
|--|---|
| <p>Cynthia Walker Deputy Director Division of Ratepayer Advocates California Public Utilities Commission 505 Van Ness Avenue San Francisco, CA 94102</p> | <p>By:  David P. Stephenson CALIFORNIA-AMERICAN WATER COMPANY 4701 Beloit Drive Sacramento, CA 95838</p> |
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November 24, 2008

TORO SERVICE AREA
DRAFT PROJECT NEED MEMORANDUM
(excerpt)

SCADA

SCADA is an essential element for operational efficiency at Toro. SCADA allows for remote control and sensing for critical elements at Toro including the treatment facility, wells, pump stations, and gravity and pneumatic tanks. The Toro system is complex and requires ongoing balancing of the storage and conveyance facilities in both the lower and upper pressure zones. SCADA enhanced PLC's were installed at the following locations:

1. Toro Treatment Plant, including Wells 1 & 2
2. Corte Cordillera tank
3. Corte Cordillera pumping plant
4. Lower Markham tank
5. Lower Markham pumping plant
6. Upper Markham tank
7. Upper Markham pumping plant
8. Vista Dorado tank (includes solar panel power supply)

The above-listed SCADA-enhanced facilities are estimated to cost a total of \$84,000.

Hydrant and Valve Replacement

Hydrants and valves in the Toro system show considerable signs of age. Visual inspections of these elements throughout the system have yielded a recommendation to replace a total of 15 hydrants and 20 valves each year. The cost of replacement is estimated at \$1,500.00 per hydrant and \$950.00 per valve. The total estimated cost for hydrants and valves at Toro is \$120,000.00.

Service Replacement

The material comprising the services at Toro is yet to be determined. A Condition Based Assessment will be required to determine both the material and remaining service life of the Toro system water services. An operation and maintenance budget of \$75,000 is proposed for years 2009 and 2010 for service replacements at Toro.

Meter Replacement

Water in Monterey County is a precious resource. Current regulations require that water be accounted for in an accurate manner in fairness to all customers. The bulk of the meters at Toro exhibited extreme wear and tear to the point that most were unreadable. The low confidence in the accuracy of meters in service upon CAW's assumption of operations at Toro cannot be overstated. All 412 meters in the Toro system have been replaced. Remote sensing meters were installed to allow per CAW's standard. The following is a breakdown of sizes and costs of meters.

5/8" – 7 meters \$ 809.55

1" – 247 meters \$39,238.42

1-1/2" – 134 meters \$34,155.26

2" – 26 meters \$ 6,218.94

Total - \$80,422.17

Well Rehabilitation

Well rehabilitation has been ongoing since Cal Am's commencement of operations at Toro. Wells 1 and 2 both produced merely 150 to 160 gpm, falling short of the maximum day demand of 400 gpm and well below the peak-hour demand. Upon rehab of both Wells 1 and 2 produced in excess of 300 gpm with a combined production of 550 gpm. Well 3 is currently in need of rehabilitation in that it produces only about 100 gpm

as opposed to its original capacity of 250 gpm. Costs for well rehab at Toro are estimated as follows:

Well 1 \$75,000

Well 2 \$75,000

Well 3 \$75,000

Total \$225,000

Storage Tanks

Gravity Tanks

The gravity storage tanks at Toro are all submerged concrete type ranging from 40,000 to 50,000 gallons each. Upon visual inspection, the gravity tanks appear to be in good condition, overall. The concrete storage tanks have been upgraded with SCADA enhanced tank level sensors and alarms.

Pneumatic Tanks

The Toro system has two 5,000 gallon pneumatic tanks at Corte Cordillera and Upper Markham tank sites. The tanks are in need of corrosion protection and leak repair. The remaining service life for these tanks has not yet been determined. The remaining service life and full rehabilitation or replacement will be addressed in a Condition Based Assessment. The current budget proposed for corrosion protection and leak repair for the pneumatic tanks is \$250,000.

TORO SERVICE AREA
PHOTOGRAPHS

APPENDIX B

California American Water
 COMPARISON OF REVISED AND DRA RECOMMENDED
 RATE OF RETURN
 SETTLEMENT
 MONTEREY WW

| Test Year | Cal-Am Revised | | | ORA Recommended | | | Cal Am Exceeds |
|-----------------------------|-------------------|----------------|---------------|-------------------|-------------|---------------|----------------|
| | Capital Structure | Cost Factor | Weighted Cost | Capital Structure | Cost Factor | Weighted Cost | |
| <u>2009</u> | Long-Term Debt | 58.00% | 6.48% | 58.00% | 6.48% | 3.76% | |
| | Common Equity | 42.00% | 10.20% | 42.00% | 10.20% | 4.28% | |
| | Total | <u>100.00%</u> | | <u>100.00%</u> | | <u>8.04%</u> | 0.00% |
| <u>Escalation Year 2010</u> | Long-Term Debt | 58.00% | 6.48% | 58.00% | 6.48% | 3.76% | |
| | Common Equity | 42.00% | 10.20% | 42.00% | 10.20% | 4.28% | |
| | Total | <u>100.00%</u> | | <u>100.00%</u> | | <u>8.04%</u> | 0.00% |
| <u>Attrition Year 2011</u> | Long-Term Debt | 58.00% | 6.48% | 58.00% | 6.48% | 3.76% | |
| | Common Equity | 42.00% | 10.20% | 42.00% | 10.20% | 4.28% | |
| | Total | <u>100.00%</u> | | <u>100.00%</u> | | <u>8.04%</u> | 0.00% |

