

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

In the Matter of the Application of
California-American Water Company
(U 210 W) for an Order Authorizing (1) the
Transfer of Already-Incurred Costs for Its
Long-Term Water Supply Solution for the
Monterey District to Its Special Request 1
Surcharge Balancing Account; and (2) An
Annual Review Process for the Transfer of
Pre-Construction Costs to the Special
Request 1 Surcharge Balancing Account

Application No. 08-04-019
(Filed April 10, 2008)

**AMENDED SETTLEMENT AGREEMENT BETWEEN
THE DIVISION OF RATEPAYER ADVOCATES,
MONTEREY PENINSULA WATER MANAGEMENT DISTRICT, AND CALIFORNIA-
AMERICAN WATER COMPANY**

Dana S. Appling, Director
DIVISION OF RATEPAYER ADVOCATES
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Phone: (415) 703-2544
Fax: (415) 703-2057
dsa@cpuc.ca.gov

David P. Stephenson
Assistant Treasurer
CALIFORNIA-AMERICAN WATER
COMPANY
4701 Beloit Drive
Sacramento, CA 95838
Phone: (916) 568-4222
Fax: (916) 568-4260
dstephen@amwater.com

Darby Fuerst
General Manager
MONTEREY PENINSULA WATER
MANAGEMENT DISTRICT
PO Box 85
Monterey, CA 93942-0085
Telephone: (831) 658-5600
Facsimile: (831) 644-9560
Email: Darby@mpwmd.dst.ca.us

Dated: October 31, 2008

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

In the Matter of the Application of California-American Water Company (U 210 W) for an Order Authorizing (1) the Transfer of Already-Incurred Costs for Its Long-Term Water Supply Solution for the Monterey District to Its Special Request 1 Surcharge Balancing Account; and (2) An Annual Review Process for the Transfer of Pre-Construction Costs to the Special Request 1 Surcharge Balancing Account

Application No. 08-04-019
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**AMENDED SETTLEMENT AGREEMENT BETWEEN
THE DIVISION OF RATEPAYER ADVOCATES,
MONTEREY PENINSULA WATER MANAGEMENT DISTRICT, AND CALIFORNIA-
AMERICAN WATER COMPANY**

I. GENERAL

- A. Pursuant to Article 12 of the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission”), the Division of Ratepayer Advocates (“DRA”), Monterey Peninsula Water Management District (“MPWMD”), and California-American Water Company (“California American Water”) (collectively, “the Parties”), desiring to avoid the expense, inconvenience and the uncertainty attendant to litigation of the matters in dispute between them, have agreed on the terms of this Settlement Agreement which they now submit for approval.
- B. Since this Settlement Agreement represents a compromise by them, the Parties have entered into each stipulation contained in the Settlement Agreement on the basis that its approval by the Commission not be construed as an admission or concession by any Party regarding any fact or matter of law in dispute in this proceeding. Furthermore, the Parties intend that the approval of this Settlement Agreement by the Commission not be construed as a precedent or statement of policy of any kind for or against any Party in any current or future proceeding. (Rule 12.5, Commission’s Rules on Practice and Procedure.)
- C. The Parties agree that no signatory to the Settlement Agreement assumes any personal liability as a result of their agreement. All rights and remedies of the Parties are limited to those available before the Commission. Furthermore, the Settlement Agreement is being presented as an integrated package such that parties are agreeing to the Settlement Agreement as a whole, as opposed to agreeing to specific elements of the Settlement Agreement. If the Commission adopts the Settlement Agreement with modifications, all Parties must consent to the modifications or the Settlement Agreement is void.

- D. This Settlement Agreement may be executed in counterparts, each of which shall be deemed an original, and the counterparts together shall constitute one and the same instrument.
- E. The Parties acknowledge that execution of this Settlement Agreement by the MPWMD General Manager is required by law to be subject to ratification by the MPWMD Board of Directors.

