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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 by $4,134,600 or 2.55% in the year 2011, by $33,105,800 or 19.68% in the year 2012, by $9,897,200 or 4.92% in the year 2013, and by $10,874,600 or 5.16% in the year 2014.	A1007007

APPLICATION OF CALIFORNIA-AMERICAN WATER COMPANY TO INCREASE REVENUES IN EACH OF ITS DISTRICTS STATEWIDE

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Dated: July 1, 2010

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APPLICATION OF CALIFORNIA-AMERICAN WATER COMPANY TO INCREASE REVENUES IN EACH OF ITS DISTRICTS STATEWIDE

As directed by the California Public Utilities Commission ("Commission") in D.07-05-062,[1] California-American Water Company ("California American Water" or "Applicant") hereby submits its application to increase rates for water and/or wastewater service in each of its districts statewide. As California American Water discusses in more detail below, the increased rates are necessary and reasonable in order to continue to provide quality water and wastewater service to its customers statewide. Given the state of our economy, California-American Water is mindful of the rate impacts associated with this application and has worked hard to minimize them to the best of its ability.

I. STATEMENT OF RELIEF SOUGHT

Pursuant to Section 451 *et seq.* of the California Public Utilities Code, California American Water seeks a general increase in rates for water and/or wastewater service in its Larkfield, Los Angeles County, Monterey County, Monterey Wastewater, Sacramento, San

[1] D.07-05-062, *(Order Instituting Rulemaking to Consider Revisions to the General Rate Case Plan for Class A Water Utilities)*, D.07-05-062, 2007 Cal. PUC LEXIS 226 ("Rate Case Plan").

Diego County, and Ventura County Districts[2] in order to realize the increased revenue in Table 1 below.[3]

Table 1

District	Year	Revenue Increase	Percentage Increase
Larkfield	2012	$974,100	36.99%
	2013	$69,500	1.92%
	2014	$155,300	4.19%
Los Angeles County	2012	$5,367,000	21.90%
	2013	$1,652,000	5.53%
	2014	$1,788,600	5.67%
Monterey County	2012	$11,948,700	27.60%
	2013	$1,612,000	2.94%
	2014	$2,503,800	4.48%
Monterey Wastewater	2012	$511,700	16.16%
	2013	$70,900	1.92%
	2014	$153,700	4.05%
Toro	2012	$407,900	97.48%
	2013	$45,000	5.45%
	2014	$70,100	8.04%

[2] As described below, California American Water seeks to update the names of several of its districts. The former Los Angeles District is the Los Angeles County District, the former Monterey District is the Monterey County District, the former Coronado District is the San Diego County District, and the former Village District is the Ventura County District.

[3] California American Water anticipates that, subsequent to the filing of the proposed application and final application and prior to the issuance of a decision by the Commission, it may file one or more advice letter requests relating to offset unanticipated increases in expenses that may be incurred by any of California America Water's respective districts, or to file one or more advice letters requesting recovery of captured balances in its various memorandum or balancing accounts. Any such offset rate increases requested by advice letter will be in addition to the increases in rates requested in the proposed application and final application.

Table 1 (cont.)

Sacramento	2012	$10,078,500	22.83%
	2013	$3,647,700	6.73%
	2014	$4,101,800	7.09%
San Diego County (Coronado)	2011	$1,846,500	10.58%
	2012	$1,996,400	10.34%
	2013	$900,700	4.23%
	2014	$648,200	2.92%
Ventura County (Village)	2011	$2,288,100	8.08%
	2012	$1,821,500	5.92%
	2013	$1,899,400	5.81%
	2014	$1,453,100	4.18%

Table 2 below compares the proposed amounts to the last adopted and last recorded amounts to show the difference in dollars and percentages. Because the last test year for the San Diego County and Ventura County Districts was 2008, California American Water included increases for 2011 and 2012 for those districts.[4]

[4] The Rate Case Plan allows for interim rate increase in instances where companies experiencing a delay may seek interim rates, subject to refund as set forth below, via an advice letter. D.07-05-062, 2007 Cal. PUC LEXIS 226.

Table 2

District	Category	Last Test Year	Last Recorded	Proposed Test Year
Larkfield	Total Rev. Req. ($)	$3,029,000	$3,098,800	$3,607,400
	Rate Base ($)	$7,356,900	$7,795,800	$9,144,000
	Rate Base (%)		5.97%	24.29%
	Operating Exp. ($)	$1,638,000	$1,525,400	$1,930,300
	Operating Exp. (%)		-6.87%	17.85%
	Rate of Return	8.04%	8.06%	8.04%
Los Angeles County	Total Rev. Req. ($)	$23,520,000	$22,821,600	$29,878,900
	Rate Base ($)	$47,338,400	$46,610,300	$59,581,200
	Rate Base (%)		-1.54%	25.86%
	Operating Exp. ($)	$15,080,700	$15,566,500	$19,766,300
	Operating Exp. (%)		3.22%	31.07%
	Rate of Return	8.04%	6.48%	8.04%
Monterey County	Total Rev. Req. ($)	$43,319,700	$36,428,100	$55,242,800
	Rate Base ($)	$109,143,000	$106,053,400	$137,143,900
	Rate Base (%)		-2.83%	25.66%
	Operating Exp. ($)	$22,703,100	$27,030,500	$31,719,500
	Operating Exp. (%)		19.06%	39.71%
	Rate of Return	8.04%	1.56%	8.04%
Monterey Wastewater	Total Rev. Req. ($)	$3,123,900	$2,060,100	$3,678,300
	Rate Base ($)	$2,849,400	$1,352,700	$1,499,000
	Rate Base (%)		-52.53%	-47.39%
	Operating Exp. ($)	$2,586,400	$2,602,500	$3,245,900
	Operating Exp. (%)		.62%	25.50%
	Rate of Return	8.04%	-33.33%	8.04%

