BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

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Joint Application of Park Water Company (U314W) and Apple Valley Ranchos Water Company (U346W) for Authority to Establish an Authorized Cost of Capital for 2013–2015.	A.12-05-001 (Filed May 1, 2012)
In the Matter of the Application of San Gabriel Valley Water Company (U337W) for an Authorized Cost of Capital for 2013 through 2015.	A.12-05-002 (Filed May 1, 2012)
Application of Suburban Water Systems (U339W) for Authority to Establish its Authorized Cost of Capital for the period from January 1, 2013 through December 31, 2015.	A.12-05-004 (Filed May 1, 2012)
Application of Great Oaks Water Company (U162W) for an Order establishing its authorized cost of capital for the period from July 1, 2013 through June 30, 2016.	A.12-05-005 (Filed May 1, 2012)

JOINT MOTION FOR ADOPTION OF ALL-PARTY SETTLEMENT AGREEMENT

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November 28, 2012

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Joint Application of Park Water Company (U314W) and Apple Valley Ranchos Water Company (U346W) for Authority to Establish an Authorized Cost of Capital for 2013–2015.	A.12-05-001 (Filed May 1, 2012)
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JOINT MOTION FOR ADOPTION OF ALL-PARTY SETTLEMENT AGREEMENT

I. INTRODUCTION

Pursuant to Rule 12.1 *et seq.* of the Rules of Practice and Procedure ("Rule") of the California Public Utilities Commission ("Commission"), the Division of Ratepayer Advocates ("DRA"), Great Oaks Water Company ("Great Oaks"), Park Water Company and Apple Valley Ranchos Water Company Water Service Company ("Park/Apple Valley"), San Gabriel Valley Water Company ("San Gabriel"), and Suburban Water Systems ("Suburban") (collectively, "the Parties") move for Commission approval and adoption of the *Settlement Agreement Among the Division of Ratepayer Advocates, Great Oaks Water Company, Park Water Company and Apple Valley Ranchos Water Company, San Gabriel Valley Water Company, and Suburban Water Systems* ("Settlement") attached as Appendix A. The Parties mutually and jointly support the proposed Settlement as reasonable, consistent with the law, and in the public interest.

II. PROCEDURAL BACKGROUND

Pursuant to the Commission's Rate Case Plan (D.07-05-062),[1] on May 1, 2012, Great Oaks, Park/Apple Valley, San Gabriel, and Suburban (collectively "Applicants") each filed separate applications to establish their authorized costs of capital. On May 4, 2012, Park/Apple Valley filed their Amended Joint Application. On June 6, 2012, DRA filed a protest to the application of Great Oaks. On June 7, 2012, DRA filed protests to the applications of Park/Apple Valley, San Gabriel and Suburban. On July 3, 2012, the *Scoping Memo and Ruling of the Assigned Commissioner and Administrative Law Judge* ("Scoping Memo") was issued. On August 6, 2012, the Applicants served supplemental information responding to specific questions presented in the Scoping Memo. DRA served testimony on August 27, 2012, and the Applicants served rebuttal testimony on September 21, 2012.

The Parties noticed and held a settlement conference on September 27, 2012, and settlement negotiations continued through October 26, 2012. On October 26, 2012, the Parties informed the assigned Administrative Law Judge via e-mail that they had reached settlement. Subsequently, the evidentiary hearings, which had originally been scheduled for the week of October 29, 2012, were cancelled.

III. THE SETTLEMENT AGREEMENT

A. The Settlement Is Reasonable

Pursuant to Rule 12.1(d), the Commission will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with law, and beneficial to ratepayers. The Commission has a well-established policy of settling disputes if they are fair and reasonable in light of the whole record.[2] This policy reduces the expense of litigation, conserves scarce Commission resources, and allows parties to "reduce the

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[1] D.07-05-062, *Order Instituting Rulemaking to Consider Revisions to the General Rate Case Plan For Class A Water Companies*, 2007 Cal. PUC LEXIS 226, *75.

[2] D.11-06-023, *In the Matter of the Application of Golden State Water Company on Behalf of its Bear Valley Electric Service Division (U913E), for Approval of RPS Contract with BioEnergy Solutions, LLC, and for Authority to Recover the Costs of the Contract in Rates*, 2011 Cal. PUC LEXIS 330, **17-18.

risk that litigation will produce unacceptable results."[3] In D.00-09-034, the Commission held that the Parties' evaluation should carry material weight in the Commission's review of a settlement.[4]

In this case, the proposed Settlement is reasonable in light of the whole record because it reflects the evidence provided by all of the Parties. It takes into account the changes in the financial markets since the Commission addressed cost of capital for Park/Apple Valley, San Gabriel, and Suburban in D.10-10-035 and for Great Oaks in D.10-12-057.[5] Furthermore, although the settlement between DRA and the four large Class A water utilities that the Commission approved in D.12-07-009 is not precedential, it is worth noting that the agreed upon return on equity in this Settlement, 9.79%, is significantly lower than the 9.99% the Commission approved in D.12-07-009, despite evidence of the greater risk of the water utilities in this proceeding.[6]

The testimony of expert witnesses sponsored by each of the Parties will be received into evidence in connection with the Commission's receipt and consideration of this Motion for adoption of the Settlement. The Parties' witnesses include financial experts with many years of experience testifying with respect to the theoretical and practical issues associated with the

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[3] *Id.*

[4] D.00-09-034, *Order Instituting Investigation into the operations and practices of the Southern California Gas Company, concerning the accuracy of information supplied to the Commission in connection with its Montebello Gas Storage Facility*, 2000 Cal. PUC LEXIS 694, **29, 31.