| |
|--|
| California American Water Monterey Wastewater SUMMARY OF EARNINGS TEST YEAR 2009 (AT PRESENT RATES) |
|--|

| ITEM | STAFF | | UTILITY | | <u>ADOPTED</u> |
|-------------------------------|-------------------|---------|-------------------|----------|----------------|
| | ORIGINAL | REVISED | REVISED | ORIGINAL | |
| | (Thousands of \$) | | (Thousands of \$) | | |
| OPERATING REVENUES | 1,662.4 | 1,701.1 | 1,701.1 | 1,662.4 | 1,701.1 |
| ADD REVENUE FROM CONTRIBUTION | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| OPERATING EXPENSES | | | | | |
| OPERATION & MAINTENANCE | 866.2 | 1,043.8 | 1,043.8 | 898.0 | 1,043.8 |
| ADMINISTRATIVE & GENERAL | 482.1 | 503.0 | 503.0 | 515.1 | 503.0 |
| PAYROLL | 645.9 | 810.6 | 810.6 | 819.7 | 810.6 |
| G. O. PRORATED EXP. | 42.5 | 224.4 | 224.4 | 383.7 | 181.9 |
| DEPRECIATION & AMORTIZATION | 148.6 | 149.2 | 149.2 | 152.0 | 149.2 |
| TAXES OTHER THAN INCOME | 54.3 | 53.2 | 53.2 | 55.9 | 60.8 |
| STATE CORP. FRANCHISE TAX | (53.3) | (90.5) | (90.5) | (95.5) | (87.2) |
| FEDERAL INCOME TAX | (415.9) | (394.9) | (394.9) | (415.9) | (415.9) |
| TOTAL OPERATING EXPENSES | 1,770.5 | 2,298.8 | 2,298.8 | 2,313.0 | 2,246.1 |
| NET OPERATING REVENUE | (108.1) | (597.7) | (597.7) | (650.6) | (545.0) |
| RATE BASE | 1,913.0 | 2,291.1 | 2,291.1 | 2,032.8 | 2,291.4 |
| RATE OF RETURN | -5.65% | -26.09% | -26.09% | -32.01% | -23.78% |

| |
|---|
| California American Water Monterey Wastewater SUMMARY OF EARNINGS 2009 |
|---|

| ITEM | STAFF | | UTILITY | | <u>ADOPTED</u> |
|-------------------------------|-------------------|---------|-------------------|----------|----------------|
| | ORIGINAL | REVISED | REVISED | ORIGINAL | |
| | (Thousands of \$) | | (Thousands of \$) | | |
| OPERATING REVENUES | 2,432.6 | 3,044.9 | 3,044.9 | 3,050.1 | 3,001.0 |
| ADD REVENUE FROM CONTRIBUTION | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| OPERATING EXPENSES | | | | | |
| OPERATION & MAINTENANCE | 869.9 | 1,047.3 | 1,047.2 | 901.7 | 1,047.2 |
| ADMINISTRATIVE & GENERAL | 482.1 | 503.0 | 503.0 | 515.2 | 503.0 |
| PAYROLL | 645.9 | 810.6 | 810.6 | 819.7 | 810.6 |
| G.O. PRORATED EXP. | 42.5 | 224.4 | 224.4 | 383.7 | 181.9 |
| DEPRECIATION & AMORTIZATION | 148.6 | 149.2 | 149.2 | 152.0 | 149.2 |
| TAXES OTHER THAN INCOME | 54.3 | 53.2 | 53.2 | 55.9 | 60.8 |
| STATE CORP. FRAN. TAX | 13.1 | 13.1 | 13.1 | 11.4 | 12.5 |
| FEDERAL INCOME TAX | 60.0 | 60.0 | 60.0 | 51.7 | 51.7 |
| TOTAL OPERATING EXPENSES | 2,316.5 | 2,860.8 | 2,860.7 | 2,891.3 | 2,816.8 |
| NET OPERATING REVENUE | 116.1 | 184.1 | 184.2 | 158.8 | 184.2 |
| RATE BASE | 1,913.0 | 2,291.1 | 2,291.1 | 2,032.8 | 2,291.4 |
| RATE OF RETURN | 6.07% | 8.04% | 8.04% | 7.81% | 8.04% |

California American Water
 AVERAGE NUMBER OF CUSTOMERS
 Monterey Wastewater
 2009

| ITEM | STAFF | | UTILITY | | <u>ADOPTED</u> |
|---|--------------|--------------|--------------|--------------|----------------|
| | ORIGINAL | REVISED | REVISED | ORIGINAL | |
| <u>Metered Connections</u> | | | | | |
| Village Greens, White Oaks, All Other Areas | 1,647 | 1,704 | 1,704 | 1,647 | 1,704 |
| Oak Hills | 459 | 459 | 459 | 459 | 459 |
| Spreckels | 243 | 243 | 243 | 243 | 243 |
| Indian Springs | 177 | 177 | 177 | 177 | 177 |
| Total connection | 2,526 | 2,583 | 2,583 | 2,526 | 2,583 |
| <u>Fire Protection Connections</u> | | | | | |
| | 0 | 0 | 0 | 0 | 0 |
| | 0 | 0 | 0 | 0 | 0 |
| | 0 | 0 | 0 | 0 | 0 |
| Total flat rate connections | 0 | 0 | 0 | 0 | 0 |
| <u>TOTAL ACTIVE CONNECTIONS</u> | 2,526 | 2,583 | 2,583 | 2,526 | 2,583 |