District	Category	Last Test Year	Last Recorded	Proposed Test Year
Sacramento	Total Rev. Req. ($)	$45,080,100	$33,612,200	$54,229,200
	Rate Base ($)	$125,159,300	$110,376,200	$147,642,600
	Rate Base (%)		-11.81%	17.96%
	Operating Exp. ($)	$21,464,300	$21,633,400	$27,537,900
	Operating Exp. (%)		.79%	28.30%
	Rate of Return	8.04%	3.31%	8.04%
San Diego County	Total Rev. Req. ($)	$20,118,300	$17,426,100	$21,306,100
	Rate Base ($)	$14,444,800	$12,116,900	$15,503,400
	Rate Base (%)		-16.12%	9.61%
	Operating Exp. ($)	$17,688,800	$15,781,600	$18,379,600
	Operating Exp. (%)		-10.78%	11.29%
	Rate of Return	8.04%	5.34%	8.04%
Ventura County	Total Rev. Req. ($)	$29,959,000	$25,361,000	$32,568,900
	Rate Base ($)	$30,465,200	$31,156,100	$37,445,500
	Rate Base (%)		2.27%	13.21%
	Operating Exp. ($)	$24,625,500	$21,665,200	$26,082,100
	Operating Exp. (%)		-12.02%	7.16%
	Rate of Return	8.04%	4.57%	8.04%
Toro	Total Rev. Req. ($)	$386,200	$355,400	$826,400
	Rate Base ($)	$516,300	$2,290,200	$2,278,700
	Rate Base (%)		343.58%	341.34%
	Operating Exp. ($)	$276,000	$200,700	$348,000
	Operating Exp. (%)		-27.26%	26.11%
	Rate of Return	8.04%	2.9%	8.04%

II. NECESSITY FOR GENERAL RATE RELIEF

To be effective, the rate case must be an operational plan for California American Water. This plan must meet our customers' needs for an adequate and reliable supply of high quality water, and wastewater service at a fair price. In addition, this plan must address how California American Water will improve its financial performance, thus ensuring it will exist as a viable entity, capable of serving its customers for years to come.

Basic to California American Water's request for authority to raise rates is the fact that, at its present rates, any annual increase in revenues resulting from customer growth or increased consumption is more than offset by increases in expenses and in the costs of capital. In the past rate case cycle, California American Water has met its service obligations in terms of water supply, water quality and wastewater treatment and has kept operating expenses at a reasonable level in comparison to historical trends. The rates that the Commission previously authorized have, with the passage of time, become unreasonably low. The rates that California American Water requests in this application are just and reasonable, and reflect and pass through to customers only increased costs to California American Water for services and commodities.

Authorizing the actions and rate increases requested in this application will serve the public interest. California American Water's rates and related requests further the key principles the Commission set forth in the Water Action Plan. The actions and rate increases requested in this application will assist in streamlining Commission decision-making and are necessary to permit California American Water to continue to provide safe, high-quality water to its customers in a reliable manner at reasonable rates, to promote conservation and the efficient use of water, and assist low-income ratepayers.

As required by the Rate Case Plan, California American Water has included a summary of the primary factors behind its request for increased rates in this application, by district. Because the San Diego County and Ventura County Districts have not had general rate cases since 2007, California American Water included increases for 2011 and 2012 for those Districts.

A. Larkfield District

The main drivers of the proposed rate increase of $974,000 are reduced water sales, return on change in rate base, traditional California American Water corporate ("CalCorp") costs, CalCorp costs traditionally requested as district costs, and at cost charges from AWSC. Reduced water sales revenues of $425,000 are a result of increased conservation. The return required to support new capital investment causes an increase of $144,000. Traditional CalCorp costs, which California American Water has included as corporate level costs in past general rate cases, increased by $114,000 due to new and transferred employees from the districts and AWSC and higher group insurance for CalCorp employees. CalCorp costs that California American Water in the past recorded as district costs, but in this case has shifted to CalCorp, increased $54,000. These costs include insurance, pension, other post retirement benefits, postage, and rate case expenses. In particular, group insurance for district employees increased, projected cash payments for pensions increased significantly, postage increased due to the move to monthly billing, and rate case expenses increased because California American Water included the cost for two rate case cycles in order to transition from amortized to forecasted regulatory expenses. AWSC costs increased $32,000 primarily due to higher cost for services from information technology and higher group insurance costs.

B. Los Angeles County District

The main drivers of the $5.4 million dollar proposed rate increase are traditional CalCorp costs, decreased sales, return on change in rate base, CalCorp costs traditionally requested as district costs, and at cost charges from AWSC. Traditional CalCorp costs increased $1.1 million primarily due to new and transferred employees from the districts and AWSC and higher group insurance for CalCorp employees. Reduced sales of $986,000 are a result of increased conservation. The return required to support new capital investment causes an increase of $1 million. CalCorp costs that California American Water in the past recorded as district costs, but in this case has shifted to CalCorp, increased $884,000. These costs include insurance, pension, other post retirement benefits, postage, and rate case expenses. In particular, group

insurance for district employees increased, projected cash payments for pensions increased significantly, postage increased due to the move to monthly billing, and rate case expenses increased because California American Water included the cost for two rate case cycles in order to transition from amortized to forecasted regulatory expenses. AWSC costs increased $553,000 primarily due to higher cost for services from information technology and higher group insurance costs. These increases were partially offset by other decreases.

C. Monterey County District

The main drivers of the proposed rate increase of $11.9 million are return on change in rate base, traditional CalCorp costs, purchased water costs, CalCorp costs traditionally requested as district costs, and National Oceanic and Atmospheric Administration (NOAA) settlement payments. The return required to support new capital investment causes an increase of $2.3 million. Traditional CalCorp costs increased $1.5 million primarily due to new and transferred employees from the districts and AWSC and higher group insurance for CalCorp employees. Purchased water costs have increased $1.2 million primarily due to Sand City lease costs and Seaside Basin replenishment fees. CalCorp costs that California American Water in the past recorded as district costs, but in this case has shifted to CalCorp, increased $1.1 million. These costs include insurance, pension, other post retirement benefits, postage, and rate case expenses. In particular, group insurance for district employees increased, projected cash payments for pensions increased significantly, and rate case expenses increased because California American Water included the cost for two rate case cycles in order to transition from amortized to forecasted regulatory expenses. The NOAA settlement increases costs by $1.1 million for the remediation of harm to endangered species.