[5] D.10-10-035, *Application of San Jose Water Company (U168W) for Authority to Determine its Cost of Capital and to Apply that Cost of Capital in Rates for the Period From January 1, 2010 through December 31, 2012, and Related Matters*, 2010 Cal. PUC LEXIS 433, **8-15; D.10-12-057, *Application of Great Oaks Water Company (U162W) for Authority to Establish its Authorized Cost of Capital Pursuant to the Rate Case Plan for Water Utilities*, dated December 16, 2010, pp. 9-11.

[6] D.12-07-009, *Application of California Water Service Company (U60W) for Authority to Establish its Authorized Cost of Capital for the period from January 1, 2012 through December 31, 2014, and Related Matters*, 2012 Cal. PUC LEXIS 297, *1; *see* DRA Exh. 1, *Testimony of Dr. J. Randall Woolridge On Behalf of the Division of Ratepayer Advocates Cost of Capital*, dated August 27, 2012 ("Woolridge"), pp. 61:3-5, 62:15-17; Park/Apple Valley ("PWAV") Exh. 1, *Testimony of Leigh K. Jordan*, dated May 1, 2012, pp. 9, 16-7; PWAV Exh. 2, *Testimony of Thomas M. Zepp*, dated May 1, 2012, pp. 4, 25-26, 32-37, 39; San Gabriel ("SG") Exh. 1, *Direct Testimony of Pauline M. Ahern, CRRA*, dated May 2012, pp. 7, 18-21, 61-63; SG Exh. 3, *Direct Testimony of David M. Batt*, dated May 2012, p. 7; Suburban ("SWS") Exh. 2, *Prepared Direct Testimony of Paul R. Moul*, dated May 1, 2012, pp. 5, 10, 12, 17, 31, 34-35, 39; Great Oaks Exh. C, *Testimony of John W.S. Roeder*, dated May 1, 2012, p. 4; PWAV Exh. 5, *Rebuttal Testimony of Leigh K. Jordan*, dated September 21, 2012, pp. 8-10, 13; SG Exh. 5, *Rebuttal Testimony of Pauline M. Ahern, CRRA*, dated September 2012, pp. 23, 30-37, 39, 56; SWS Exh. 4, *Rebuttal Testimony of Paul Moul*, dated September 21, 2012, pp. 34-34; Great Oaks *Rebuttal Testimony of John W.S. Roeder*, dated September 21, 2012, pp. 14, 20-21.

determination of costs of equity capital, costs of long-term debt, and capital structure, as well as company officers and DRA staff with hands-on experience addressing issues of company-specific risks as well as the mechanics of financing utility operations. Each of the Parties developed its case with testimony and exhibits which that Party considered sufficient to support its proposed resolution of the issues. The Settlement represents a compromise of those proposals, reflecting each Party's assessment of its relative prospects for success or for a less favorable outcome. The Parties jointly submit that the Settlement is a fair compromise of strongly held and well articulated positions on the contested issues and that the body of testimony and exhibits that will be received into evidence in this proceeding provides solid support for the Commission to approve the Settlement as proposed.

Additionally, in D.10-10-035, the Commission adopted a Water Cost of Capital Mechanism ("WCCM") for Park/Apple Valley, San Gabriel, and Suburban.[7] In D.10-12-057, the Commission adopted a WCCM for Great Oaks.[8] The WCCM's in both proceedings were based on the cost of capital mechanism developed for the large investor-owned energy utilities, and were similar to those adopted for the larger Class A water utilities in D.09-07-051.[9] In the Settlement, the Parties agree to upper and lower boundaries of the dead band of 100 basis points. This is consistent with the WCCM approved by the Commission for the larger Class A water utilities in D.12-07-009 and D.09-07-051.

B. The Settlement Is Consistent With The Law

The Parties are aware of no statutory provision or prior Commission decision that would be contravened or compromised by the Settlement. The issues resolved in the Settlement are within the scope of the proceeding. All the Parties have entered into this Settlement voluntarily

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[7] D.10-10-035, *Application of San Jose Water Company (U168W) for Authority to Determine its Cost of Capital and to Apply that Cost of Capital in Rates for the Period From January 1, 2010 through December 31, 2012, and Related Matters*, 2010 Cal. PUC LEXIS 433, **90-96. The decision also applied to San Jose Water Company, which is not a party to the current proceeding.

[8] D.10-12-057, *Application of Great Oaks Water Company (U162W) for Authority to Establish its Authorized Cost of Capital Pursuant to the Rate Case Plan for Water Utilities*, 2010 Cal. PUC LEXIS 440, *29.

