

ATTACHMENT C
SETTLEMENT AGREEMENT

APPENDIX C

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of California Water Service Company (U 60 W), a Corporation, for an Order Authorizing It to Increase Rates Charged for Water Service in the Antelope Valley District.

Application 02-11-021

In the Matter of the Application of California Water Service Company (U 60 W), a Corporation, for an Order Authorizing It to Increase Rates Charged for Water Service in the Kern River Valley District.

Application 02-11-022

SETTLEMENT

1.00 GENERAL

1.01 The Parties to this Settlement before the California Public Utilities Commission ("Commission") are California Water Service Company ("Cal Water"), the Office of Ratepayer Advocates ("ORA"), the Leona Valley Cherry Growers Association ("CGA"), and the Leona Valley Town Council -- collectively, "the Parties."¹ The Parties, desiring to avoid the expense and inconvenience attendant to the litigation before the Commission have agreed on this Settlement which they now submit for adoption.

1.02 Because this Settlement represents a compromise by them, the Parties have entered into the Settlement 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 or law in dispute in this proceeding. Furthermore, 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.

¹ Leona Valley Cherry Growers Association and the Leona Valley Town Council agree only to those provisions of the settlement applicable to the Antelope Valley District and are not considered parties to those terms applicable only to the Kern River Valley District.

2.0 SETTLEMENT TERMS

2.1 Accordingly, recognizing each Party's workload constraints, the costs associated with additional litigation, and Cal Water's recent filing of A.03-01-034 *et al.* (filed two months after the instant proceedings) and the recent litigation of A.01-09-062 *et al.*, unless otherwise indicated, the Parties agree to the following:

2.1.1 Cal Water and ORA agree that the adopted cost of capital/rate of return in A.01-09-062, *et al.* shall be used on an interim basis to determine the revenue requirement in the consolidated proceedings A.02-11-021 and A.02-11-022. Because a final decision has not yet been issued in A.01-09-062, *et al.*, ORA and Cal Water agree to use the cost of capital/rate of return numbers contained in the proposed decision issued on May 20, 2003 in A.01-09-062, *et al.* in all calculations required for documents submitted in this proceeding. ORA and Cal Water agree that thirty days after the Commission issues a decision in A.03-01-034 *et al.*, Cal Water shall file an advice letter revising the rates adopted in A.02-11-021 and A.02-11-022 to reflect the Commission's adoption of a revised cost of capital/rate of return in A.03-01-034 *et al.* CGA and the Leona Valley Town Council remain neutral on this issue. Cal Water further agrees that it will not contest the participation by CGA and the Leona Valley Town Council in A. 03-01-034 *et al.* for the limited purpose of issues relating to cost of capital/rate of return.

2.1.2 The Parties agree total services in Antelope Valley are 1,289 in 2003 and 1,293 in 2004. Total services in Kern River Valley District are 4,167 in 2003 and 4,176 in 2004.

2.1.3 The Parties agree that for Antelope Valley district, the average annual consumption per customer class in Ccf is: 396.2 for residential, 543.1 for business, 261.2 for multiple family, zero for industrial, 1066.7 for public authority, 400 for other, 900 for irrigation, zero for reclaimed, 396.2 for flat

rate residential service, zero for flat rate private fire, and zero for flat rate other. The Parties agree that for Kern River Valley district, the average annual consumption per customer class in Ccf is: 128.6 for residential, 278.0 for business, 1,137.0 for multiple family, zero for industrial, 1065.4 for public authority, 558 for other, 835.1 for irrigation, zero for reclaimed, zero for flat rate residential service, zero for flat rate private fire, and zero for flat rate other. For each customer class, the average consumption per customer figure is multiplied by the total services for each test year to derive total sales with an allowance for unaccounted for water as set forth in paragraph 2.1.4.

2.1.4 The Parties agree that unaccounted for water will be calculated as 4.5% of total production in Antelope Valley and 13.1% of total production in Kern River Valley.