D. Monterey Wastewater District

The main drivers of the proposed rate increase of $512,000 are CalCorp costs traditionally requested as district costs, chemical costs, payroll costs, traditional CalCorp costs, and at cost charges from AWSC. CalCorp costs that California American Water in the past recorded as district costs, but in this case has shifted to CalCorp, increased $260,000. These

costs include insurance, pension, other post retirement benefits, postage, and rate case expenses. In particular, group insurance for district employees increased, projected cash payments for pensions increased significantly, and rate case expenses increased because California American Water included the cost for two rate case cycles in order to transition from amortized to forecasted regulatory expenses. Chemicals costs have increased $226,000 due to the quantity and unit price increases, as well as additional treatment necessary due to increased flow at our wastewater facilities. The increase in flow is the result of new customer accounts from localities within our district and the development of new homes within our wastewater service area. Payroll costs have increased $128,000 due to an increase in labor hours necessary to operate the system. Traditional CalCorp costs increased $126,000 primarily due to new and transferred employees from the districts and AWSC and higher group insurance for CalCorp employees. AWSC costs increased $63,000 primarily due to higher costs for services from information technology and group insurance. These increases were partially offset by other decreases.

E. Sacramento District

The main drivers of the proposed rate increase of $10.2 million are traditional CalCorp costs, return on change in rate base, CalCorp costs traditionally requested as district costs, at cost charges from AWSC, and reduced water sales. Traditional CalCorp costs increased $2.3 primarily due to new and transferred employees from the districts and AWSC and higher group insurance costs for CalCorp employees. The return required to support new capital investment causes an increase of $1.8 million. CalCorp costs that California American Water in the past recorded as district costs, but in this case has shifted to CalCorp, increased $1.6 million. These costs include insurance, pension, other post retirement benefits, postage, and rate case expenses. In particular, group insurance for district employees increased, projected cash payments for pensions increased significantly, postage costs for the move to monthly meter reading, and rate case expenses increased because California American Water included the cost for two rate case cycles in order to transition from amortized to forecasted regulatory expenses. AWSC costs increased $1.1 million primarily due to higher costs for services from information

technology and higher group insurance costs. Reduced water sales revenues of $648,000 are a result of increased conservation.

F. <u>San Diego County District (Coronado)</u>

The main drivers of the combined 2011 and 2012 rate increases of $3.8 million are CalCorp costs traditionally requested as district costs (2011), reduced sales (2011), traditional CalCorp costs (2012), AWSC charges (2012) and depreciation (2011). CalCorp costs that California American Water in the past recorded as district costs, but in this case has shifted to CalCorp, increased $923,000. These costs include insurance, pension, other post retirement benefits, postage, and rate case expenses. In particular, group insurance for district employees increased, projected cash payments for pensions increased significantly, postage costs for the move to monthly meter reading, and rate case expenses increased because California American Water included the cost for two rate case cycles in order to transition from amortized to forecasted regulatory expenses. Reduced sales of $809,000 are a result of increased conservation. Traditional CalCorp costs increased $800,000 primarily due to new and transferred employees from the districts and AWSC and higher group insurance costs for CalCorp employees. AWSC costs increased $410,000 primarily due to higher costs for services from information technology and higher group insurance costs. Depreciation increased $314,000 due to increased investment in utility plant.

G. <u>Toro</u>

The main drivers of the proposed rate increase of $408,000 are return on change in rate base, depreciation, other operating and maintenance expenses, ad valorem taxes, and purchased water. The return required to support new capital investment causes an increase of $121,000, depreciation has increased $115,000, other operating and maintenance costs have increased $108,000, ad valorem taxes increased $30,000 and purchased power cost increased $17,000 due to the investment in and the additional costs to run the new arsenic treatment plant.

H. Ventura County District (Village)

The main drivers of the combined 2011 and 2012 rate increases of $4.1 million are traditional CalCorp costs (2012), CalCorp costs traditionally requested as district costs (2011), return on change in rate base (2011), AWSC charges (2012), and increased depreciation (2011). Traditional CalCorp costs increased $780,000 primarily due to new and transferred employees from the districts and AWSC. CalCorp costs that California American Water in the past recorded as district costs, but in this case has shifted to CalCorp, increased $778,000. These costs include insurance, pension, other post retirement benefits, postage, and rate case expenses. In particular, group insurance for district employees increased, projected cash payments for pensions increased significantly, and rate case expenses increased because California American Water included the cost for two rate case cycles in order to transition from amortized to forecasted regulatory expenses. The return required to support new capital investment causes an increase of $560,000. AWSC costs increased $404,000 primarily due to higher costs for services from information technology and group insurance costs. Depreciation has increased $243,000 due to increased investment in utility plant.

III. OTHER REQUESTS AND RECOMMENDATIONS

Special Request #1: California American Water requests authorization to change to monthly meter reading in the Larkfield, Los Angeles County, Sacramento, and San Diego County Districts. Section IV of Brian Bruce's testimony supports this Special Request.

Special Request #2: California American Water is requesting two distinct tariff areas for water service in its Monterey County District and two distinct tariff areas for wastewater service in its Monterey Wastewater District. Section VII of David Stephenson's testimony supports this Special Request.

Special Request #3: California American Water requests the authorization to rename its districts. The following changes are proposed: Coronado District to San Diego County District, Los Angeles District to Los Angeles County District, Monterey District to

Monterey County District, and Village District to the Ventura County District. Section V of Kevin Tilden's testimony supports this Special Request.

Special Request #4: California American Water requests that the Commission allow it to earn at its return on equity or equivalent interest rate on all deferred items when it has balances in excess of our short-term debt limit. Section IV of Jeffrey Linam's testimony supports this Special Request.

Special Request #5: California American Water requests that the Commission authorize a water revenue adjustment mechanism (WRAM) and modified cost balancing account (MCBA) for the Sacramento District as part of its decision on the revenue requirement in this case. Section VII of David Stephenson's testimony supports this Special Request.

Special Request #6: California American Water requests that the Commission authorize it to continue all previously authorized WRAMs and MCBAs under the terms of the pilot programs the Commission authorized in various previous decisions. Section VII of David Stephenson's testimony supports this Special Request.

Special Request #7: California American Water requests that the Commission recognize the capital expenditure associated with the Lower Carmel Valley Well investment project in rate base and allow California American Water to recover it in rates. Part One of Mark Schubert's testimony supports this Special Request.