California American Water
Monterey Wastewater

OPERATING REVENUES

2009

(AT PRESENT RATES)

| ITEM | STAFF | | UTILITY | | <u>ADOPTED</u> |
|--|-------------------|---------|-------------------|----------|----------------|
| | ORIGINAL | REVISED | REVISED | ORIGINAL | |
| | (Thousands of \$) | | (Thousands of \$) | | |
| <u>METERED REVENUES</u> | | | | | |
| Village Greens, White Oaks, All Other Areas(1) | 1,223.3 | 1,262.0 | 1,262.0 | 1,223.3 | 1,262.0 |
| Oak Hills | 219.9 | 219.9 | 219.9 | 219.9 | 219.9 |
| Spreckels | 114.7 | 114.7 | 114.7 | 114.7 | 114.7 |
| Indian Springs | 104.5 | 104.5 | 104.5 | 104.5 | 104.5 |
| TOTAL | 1,662.4 | 1,701.1 | 1,701.1 | 1,662.4 | 1,701.1 |
| <u>OTHER REVENUES</u> | | | | | |
| TOTAL OTHER | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| TOTAL REVENUES | 1,662.4 | 1,701.1 | 1,701.1 | 1,662.4 | 1,701.1 |

(1) Includes Las Palmas, Carmel Valley & Laguna Seca.

California American Water
Monterey Wastewater

OPERATING REVENUES

2009

(AT PROPOSED RATES)

| ITEM | STAFF | | UTILITY | | <u>ADOPTED</u> |
|-----------------------------|-------------------|---------|-------------------|----------|----------------|
| | ORIGINAL | REVISED | REVISED | ORIGINAL | |
| | (Thousands of \$) | | (Thousands of \$) | | |
| <u>METERED REVENUES</u> | | | | | |
| Village Greens, White Oaks, | 2,032.7 | 2,029.2 | 2,029.2 | 2,032.7 | 1,999.9 |
| Oak Hills | 517.8 | 516.9 | 516.9 | 517.8 | 509.4 |
| Spreckels | 300.0 | 299.5 | 299.5 | 300.0 | 295.2 |
| Indian Springs | 199.7 | 199.3 | 199.3 | 199.7 | 196.4 |
| TOTAL | 3,050.1 | 3,044.9 | 3,044.9 | 3,050.1 | 3,001.0 |
| <u>OTHER REVENUES</u> | | | | | |
| TOTAL OTHER | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| TOTAL REVENUES | 3,050.1 | 3,044.9 | 3,044.9 | 3,050.1 | 3,001.0 |

California American Water
Monterey Wastewater

OPERATION & MAINTENANCE EXPENSES

2009

| ITEM | STAFF | | UTILITY | | ADOPTED |
|--------------------------------------|-------------------|---------|-------------------|----------|---------|
| | ORIGINAL | REVISED | REVISED | ORIGINAL | |
| | (Thousands of \$) | | (Thousands of \$) | | |
| <u>AT PRESENT RATES</u> | | | | | |
| Operating Revenues | 1,662.4 | 1,701.1 | 1,701.1 | 1,662.4 | 1,701.1 |
| Uncollectible Rate | 0.2643% | 0.2643% | 0.2643% | 0.2643% | 0.2643% |
| Uncollectibles | 4.4 | 4.5 | 4.5 | 4.4 | 4.5 |
| <u>Operation Expense</u> | | | | | |
| Source of Supply Expense | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Source of Supply - Miscellaneous | 39.4 | 39.4 | 39.4 | 52.2 | 39.4 |
| Pumping Expense - Electric | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Pumping Expense - Miscellaneous | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 |
| Purchased Power | 146.3 | 146.3 | 146.3 | 146.3 | 146.3 |
| Water Treatment | 4.0 | 4.0 | 4.0 | 3.9 | 4.0 |
| Water Treatment - Miscellaneous | 186.5 | 186.5 | 186.5 | 234.7 | 186.5 |
| Chemicals | 182.4 | 182.4 | 182.4 | 192.6 | 182.4 |
| Trans. & Dist. - Meters | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Trans. & Dist. - Storage | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Trans. & Dist. - Misc. | 69.0 | 220.7 | 220.7 | 5.6 | 220.7 |
| Customer Accts. - Meter Reading | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Customer Accts. - Misc. | 4.9 | 4.9 | 4.9 | 9.0 | 4.9 |
| Customer Accounts - Uncollectibles | 4.4 | 4.5 | 4.5 | 4.4 | 4.5 |
| Total Operation Expenses | 638.4 | 790.1 | 790.1 | 650.0 | 790.1 |
| <u>Maintenance Expenses</u> | | | | | |
| Source of Supply - Structures | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Source of Supply - Collection | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Source of Supply - Wells | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Source of Supply - Misc | 35.3 | 48.7 | 48.7 | 55.3 | 48.7 |
| Pumping - Structures | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pumping - Pumping Equipment | 3.1 | 3.1 | 3.1 | 2.9 | 3.1 |
| Water Treatment - Structures | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Water Treatment - Eqpt | 185.2 | 193.7 | 193.7 | 181.4 | 193.7 |
| T & D Mains | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| T & D Plant\ | 4.2 | 8.0 | 8.0 | 8.2 | 8.0 |
| T & D Hydrants | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| T & D Miscellaneous | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Maintenance Expense | 227.9 | 253.6 | 253.6 | 247.9 | 253.7 |
| Total O & M Expenses (incl. Uncoll.) | 866.2 | 1,043.8 | 1,043.8 | 898.0 | 1,043.8 |
| <u>AT PROPOSED RATES</u> | | | | | |
| Operating Revenues | 3,050.1 | 3,044.9 | 3,044.9 | 3,050.1 | 3,001.0 |
| Uncollectible Rate | 0.2643% | 0.2643% | 0.2643% | 0.2643% | 0.2643% |
| Uncollectibles | 8.1 | 8.0 | 8.0 | 8.1 | 7.9 |
| Total O & M Expenses (incl. Uncoll.) | 869.9 | 1,047.3 | 1,047.2 | 901.7 | 1,047.2 |

