

ATTACHMENT D

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

In the matter of the application of CALIFORNIA WATER SERVICE COMPANY, (U-60-W), a California corporation, for an order 1) authorizing it to increase rates for water service by \$70,592,000 or 16.75% in test year 2011, 2) authorizing it to increase rates on January 1, 2012 by \$24,777,000 or 5.04% and January 1, 2013 by \$24,777,000 or 4.79% in accordance with the Rate Case Plan, and 3) adopting other related rulings and relief necessary to implement the Commission's ratemaking policies.

Application 09-07-001
(Filed July 2, 2009)

**SETTLEMENT OF THE DIVISION OF RATEPAYER ADVOCATES AND
CALIFORNIA WATER SERVICE COMPANY (U 60 W) OF SPECIAL
REQUEST #12: CONTINUATION AND ENHANCEMENT OF RATE
SUPPORT FUND**

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September 1, 2010

I. GENERAL

The Parties to this Settlement before the California Public Utilities Commission (“Commission”) are California Water Service Company (“Cal Water”) and the Division of Ratepayer Advocates (“DRA”). Since this Settlement represents a compromise by them, the Parties have entered into the Settlement on the basis that any Party regarding any fact or matter of law in dispute in this proceeding not construe its approval by the Commission as an admission or concession. Furthermore, pursuant to the Commission’s Rules of Practice and Procedure, Rule 12.5, the Parties intend that the approval of this Settlement by the Commission not be construed as a precedent or statement of policy of any kind except as it relates to the current and future proceedings addressed in the Settlement.

II. SPECIAL REQUEST #12 – CONTINUATION AND ENHANCEMENT OF RATE SUPPORT FUND

ISSUE: Cal Water requested increasing the amount of the Rate Support Fund (“RSF”) surcredit in each of the five ratemaking areas. DRA recommended Cal Water continue the RSF balancing account and subsidy program, while maintaining the same volumetric surcharge of \$0.009/Ccf.

SETTLEMENT: The Parties agree not to change the principles of the joint RSF Settlement adopted by the Commission in Ordering Paragraph 1 of A.05-08-006.

The Parties agree to continue the rate support fund in the rate areas designated in D.06-08-011 (“RSF rate areas”) for the duration of this general rate case cycle. The Parties agree that an overview of the district income levels, usage levels, rate base per customer, availability of public loan funds, and average bills in each district indicates that these factors have not changed enough to warrant changing the rate areas receiving rate support fund subsidies adopted in D.06-08-011. For this reason, the Parties agree not to alter the RSF rate areas included in the program for the duration of this rate case cycle.

As specified in the settlement adopted in D.06-08-011, item 7, Cal Water agrees to provide a summary report on RSF benefits provided and surcharges collected in the next GRC for the RSF rate areas. Cal Water further agrees to:

- 1) provide this information separate from any other accounts, such as the Low Income Rate Assistance account, and
- 2) provide updated information for each district, on income levels, usage levels, rate base per customer, availability of public loan funds and average bills in each rate area and provide its assessment, based on this information, of whether any additional rate areas should receive subsidies from the RSF program, or if any current RSF rate areas should no longer receive RSF subsidies.

Parties agree to modify the surcredits to maintain support proportional to that adopted in D.06-08-011. This proportionality will be implemented by increasing support by the same percentage as rates increase in the 2011 test year in this proceeding for the RSF rate areas. For the Coast Springs and Lucerne rate areas, which added State Revolving Fund surcharges since the last General Rate Case, the State Revolving Fund surcharge payments will not be included in the revenue requirement percentage increase used to calculate the increased RSF surcredit. For the Coast Springs rate area, since there is a rate phase-in of 50% in the test year and 21.35% in the first escalation year, the RSF subsidy will increase by 50% to \$9.07 in Test Year 2011 and \$10.37 in escalation year 2012. Similarly, since the Kern River Valley District revenue requirement increase will be phased-in 12.75% in the test year and 12.75% in the first escalation year, the Kern RSF subsidy will increase in two equal steps from \$20 to \$22.50 in Test Year 2011 and from \$22.50 to \$25.00 in escalation year 2012.

To clarify, the Parties agree that the test year revenue requirement increases 71% in the Coast Springs service area (though some is deferred under the CAPS procedure). Coast Springs customers should receive the deferred RSF credit (the difference between \$9.07 and \$10.37 per Ccf¹) as an offset to the deferred revenue collection. The Parties do not believe the carrying costs on the deferred funds will be significant, and do not agree that additional RSF support is warranted on those amounts. The Parties further note that

¹ \$1.30 multiplied by 2.5 (average Ccf per month) multiplied by 12 months is \$39.

this procedure should apply as well to the Kern River Valley service area, where rates and RSF surcredits are also being phased-in².