Special Request #8: California American Water requests that the Commission allow it to include as part of rate base all unreimbursed costs related to a major main break in the Ventura County District. Section II of Fred Feizollahi's testimony supports this Special Request.

Special Request #9: California American Water requests that the Commission discontinue its current authorized pilot Distribution System Improvement Charge (DSIC) program in Los Angeles. Section VII of David Stephenson's testimony supports this Special Request.

Special Request #10: California American Water requests Commission authorization to establish permanent water use restrictions and an inclining block tariff for water

service to irrigation customers in the Duarte service area of the Los Angeles County District. Section IV of Todd Brown's testimony supports this Special Request.

Special Request #11: California American Water requests that the Commission authorize a balancing account to track all revenue requirement variations due to changed timing or expended costs of the Business Transformation program. Section VII of David Stephenson's testimony supports this Special Request.

Special Request #12: California American Water requests authorization from the Commission to eliminate the Public Fire Hydrant tariff that is now effective for the Toro service area of the Monterey County District. Section III of Sherrene Chew's testimony supports this Special Request.

Special Request #13: California American Water requests permission to file plans on all items in which it does not comply with General Order 103A. Section IV of Edward Simon's testimony supports this Special Request.

Special Request #14: California American Water requests the actions delineated for all memorandum and balancing accounts as specified in Exhibit B to this Application. Section IV of Sherrene Chew's testimony supports this Special Request.

Special Request #15: California American Water requests that the Commission should base all revenue requirement calculations on a volumetric allowance for non-revenue water, not percentages. Section III of Brian Bruce's testimony supports this Special Request.

Special Request #16: California American Water requests permission to establish a memorandum account for potential compliance costs related to Public Health Goals and Maximum Contaminant Levels for treatment of Chromium 6. Section VI of Robert Heilman's testimony supports this Special Request.

Special Request #17: California American Water requests the authority to open a memorandum account should new cross-connection requirements be enacted. Section VI of Robert Heilman's testimony supports this Special Request.

Special Request #18: California American Water requests that all contamination proceeds should remain on its books until the Commission issues a final decision in R.09-03-014. Section VII of David Stephenson's testimony supports this Special Request.

Special Request #19: California American Water requests recovery of costs related to the Toro Arsenic Treatment Plant that are not recovered through an advice letter. Section III of Thomas Burnet's testimony supports this Special Request.

Special Request #20: California American Water requests authorization to recover all depreciation study costs over a six-year period beginning in January 2012. Section V of Jeffrey Dana's testimony supports this Special Request.

Special Request #21: If the Commission authorizes an audit of AWSC costs, California American Water requests permission to implement a surcharge to recover the costs of the audit. Section V of Jeffrey Dana's testimony supports this Special Request.

Special Request #22: California American Water requests permission to recover the remaining six months of unamortized rate case costs for the Sacramento and Larkfield Districts as part of the total rate case cost recovery in this application. Section V of Jeffrey Dana's testimony supports this Special Request.

Special Request #23: California American Water requests permission to retire the Bradbury Irrigation System during the period from 2015-2017. Section IV of Todd Brown's testimony supports this Special Request.

Special Request #24: California American Water requests recovery of all costs related to the Toro Goodwill acquisition above the book value of the purchased assets in accordance with Public Utilities Code §§ 2718-2720. Section V of Jeffrey Dana's testimony supports this Special Request.

Special Request #25: California American Water requests a tariff for fire flow testing. Section VII of David Stephenson's testimony supports this Special Request.

Special Request #26: California American Water requests establishment of a permanent revenue requirement schedule for the recovery of and return on the Citizens

Acquisition Premium. Section VII of David Stephenson's testimony supports this Special Request.

Special Request #27: California American Water requests the authority to update annually its Depreciation Studies. Section VII of David Stephenson's testimony supports this Special Request.

Special Request #28: California American Water requests that the Commission clarify that all purchased water costs, including those costs that the supplier may consider paid for at "penalty" rates, be included as part of the Modified Cost Balancing Account (MCBA). Section VII of David Stephenson's testimony supports this Special Request.

Special Request #29: California American Water is seeking Commission recognition of supply limitations placed on California American Water's service to customers in its Ventura County District, and the charges placed on water purchases above the prescribed level. To address the increased fees for water purchases, California American Water will be proposing conservation rates on all classes of customers, as well as a multi-block rate structure for residential customers. Section VII of David Stephenson's testimony supports this Special Request.

Special Request #30: As part of the rate design proposal in this proceeding, California American Water will request that the Commission authorize it to implement an inclining block rate design for Bradbury irrigation customers in the Duarte Service area of California American Water's Los Angeles District. Section VII of David Stephenson's testimony supports this Special Request.

Special Request #31: California American Water requests the elimination of the Dry Creek Special Facilities Area in Sacramento District and the inclusion of all capital expenditures for the Walerga Tank capital project, less the total special facilities fees collected, as part of rate base. California American Water also requests that the Commission authorize a new Special Facility Fee for all of Placer County. Section VII of David Stephenson's testimony and Section III of Andrew Soule's testimony support this Special Request.

Special Request #32: California American Water requests that the Commission allow full recovery of all costs incurred to modify the ORCOM billing system to accommodate the new rate design in the Monterey County District. Section VII of David Stephenson's testimony supports this Special Request.

Special Request #33: California American Water requests that the Commission allow it to earn it authorized rate of return or equivalent interest rate on all advice letter projects that are not included in rate base, until such time that they are included in rate base and the Commission has authorized the return on and recovery of the investment in rates. Section IV of Jeffrey Linam's testimony supports this Special Request.

Special Request #34: California American Water requests that the Commission authorize the annual recovery of all balancing and memorandum accounts as previously authorized for gas utilities. Section IV of Jeffrey Linam's testimony supports this Special Request.

Special Request #35: California American Water requests that the Commission authorize a new memorandum account to track all cost related to changes in health care as a result of national health care reforms. Section V of Sherrene Chew's testimony supports this Special Request.

Special Request #36: California American Water requests that the Commission authorize the establishment of a low-income memorandum account for the Monterey County District. Section V of Sherrene Chew's testimony supports this Special Request.

California American Water also discusses the special requests in Exhibit B to the application.

