



BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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In the Matter of the Application of CALIFORNIA WATER SERVICE COMPANY (U-60-W), a California corporation, for an order 1) authorizing it to increase rates for water service by \$92,765,000 or 19.4% in test year 2014, 2) authorizing it to increase rates on January 1, 2015 by \$17,240,000 or 3.0%, and on January 1, 2016 by \$16,950,000 or 2.9% in accordance with the Rate Case Plan, and 3) adopting other related rulings and relief necessary to implement the Commission's ratemaking policies.

Application 12-07-007
Filed July 5, 2012

MOTION TO ADOPT SETTLEMENT AGREEMENT BETWEEN CALIFORNIA WATER SERVICE COMPANY (U-60-W), THE OFFICE OF RATEPAYER ADVOCATES, THE CITY OF CARSON, THE CITY OF LANCASTER, THE CITY OF SELMA, THE CITY OF VISALIA, THE COUNTY OF KERN, THE COUNTY OF LAKE, THE LEONA VALLEY TOWN COUNCIL, RESIDENTS AGAINST WATER RATES, THE UTILITY REFORM NETWORK, AND JEFFREY YOUNG

(SETTLEMENT AGREEMENT ATTACHED)

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<p>Dated: October 30, 2013</p>	

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CALIFORNIA WATER SERVICE COMPANY (U-60-W), THE OFFICE OF RATEPAYER
ADVOCATES, THE CITY OF CARSON, THE CITY OF LANCASTER, THE CITY OF
SELMA, THE CITY OF VISALIA THE COUNTY OF KERN, THE COUNTY OF LAKE,
THE LEONA VALLEY TOWN COUNCIL, RESIDENTS AGAINST WATER RATES,
THE UTILITY REFORM NETWORK, AND JEFFREY YOUNG
(SETTLEMENT AGREEMENT ATTACHED)

I. INTRODUCTION

Pursuant to Rules 12.1 *et seq.* of the Rules of Practice and Procedure ("Rules") of the California Public Utilities Commission ("Commission"), Applicant California Water Service Company (U 60 W) ("Cal Water"), the Office of Ratepayer Advocates ("ORA"),¹ The City of Carson, the City of Lancaster, the City of Selma, the City of Visalia, the County of Kern, the County of Lake,² the Leona Valley Town Council ("Leona Valley"), R.A.W. (Residents Against Water Rates), The Utility Reform Network ("TURN"), and Mr. Jeffrey Young ("Mr. Young")

¹ The Division of Ratepayer Advocates was renamed the Office of Ratepayer Advocates effective September 26, 2013, pursuant to Senate Bill No. 96 (Budget Act of 2013: public resources), which was approved by the Governor on September 26, 2013.

² At the request of the County of Lake, estimates of the rates for a typical residential customer in the Redwood Valley District-Lucerne under the Agreement, and the surcharges currently applicable in that area, are provided in Appendix A.

(collectively “the Parties”) submit this motion for approval of the attached proposed Settlement Agreement (“Agreement”) resolving most issues Cal Water and other parties raised in the company’s General Rate Case Application filed on July 5, 2012.³ The proposed Settlement Agreement is attached to this Motion as **Appendix B**.

The Parties to the Agreement have worked closely to reach mutually agreeable positions on the numerous issues in dispute in this matter. Agreement negotiations commenced in May 2013 and continued up to the filing of this Motion, with Appendix B as the result of the Parties’ efforts. For the reasons discussed below, the Parties request that the Commission approve the attached Agreement.

II. MATERIAL ISSUES STILL IN DISPUTE

While the Agreement addresses almost all of the issues related to all 23 of Cal Water’s regulated districts in California, as well as Cal Water’s general office, some material issues remain in dispute. Consistent with the Assigned Commissioner’s and the Assigned Administrative Law Judge’s Scoping Memo on December 3, 2012, the Agreement does not include specific rates or tariffs.⁴ In addition, the Agreement does not address Cal Water’s cost of capital, which the Commission resolved in D.12-07-009.