California American Water
Monterey Wastewater

ADMINISTRATIVE & GENERAL EXPENSES

2009

| ITEM | STAFF | | UTILITY | | ADOPTED |
|---|-------------------|---------|-------------------|----------|---------|
| | ORIGINAL | REVISED | REVISED | ORIGINAL | |
| | (Thousands of \$) | | (Thousands of \$) | | |
| <u>AT PRESENT RATES</u> | | | | | |
| Operating Revenues less Uncoll. | 1,658.0 | 1,696.6 | 1,696.6 | 1,658.0 | 1,701.1 |
| Local Franchise Tax Rate | 0.0000% | 0.0000% | 0.0000% | 0.0000% | 0.0000% |
| Local Franchise Tax | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Office Supplies | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |
| Property Insurance | 8.8 | 8.8 | 8.8 | 8.8 | 8.8 |
| Worker's Comp., Injuries & Damages | 49.0 | 49.0 | 49.0 | 49.0 | 49.0 |
| Employee Pension & Benefits | 218.7 | 229.1 | 229.1 | 228.1 | 229.1 |
| Regulatory Expense | 28.7 | 28.7 | 28.7 | 28.7 | 28.7 |
| Outside Services | 1.3 | 1.3 | 1.3 | 3.9 | 1.3 |
| Miscellaneous General Expenses | 165.4 | 175.9 | 175.9 | 186.4 | 175.9 |
| Alloc Gen Office Expense | 42.5 | 224.4 | 224.4 | 383.7 | 181.9 |
| Other Mtn of General Plant | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |
| Rents | 9.1 | 9.1 | 9.1 | 8.9 | 9.1 |
| Total A & G Expenses (Incl. local Franchise Taxes) | 524.6 | 727.4 | 727.4 | 898.8 | 684.9 |
| PAYROLL | 645.9 | 810.6 | 810.6 | 819.7 | 810.6 |
| <u>AT PROPOSED RATES</u> | | | | | |
| Operating Revenues less Uncoll. | 3,042.1 | 3,036.9 | 3,036.9 | 3,042.0 | 3,001.0 |
| Local Franchise Tax Rate | 0.0000% | 0.0000% | 0.0000% | 0.0000% | 0.0000% |
| Local Franchise Tax | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

California American Water
Monterey Wastewater

TAXES OTHER THAN INCOME

2009

| ITEM | STAFF | | UTILITY | | <u>ADOPTED</u> |
|---|-------------------|---------|-------------------|----------|----------------|
| | ORIGINAL | REVISED | REVISED | ORIGINAL | |
| | (Thousands of \$) | | (Thousands of \$) | | |
| Ad Valorem taxes | 10.5 | 9.8 | 9.8 | 12.1 | 9.8 |
| Loc Fran Taxes (pres rates) | 7.6 | 7.6 | 7.6 | 7.6 | 7.6 |
| Loc Fran Taxes (prop rates) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Payroll taxes | 43.8 | 43.4 | 43.4 | 43.8 | 43.4 |
| Business License (pres rates) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Business License (prop rates) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Taxes other than Income (present rates) | 61.9 | 60.8 | 60.8 | 63.5 | 60.8 |
| Taxes other than Income (proposed rates) | 61.9 | 60.8 | 60.8 | 63.5 | 60.8 |
| State Tax Depreciation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Deferred Taxes | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| State Tax Deduct (pres rates) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| State Tax Deduct (prop rates) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Federal Tax Depreciation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| State Income Tax | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Transp. Dep. Adj. | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pre. Stock Div. Credit | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Fed. Tax Deduct. (pres rates) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Fed. Tax Deduct. (prop rates) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