IV. REQUIRED INFORMATION

A. Applicant Information

Applicant's legal name is California-American Water Company. California American Water's corporate office and post office address is 1033 B Avenue, Suite 200 Coronado, California 92118. California American Water is a California corporation organized

under the laws of the State of California on December 7, 1965. California American Water is a Class A regulated water utility organized and operating under the laws of the State of California. California American Water provides water and wastewater service in various areas in the following California counties: Los Angeles, Monterey, Placer, Sacramento, San Diego, Sonoma, and Ventura. Included as Appendix A to this application is a chart summarizing the corporate structure of California American Water, and its relationship with its parent company, American Water, and American Water subsidiaries.

A certified copy of California American Water's articles of incorporation was filed with the Commission on January 6, 1966 in connection with Application 48170. A certified copy of an amendment to California American Water's articles of incorporation was filed with the Commission on November 30, 1989 in connection with Application 89-11-036. A certified copy of an Amendment to California American Water's Articles of Incorporation dated October 3, 2001 and filed with the office of the California Secretary of State on October 4, 2001, was filed with the Commission on February 28, 2002, in connection with Application 02-02-030. The Articles of Incorporation have not been subsequently amended.

None of the persons described in Section 2 of General Order No. 104-A has a material financial interest in any transaction involving the purchase of materials or equipment or the contracting, arranging, or paying for construction, maintenance work, or service of any kind to which Applicant has been a party during the period subsequent to the filing of California American Water's last Annual Report with this Commission or to which California American Water proposed to become a party at the conclusion of the year covered by said Annual Report.

B. Application Correspondence

Correspondence and communications concerning this application should be addressed to the following person:

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C. Category

Rule 1.3(e) of the Commission's Rules of Practice and Procedure defines ratesetting proceedings as those in which "the Commission sets or investigates rates for a specifically named utility (or utilities), or establishes a mechanism that in turn sets the rates for a specifically named utility (or utilities)." The Commission should categorize this general rate case proceeding as ratesetting.

D. Evidentiary Hearings

Evidentiary hearings will likely be necessary to address factual disputes on material issues, such as water sales and operating revenues, operation and maintenance expenses, utility plant, rate base, taxes, and revenue requirements.

E. Issues

The issue in this proceeding is whether California American Water's proposed revenue requirement and associated rates and related requests are "just and reasonable" as required by Section 451 of the Public Utilities Code. The Rate Case Plan also requires California American Water to identify any "contentious issues," defined as issues previously

addressed by the Commission for California American Water or another water utility for which a different outcome is requested.[5] Below California American Water describes the contentious issues, shows the estimated revenue requirement impact of each issue, and indicates the testimony that provides additional support and/or information about the issue.

1. Consumption Estimates Not Based on Regression Analyses

California American Water based the consumption estimate for the test year on 2009 consumption levels for the Larkfield, Los Angeles County, Ventura County, Sacramento, and San Diego County Districts. Consumption for the first half of 2010 was lower than consumption for the first half of 2009 and substantially lower than consumption levels before 2009. California American Water believes that the lower consumption is the result of a variety of factors, but primarily conservation efforts. California American Water provided ten-year regression analyses but it projected consumption levels that were too high given the water supply situation in California. The 2009 consumption level will still likely be higher than 2010 consumption, but produces an estimate that will be much closer than the ten-year regression analysis.

The water revenue adjustment mechanism (WRAM) and modified cost balancing account (MCBA) ameliorate the financial impact. Stacey Fulter discusses consumption estimates in Section III of her testimony.

2. Non-Revenue Water Measurement (Special Request #15)

For ratemaking purposes, California American Water requests that the Commission use a specific amount for non-revenue water instead of a percentage. This figure is important for purchased water, purchased power, and chemical calculations. Using a percentage is problematic because if certain water losses and water used but not billed are constant, the percentage of non-revenue water will vary greatly with total water usage. As water sales go down, the percentage will increase. As water sales go up, the percentage will decrease. Using a

[5] D.04-06-018, *Order Instituting Rulemaking to Consider Revisions to the General Rate Case Plan for Class A Water Utilities*, 2004 Cal. LEXIS PUC 276, *55.

specific amount per connection per day, instead of a percentage, will produce a more accurate result for ratemaking purposes. There is no financial impact to using a specific amount instead of a percentage. Brian Bruce discusses measuring non-revenue water in Section III of his direct testimony.

3. Rate of Return on Deferred Balances Over Short Term Borrowing Limit, Rate of Return on Advice Letter Capital Projects, and Annual Amortization of Balancing Accounts (Special Requests # 4 and #33)

California American Water requests authorization to adjust the interest it records on all deferred balances over its short-term borrowing limit that currently earn interest at the 90-day commercial paper rate to earn the authorized weighted cost of capital. Based on the December 31, 2009 balance of deferred balances of $51.8 million and a short-term borrowing limit of $33 million, the pre-tax earnings shortfall is $1.5 million.

California American Water requests authorization to earn the full authorized cost of capital on all capital advice letter projects from project inception. Currently, in most cases, California American Water does not earn any carry cost on advice letter projects. During 2009, this created a pre-tax earnings shortfall of $1.3 million.

California American Water requests to recover all balancing account balances in rates on an annual basis, similar to the process followed by natural gas utilities in California. This would improve California American Water's cash flows because the current practice of recovering balances over as long as three-years has a negative impact on earnings. Accounting Standards Codification (ASC) 980 - 065 – 25 (formerly EITF 92-7) allows alternative revenue programs such as the WRAM, MCBA and other balancing accounts to be recognized in financial reporting only if the amounts will be collected within twenty-four months.

Jeffrey Linam addresses these Special Requests in Section IV of his direct testimony.

4. Walerga Tank Capital Project (Special Request #31)

In early 2000, developers in the West Placer Service Area were in the advanced stages of planning for development and phased construction of approximately 18,000 new single-family homes. In D.02-06-054, the Commission authorized a Dry Creek Special Facilities Fee that would collect the estimated pro rata costs from each developer as development proceeded.[6] Since the Dry Creek Special Facilities Zone was established, however the circumstances have changed significantly.