[9] D.09-07-051, *Application of California Water Service Company (U60W) for Authority to Establish its authorized Cost of Capital for the period from January 1, 2009 through December 31, 2011, and Related Matters*, 2009 Cal. PUC LEXIS 356, **32-34.

and upon review and advice by their respective legal counsels and technical staff. The Commission's approval and adoption of the Settlement will not be construed as an admission or concession by any Party regarding any fact or matter of law in dispute in this proceeding, nor as any statement of precedent or policy of any kind for any purpose against any Party in any current or future proceedings. Finally, the Settlement Agreement is an integrated agreement, so that if the Commission rejects any portion of a Settlement, each Party to the Settlement Agreement has the right to withdraw. The Parties therefore believe the Settlement is fully consistent with the law.

C. The Settlement Is In The Public Interest

Compared to a complete evidentiary hearing on all issues, the Settlement achieves a significant savings in time, resources, and expense for all the Parties and for the Commission as well. As required by the Commission's Rules of Practice and Procedure, the Parties properly noticed and held a settlement conference.[10] During the period from September 27 through October 26, 2012, the Parties engaged in extensive settlement negotiations. The Parties fully considered the facts and the law relevant to this case, and reached reasonable compromises on the issues. A full hearing on all issues could have resulted in higher or lower rates of return than requested by the Applicants or recommended by DRA. However, a full hearing would have taken several more days, required additional witness testimonies for all parties, and necessitated significant additional travel. The Commission has acknowledged that "[t]here is a strong public policy favoring the settlement of disputes to avoid costly and protracted litigation."[11]

The Settlement is mutually beneficial to both the Applicants and ratepayers. As noted above, the return on equity agreed upon in the Settlement reflects changes in the market since the Commission last addressed the cost of capital for Great Oaks, Park/Apple Valley, San Gabriel and Suburban. Moreover, adoption of the Settlement will result in decreased rates for the customers of Great Oaks, Park/Apple Valley, San Gabriel and Suburban.

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[10] Scoping Memo, p. 6; Commission Rules of Practice and Procedure 12.1(b).

[11] D.88-12-083, *Application of Pacific Gas and Electric Company, for Authorization to Establish a Rate Adjustment Procedure for Its Diablo Canyon Nuclear Power Plant*, 1988 Cal. PUC LEXIS 886, *85.

IV. CONCLUSION

The Parties jointly sponsor this Motion and the accompanying Settlement as reasonable, consistent with the law, and in the public interest. For the foregoing reasons, the Parties respectfully request that the Commission approve the Settlement as expeditiously as possible.

Respectfully submitted,

November 28, 2012

By: *_____/s/ Lori Anne Dolqueist_____*
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APPENDIX A

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Joint Application of Park Water Company (U314W) and Apple Valley Ranchos Water Company (U346W) for Authority to Establish an Authorized Cost of Capital for 2013–2015.	A.12-05-001 (Filed May 1, 2012)
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SETTLEMENT AGREEMENT AMONG THE DIVISION OF RATEPAYER ADVOCATES, GREAT OAKS WATER COMPANY, PARK WATER COMPANY AND APPLE VALLEY RANCHOS WATER COMPANY, SAN GABRIEL VALLEY WATER COMPANY, AND SUBURBAN WATER SYSTEMS

November 27, 2012

TABLE OF CONTENTS

		Page
1.	GENERAL PROVISIONS	1
2.	GREAT OAKS WATER COMPANY	3
3.	PARK WATER COMPANY AND APPLE VALLEY RANCHOS WATER COMPANY	6
4.	SAN GABRIEL VALLEY WATER COMPANY	7
5.	SUBURBAN WATER SYSTEMS	9
6.	WATER COST OF CAPITAL MECHANISM ("WCCM")	10
7.	EXECUTION	13

SETTLEMENT AGREEMENT AMONG THE DIVISION OF RATEPAYER ADVOCATES, GREAT OAKS WATER COMPANY, PARK WATER COMPANY AND APPLE VALLEY RANCHOS WATER COMPANY, SAN GABRIEL VALLEY WATER COMPANY, AND SUBURBAN WATER SYSTEMS

1. GENERAL PROVISIONS

1.1 Pursuant to Article 12 of the Rules of Practice and Procedure of the California Public Utilities Commission ("Commission"), this all-party Settlement Agreement ("Agreement") is made and entered into by and among Great Oaks Water Company ("Great Oaks"), Park Water Company and Apple Valley Ranchos Water Company Water Service Company ("Park/Apple Valley"), San Gabriel Valley Water Company ("San Gabriel"), Suburban Water Systems ("Suburban"), and the Division of Ratepayer Advocates ("DRA"). Great Oaks, Park/Apple Valley, San Gabriel, Suburban, and DRA are referred to jointly herein as the "Parties" or sometimes each individually as a "Party."

1.2 After conducting discovery, negotiating in person, and analyzing their respective interests, the Parties have determined that this Settlement Agreement is in their best interests, in the public interest, and more cost-effective for all concerned than undertaking the expense, delay, and uncertainty of further litigation. Because 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. The Parties have reached this Settlement Agreement after taking into account the possibility that each Party may or may not prevail on any given issue.