California American Water
Monterey Wastewater

TAXES BASED ON INCOME

2009

(PRESENT RATES)

| | STAFF | | UTILITY | | <u>ADOPTED</u> |
|---------------------------------------|-------------------|-----------|-------------------|-----------|----------------|
| | ORIGINAL | REVISED | REVISED | ORIGINAL | |
| | (Thousands of \$) | | (Thousands of \$) | | |
| Operating Revenues | 1,662.4 | 1,701.1 | 1,701.1 | 1,662.4 | 1,701.1 |
| Revenues from Contributions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Deductions: | | | | | |
| O & M expenses | 893.6 | 1,043.8 | 1,043.8 | 893.6 | 1,043.8 |
| A & G Expenses | 482.1 | 503.0 | 503.0 | 515.1 | 503.0 |
| G. O. Prorated Expenses | 42.5 | 224.4 | 224.4 | 383.7 | 181.9 |
| Payroll | 645.9 | 810.6 | 810.6 | 819.7 | 810.6 |
| Taxes not on Inc. | 63.5 | 60.8 | 60.8 | 63.5 | 60.8 |
| Interest | 76.4 | 86.1 | 86.1 | 76.4 | 86.2 |
| Book Depreciation | 152.0 | 149.2 | 149.2 | 152.0 | 149.2 |
| Income before taxes | (693.6) | (1,176.8) | (1,176.8) | (1,241.6) | (1,134.3) |
| <u>California Corp. Franchise Tax</u> | | | | | |
| State Tax Depreciation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Taxable Income for CCFT | (693.6) | (1,176.8) | (1,176.8) | (1,241.6) | (1,134.3) |
| CCFT Rate | 7.69% | 7.69% | 7.69% | 7.69% | 7.69% |
| CCFT | (53.3) | (90.5) | (90.5) | (95.5) | (87.2) |
| Less Deferred Taxes | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total State Income Taxes | (53.3) | (90.5) | (90.5) | (95.5) | (87.2) |
| <u>Federal Income Tax</u> | | | | | |
| Federal Tax Deductions | 0.0 | 90.5 | 90.5 | 0.0 | 0.0 |
| Taxable income for FIT | (1,188.3) | (1,128.4) | (1,128.4) | (1,188.3) | (1,188.3) |
| FIT Rate | 35.00% | 35.00% | 35.00% | 35.00% | 0.4 |
| FIT | (415.9) | (394.9) | (394.9) | (415.9) | (415.9) |
| Less: | | | | | |
| Investment Tax Credit | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Amortization of Reg. Assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Deferred Taxes - U.P.A.A. | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Amort of Excess Deferred Taxes | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Federal Income Tax | (415.9) | (394.9) | (394.9) | (415.9) | (415.9) |
| Total FIT and CCFT | (469.2) | (485.4) | (485.4) | (511.4) | (503.1) |

California American Water
Monterey Wastewater

TAXES BASED ON INCOME

2009

(PROPOSED RATES)

| | STAFF | | UTILITY | | <u>ADOPTED</u> |
|---------------------------------------|-------------------|---------|-------------------|----------|----------------|
| | ORIGINAL | REVISED | REVISED | ORIGINAL | |
| | (Thousands of \$) | | (Thousands of \$) | | |
| Operating Revenues | 3,044.9 | 3,044.9 | 3,044.9 | 3,050.0 | 3,001.0 |
| Revenues from Contributions | | 0.0 | | | |
| Deductions: | | | | | |
| O & M expenses | 1,043.8 | 1,043.8 | 1,043.8 | 901.7 | 1,047.2 |
| A & G Expenses | 503.0 | 503.0 | 503.0 | 515.1 | 503.0 |
| G. O. Prorated Expenses | 224.4 | 224.4 | 224.4 | 383.7 | 181.9 |
| Payroll | 810.6 | 810.6 | 810.6 | 819.7 | 810.6 |
| Taxes not on Inc. | 53.2 | 53.2 | 53.2 | 55.8 | 60.8 |
| Interest | 90.3 | 90.3 | 90.3 | 74.0 | 86.2 |
| Book Depreciation | 149.2 | 149.2 | 149.2 | 152.0 | 149.2 |
| Income before taxes | 170.5 | 170.5 | 170.5 | 148.0 | 162.3 |
| <u>California Corp. Franchise Tax</u> | | | | | |
| State Tax Depreciation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Taxable Income for CCFT | 170.5 | 170.5 | 170.5 | 148.0 | 162.3 |
| CCFT Rate | 7.69% | 7.69% | 7.69% | 7.69% | 7.69% |
| CCFT | 13.1 | 13.1 | 13.1 | 11.4 | 12.5 |
| Less Deferred Taxes | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total State Income Taxes | 13.1 | 13.1 | 13.1 | 11.4 | 12.5 |
| <u>Federal Income Tax</u> | | | | | |
| Federal Tax Deductions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Taxable income for FIT | 171.5 | 171.5 | 171.5 | 147.8 | 147.8 |
| FIT Rate | 35.00% | 35.00% | 35.00% | 35.00% | 35.00% |
| FIT | 60.0 | 60.0 | 60.0 | 51.7 | 51.7 |
| Less: | | | | | |
| Investment Tax Credit | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Amortization of Reg. Assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Deferred Taxes - U.P.A.A. | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Amort of Excess Deferred Taxes | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Federal Income Tax | 60.0 | 60.0 | 60.0 | 51.7 | 51.7 |
| Total FIT and CCFT | 73.1 | 73.1 | 73.1 | 63.1 | 64.2 |