California American Water is requesting to end the Dry Creek special facilities fees along with the special accounting and ratemaking previously approved. The Walerga Tank project is necessary and the current special facilities fees are insufficient to fund the project. California American Water further requests that the Commission authorize a new special facilities fee of $5,850 per EDU to all new customers in Placer County. Because we are anticipating few new customers, California American Water is also requesting that the Commission add the full cost of the Walerga Tank project, and all other non-in tract facilities in Placer County, less the total special facilities fees collected, to rate base in the Sacramento District. The revenue requirement impact estimate for the Walerga project is approximately $750,000 when it is complete in 2013, which will be reduced by all proposed connection fees. John Kilpatrick, Andrew Soule, and David Stephenson all discuss various aspects of the Walerga Tank project in their direct testimony, in Sections III, III, and VII, respectively.

5. Toro Acquisition Goodwill (Special Request #24)

In D.07-11-034, the Commission approved California American Water's acquisition of the Toro Water Company.[7] In that decision, the Commission found that the $408,000 acquisition price was the fair market value of the assets. The Commission also indicated that California American Water could seek the $105,000 premium included in the price

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[6] D.02-06-054, *Application of California-American Water Company (U210W), a California Corporation, for an Order Authorizing and Addition to its Main Extension Rule, Rule 15, to Establish a Dry Creek Developers Special Facilities Fee*, 2002 Cal. PUC LEXIS 369.

[7] D.07-11-034, *Application of California-American Water Company (U210W) and John W. Richardson & Associates, Court-Appointed Receiver for Toro Water Service, Inc.*, 2007 Cal. PUC LEXIS 658.

as part of rate base. Due to the timing of the Toro acquisition, however California American Water did not include the acquisition premium in the 2008 Monterey County District general rate case.

Toro was a purchase of a business, as opposed to an asset purchase. With a purchase of a business, the acquired deferred tax liabilities and other transaction costs needed to be factored into the calculation of goodwill, but were not considered in the settlement agreement the Commission approved in D.07-11-034 for a variety of reasons. These items gave rise to the increased goodwill. The acquisition and tax related adjustments increased the acquisition premium/goodwill to $260,000 as of December 31, 2009.

California American Water has increased the rate base for Toro assets by $260,000 consistent with Public Utilities Code Section 2720 paragraph (a), which states, "The commission shall use the standard of fair market value when establishing the rate base value for the distribution system of a public water system acquired by a water corporation. This standard shall be used for ratesetting." For ratesetting purposes, California American Water has allocated the $260,000 to the Toro assets acquired and is being depreciated over their respective useful lives. The increase in rate base over the amount previously approved in D.07-11-034 is $155,000 or $380 per customer, which will increase rates by approximately $4.12 per month. Jeffrey Dana addresses this special request in Section V of his testimony.

6. California Water Association Dues

California American Water pays membership dues to the California Water Association (CWA). California American Water included $162,231 in its revenue requirement in this general rate case, which represents 72.7% of its CWA dues. The 27.3% that California American Water did not include represents lobbying expenses. The 27.3% was determined to be the amount that is not tax deductible by the CWA and represents its best estimate for 2010.

The 27.3% is lower than the 1994 Memorandum of Understanding that specified a lobbying percentage of 62%. There is considerable difference, however, in the operation of the non-profit CWA today in comparison to its operation in 1994. The lower lobbying expense

reflects the fact the portion of CWA's regulatory budget that is not used for influencing legislation or direct communications with a covered executive branch official. If the Commission allowed only 38% of California American Water's CWA dues the revenue requirement would be reduced to $84,797 for a $77,434 difference. Jeffrey Dana discusses CWA dues in Section IV of his testimony.

F. Schedule

The Commission's Rate Case Plan sets the schedule for general rate case applications. Table 3 below is a schedule for this proceeding, which California American Water based on the Rate Case Plan.

Table 3

Event	20-Month Schedule	Dates
Proposed Application Tendered	-59	5/3/2010
Deficiency Letter Mailed	-30	6/1/2010
Appeal to Executive Director	-24	6/7/2010
Executive Director Acts	-20	6/11/2010
Application Filed/Testimony Served	0	7/1/2010
Rate Design Proposal		8/1/2010
Prehearing Conference Start Date	10 – 75	
Update of Applicant's Showing	102	10/11/2010
Public Participation Hearings	10 – 190	
DRA Testimony	204	1/21/2011
Other Parties Serve Testimony	218	2/4/2011
Rebuttal Testimony	264	3/23/2011
ADR Processes or Settlement Begins	270-290	3/30/2011
Evidentiary Hearings begin	291	4/18/2011
Evidentiary Hearings end	310	5/7/2011
Opening Briefs Filed and Served	340	6/6/2011
Motion for Interim Rates	340	6/6/2011
Mandatory Status Conference	341	6/7/2011
Reply Briefs Filed and Served (includes Comparison Exhibit)	350	6/16/2011
Water Division Technical Conference	370	7/6/2011
ALJ's Proposed Decision Mailed	460	10/4/2011
Comments on Proposed Decision	480	10/24/2011
Reply Comments	487	10/31/2011

Event	20-Month Schedule	Dates
Commission Meeting	501	11/14/2011
Effective Date of New Rates		1/1/2012

V. NOTICE AND SERVICE

In accordance with Rule 3.2(b), California American Water will serve a copy of this application upon the attached service list.

Within ten days of the filing, California American Water will cause to be published once, in a newspaper of general circulation in the area served, a notice of the general terms of the proposed increases. California American Water will submit proof of such publication to the Commission. California American Water has provided a draft of the customer notices to the Public Advisors Office. A sample draft notice is attached as Exhibit F. California American Water will send notice of the application to its customers in accordance with Rule 3.2(d).

VI. SUPPORT FOR THE APPLICATION

In support of its rate request, California American Water will introduce the proposed application, final application, exhibits, work papers, Minimum Data Requirements, and other data request responses, copies of which have been or will be delivered to the Division of Ratepayer Advocates (DRA) and Commission staff. California American Water will also provide written and oral direct and rebuttal testimony in support of its requests.

A. Exhibits

Appended to this application are the exhibits listed below, which California American Water submits in compliance with Rule 3.2(a) of the Commission's Rules of Practice and Procedure.

Exhibit A – Financial Information

Exhibit B – Special Requests

Exhibit C - Cost of Capital

Exhibit D - Minimum Data Requirements (served but not filed)

Exhibit E – Compliance

Exhibit F – Customer Notices

B. Testimony

California American Water will serve (but not file) direct testimony in support of this application. Table 4 is an index of witnesses and testimony issues.