1.3 This Agreement has been jointly negotiated and drafted by the Parties. The language of this Agreement shall be construed as a whole according to its fair meaning and not strictly enforced for or against any Party.

1.4 Pursuant to Rule 12.5 of the Commission's Rules of Practice and Procedure, approval of this Settlement Agreement by the Commission may not be construed as a precedent or statement of policy of any kind for or against any Party in any current or future proceeding.

1.5 The Parties agree to maintain the confidentiality of all settlement negotiations and communications made during the course of settlement discussions in this matter, and agree that such communications remain subject to Rule 12.6 of the Commission's Rules of Practice and Procedure.

1.6 This Settlement Agreement is not severable. The Parties agree that if the Commission fails to adopt this Settlement Agreement in its entirety and without condition or modification, the Parties shall convene a settlement conference within fifteen days after the Commission's action to discuss whether they can resolve issues raised by the Commission's disposition of this Settlement Agreement. If the Parties cannot mutually agree to resolve the issues raised by the Commission's actions within thirty days after their settlement conference, this Agreement shall be rescinded and deemed as if it were never entered into, and the Parties shall be released from any and all obligations set forth in this Settlement Agreement.

1.7 None of the provisions of this Agreement shall be considered waived by the Parties unless such waiver is given in writing. The failure of any Party to insist in any one or more instances upon strict performance of any of the provisions of this Settlement Agreement or to take advantage of any of their respective rights hereunder shall not be construed as a waiver of any such provision or the relinquishment of any such rights for the future, but the same shall continue and remain in full force and effect.

1.8 This Agreement and all the covenants set forth herein shall be binding upon and shall inure to the benefit of the respective Parties hereto, including their respective successors in interest.

1.9 The Parties agree without further consideration to execute and deliver such other documents and take such other actions as may be necessary to achieve the purposes of this Agreement. The Parties agree to use their best efforts to obtain Commission approval of the

Settlement Agreement. The Parties shall request that the Commission approve the Settlement Agreement without change and find the Settlement Agreement to be reasonable, consistent with the law, and in the public interest.

2. GREAT OAKS WATER COMPANY

2.1 In Application 12-05-005, direct testimony, and rebuttal testimony, Great Oaks presented evidence supporting the following:

- A capital structure consisting of 100% common equity with no long-term debt.[1]
- A return on equity and overall rate of return of 10.20% to 9.99% for the three-year period beginning July 1, 2013.[2]
- Continuation of the Water Cost of Capital Mechanism ("WCCM") with a 100 basis-point upward and downward "deadband" and an initial measurement period of July 2012 through June 2013.[3]
- The discontinuance of the annual audit requirement set forth in D.10-12-057.[4]

2.2 In its testimony, DRA made the following recommendations for Great Oaks:

- An imputed capital structure of thirty percent (30%) long-term debt and seventy percent (70%) common equity.[5]
- A cost of long-term debt of 7.14%.[6]
- A return on common equity of 9.00%.[7]
- An overall rate of return of 8.44%.[8]

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[1] A.12-05-005, Application of Great Oaks, filed May 1, 2012 ("Application"), pp. 4-5, 10; Great Oaks Exh. C, *Testimony of John W.S. Roeder*, dated May 1, 2012 ("Roeder Direct"), pp. 1-2, 6-9; Great Oaks *Response To Commission Request For Supplemental Information*, served August 6, 2012 ("Supplemental Information"), pp. 11-13; Great Oaks *Rebuttal Testimony of John W.S. Roeder*, dated September 21, 2012 ("Roeder Rebuttal"), pp. 24-25.

[2] Great Oaks Application, pp. 4-5, 10; Great Oaks Exh. C, Roeder Direct, pp. 2-3, 5-6; Great Oaks Supplemental Information, pp. 10-13; Great Oaks Roeder Rebuttal, pp. 3-24.

[3] Great Oaks Application, pp. 5-6; Great Oaks Exh. C, Roeder Direct, pp. 5, 10.

[4] Great Oaks Application, pp. 6, 10.

[5] DRA Exh. 1, *Testimony of Dr. J. Randall Woolridge On Behalf of the Division of Ratepayer Advocates Cost of Capital*, dated August 27, 2012 ("Woolridge"), pp. 5, 65, Attachment JRW-2.

[6] *Id.*, pp. 65, Attachment JRW-2.

[7] *Id.*, p. 64, Attachment JRW-2.

- Continuation of the WCCM with reduction of the "deadband" to an upward and downward 100 basis points.[9]

2.3 Great Oaks and DRA agree upon the following terms for Great Oaks for the period from July 1, 2013, through June 30, 2016:

	Ratio	**Cost**	**Weighted Cost**
Debt	30.0%	7.50%	2.25%
Equity	70.0%	9.79%	6.85%
Rate of Return			9.10%

2.4 Great Oaks is the smallest of the California Class A water utilities. Great Oaks is also a family-owned, closely held business, unlike most of the other Class A water utilities.

2.5 Great Oaks and DRA agree to continue the last authorized cost of debt approved by Commission Decision D.10-12-057.[10] Great Oaks does not currently have any long-term debt outstanding, but the agreed upon rate of 7.50% to use for ratemaking purposes is within the range of debt costs presented by both DRA and all other applicants in this proceeding.