II. TRANSFER OF PRE-CONSTRUCTION COSTS TO SPECIAL REQUEST 1 SURCHARGE BALANCING ACCOUNT

- A. The Parties agree that the Commission should authorize California American Water to transfer \$3,741,714 of costs incurred for the Coastal Water Project for services rendered through 2007 from the authorized memorandum accounts to the Surcharge #1 cost recovery balancing account. This amount reflects disallowances and related interest totaling \$147,117, described below.
- B. The Parties agree that California American Water's total request for recovery of \$3,888,831 should be reduced by an amount of \$137,632, plus associated interest in recovery and interest correction.
- C. The Parties agree that interest on the above-mentioned \$137,632 in recovery and interest correction amounts to \$9,485, as calculated by DRA in its *Audit Report on California American Water Company's Coastal Water Project 2007 Preconstruction Costs* ("Report"). This amount, combined with the other reductions in expenses, equals a total reduction of \$147,117 to California American Water's request for recovery.
- D. The Parties agree that \$309,258.22 represents California American Water's full recovery of charges from ASR Systems, LLC (ASR Systems) for work that ASR Systems performed through December 31, 2007 for Aquifer and Storage and Recovery (ASR) test and monitoring well facilities. The ASR Systems charges are included in the above total recovery of \$3,741,714. California American Water will not seek recovery of any additional charges from ASR Systems for services performed through December 31, 2007 for the Coastal Water Project.
- E. The Parties agree that the Commission should authorize California American Water to remove from its Special Request 1 Surcharge balancing account \$185,893 in labor, labor overhead and related costs incurred through December 31, 2006 for the Coastal Water Project that it identified as possibly duplicative of authorized general rate case expenses.
- F. California American Water has provided the Parties with the following documents to the extent that such documents exist, for the following vendors:
 - 1. California American Water has provided to the Parties all documents supporting the competitive bidding process for services rendered to California American Water by the vendor, Bradley & Sons.
 - 2. California American Water has provided available bid documents, agreements, contracts, and contract amendments for Darrell Varni Electric, Granite Construction, Williams Scotsman, Inc., Sierra Consulting

Group, American Water/Pridesa, Pacific Gas & Electric Company, Parsons Water & Infrastructure, and various vendors of equipment, materials and supplies for the Pilot Plant totaling \$48,831.88.

- G. The Parties have reviewed the above-referenced documents provided by California American Water. The Parties have found that the already-incurred costs that California American Water has sought for recovery are reasonable.

III. ANNUAL REPORT PROCEDURE AND REPORTING REQUIREMENTS

- A. The Parties recommend that the Commission authorize California American Water to continue the annual reporting process set out in D.06-12-040 to allow California American Water to file a separate annual application to address the preconstruction costs incurred for the Coastal Water Project that will be recovered through Special Request 1 Surcharge. On a prospective basis, California American Water shall file an annual application to the Commission and all parties to this proceeding on or before March 31 that reflects the prior year's preconstruction costs from January 1 to December 31 of the prior year, for which it seeks recovery.
- B. The Parties agree that California American Water's annual application shall be filed on or before March 31 of each year and shall address preconstruction costs that California American Water incurred January 1 to December 31 of the prior year. DRA shall submit its report on the reasonableness of California American Water's costs on or before December 15 of each year. Intervenor(s) to the proceeding may submit testimony on California American Water's report 15 days after DRA submits its report. California American Water shall submit its rebuttal testimony no later than 45 days after DRA issues its report.
- C. The Parties agree that for all costs associated with services rendered outside of the annual reporting period (*i.e.*, from January 1 to December 31 yearly), California American Water shall provide in a separate section of its annual application the justification for seeking recovery of those associated costs in that year's respective application. The Parties agree that absent such a justification, any costs associated with services rendered outside the annual reporting period, will not be recoverable by California American Water.
- D. As to future cost recovery requests, the Parties recommend that California American Water file an annual application for the Commission and the parties to address preconstruction costs incurred by California American Water for 2008 and beyond that are eligible for Special Request 1 Surcharge recovery.
- E. The Parties agree that on a prospective basis, California American Water shall provide with its annual application the following documents, to the extent such documents exist in accordance with standard business practices:
1. Contracts, including budgets, tasks and schedules;
 2. Contract amendments, including budget, task, and/or schedule changes;
 3. Change orders;

A.08-04-019 ALJ/BMD/avs

4. Bid process documents, including requests for proposals and bid solicitations;
 5. Bid evaluation forms; and
 6. Invoices which provide a specific reference to the underlying contract and the specific task within the contract.
- F. The Parties agree that for each existing task order contract, California American Water shall provide a budget and schedule.
- G. The Parties agree that California American Water shall provide in its *Class A Annual Report* submitted by March 31 each year an accounting for its Special Request 1 Surcharge balancing account, including (1) the amounts collected from customers through the surcharge through the end of the year for that reporting period; and (2) the total costs that California American Water has charged to the memorandum account through the end of the year for that reporting period. A copy of the report shall be provided to the Commission's Division of Water and Audits and DRA.