2.1.5 In D. 00-05-047, the Commission authorized the merger of Dominguez Water Corporation and California Water Service Company. As part of that merger decision, an increase of \$4.484 million in revenue requirement was projected due to the authorized write up in rate base. Because the merger decision included a provision to maintain rate neutrality, the Parties agree that a revenue requirement adjustment is necessary. To offset the increased revenue requirement and maintain revenue neutrality, the Parties agree to impute additional revenue of \$57,675 for Antelope Valley and \$128,029 for Kern River Valley. Because the Parties could not agree on a methodology to calculate the amount of the imputed revenue, the Parties agree to use Cal Water's revenue estimate of \$44,072 for Antelope Valley and ORA's revenue estimate of \$141,627 for Kern Valley and to spread the difference between the two districts. The difference of \$19,723 between ORA's estimate of \$63,800 and Cal Water's estimate of \$44,077 for the Antelope Valley District is divided between the two districts by the same proportion that their rate bases were increased due to the merger.

2.1.6 The Parties agree to operations and maintenance payroll expense estimates of \$157,600 in 2003 and \$162,200 in 2004 for Antelope Valley and \$341,800 in 2003 and \$352,000 in 2004 for Kern River Valley.

2.1.7 The Parties agree to purchased power expenses of \$127,800 in 2003 and \$128,200 in 2004 for Antelope Valley and \$282,300 in 2003 and \$283,000 in 2004 for Kern River Valley.

2.1.8 The Parties agree to purchased water expenses in Antelope Valley of \$47,300 for both 2003 and 2004. The Parties agree to purchased water expenses of \$20,100 in 2003 and \$21,700 in 2004 in Kern River Valley

2.1.9 The Parties agree to transportation expenses in the Kern River Valley district of \$38,700 in 2003 and \$39,100 in 2004.

2.1.10 The Parties agree to transmission and distribution expenses of \$8,300 in 2003 and \$8,400 in 2004 for Antelope Valley and \$41,900 in 2003 and \$42,800 in 2004 for Kern River Valley.

2.1.11 The Parties agree that no funding be allowed for conservation expenses in the test years for Antelope Valley and Kern River Valley.

2.1.12 The Parties agree to use uncollectible account percentages of 0.746% in Antelope Valley and 0.751% in Kern River Valley.

2.1.13 The Parties agree to Administrative and General payroll expense estimates of \$33,700 in 2003 and \$34,700 in 2004 for Antelope Valley and \$82,200 in 2003 and \$84,700 in 2004 for Kern River Valley.

2.1.14 The Parties agree to non-specific administrative and general expenses of \$18,000 in 2003 and \$18,400 in 2004 for Antelope Valley and \$43,600 in 2003 and \$44,100 in 2004 for Kern River Valley.

2.1.15 Cal Water's total company general office rate base and expenses adopted in A.01-09-062, *et al.* shall be used for calculating the general office expenses and rate base allocations for Antelope Valley and Kern River Valley. Because the Commission has not yet adopted a final decision in A.01-09-062, *et al.*, the Parties agree to use the allocation percentages contained on page 3 of Attachment W of the Proposed Decision in A.01-09-062 *et al.* issued on May 20, 2003 in all calculations required for documents submitted in this proceeding. These allocation factors are 0.15% for Antelope Valley and 0.33% for Kern River Valley. Using the 0.15% factor for Antelope Valley, the General Office expense allocation is \$48,300 for 2003 and 2004 and the rate base allocation is \$30,800 for 2003 and 2004. Using the 0.33% factor for Kern River Valley, the General Office expense allocation is \$106,500 for 2003 and 2004 and the rate base allocation is \$67,900 for 2003 and 2004.

2.1.16 The Parties agree to include in rate base \$10,000 for non-specific structure additions in Kern River Valley in each test year.

2.1.17 The Parties agree to include in rate base \$152,200 in 2003 in Kern River Valley for two new wells in the Bodfish area and one new well in the Arden area. Additionally, the Parties agree to include \$92,100 in 2004 in Kern River Valley for one new well in the Southlake area. Further, the Parties agree not to fund \$2,300 of non-specific well capital additions in 2003 and 2004 in Kern River Valley. In the Antelope Valley district, the Parties agree to include in rate base \$139,400 for a new well to supplement supply in the Lake Hughes area and a new well to supplement supply in Lancaster. Additionally, the Parties agree not to fund \$20,100 in test year 2003 and

\$20,500 in test year 2004 for non-specific well capital additions in Antelope Valley.