2.6 When reviewing cost of capital, the Commission has stated: "if a company carries a high equity ratio, for ratemaking purposes we should necessarily consider adjusting either the return on equity or the capital structure."[11] In this proceeding, there is no evidence in the record that Great Oaks has or has had the ability or the discretion to reduce the equity owners' percentage of common equity through the issuance of long-term debt since the Commission last reviewed the cost of capital for Great Oaks in D.10-12-057. Therefore, Great Oaks and DRA agree that no additional long-term debt should be imputed to Great Oaks' capital structure for ratemaking purposes. Great Oaks and DRA agree that the ratemaking capital

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[8] DRA Exh. 1, Woolridge, Attachment JRW-2.

[9] DRA Exh. 2, *DRA Report Examining Issues Related to the Regulatory Environment for Class A Water Utilities and Providing Recommendations pertaining to Requested Capital Structure Adjustments*, dated August 27, 2012 ("Hoglund"), p. 12.

[10] *See* D.10-12-057, *Application of Great Oaks Water Company (U162W) for Authority to Establish its Authorized Cost of Capital Pursuant to the Rate Case Plan for Water Utilities*, 2010 Cal. PUC LEXIS 440 ("D.10-12-057, 2010 Cal. PUC LEXIS 440").

[11] D.10-12-057, 2010 Cal. PUC LEXIS 440, *27.

structure for Great Oaks in this proceeding should remain at the previously authorized level of 70% common equity and 30% long-term debt.

2.7 Unlike other applicants in this proceeding that have actual debt within their capital structure, Great Oaks does not. Great Oaks asserts that if actual debt were to be incurred by the company, any additional costs associated with issuing such debt (including but not limited to outside legal and consulting services, business reorganization, audit, accounting, and tax preparation costs) would not be accurately captured in revenue requirements. As such, DRA and Great Oaks agree that a Debt Issuance Memorandum Account should be authorized to allow Great Oaks to record and request recovery of any additional costs associated with issuing debt during the period governed by this settlement for which reasonable costs not captured in this settlement's imputed cost of debt were incurred.

2.8 Great Oaks and DRA agree that Great Oaks' currently-adopted and Commission-authorized rate of return, return on equity, cost of debt, and capital structure reflected in Great Oaks' current tariff rates under D.10-12-057 shall remain in effect until June 30, 2013, at which time return on equity, return on rate base, and capital structure agreed upon herein shall become effective.

2.9 Great Oaks and DRA agree that the requirement for annual audits set forth in D.10-12-057 shall continue for the calendar year 2012, except that (a) Great Oaks may continue to use any Certified Public Accountant previously approved by the Commission under the procedures established in D.10-12-057; and that (b) audited financial statements and related disclosures must be submitted by July 1 of the year following the calendar year being audited.

2.10 Great Oaks has complied with the Scoping Memo for this proceeding and all applicable requirements of the Commission's Rules of Practice and Procedure.

2.11 Great Oaks and DRA agree that the above settlement terms will provide ratepayers with reasonable rates sufficient to maintain the financial soundness and stability of Great Oaks.

2.12 Park/Apple Valley, San Gabriel, and Suburban take no position on the terms included in this Section 2.

3. PARK WATER COMPANY AND APPLE VALLEY RANCHOS WATER COMPANY

3.1 In Application 12-05-001, direct testimony, and rebuttal testimony, Park/Apple Valley sought Commission approval of the following for its cost of capital for 2013-2015:

- A ratemaking capital structure of 42.51% long-term debt and 57.49% common equity.[12]
- A cost of debt of 8.12%, a return on equity of 11.95%, and a rate of return of 10.32%.[13]
- Continuation of the WCCM, with a benchmark that would be the annual average of the Baa utility bond yields from October 1, 2011 through September 30, 2012 and a dead band of 100 basis points up and down.[14]

3.2 In its testimony, DRA made the following recommendations for Park/Apple Valley:

- A ratemaking capital structure of 47.05% long-term debt and 52.95% common equity.[15]
- A cost of debt of 8.12%, and a return on equity of 8.75%, which, with DRA's recommended capital structure, would result in a rate of return of 8.45%;[16] and
- Continuation of the WCCM, with a benchmark that would be the annual average of the Baa utility bond yields from October 1, 2011 through September 30, 2012 and a dead band of 100 basis points up and down.[17]

3.3 Park/Apple Valley and DRA agree upon the following terms for Park/Apple Valley for the period from January 1, 2013, through December 31, 2015:

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[12] A.12-05-001, Park Water and Apple Valley Ranchos Water Company ("PWAV") Exh. 1, *Testimony of Leigh K. Jordan*, dated May 1, 2012 ("Jordan Direct"), Table 1, p. 47.

[13] *Id.*

[14] *Amended Joint Application of Park Water Company and Apple Valley Ranchos Water Company*, filed May 4, 2012, pp. 3-4.

[15] DRA Exh. 1, Woolridge, Attachment JRW-2, p. 1.

[16] *Id.*

[17] DRA Exh. 2, Hoglund, p. 12.