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By:



Dana S. Appling
THE DIVISION OF RATEPAYER ADVOCATES

By:

David P. Stephenson
CALIFORNIA-AMERICAN WATER COMPANY

By:

Darby Fuerst
MONTEREY PENINSULA WATER MANAGEMENT DISTRICT

October 30, 2008

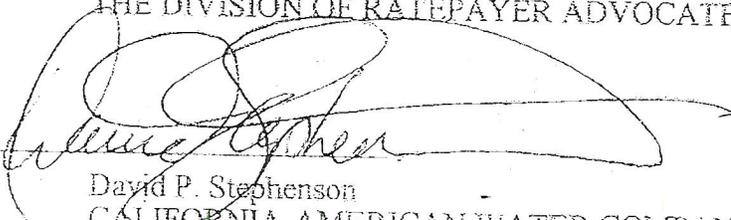
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By:

Dana S. Appling
THE DIVISION OF RATEPAYER ADVOCATES

By:



David P. Stephenson
CALIFORNIA-AMERICAN WATER COMPANY

By:

Darby Fuerst
MONTEREY PENINSULA WATER MANAGEMENT DISTRICT

October 31, 2008

90035876.3

PROOF OF SERVICE

I, Kim O.T. Trinh, declare as follows:

I am employed in the City and County of San Francisco, California. I am over the age of eighteen years and not a party to this action. My business address is MANATT, PHELPS & PHILLIPS, LLP, One Embarcadero Center, 30th Floor, San Francisco, California 94111-3719. On October 31, 2008, I served the within:

**JOINT MOTION FOR ADOPTION OF AMENDED SETTLEMENT AGREEMENT
BETWEEN THE DIVISION OF RATEPAYER ADVOCATES, CALIFORNIA-
AMERICAN WATER COMPANY AND MONTEREY PENINSULA WATER
MANAGEMENT DISTRICT AND MOTION TO WAIVE COMMENT PERIOD ON
SETTLEMENT AGREEMENT**

on the interested parties in this action addressed as follows:

See attached service list.



(BY PUC E-MAIL SERVICE) By transmitting such document electronically from Manatt, Phelps & Phillips, LLP, San Francisco, California, to the electronic mail addresses listed above. I am readily familiar with the practice of Manatt, Phelps & Phillips, LLP for transmitting documents by electronic mail, said practice being that in the ordinary course of business, such electronic mail is transmitted immediately after such document has been tendered for filing. Said practice also complies with Rule 1.10(b) of the Public Utilities Commission of the State of California and all protocols described therein.



(BY U.S. MAIL) By placing such document(s) in a sealed envelope, with postage thereon fully prepaid for first class mail, for collection and mailing at Manatt, Phelps & Phillips, LLP, San Francisco, California following ordinary business practice. I am readily familiar with the practice at Manatt, Phelps & Phillips, LLP for collection and processing of correspondence for mailing with the United States Postal Service, said practice being that in the ordinary course of business, correspondence is deposited in the United States Postal Service the same day as it is placed for collection.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct and that this declaration was executed on October 31, 2008, at San Francisco, California.



Kim O.T. Trinh

A.08-04-019 ALJ/BMD/avs

PUC E-Mail Service List

A.08-04-019

[Updated July 31, 2008]

dave@laredolaw.net
mlm@cpuc.ca.gov
dstephen@amwater.com
ffarina@cox.net
andy@mpwmd.dst.ca.us
lweiss@manatt.com
sleeper@manatt.com
ldolqueist@manatt.com
bmd@cpuc.ca.gov

U.S. Mail Service List

A.08-04-019

[Updated July 31, 2008]

Administrative Law Judge
Bruce DeBerry
California Public Utilities Commission
ALJ - Division
505 Van Ness Avenue, Room 5043
San Francisco, CA 94102-3214

(END OF ATTACHMENT A)