Briefing: The Parties reserve the right to brief the following issues, which are not addressed in the Agreement: Cal Water’s proposed Sales Reconciliation Mechanism and Cal Water’s working cash calculation.

Comments on Agreement: In addition, some Parties do not fully agree with all aspects of the Agreement, and reserve the right to present alternative proposals on specific issues.

- The **City of Lancaster** (located in the separately-tariffed Lancaster area of the Antelope Valley District). RATE INCREASE AND SALES FORECAST CONDITION: The City of Lancaster only takes a Settlement position on Antelope Valley District matters impacting the City of Lancaster. The City of Lancaster supports the capital projects that the Agreement proposes in the Lancaster area of the Antelope Valley District. The City of Lancaster otherwise opposes the Agreement and any rate increase in the Lancaster area of the Antelope Valley District. In particular, the City of Lancaster does not support the increase in rates

³ Each Party joins the Agreement subject to the conditions described in Section II, below.

⁴ “The [Presiding Officer’s Decision] will resolve all issues but not include rates and tariffs. The parties will jointly propose rates and tariffs consistent with the POD in their comments on the POD.” Scoping Memo at 5.

proposed under the Agreement for the Lancaster area of the Antelope Valley District, which is largely due to the sales forecast, and reserves the right to propose alternative rates based upon a different sales forecast and formula.

- The **City of Selma** (located in the Selma District). SALES, EXPENSE FORECASTS AND/OR DISTRICT PLANT CONDITIONS: The City of Selma does not support the rate increase proposed under the Agreement for the Selma District, and reserves the right to propose alternative rates based upon different sales and/or expense forecasts or proposed additions to plant in service.
- The **City of Visalia** (located in the Visalia District). The City of Visalia actively participated in confidential settlement discussions on certain issues, and it is the Parties' understanding that staff is recommending that the City of Visalia support relevant sections of the Agreement. The Parties have been informed that this recommendation will soon be brought before the governing body of the City of Visalia, and the official outcome will be conveyed to the service list. Notwithstanding the City of Visalia's general support for the Agreement, the City of Visalia does not support the rate increase proposed under the Agreement for the Visalia District.
- The **County of Kern** ("Kern County") (for ratepayers in the Kern River Valley and Bakersfield Districts). RATE DESIGN CONDITION (refer to charts in Chapter 3): The County of Kern does not support the rate design shift underlying the proposed rates under the Agreement for the Kern River Valley District, and reserves the right to present alternative proposals on this issue.
- The **County of Lake** ("Lake County") (for ratepayers in portions of the Lucerne and Unified ratemaking areas of the Redwood Valley District).⁵ The County of Lake actively participated in confidential settlement discussions on certain issues, and it is the Parties' understanding that staff is recommending that the County of Lake support relevant sections of the Agreement. The Parties have been informed that this recommendation will soon be brought before the governing body of the County of Lake, and the official outcome will be conveyed to the service list.
- ("**R.A.W.**") **Residents Against Water Rates** (located in the Kern River Valley District). RATE DESIGN CONDITION (refer to charts in Chapter 3): R.A.W does not support the rate design shift underlying the proposed rates for the Kern River Valley District, and reserves the right to present alternative proposals on this issue.

⁵ The County of Lake supports the Affordability, Rate Design, and Redwood Valley – Lucerne Plant portions of this Agreement, and does not expressly oppose any other portion of the Agreement.

III. PROCEDURAL BACKGROUND

Cal Water filed its rate application on July 5, 2012, pursuant to the Commission's Rate Case Plan ("RCP") for Class A water companies. Cal Water's Application requested an order authorizing rate increases in all 23 of Cal Water's California districts, and included a series of special requests for consideration by the Commission. ORA and TURN protested the Application in August 2012. The additional groups and individuals described in Section II, above, subsequently intervened.