2.1.18 The Parties agree that Cal Water will defer its request for construction of a 100,000-gallon bolted-steel tank in the Leona Valley until the next general rate case proceeding for the Antelope Valley district. For the Kern River Valley, the Parties agree to include \$104,900 in 2003 for a new 100,000-gallon bolted-steel tank in the Bodfish area and \$150,000 in 2004 for two new 100,000-gallon tanks in the Onyx area. Additionally, because these new tanks will decrease Cal Water's maintenance expenses associated with its current tanks, the Parties agree to reduce Cal Water's O&M contracted maintenance expenses in Kern River Valley by \$2,500 in 2003 and 2004 to reflect these savings.

2.1.19 The Parties agree to include \$34,000 for non-specific pump additions in Kern River Valley in both test years to reflect an average of the two most recent years of recorded capital additions in this category. The Parties agree that there should be no allowance for non-specific pump additions in Antelope Valley in either test year.²

2.1.20 The Parties agree to include \$83,200 in 2004 for the construction of an Iron and Manganese Treatment Facility in the Antelope Valley district. The Parties further agree that once the treatment facility is completed and placed in service, Cal Water will serve all Parties to this proceeding with a report detailing the costs. In addition, the Parties agree that the capital costs for the plant will not be included in the attrition year calculations. Accordingly, the full weighting of the plant will be allowed in 2004 with no further adjustments.

² In continuing negotiations after conclusion of hearings in the proceeding, CGA, the Leona Valley Town Council, and Cal Water agreed there should be no allowance for non-specific pump additions in Antelope Valley. ORA concurs with this additional agreement.

2.1.21 The Parties agree to allow Cal Water to fund, as described below, Supervisory Control and Data Acquisition (SCADA) equipment in the Kern River Valley district. Cal Water plans to install \$152,900 in SCADA equipment in 2003. However, Cal Water agrees to phase in the impact of the proposed SCADA additions by adding only \$40,000 to plant in each test year (2003 and 2004).

2.1.22 The Parties agree to vehicle additions in 2003 of \$30,700 in Antelope Valley and \$28,000 in Kern River Valley. Additionally, the Parties agree to no vehicle additions in 2004 in Antelope Valley and \$93,200 in Kern River Valley. Further, Cal Water agrees to update its vehicle replacement study to reflect recent data on the life of its vehicles including costs per mile as the vehicles age chronologically and accumulate mileage. Cal Water will provide ORA staff with this updated study in time for ORA to consider it in their testimony in Cal Water's pending rate case A03-01-034 *et al.*

2.1.23 The Parties agree to plant additions of \$358,103 for purification and treatment projects in the Kern River Valley district. These additions are for: chlorination equipment in Upper and Lower Bodfish, Kernville water treatment plant backwash system, potable sludge dewater and sediment filtration system, corrosion control systems for Southlake and Onyx, arsenic well treatment design phase, and Split Mountain surface water treatment. Once these purification and treatment projects are completed, Cal Water will provide all the Parties to this proceeding with a report detailing the costs.

2.1.24 Cal Water proposes to construct an interconnection pipeline between its Kernville and Arden water systems in the Kern River Valley district. Because this project is large, Cal Water will construct the pipeline in two phases over the two test years. The Parties agree to include \$250,000 in 2003 for the first phase of the pipeline project and \$550,000 in 2004 for the second phase of the pipeline project. However, the Parties agree that these capital

additions should not be included in the attrition year calculations. Accordingly, the full weighting of the plant will be included in 2004 with no further adjustments.

2.1.25 The Parties agree to include \$6,000 for non-specific equipment additions in Kern River Valley in both test years to reflect an average of the two most recent years of recorded capital additions in this category.

2.1.26 Cal Water proposed using consultants to prepare a Water Supply and Facilities Master Plan (WSFMP) for the Antelope Valley district and the Kern River Valley district. The Parties agree that Cal Water will prepare and capitalize its WSFMP for the Antelope Valley in-house using existing staff and Cal Water can seek recovery in its next rate case. However, due to the complexities of the groundwater basin in the Kern River Valley district, the Parties agree to allow \$81,000 in 2004 plant additions for a consultant to prepare and capitalize the WSFMP for the Kern River Valley district. Additionally, the Parties agree that once the WSFMP is complete for the Kern River Valley district, Cal Water will provide a copy of the plan to all the Parties in this proceeding.