Table 4

Witness	Issues
Anthony, Craig E.	Coastal Division Operations - NOAA payment, employee changes, Seaside Replenishment, wastewater, waste disposal and sludge removal, Coastal Division operations.
Brown, Todd	Southern Division Operations – Employees, water supply, Raymond Basin, purchased water, purchased power, chemicals; Special Requests – Bradbury irrigation system
Bruce, Brian	Conservation - Non-Revenue Water, OEEP; Special Requests - Change to Monthly Meter Reading in Larkfield, Sacramento, Los Angeles County and Sacramento Districts; non revenue water should use be recorded by volume instead of percentage. Engineering - Vehicle Capital Investments.
Brunet, Thomas	Toro Well Rehabilitation project (IP-0540-3), the Phase 1 ASR project (IP-0540-193, 245, & 246), and the Toro Arsenic Treatment project (IP-0540-1). Monterey 2008 GRC - Scope, schedule, and cost differences.
Burnett, Jay	Minimum Data Requirements: Water Sales and Production for the Los Angeles County, San Diego County and Ventura Districts.
Cephas, Charisse, L.	Rates – Plant, Rate Base.
Chew, Sherrene	Special Requests - Changes in present rules and tariffs with respect to hydrant meters, fire flow tests, recovery of all memo and balancing accounts.
Cooper, Karen	Customer Service - Company Overview and Policy, Call Center.
Dana, Jeffrey	CPUC Compliance - Company Overview and Policy, Rate Case Decision Compliance; General Office - California American Corp, Non-Management Costs; Minimum Data Requirements - Result of Operations Report, Water Action Plan; Special Requests - Depreciation study recovery, AWSC audit cost recovery, recovery of six months of unamortized costs for Sacramento and Larkfield rate case expenses, Toro Goodwill.

Witness	Issues
Feizollahi, Fred	Engineering - San Diego and Ventura County District Capital Investment Projects; Operations - Central - CPS/System Maps, Northern - CPS / System Maps, Southern - CPS / System Maps.
Fulter, Stacey	Rates: Revenue Forecasting.
Heilman, Robert E.	Environmental Compliance: Company Overview and Policy, Back Flow Prevention, DPH, Water Quality (MDR); Special Requests: Potential PHG / MCL for Treatment of Chromium 6.
Jordan, Rodney	Rates - General Taxes, Income Taxes.
Kilpatrick John T.	Engineering - Sacramento Area District and Larkfield County District Capital Investment Projects.
Linam, Jeffrey	CPUC Compliance - Finance and other Decisions; Financial - Company Overview and Policy; Special Requests - ROE or Equivalent interest rate on all deferred items when we have balances in excess of our short term credit limit, amortize the account balances for all of its balancing accounts annually, earn its authorized weighted average cost of capital on all capital advice letter projects.
MacLean, Robert	Company Overview and Policy
Na, Monica	Conservation - Company Overview and Policy, District Programs; CPUC Compliance - Conservation Compliance.
Peterson, Austin	Deferred Tank Maintenance
Pilz, Patrick	Rates - Expenses
Pintar, Stephanie	MPWMD and California American Water Conservation
Pressey, Edward	Minimum Data Requirements: Company Overview and Policy, Corporate and Unregulated Activity.
Ransom, Darwin	Domestic Production Activities Deduction
Reifer, Mark	Engineering - Los Angeles Count District capital investment projects
Rogers, Scott	Engineering - Monterey Wastewater and Toro capital investment.
Schubert, Mark	Engineering - Company overview and policy; Monterey County District capital investment and recurring projects. Minimum Data Requirements - Infrastructure status and planning, engineering; Special Requests - Lower Carmel Valley Well, Ventura County Main Break, Toro Arsenic Treatment Plant Cost.

Witness	Issues
Simon, Edward	CPUC Compliance - GO 103A Compliance; Operations - Company overview and policy; Special Requests - File compliance plans on all items of required compliance with GO 103A.
Soule, Andrew	Northern Division Operations - Water supply, employees, purchased power, purchased water, chemicals, Walerga.
Stephenson, David	CPUC Compliance - OII and OIR compliance and RWE compliance; General Office - AWSC and Business Transformation; Legal - Company overview and policy; Rates - Company overview and policy; Special Requests - Continue WRAM / MCBA (MDR), rate design (MDR), Monterey County District consolidation, Sacramento WRAM and MCBA, maintain the WRAMs and MCBAs in all Districts, eliminate the DSIC in LA, treatment of Business Transformation Costs, charging for fire flow tests, set an amortization schedule for Citizen's Acquisition Premium for entire recovery period.
Thorig, Dennis	Risk - Company overview and policy, compliance, safety record, Training.
Tilden, Kevin	Communications - Company overview and policy, customer, employee, rate case. Special Requests - Service Territory Designation

VII. CONCLUSION

WHEREFORE, California American Water respectfully requests that the Commission issue its findings and an order to the effect that:

The revenue requirements and associated rates proposed and requested by California American Water are fair, just and reasonable;

California American Water be granted its Special Requests;

California American Water be authorized to publish, file and make effective, as of January 1, 2011 (San Diego County and Ventura County Districts), and as of January 1, 2012 (Larkfield, Los Angeles County, Monterey County, Monterey Wastewater and Sacramento Districts) the proposed revenue requirements and associated rates requested or such other

revenue requirements and associated rates as will result in the additional gross revenues requested in this application; and

For such other and further relief as is just.

Dated: July 1, 2010

Respectfully submitted,

By: _____
Lori Anne Dolqueist
Attorney for Applicant
California-American Water Company

300118606.3

VERIFICATION

I, the undersigned, say:

I am an officer of CALIFORNIA-AMERICAN WATER COMPANY, a corporation, and am authorized to make this verification for and on behalf of CALIFORNIA-AMERICAN WATER COMPANY, and I make this verification for that reason. I have read the foregoing application, am informed, and believe the matters therein are true, and, on that ground, allege that the matters stated therein are true.

I declare under penalty of perjury that the foregoing is true and correct.

Executed at San Francisco, California, July 1, 2010.