California American Water
Monterey Wastewater

PLANT IN SERVICE

2009

| ITEM | STAFF | | UTILITY | | <u>ADOPTED</u> |
|----------------------------|-------------------|----------|-------------------|----------|----------------|
| | ORIGINAL | REVISED | REVISED | ORIGINAL | |
| | (Thousands of \$) | | (Thousands of \$) | | |
| Plant in Service - BOY | 15,029.4 | 15,429.1 | 15,429.1 | 15,049.1 | 15,429.1 |
| <u>Additions</u> | | | | | |
| Gross Additions | 1,124.7 | 1,124.7 | 1,124.7 | 1,501.9 | 1,124.7 |
| Retirements of Plant | 0.4 | 0.4 | 0.4 | 3.6 | 0.4 |
| Net Additions | 1,125.2 | 1,125.2 | 1,125.2 | 1,505.5 | 1,125.1 |
| CWIP - BOY | 343.7 | 343.7 | 343.7 | 343.7 | 343.7 |
| CWIP - EOY | 387.5 | 387.5 | 387.5 | 387.5 | 387.5 |
| Net Change - CWIP | 43.7 | 43.7 | 43.7 | 43.8 | 43.8 |
| Plant in Service - EOY | 16,154.6 | 16,554.3 | 16,554.3 | 16,554.6 | 16,554.2 |
| WEIGHTING FACTOR | 27.74% | 27.74% | 27.74% | 27.74% | 27.74% |
| WTD. AVG. PLANT IN SERVICE | 15,697.4 | 16,097.1 | 16,097.1 | 15,822.6 | 16,097.1 |

California American Water
Monterey Wastewater

PLANT IN SERVICE

2010

| ITEM | STAFF | | UTILITY | | <u>ADOPTED</u> |
|----------------------------|-------------------|----------|-------------------|----------|----------------|
| | ORIGINAL | REVISED | REVISED | ORIGINAL | |
| | (Thousands of \$) | | (Thousands of \$) | | |
| Plant in Service - BOY | 16,153.7 | 16,553.4 | 16,553.4 | 16,547.3 | 16,554.2 |
| <u>Additions</u> | | | | | |
| Gross Additions | 33.7 | 33.7 | 33.7 | 1,525.2 | 33.7 |
| Retirements of Plant | 0.4 | 0.4 | 0.4 | 3.3 | 0.4 |
| Net Additions | 34.2 | 34.2 | 34.2 | 1,528.5 | 34.1 |
| CWIP - BOY | 387.5 | 387.5 | 387.5 | 387.5 | 387.5 |
| CWIP - EOY | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Change in CWIP | (387.5) | (387.5) | -387.5 | 0.0 | 0.0 |
| Plant in Service - EOY | 16,187.9 | 16,587.6 | 16,587.6 | 18,075.8 | 16,588.3 |
| WEIGHTING FACTOR | 27.74% | 27.74% | 27.74% | 27.74% | 27.74% |
| WTD. AVG. PLANT IN SERVICE | 16,443.2 | 16,842.9 | 16,842.9 | 17,251.3 | 16,843.7 |

California American Water
Monterey Wastewater

DEPRECIATION RESERVE & EXPENSE

2009

| | STAFF | | UTILITY | | <u>ADOPTED</u> |
|--------------------------------|-------------------|--------------|-------------------|--------------|----------------|
| | ORIGINAL | REVISED | REVISED | ORIGINAL | |
| | (Thousands of \$) | | (Thousands of \$) | | |
| DEPRECIATION RESERVE - B.O.Y. | 6,321.9 | 6,375.6 | 6,375.6 | 6,322.4 | 6,375.6 |
| ACCRUALS | | | | | |
| Salvage and Cost of Removal | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Contributions | 232.9 | 232.9 | 232.9 | 232.9 | 232.9 |
| Depreciation Expense | 148.6 | 149.2 | 149.2 | 152.0 | 149.2 |
| Misc Plant Adjustment | 15.2 | 15.2 | 15.2 | 15.2 | 15.2 |
| TOTAL ACCRUALS | <u>396.7</u> | <u>397.3</u> | <u>397.3</u> | <u>400.1</u> | <u>397.3</u> |
| RETIREMENTS | <u>0.4</u> | <u>0.4</u> | <u>0.4</u> | <u>3.6</u> | <u>0.4</u> |
| DEPRECIATION RESERVE - E.O.Y. | 6,719.0 | 6,773.3 | 6,773.3 | 6,726.1 | 6,773.3 |
| WEIGHTING FACTOR | 31.46% | 31.46% | 31.46% | 31.46% | 31.46% |
| WTD. AVG. DEPRECIATION RESERVE | 6,446.8 | 6,500.7 | 6,500.7 | 6,449.4 | 6,500.7 |