	Ratio	Cost	Weighted Cost
Debt	43.0%	8.12%	3.49%
Equity	57.0%	9.79%	5.58%
Rate of Return			9.07%

3.4 Park/Apple Valley have complied with the Scoping Memo for this proceeding and all applicable requirements of the Commission's Rules of Practice and Procedure

3.5 Park/Apple Valley and DRA agree that the above settlement terms will provide ratepayers with reasonable rates sufficient to maintain the financial soundness and stability of Park and Apple Valley.

3.6 Great Oaks, San Gabriel, and Suburban take no position on the terms included in this Section 3.

4. SAN GABRIEL VALLEY WATER COMPANY

4.1 In Application 12-05-002, direct testimony, and rebuttal testimony, San Gabriel presented evidence supporting the following:

- Capitalization of 37.16% long-term debt and 62.84% common stock equity for the year 2013, 35.86% long-term debt and 64.14% common stock equity for the year 2014, and 37.68% long-term debt and 62.32% common stock equity for the year 2015.[18]
- A cost of long-term debt of 6.26% for years 2013 and 2014 and of 6.38% for year 2015, and a return on common stock equity of 11.60% for all three years.[19]
- An overall rate of return of 9.62% for 2013, 9.68% for 2014, and 9.63% for

[18] A.12-05-002, Application of San Gabriel ("SG"), filed May 1, 2012 ("Application"), pp. 1, 5, 8; SG Exh. 3, *Direct Testimony of David M. Batt* ("Batt Direct"), pp. 3-5, Table A; SG Exh. 7, *Rebuttal Testimony of David M. Batt*, dated September 2012 ("Batt Rebuttal"), pp. 2-5.

[19] SG Application, pp. 1. 4-5, 8; SG Exh. 1, *Direct Testimony of Pauline M. Ahern, CRRA*, dated May 2012 ("Ahern Direct"), pp. 3-5, 59-60, Attachment A, Schedule PMA-1; SG Exh. 2, *Direct Testimony of Robert W. Nicholson*, dated May 2012 ("Nicholson Direct"), pp. 32-34; SG Exh. 3, Batt Direct, pp. 5-7, Table A; *see* SG Exh. 4, *Supplemental Direct Testimony of David M. Batt*, dated August 2012 ("Batt Supplemental"); SG Exh. 5, *Rebuttal Testimony of Pauline M. Ahern, CRRA*, dated September 2012 ("Ahern Rebuttal"), pp. 2-8; SG Exh. 6, *Rebuttal Testimony of Robert W. Nicholson*, dated September 2012 ("Nicholson Rebuttal"); SG Exh. 7, Batt Rebuttal, pp. 5-11.

2015.[20]

- Continuation of the WCCM with a 200 basis-point upward and downward deadband, but with a measurement period of October 2012 through September 2013. San Gabriel initially supported continuation of the WCCM with a 200 basis-point upward and downward deadband, but in rebuttal testimony supported reducing the deadband to an upward and downward 100 basis points.[21]

4.2 In its testimony, DRA made the following recommendations for San Gabriel:

- Capitalization of 44.37% long-term debt and 55.63% common stock equity for the years 2013 through 2015.[22]
- A cost of long-term debt of 6.26% for years 2013 through 2015, and a return on common stock equity of 8.75% for all three years.[23]
- An overall rate of return of 7.65% for years 2013 through 2015.[24]
- Continuation of the WCCM with reduction of the deadband to an upward and downward 100 basis points.[25]

4.3 San Gabriel and DRA agree upon the following terms for San Gabriel for the period from January 1, 2013, through December 31, 2015:

	Ratio	**Cost**	**Weighted Cost**
Long-Term Debt	37.0%	6.26%	2.32%
Common Stock Equity	63.0%	9.79%	6.17%
Rate of Return			8.49%

4.4 San Gabriel has complied with the Scoping Memo for this proceeding and all applicable requirements of the Commission's Rules of Practice and Procedure.

[20] SG Application, pp. 1, 8; SG Exh. 1, Ahern Direct, pp. 2-3, Attachment A, Schedule PMA-1; SG Exh. 3, Batt Direct, Table A.

[21] SG Application, pp. 2, 8; SG Exh. 3, Batt Direct, pp. 7-8; SG Exh. 7, Batt Rebuttal, pp. 11-12.

[22] DRA Exh. 1, Woolridge, pp. 64-65, Attachment JRW-2.

[23] DRA Exh. 1, Woolridge, pp. 2-5, 63, 65-66, Attachment JRW-2; DRA Exh. 2, Hoglund, pp. 5-6.

[24] DRA Exh. 1, Woolridge, Attachment JRW-2.

[25] DRA Exh. 2, Hoglund, p. 12.

4.5 San Gabriel and DRA agree that the above settlement terms will provide ratepayers with reasonable rates sufficient to maintain the financial soundness and stability of San Gabriel.