CALIFORNIA-AMERICAN WATER COMPANY

By: _____
David P. Stephenson

NOTICE OF AVAILABILITY

Exhibits A-F in support of California American Water's Application exceeds 50 pages in length and 3.5 megabytes in size. Therefore, pursuant to Rules 1.9(c)(1)-(2), California American Water hereby provides this Notice of Availability of Exhibits A-F. Upon written request, California American Water will provide a copy of Exhibits A-F in support of the Application on parties on whom this Notice of Availability is served. Parties that wish to obtain a copy of Exhibits A-F in support of the Application should contact:

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Exhibits to the Application

Exhibit A - Financial Information

Exhibit B - Special Requests

Exhibit C - Cost of Capital

Exhibit D - Minimum Data Requirements

Exhibit E - Compliance

Exhibit F - Customer Notices

California American Water will serve (but not file) direct testimony in support of the Application.[1] Parties needing a copy of direct testimony should also contact the Ms. Velez.

Dated: July 1, 2010

By: Cinthia A. Velez

[1] See Section VI.B. in the Application.

PROOF OF SERVICE

I, Demetrio Marquez, declare as follows:

I am employed in San Francisco County, 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. On July 1, 2010, I served the within:

APPLICATION OF CALIFORNIA-AMERICAN WATER COMPANY TO INCREASE REVENUES IN EACH OF ITS DISTRICTS STATEWIDE

on the interested parties in this action addressed as follows:

See Attached Service List

☒ **(BY 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.

☒ **(BY OVERNIGHT MAIL)** By placing such document(s) in a sealed envelope, for collection and overnight 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 overnight service mailing, said practice being that in the ordinary course of business, correspondence is deposited with the overnight messenger service, July 1, 2010, for delivery as addressed.

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 July 1, 2010, at San Francisco, California.

Demetrio A. Marquez

300118993.1

CALIFORNIA-AMERICAN WATER COMPANY
2010 STATEWIDE GENERAL RATE CASE APPLICATION SERVICE LIST

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SAN DIEGO COUNTY DISTRICT

Via US Mail

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CALIFORNIA-AMERICAN WATER COMPANY
2010 STATEWIDE GENERAL RATE CASE APPLICATION SERVICE LIST

VENTURA COUNTY DISTRICT

Via US Mail

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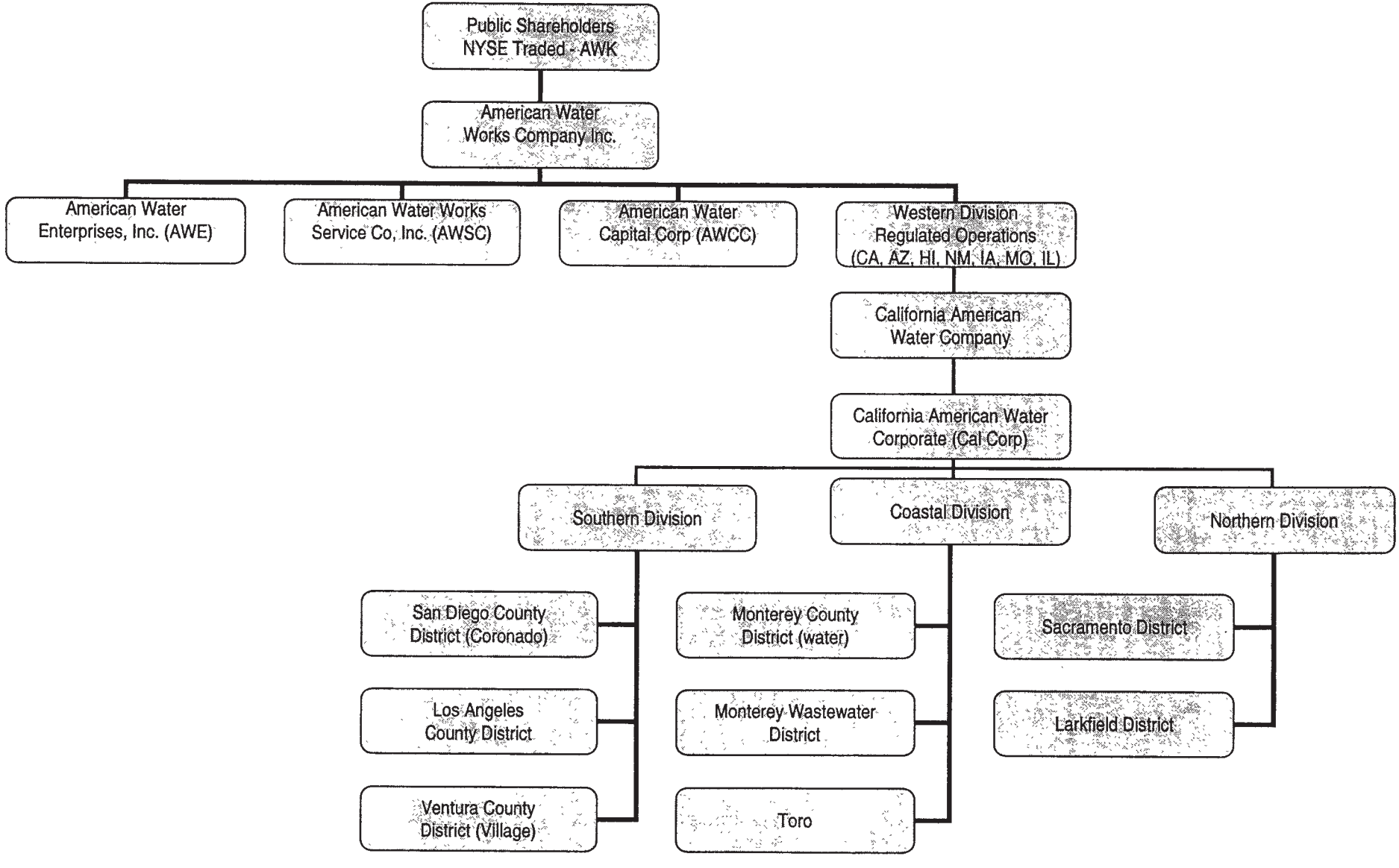
Appendix A

CALIFORNIA
AMERICAN WATER

Company Organizational Structure