California American Water
Monterey Wastewater

DEPRECIATION RESERVE & EXPENSE

2010

| | STAFF | | UTILITY | | <u>ADOPTED</u> |
|--------------------------------|-------------------|--------------|-------------------|--------------|----------------|
| | ORIGINAL | REVISED | REVISED | ORIGINAL | |
| | (Thousands of \$) | | (Thousands of \$) | | |
| DEPRECIATION RESERVE - B.O.Y. | 6,703.0 | 6,772.4 | 6,772.4 | 6,703.8 | 6,773.3 |
| ACCRUALS | | | | | |
| Salvage and cost of Removal | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Contributions | 232.9 | 232.9 | 232.9 | 232.9 | 232.9 |
| Depreciation Expense | 171.3 | 171.9 | 171.9 | 193.6 | 171.9 |
| Misc Plant Adjustment | 15.2 | 15.2 | 15.2 | 15.2 | 15.2 |
| TOTAL ACCRUALS | <u>419.4</u> | <u>420.0</u> | <u>420.0</u> | <u>441.7</u> | <u>420.0</u> |
| RETIREMENTS | <u>0.4</u> | <u>0.4</u> | <u>0.4</u> | <u>3.3</u> | <u>0.4</u> |
| DEPRECIATION RESERVE - E.O.Y. | 7,122.8 | 7,192.8 | 7,192.8 | 7,148.8 | 7,193.7 |
| WEIGHTING FACTOR | 31.46% | 31.46% | 31.46% | 31.46% | 31.46% |
| WTD. AVG. DEPRECIATION RESERVE | 6,835.1 | 6,904.7 | 6,904.7 | 6,843.8 | 6,905.6 |

CALIFORNIA-AMERICAN WATER
Monterey Wastewater

WEIGHTED AVERAGE DEPRECIATED RATE BASE

2009

| ITEM | STAFF | | UTILITY | | <u>ADOPTED</u> |
|---------------------------------|-------------------|--------------|-------------------|--------------|----------------|
| | ORIGINAL | REVISED | REVISED | ORIGINAL | |
| | (Thousands of \$) | | (Thousands of \$) | | |
| WTD AVG PLANT IN SERVICE | 15,697.2 | 16,096.8 | 16,096.8 | 15,820.5 | 16,097.1 |
| MATERIALS & SUPPLIES | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| WORKING CASH, OPERATIONAL | 8.7 | 8.7 | 8.7 | 8.7 | 8.7 |
| WORKING CASH, LEAD-LAG | (253.8) | (216.5) | (216.5) | (253.8) | (216.5) |
| WTD AVG DEPR RESERVE | (6,442.1) | (6,500.7) | (6,500.7) | (6,444.7) | (6,500.7) |
| ADVANCES | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| CONTRIBUTIONS | (7,063.9) | (7,063.9) | (7,063.9) | (7,063.9) | (7,063.9) |
| ACCUM. DEFERRED FIT | (50.8) | (51.0) | (51.0) | (51.6) | (51.0) |
| ACCUM. DEFERRED SIT | (11.2) | (11.2) | (11.2) | (11.3) | (11.2) |
| GENERAL OFFICE ALLOC. | 28.9 | 28.9 | 28.9 | 28.9 | 28.9 |
| ACRS & MACRS DEPRECIATION | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| UNAMORTIZED ITC | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| TAXES ON - ADVANCES | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| TAXES ON - CIAC | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| AVERAGE RATE BASE | 1,913.0 | 2,291.1 | 2,291.1 | 2,032.8 | 2,291.4 |
| INTEREST CALCULATION: | | | | | |
| AVG RATE BASE | 1,913.0 | 2,291.1 | 2,291.1 | 2,032.8 | 2,291.4 |
| LESS WORKING CASH X LTD COST | 3.76% | 3.76% | 3.76% | 3.76% | 3.76% |
| INTEREST | 71.9 | 86.1 | 86.1 | 76.4 | 86.2 |

CALIFORNIA-AMERICAN WATER
Monterey Wastewater

WEIGHTED AVERAGE DEPRECIATED RATE BASE

2010

| ITEM | STAFF | | UTILITY | | <u>ADOPTED</u> |
|---------------------------------|-------------------|--------------|-------------------|--------------|----------------|
| | ORIGINAL | REVISED | REVISED | ORIGINAL | |
| | (Thousands of \$) | | (Thousands of \$) | | |
| WTD AVG PLANT IN SERVICE | 16,443.0 | 16,842.7 | 16,842.7 | 17,249.5 | 16,843.7 |
| MATERIALS & SUPPLIES | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| WORKING CASH, OPERATIONAL | 8.7 | 8.7 | 8.7 | 8.7 | 8.7 |
| WORKING CASH, LEAD-LAG | (233.9) | (203.3) | (203.3) | (233.9) | (203.3) |
| WTD AVG DEPR RESERVE | (6,830.3) | (6,904.7) | (6,904.7) | (6,839.0) | (6,905.6) |
| ADVANCES | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| CONTRIBUTIONS | (6,831.0) | (6,831.0) | (6,831.0) | (6,831.0) | (6,831.0) |
| ACCUM. DEFERRED FIT | (66.0) | (66.3) | (66.3) | (71.0) | (66.3) |
| ACCUM. DEFERRED SIT | (14.5) | (14.6) | (14.6) | (15.6) | (14.6) |
| GENERAL OFFICE ALLOC. | 17.8 | 17.8 | 17.8 | 17.8 | 17.8 |
| ACRS & MACRS DEPRECIATION | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| UNAMORTIZED ITC | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| TAXES ON - ADVANCES | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| TAXES ON - CIAC | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| AVERAGE RATE BASE | 2,493.8 | 2,849.3 | 2,849.3 | 3,285.6 | 2,849.4 |
| INTEREST CALCULATION: | | | | | |
| AVG RATE BASE | 2,493.8 | 2,849.3 | 2,849.3 | 3,285.6 | 2,849.4 |
| LESS WORKING CASH X LTD COST | 3.76% | 3.76% | 3.76% | 3.76% | 3.76% |
| INTEREST | 93.7 | 107.1 | 107.1 | 123.5 | 107.1 |