Each of the RSF rate areas is subject to transitional interim rates for the period from July 1, 2009 through January 1, 2011. Therefore, the Parties also agree to apply proportional RSF rate support to these interim periods. This support will be provided to customers so that the amount of the credit from the RSF is equivalent to what it would have been if the customers had not had interim rates. The interim rate true-up credit from the RSF would be on the quantity rate for those RSF districts with a quantity rate subsidy and on the service charge for those RSF districts with a service charge subsidy.

The Parties agree that to fund increased support, including allocation to transitional interim rates, Cal Water will use a combination of funding from any excess balance in the RSF account, which was \$1,093,934 as of April 30, 2010, and from raising the RSF surcharge from \$.009 per Ccf to \$0.01 per Ccf for metered customers. For flat rate residential customers, the updated surcharges will be as shown in the following table.

District	Monthly surcharge
Bakersfield	0.40
Chico	0.31
Marysville	0.21
Oroville	0.15
Selma	0.38
Visalia	0.24
Willows	0.30

Parties anticipate that at the revenue requirements developed for this Settlement, support would change as follows:

	Current Support	Proposed Support

² The offsetting RSF credit should be \$2.50 multiplied by 12 months, or \$30.

Kern River Valley	\$ 20.00	\$ 25.00†
Fremont Valley	\$ 8.50	\$ 12.10
Lucerne	\$ 17.00	\$ 24.00
Coast Springs	\$ 6.05 /ccf	\$ 10.37* /ccf
Redwood Unified	\$ 1.76 /ccf	\$ 2.31 /ccf

†Kern River Valley support will be \$22.50 for test year 2011. The amount shown in the table would go into effect in escalation year 2012.

*Coast Springs support will be \$9.07 per Ccf for Test Year 2011. The amount shown in the table would go into effect in escalation year 2012.

If the Commission adopts revenue requirements for these areas different from those in the Settlement in this GRC proceeding, the Parties recommend the proposed support amounts change in proportion to the adopted revenue requirement changes.

The Parties anticipate the effect on the RSF balancing account to be the following:

RSF Account Reconciliation	
	\$
Current balance (4/30/10)	1,093,934
Applied to interim rates	\$ 195,117
Remaining balance	\$ 898,817
Amortize excess balance over 3 years	\$ 299,606
	\$
Expected Surcharge Revenue	1,617,392
	\$
Expected cost of updated program	1,856,072
Annual deficit	\$ (238,681)
Expected balance at 12/31/13	\$ 182,775

The Parties agree that Cal Water should reverse any administrative charges applied to the account and treat future administrative costs of the program as normal expense, meaning that the administrative charges will not be booked to the RSF account.

A. Low Income Ratepayer Assistance

ISSUE: In discussing the current update to the Rate Support Fund settlement, the Parties observed that the \$10 monthly cap in Low Income Ratepayer Assistance (“LIRA”) means that low-income support in the RSF districts is not increasing proportionally with rates. This is because monthly service charges exceed \$20 in all RSF supported areas (The LIRA program offers a 50% discount off the service charge for qualified individuals). One important component of the RSF was income levels in the communities, so the Parties believe it is important to consider increasing the monthly LIRA benefit cap.

SETTLEMENT: The Parties agree to increase the monthly LIRA benefit cap to \$12. This will increase benefits for LIRA customers in the RSF-supported areas as well as Oroville and Willows a 20% increase in benefit. Under the settlement terms, rates in each area increase by 20% or more, so no LIRA customer will receive a rate decrease as a result of this change.

Parties request the Commission order Cal Water to modify its Schedule LIRA to increase the maximum monthly credit to \$12.

B. Interaction Of RSF And Water Revenue Adjustment Mechanism/ (“WRAM”) Modified Cost Balancing Account (“MCBA”)

ISSUE: The Parties further recognize that the current interaction between the WRAM/MCBA and the RSF in the Redwood Unified and Coast Springs service areas of the Redwood Valley District does not ensure that both mechanisms are working as intended. RSF credits in those areas are volume-based, meaning that lower sales result in proportionally lower support. However, the adopted accounting for the WRAM records the full difference between revenue from adopted sales and revenue from recorded sales, not considering that differences in recorded sales also affect RSF surcredits. The effect of this is shown in the table below.