Administrative Law Judge ("ALJ") Mason held a Pre-Hearing Conference on October 29, 2012. On December 3, 2012, ALJ Mason issued the Scoping Memo and Ruling of Assigned Commissioner ("Scoping Memo") setting dates for intervenor and rebuttal testimony, evidentiary hearings, and briefing, with the goal of having the evidentiary record of this proceeding submitted on July 26, 2013.⁶ In addition, the Scoping Memo stated that a proposed decision "will resolve all issues but not include rates and tariffs. The parties will jointly propose rates and tariffs consistent with the POD in their comments on the POD."⁷

The Commission held Public Participation Hearings in sixteen locations in April and May 2013. ORA served its testimony on the Application on March 1, 2013 and March 15, 2013, and several Intervenors served testimony on March 22, 2013. Cal Water served rebuttal testimony on April 30, 2013 and May 15, 2013.

All active parties engaged in extensive confidential settlement discussions, some in person and some by phone. Consistent with Rule 12.1(b), an all-party settlement conference was noticed on July 11, 2013 to be held on July 18, 2013. Cal Water, ORA, the City of Visalia, and R.A.W. also engaged in an Alternate Dispute Resolution session on July 25, 2013, with ALJ Seaneen Wilson who was assigned as the neutral mediator.

All of the dates set aside for evidentiary hearings in this case were continued, and removed from the Commission's calendar at the Parties' request, to allow fruitful settlement negotiations to continue, with the exception of one: on July 12, 2013, some Parties convened to identify and mark their testimony for evidentiary purposes.

⁶ *Id.*

⁷ *Id.*

IV. THE SETTLEMENT MEETS THE CRITERIA UNDER RULE 12.1(D)

The Agreement being submitted with this Motion addresses the revenue requirement, rate design, and other special requests for Cal Water's 23 regulated districts in California. The issues in this proceeding that the Agreement does not address are described above in Section II. Subject to those exceptions, the Parties believe that the Agreement fulfills the criteria that the Commission requires for approval of such settlements. Rule 12.1(d) requires that a settlement be "reasonable in light of the whole record, consistent with law, and in the public interest." Taken as a whole, this Motion and the Agreement satisfy these standards for approving settlements for the reasons discussed below. The Commission should therefore grant this Motion and adopt the Agreement.

A. The Agreement Is Based On The Evidence

The Agreement is based, first and foremost, on facts in evidence in the proceeding. The reasonableness of the Agreement is fully supported by the Parties' reports and testimony. Following extensive discovery and settlement negotiations, the Parties reached a reasonable compromise on the vast majority of issues that were in contention. The settlement negotiations were accomplished at arms' length over the course of several months and there was no collusion.

The Agreement itself contains a very detailed, issue-by-issue discussion of (1) the Parties' initial positions, as provided in testimony, (2) the relevant material data generated through data requests, rebuttal testimony, and/or settlement negotiations, and (3) the ultimate disposition of each issue. In many cases, the Parties were able to illustrate in the Agreement the logical progression of facts, figures, and policy discussion that resulted in the resolution of an issue. In other cases, the Parties resolved issues in the give-and-take of the confidential negotiation process. In all cases, however, the disposition of each issue resulted from reasoned and thoughtful analysis of the law and the evidence.

B. The Agreement Does Not Contravene Any Rules Or Laws

The Parties are aware of no statutory provision or prior Commission decision that would be contravened or compromised by the Agreement. The issues resolved in the Agreement are within the scope of the proceeding. The Parties believe that the Agreement, accompanied by a Commission determination on the open issues and subject to the limitations described in Section II, will produce just and reasonable rates.