APPENDIX C

CALIFORNIA AMERICAN WATER COMPANY

4701 Beloit Dr

SACRAMENTO, CALIFORNIA 95838

Revised

C.P.U.C. SHEET NO. _____

canceling

Original

C.P.U.C. SHEET NO. _____

SCHEDULE NO. S

SEWER SERVICE

APPLICABILITY

Applicable to all sewer service.

TERRITORY

Monterey County

RATES

Residential Service Charge:

Per Service Per Month

| | | |
|--|--------------|-----|
| Village Greens | \$ 48.22 | (R) |
| White Oaks | \$ 48.22 | (R) |
| All Other Areas | \$ 48.22 | (R) |
| <u>Commercial / Municipal Service Charge:</u> | | |
| Hotel (144 EDUs) | \$ 15,465.60 | (I) |
| School (5 EDUs)..... | \$ 537.00 | (I) |
| Small Office Park (6 EDUs)..... | \$ 644.40 | (I) |
| Golf Course (4 EDUs) | \$ 429.60 | (I) |

SPECIAL CONDITIONS

1. All bills are subject to the Public Utilities Commission Reimbursement Fee set forth on Schedule No. UF.

(D)

(TO BE INSERTED BY UTILITY)

ISSUED BY

(TO BE INSERTED BY C.P.U.C.)

ADVICE LETTER NO. _____

D. P. STEPHENSON

DATE FILED _____

NAME

EFFECTIVE _____

DECISION NO. _____

MGR - RATES & REGULATION

RESOLUTION NO. _____

TITLE

CALIFORNIA AMERICAN WATER COMPANY

4701 Beloit Dr

SACRAMENTO, CALIFORNIA 95838

Revised

C.P.U.C. SHEET NO. _____

canceling

Original

C.P.U.C. SHEET NO. _____

Schedule SP

SEWER SERVICE

APPLICABILITY

Applicable to all sewer service.

TERRITORY

Subdivisions of Oak Hills and Indian Springs, and the community of Spreckels, in the vicinity of Salinas, Monterey County.

RATES

| | | |
|--|--------------------------------|-----|
| <u>Oak Hills:</u> | <u>Per Service Per Quarter</u> | |
| Service Charge for Residential and Small Commercial | \$ 144.66 | (I) |
| <u>Spreckels</u> | | |
| Service Charge for Residential and Small Commercial | \$ 144.66 | (I) |
| Service Charge for School | \$ 216.99 | (I) |
| Service Charge for Commercial with 4 or more Employees | \$ 289.32 | (I) |
| Service Charge for Industrial | \$ 867.96 | (I) |
| <u>Indian Springs</u> | | |
| | <u>Per Service Per Month</u> | |
| Service Charge for Residential and Small Commercial | \$ 107.40 | (I) |

SPECIAL CONDITIONS

1. All bills are subject to the Public Utilities Commission Reimbursement Fee set forth on Schedule No. UF.
2. Spreckels customers may remit quarterly bills in three equal installments on the first day of the month.

(D)

(TO BE INSERTED BY UTILITY)

ISSUED BY

(TO BE INSERTED BY C.P.U.C.)

ADVICE LETTER NO. _____

D. P. STEPHENSON

DATE FILED _____

NAME

EFFECTIVE _____

DECISION NO. _____

MGR - RATES & REGULATION

RESOLUTION NO. _____

TITLE

CALIFORNIA AMERICAN WATER COMPANY

4701 Beloit Dr

SACRAMENTO, CALIFORNIA 95838

Revised

C.P.U.C. SHEET NO. _____

canceling

Original

C.P.U.C. SHEET NO. _____

Schedule No. UF

**SURCHARGE TO FUND
PUBLIC UTILITIES COMMISSION**

REIMBURSEMENT FEE

APPLICABILITY

This surcharge applies to all sewer bills rendered under all tariff rate schedules authorized by the Commission.

TERRITORY

This schedule is applicable within the entire territory served by the utility.

RATES

A 1.5% surcharge shall be added to all customer bills*.

(l)

*In 1982, the Legislature established the Public Utilities Commission Reimbursement Fee to be paid by utilities to fund their regulation by the Commission (Public Utilities Code Section 401-443). The surcharge to recover the cost of that fee is ordered by the Commission under authority granted by the Public Utilities Code Section 433.

(TO BE INSERTED BY UTILITY)

ISSUED BY

(TO BE INSERTED BY C.P.U.C.)

ADVICE LETTER NO. _____

D. P. STEPHENSON

DATE FILED _____

NAME

EFFECTIVE _____

DECISION NO. _____

MGR - RATES & REGULATION

RESOLUTION NO. _____

TITLE