

APPENDIX A

Memorandum of Understanding

WHEREAS, by Application ("A.") 09-07-011, filed July 8, 2009, California Water Service Company ("Cal Water") requested California Public Utilities Commission ("CPUC") authorization for allocating net proceeds from litigation pertaining to the contamination of groundwater by methyl tertiary-butyl ether ("MTBE"); and

WHEREAS, the Division of Ratepayer Advocates ("DRA") filed a timely protest of A.09-07-011 on August 13, 2009; and

WHEREAS, the Assigned Commissioner's Ruling and Scoping Memo, filed September 29, 2009, bifurcated A.09-07-011 into two phases; and

WHEREAS, on February 16, 2010, Cal Water and DRA (together, the "Parties") filed a joint motion for adoption of a Phase 1 Settlement Agreement, which provided for an amended MTBE Litigation Memorandum Account ("Memo Account"), to record for future disposition all proceeds, capital investments, and operating expenses associated with MTBE contamination; and

WHEREAS, on April 22, 2010, the CPUC adopted Decision ("D.") 10-04-037, by which the Commission adopted the Parties' settlement, providing for an amended Memo Account, quantifying the currently available MTBE contamination litigation settlement proceeds, leaving the proceeding open to address Phase 2 issues; and

WHEREAS, on October 14, 2010, the Commission adopted D.10-10-018, adopting policies to govern the accounting for ratemaking purposes of proceeds arising from contamination litigation ; and

WHEREAS, Cal Water and DRA agreed in their settlement in Cal Water's 2009 general rate case ("GRC") to remove from revenue requirement all plant investment associated with MTBE contamination and track the investments in the Memo Account, and the Commission adopted the GRC settlement by D.10-12-017, with the effect that ratepayers do not support these costs in their rates as of January 1, 2011.

WHEREAS, the Parties agree that Cal Water is in continuing litigation with several potentially responsible parties over MTBE contamination in its service areas; and

WHEREAS, the Parties agree that Cal Water has not completed all capital projects related to MTBE remediation;

NOW, THEREFORE,

1. The Parties conclude that it is premature at this time to determine the availability or magnitude of "net proceeds" from MTBE litigation undertaken by Cal Water as defined in D.10-10-018.
2. The Parties have previously agreed to amend the Memo Account, as approved by D.10-04-037 and established by Cal Water Advice Letter 1985. The Memo Account

records for future disposition all proceeds, capital investments, and operating expenses associated with MTBE contamination.

3. To the extent that capital expenditures are determined to be related to remediating or replacing MTBE contaminated plant or resources to bring the water supply to a safe and reliable condition in accordance with General Order 103-A standards, such capital expenditures shall be recorded on Cal Water's books as plant-in-service with an offsetting entry to Contribution in Aid of Construction ("CIAC").

4. In the next GRC, Cal Water shall offset operating and maintenance expenses associated with facilities remediating or replacing MTBE contaminated plant or resources on a prospective basis by any proceeds in a court order or settlement specifically earmarked to offset these expenses.

5. D.10-10-018 states that gross proceeds should be tracked in a memorandum account such as the Memo Account established earlier in this proceeding. In the event of an expenditure, the purpose of which is "remedying plants, facilities, and resources to bring the water supply to a safe and reliable condition in accordance with General Order 103-A standards," Cal Water will follow the rule in Ordering Paragraph 5 of D.10-10-018 and file a Tier 3 advice letter to move remediation costs to the appropriate account.

6. The Parties agree, consistent with D.10-10-018, that Cal Water should include any request for disposition of net proceeds in a GRC following its determination that litigation has concluded and that all replacement capital improvements have been completed.

7. The Parties further agree that it is appropriate to close A.09-07-011 without further proceedings.

CALIFORNIA WATER SERVICE
COMPANY

By: 
Thomas F. Sinegal, III
Vice President, Regulatory
Matters and Corporate Relations

THE DIVISION OF RATEPAYER
ADVOCATES

By: _____
Danilo E. Sanchez
Water Branch Program Manager
Division of Ratepayer Advocates

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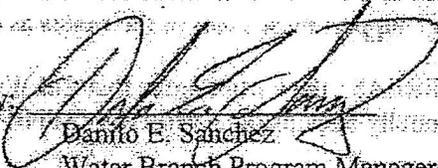
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(End of Appendix A)