C. The Agreement Is In The Public Interest

The Parties believe that the Agreement is in the public interest. First, the Commission has explained that a settlement which “commands broad support among participants fairly reflective of the affected interests” and “does not contain terms which contravene statutory provisions or prior Commission decisions” well serves the public interest. *Re San Diego Gas & Elec.*, D.92-12-019, 46 CPUC 2d 538, 552. In this proceeding, numerous Parties were active on several issues raised in Cal Water’s Application, particularly the capital projects in their districts, as well as the Low Income Rate Assistance (“LIRA”) program, the Rate Support Fund program, and rate design. Together, the Parties fairly represent the affected interests: Cal Water provides water service to the customers in the relevant districts, ORA is statutorily mandated with representing all ratepayers in California, and the Intervenors consist of ratepayers, local government entities, and another independent organization representing the interests of ratepayers, The Utility Reform Network.

Second, the primary public interest affected by this proceeding is the delivery of safe and reliable water service at reasonable rates. The Agreement advances this interest because it fairly balances Cal Water’s opportunity to earn a reasonable rate of return against the needs of consumers for reasonable rates and safe, reliable water service.

In addition, Commission approval of the Agreement will provide speedy resolution of contested issues, which will save unnecessary litigation expense, and will conserve Commission resources. The Commission has acknowledged that “[t]here is a strong public policy favoring the settlement of disputes to avoid costly and protracted litigation.” *Re PG&E*, D.88-12-083, 30 CPUC 2d 189, 221.

Finally, the comprehensive breadth of the Agreement, coupled with the detailed analysis in the Agreement itself, demonstrates that the Agreement, taken as a whole, is in the public interest.

V. CONCLUSION

The Parties believe that the Agreement, the related documentation, and the pleadings in this case convey sufficient information for the Commission to discharge its future regulatory obligations with regard to this Application.

The Parties note that they have entered into this Agreement on the basis that it shall not be construed as an admission or a concession by them regarding any fact or matter of law in

dispute in this proceeding. Furthermore, as contemplated by Rule 12.5, the Parties do not intend that the Commission's adoption of this Agreement be construed as any statement of precedent or policy of any kind for or against either of them, in the current or in any future proceedings. For the reasons stated above, the Commission should grant this Joint Motion and adopt the Agreement attached hereto.

CALIFORNIA WATER SERVICE COMPANY

By: _____/s/_____
Natalie Wales
Regulatory Attorney
1720 North First Street
San Jose, CA 95112

Dated: October 30, 2013

APPENDIX A

Redwood Valley District – Lucerne:

Estimated Rates and Surcharges

APPENDIX A

Redwood Valley District – Lucerne

Estimated rates and surcharges for residential customer at average usage of 5 ccf/month.

	Current	Proposed	Comments
Average Bill <u>without</u> credits or surcharges	\$ 84.64	\$ 123.52	
<i>Credits to Bills</i>			
Rate Support Fund <u>Credit</u> (all customers)	\$ 24.00	\$ 50.66	(1)
Low-Income Ratepayer Assistance <u>Credit</u> (qualified residential customers)	\$ 12.00	\$ 25.13	(2)
<i>Surcharges to Bills</i>			
SDWBA/month	\$ 4.60	\$ 4.60	
SDWSRF/month	\$ 16.52	\$ 16.52	
Existing WRAM 1 - will end 3/2014	\$ 3.67	\$ 3.67	(3)
Existing WRAM 2 - will end 11/2014	\$ 6.66	\$ 6.66	
Existing WRAM 3 - will end 2/2016	\$ 6.58	\$ 6.58	
Current average bill amount of Lucerne customers with RSF benefit	\$ 60.64	\$ 72.86	
Current average bill amount of Lucerne customers with both RSF and LIRA benefits	\$ 48.64	\$ 47.73	
Current average bill amount of Lucerne customers with both RSF and LIRA benefits, and with surcharges noted above	\$ 86.66	\$ 85.75	

(1) Proposed RSF credit of \$10.13 per Ccf., credit based on average customers using 5 Ccf per month

(2) LIRA credit up to \$30 for RSF districts

(3) WRAM surcharge calculated assuming 5 Ccf of water use per month (1) \$0.7330/Ccf (2) \$1.3313/Ccf (3) \$1.3160/Ccf