4.6 Great Oaks, Park/Apple Valley, and Suburban take no position on the terms included in this Section 4.

5. SUBURBAN WATER SYSTEMS

5.1 In Application 12-05-004, direct testimony, and rebuttal testimony, Suburban presented evidence supporting the following:

- Capitalization of 37.12% long-term debt, 2.88% preferred stock and 60.00% common stock equity for the years 2013 through 2015.[26]
- A cost of long-term debt of 7.05% and a return on common equity of 11.25% for the years 2013 through 2015.[27]
- An overall rate of return of 9.49% for the years 2013 through 2015.[28]

5.2 In its testimony, DRA made the following recommendations for Suburban:

- Capitalization of 44.35% long-term debt, 1.52% preferred stock and 54.13% common stock equity for the years 2013 through 2015.[29]
- A cost of long-term debt of 7.05% for years 2013 through 2015, and a return on common equity of 8.50% for all three years.[30]
- An overall rate of return of 7.79% for years 2013 through 2015.[31]
- Continuation of the WCCM with returning the dead band to 100 basis points.[32]

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[26] A.12-05-004, *Application of Suburban Water Systems (U339W) for an Authorized Cost of Capital for Utility Operations for the Period From January 1, 2013 Through December 31, 2015* ("Application"), p. 3.

[27] *Id.*

[28] *Id.*

[29] DRA Exh. 1, Woolridge, pp. 64-65, Attachment JRW-2.

[30] DRA Exh. 1, pp. 2-5, 63, 65-66, Attachment JRW-2.; DRA Exh. 2, Hoglund, pp. 5-6.

[31] DRA Exh. 1, Woolridge, Attachment JRW-2.

[32] DRA Exh. 2, Hoglund, p. 12; DRA Exh. 1, Woolridge, p. 13.

5.3 Suburban and DRA agree upon the following terms for Suburban for the period from January 1, 2013, through December 31, 2015:

	Ratio	Cost	Weighted Cost
Debt	37.0%	7.05%	2.61%
Preferred Stock	3.0%	4.24%	.13%
Equity	60.0%	9.79%	5.87%
Rate of Return			8.61%

5.4 Suburban has complied with the Scoping Memo for this proceeding and all applicable requirements of the Commission's Rules of Practice and Procedure

5.5 Suburban and DRA agree that the above settlement terms will provide ratepayers with reasonable rates sufficient to maintain the financial soundness and stability of Suburban.

5.6 Great Oaks, Park/Apple Valley, and San Gabriel take no position on the terms included in this Section 5.

6. WATER COST OF CAPITAL MECHANISM ("WCCM")

6.1 Great Oaks WCCM

6.1.1 Great Oaks and DRA agree that the WCCM adopted in D.10-10-035,[33] has fairly balanced customer and shareholder interests and has provided a reasonable mechanism for adjusting the return on equity, and, except as revised in Sections 6.1.2 and 6.1.4 below, should also be adopted in this proceeding to determine any adjustment to the base year ratemaking return on common equity for the subsequent years of this cost of capital cycle.

6.1.2 The current upper boundary of the dead band for Great Oaks is 100 basis points and the lower boundary of the dead band is 200 basis points, as authorized in D.10-12-

[33] D.10-10-035, *In the Matter of the Application of San Jose Water Company (U168W) for Authority to Determine its Cost of Capital and to Apply that Cost of Capital in Rates for the Period From January 1, 2010 through December 31, 2012; and Related Matters*, 2010 Cal. PUC LEXIS 433 ("D.10-10-035, 2010 Cal. PUC LEXIS 433"), **90-96

057.[34] Great Oaks and DRA agree to set upper and lower boundaries of the dead band at 100 basis points. This is consistent with the terms of the WCCM the Commission approved for the larger Class A water utilities in D.12-07-009 and D.09-07-051.[35]

6.1.3 Great Oaks and DRA agree that the Moody's Baa utility bond yield index should be used to determine the benchmark.

6.1.4 For Great Oaks, the new benchmark period should be July 1, 2012 through June 30, 2013.

6.1.5 If Moody's average of Baa bond rates for the period from July 1, 2013 to June 30, 2014 is either 100 basis points above or below the initial benchmark, then Great Oaks's return on equity for the year July 1, 2014 to June 30, 2015 shall be adjusted by one-half the difference between the initial benchmark and the July 1, 2013 to June 30, 2014 average. If the return on equity is adjusted, the average of Moody's Baa bond rates for the period from July 1, 2013 to June 30, 2014 shall become the new benchmark.

6.1.6 If Moody's average of Baa bond rates for the period from July 1, 2014 to June 30, 2015 is either 100 basis points above or below the applicable benchmark, then Great Oaks's return on equity for the year July 1, 2015 to June 30, 2016 shall be adjusted by one-half the difference between the applicable benchmark and the July 1, 2014 to June 30, 2015 average. If the return on equity is adjusted, the average of Moody's Baa bond rates for the period from July 1, 2014 to June 30, 2015 shall become the new benchmark.

6.2 Park/Apple Valley, San Gabriel, Suburban WCCM

6.2.1 Park/Apple Valley, San Gabriel, Suburban and DRA agree that the WCCM adopted in D.10-10-035 has fairly balanced customer and shareholder interests and has

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[34] D.10-12-057, 2010 Cal. PUC LEXIS 440, *29.