	2009 sales change	RSF credit per Ccf	"Unrealized " RSF credit	Net 2009 Combined WRAM/MCBA	% of balanc

	(Ccf)			balance	e
Redwood Unified	16,816	\$ 1.76	\$ 29,596	\$ 109,526	27.0%
Coast Springs	596	\$ 6.05	\$ 3,606	\$ 18,879	19.1%

SETTLEMENT: Therefore, the Parties agree that for the Redwood Unified and Coast Springs service area annual WRAM/MCBA reporting, due March 31, Cal Water will calculate the difference in rate support due to sales changes as a component of the WRAM balance. Cal Water will transfer funds between the Rate Support Fund balancing account and the WRAM balancing account to ensure that rate support remains proportional to revenue as intended in the settlement. This method will apply to under- and over-collections in the WRAM/MCBA net balance.

C. Rate Design in Coast Springs

In the course of settlement discussions, Parties noted that changes in costs since the last GRC had affected the percentage of fixed costs recovered through the service charge. If left in place, the current design would recover 44% of fixed costs through the service charge and 56% through the quantity rates. The Parties agree that Coast Springs rates should be set to recover 50% of fixed costs through the service charge, consistent with Commission practice.

III. EXECUTION OF THE AGREEMENT

Parties agree, without further consideration, to execute and/or cause to be executed, any other documents and to take any other action as may be necessary, to effectively consummate this Settlement Agreement. The Parties shall take no action in opposition to this Settlement.

The Parties agree that no signatory to this Settlement or any member of DRA assumes any personal liability as a result of their agreement. The Parties agree that no legal action may be brought by any Party in any state or federal court, or any other forum, against any individual signatory representing the interests of DRA, attorneys representing

DRA, or the DRA itself related to this Settlement. All rights and remedies of the Parties are limited to those available before the Commission.

The Settlement Agreement may be executed in any number of counterparts and by different Parties in separate counterparts, with the same effect as if all the Parties had signed one and the same document. All such counterparts shall be deemed to be an original and shall together constitute one and the same Settlement.

The undersigned acknowledge that they have been duly authorized to execute this Settlement on behalf of their respective principals and that such execution is made within the course and scope of their respective agency and/or employment.

IV. GOVERNING LAW

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

Respectfully submitted,

DIVISION OF RATEPAYER
ADVOCATES

CALIFORNIA WATER SERVICE CO.

JOE COMO

THOMAS F. SMEGAL

By: /s/ JOE COMO

By: /s/ THOMAS F. SMEGAL

Joe Como
Acting Director

Thomas F. Smegal, Vice President
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III. EXECUTION OF THE AGREEMENT

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The Parties agree that no signatory to this Settlement or any member of DRA assumes any personal liability as a result of their agreement. The Parties agree that no legal action may be brought by any Party in any state or federal court, or any other forum,

against any individual signatory representing the interests of DRA, attorneys representing DRA, or the DRA itself related to this Settlement. All rights and remedies of the Parties are limited to those available before the Commission.

The Settlement Agreement may be executed in any number of counterparts and by different Parties in separate counterparts, with the same effect as if all the Parties had signed one and the same document. All such counterparts shall be deemed to be an original and shall together constitute one and the same Settlement.

The undersigned acknowledge that they have been duly authorized to execute this Settlement on behalf of their respective principals and that such execution is made within the course and scope of their respective agency and/or employment.

IV. GOVERNING LAW

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

Respectfully submitted,

DIVISION OF RATEPAYER
ADVOCATES

JOE COMO

By: /s/ JOE COMO

Joe Como
Acting Director

California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

CALIFORNIA WATER SERVICE CO.

THOMAS F. SMEGAL

By: /s/ THOMAS F. SMEGAL

Thomas F. Smegal, Vice President
California Water Service Company
1720 North First Street
San Jose, California 95112

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of
**“JOINT MOTION OF THE DIVISION OF RATEPAYER ADVOCATES AND
CALIFORNIA WATER SERVICE COMPANY (U 60 W) TO APPROVE
REVISIONS REFLECTING CLARIFICATIONS AND ERRATA TO THE
PROPOSED JOINT SETTLEMENT OF SPECIAL REQUEST #12, FILED ON
SEPTEMBER 1, 2010”**

to the official service list in **A.09-07-001** by using the following service:

E-Mail Service: sending the entire document as an attachment to all known parties of record who provided electronic mail addresses.

U.S. Mail Service: mailing by first-class mail with postage prepaid to all known parties of record who did not provide electronic mail addresses.

Executed on **September 23, 2010** at San Francisco, California.

/s/ ALBERT HILL

Albert Hill

SERVICE LIST
A.09-07-001

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