2.1.27 Cal Water agrees to offset the cost of the new office building in Kern River Valley by \$19,100, which represents the gain on sale of the prior office building by the Dominguez Water Corporation.

2.1.28 The Parties agree that no amount should be forecast for A&G administrative charges transferred in the test years for the Kern Valley District.

2.1.29 The Parties agree to continue inclusion in rate base of \$168,300 in 2003 and \$162,800 in 2004 for existing stand-by and inactive wells and generators in Kern River Valley that ORA had removed in its staff report.

The Parties agree to continue inclusion in rate base of \$62,000 in 2003 and \$59,500 in 2004 for two existing emergency generators in Antelope Valley that ORA had removed in its staff report. Further, Cal Water agrees to install, as soon as practicable, an automatic-start mechanism on the emergency generator in Fremont Valley of the Antelope Valley district. The Parties agree that no costs associated with installing this automatic-start mechanism will be included in this rate case but Cal Water can seek recovery in its next rate case.

2.1.30 Cal Water agrees to file an updated service area map for the Kern River Valley district that includes all current customers.

2.1.31 The Parties agree that the ad valorem tax calculation percentage of 0.596% should apply to net plant in Kern River Valley and 0.793% to net plant in Antelope Valley.

2.1.32 The Parties agree that the beginning of year plant in service balance in 2003 for the Antelope Valley is \$3,767,400.

2.1.33 The Parties agree to use the Commission Water Branch's policy of basing the service charge on the equivalent capacity of the various meter sizes.

2.1.34 The Parties agree to use recorded 2002 end of year plant figures as the beginning point for 2003 plant additions for Kern River Valley.

2.1.35 The Parties agree that the starting balance for 2002 depreciation reserve in Antelope Valley is \$1,141,033.

3.0 EXECUTION OF THE AGREEMENT

3.1 The 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.

3.2 The Parties agree that no signatory to this Settlement or any member of ORA 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 ORA, attorneys representing ORA, or the ORA itself related to this Settlement. All rights and remedies of the Parties are limited to those available before the Commission.

3.3 This 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 Agreement.

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

4.0 GOVERNING LAW

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

5.0 VERIFICATION

5.1 The signatories to this Settlement personally and independently verify that all elements of it are true, correct, complete, and internally consistent.

OFFICE OF RATEPAYER ADVOCATES

CALIFORNIA WATER SERVICE COMPANY

By: *Natalie Walsh*
6/4/03

By: _____

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LEONA VALLEY
CHERRY GROWERS ASSOCIATION

LEONA VALLEY TOWN
COUNCIL

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By: _____

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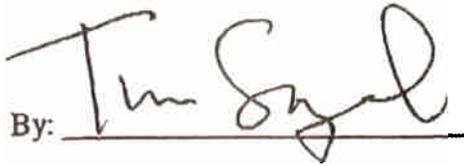
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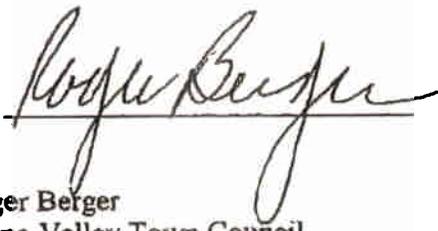
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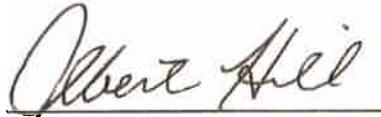
**Roger Berger
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CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the foregoing document
“BRIEF OF THE OFFICE OF RATEPAYER ADVOCATES” in **A.02-11-021**
et al.

A copy has been e-mailed on all known parties of record who have provided e-mail addresses. In addition, all parties have been served by first-class mail.

Executed in San Francisco, California, on the **9th** day of **June, 2003**.

A handwritten signature in cursive script that reads "Albert Hill". The signature is written in black ink and is positioned above a horizontal line.

Albert Hill

(END OF ATTACHMENT C)