[35] D.12-07-009, *Application of California Water Service Company (U60W) for Authority to Establish its Authorized Cost of Capital for the period from January 1, 2012 through December 31, 2014, and Related Matters*, 2012 Cal. PUC LEXIS 297 ("D.12-07-009, 2012 Cal. PUC LEXIS 297"), **17-24; D.09-07-051, *Application of California Water Service Company (U60W) for Authority to Establish its authorized Cost of Capital for the period from January 1, 2009 through December 31, 2011, and Related Matters*, 2009 Cal. PUC LEXIS 356 ("D.09-07-051, 2009 Cal. PUC LEXIS 356"), **32-34, Ordering ¶ 1, inter alia.

provided a reasonable mechanism for adjusting the return on equity, and, except as revised in Sections 6.2.2 and 6.2.4 below, should also be adopted in this proceeding to determine any adjustment to the base year ratemaking return on common equity for the subsequent years of this cost of capital cycle.

6.2.2 The current upper and lower boundaries of the dead band for Park, San Gabriel and Suburban are 200 basis points as authorized by D.10-10-035.[36] Park/Apple Valley, San Gabriel, Suburban and DRA agree to upper and lower boundaries of the dead band of 100 basis points. This is consistent with the terms of the WCCM approved by the Commission for the larger Class A water utilities in D.12-07-009 and D.09-07-051.[37]

6.2.3 Park/Apple Valley, San Gabriel, Suburban and DRA agree that the Moody's Baa utility bond yield index should be used to determine the benchmark.

6.2.4 Park/Apple Valley, San Gabriel and Suburban agree that the new initial benchmark period should be October 1, 2011 through September 30, 2012.

6.2.5 If Moody's average of Baa bond rates for the period from October 1, 2012 to September 30, 2013 is either 100 basis points above or below the initial benchmark, then the return on equity for Park/Apple Valley, San Gabriel and Suburban for the year 2014 shall be adjusted by one-half the difference between the initial benchmark and the October 1, 2012 to September 30, 2013 average of Moody's Baa utility bonds. If the return on equity is adjusted, the average of Moody's Baa bond rates for the period from October 1, 2012 to September 30, 2013 shall become the new benchmark.

6.2.6 If Moody's average of Baa bond rates for the period from October 1, 2013 to September 13, 2014 is either 100 basis points above or below the applicable benchmark, then the return on equity for Park/Apple Valley, San Gabriel and Suburban for the year 2015 shall be adjusted by one-half the difference between the applicable benchmark and the October 1, 2013 to

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[36] D.10-10-035, 2010 Cal. PUC LEXIS 433, **96-96.

[37] D.12-07-009, 2012 Cal. PUC LEXIS 297, **17-24; D.09-07-051, 2009 Cal. PUC LEXIS 356, **32-34, Ordering ¶ 1, inter alia.

September 13, 2014 average. If the return on equity is adjusted, the average of Moody's Baa bond rates for the period from October 1, 2013 to September 30, 2014 shall become the new benchmark.

7. EXECUTION

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. By signing below, each signatory for a Party by signing below represents and warrants that he/she is authorized to sign this Settlement Agreement on such Party's behalf and thereby bind such Party to the terms of this Settlement Agreement. This Agreement shall become binding and effective as of the date it is fully executed by all of the Parties.

Respectfully submitted,

DIVISION OF RATEPAYER ADVOCATES

By: _____
Joseph Como
Acting Director

Date: 11/27/2

APPLE VALLEY RANCHOS WATER COMPANY

By: _____
Leigh K. Jordan
Executive Vice President

Date: _____

GREAT OAKS WATER COMPANY

By: _____
John W.S. Roeder
Chief Executive Officer

Date: _____

PARK WATER COMPANY

By: _____
Leigh K. Jordan
Executive Vice President

Date: _____

SAN GABRIEL VALLEY WATER COMPANY

By: _____
Robert W. Nicholson, President

Date: _____

SUBURBAN WATER SYSTEMS

By: _____
Michael Quinn, President

Date: _____

Respectfully submitted,

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Leigh K. Jordan
Executive Vice President

Date: _____

GREAT OAKS WATER COMPANY

By: _____
~~John W.S. Redder~~ Timothy S. Guster
~~Chief Executive Officer~~ Vice President

Date: November 27, 2012

PARK WATER COMPANY

By: _____
Leigh K. Jordan
Executive Vice President

Date: _____

SAN GABRIEL VALLEY WATER COMPANY

By: _____
Robert W. Nicholson, President

Date: _____

SUBURBAN WATER SYSTEMS

By: _____
Michael Quinn, President

Date: _____

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Executive Vice President

Date: _____

SAN GABRIEL VALLEY WATER COMPANY

By: Robert W. Nicholson
Robert W. Nicholson, President

Date: 11/27/12

SUBURBAN WATER SYSTEMS

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Michael Quinn, President

Date: _____

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Executive Vice President

Date: _____

SAN GABRIEL VALLEY WATER COMPANY

By: _____
Robert W. Nicholson, President

Date: _____

SUBURBAN WATER SYSTEMS

By: Michael Quinn
Michael Quinn, President

Date: 11/28/12