Decision **PROPOSED DECISION OF ALJ MASON** (Mailed 7/21/2014)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of California Water Service Company (U60W), 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)

DECISION GRANTING JOINT MOTION TO ADOPT THE PROPOSED SETTLEMENT AGREEMENT AUTHORIZING CALIFORNIA WATER SERVICE COMPANY'S GENERAL RATE INCREASES FOR 2014, 2015, AND 2016

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Exhibit A: Settlement Agreement
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Exhibit C: List of Exhibits Admitted into Evidence
https://cs.cpuc.ca.gov/otcs/livelink.exe?func=ll&objaction=overview&objid=98790672

Exhibit D: Corrected Tables (Attachment 1 to Cal Water Service Company's Motion to Accept Corrected Attachments, filed August 11, 2014)
https://cs.cpuc.ca.gov/otcs/livelink.exe?func=ll&objaction=overview&objid=101865254

Exhibit E: Corrected Tariff Schedules (Attachment 2 to Cal Water Service Company's Motion to Accept Corrected Attachments, filed August 11, 2014)
https://cs.cpuc.ca.gov/otcs/livelink.exe?func=ll&objaction=overview&objid=101865145

Exhibit F: Corrected Tariff Rules (Attachment 3 to Cal Water Service Company's Motion to Accept Corrected Attachments, filed August 11, 2014)
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Exhibit G: Corrected Preliminary Statement (Attachment 4 to Cal Water Service Company's Motion to Accept Corrected Attachments, filed August 11, 2014)
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BMP	Best Management Practice
BPP	Balanced Payment Plan
CCCP	Cross-Connection Control Program
CCIRMA	Cost of Capital Interim Rate
CCPMA	Credit Card Pilot Program Memorandum Account
CDPH	California Department of Public Health
CEBA	Conservation Expense Balancing Accounts
CEBA2	Conservation Expense Balancing Accounts Preliminary Statement Z2
CEMA	Catastrophic Event Memorandum Account
COIIMA	Conservation OII Expenses
CUWCC	California Urban Water Conservation Council
CWS	California Water Service Company
DTSC	Department of Toxic Substances Control Memorandum Account
GOSMA	General Office Synergies Memorandum Account
GRCCMA	Groundwater Rule Compliance Memorandum Account
HCBA	Health Care Balancing Account
HCMA	Health Care Memorandum Account
ICBA	Incremental Cost Balancing Accounts
IFRSMA	International Financial Reporting Standards Memorandum Account
IMA	Infrastructure Act Memorandum Account
IT/HR	Information Technology and Human Resources
KRIMA	Kern River Improvement Memorandum Account
LBA	Lucerne Balancing Account
LIRA	Low-Income Ratepayer Assistance
LIRABA	Low Income Ratepayer Assistance Balancing Account

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LIRAMA	Low Income Ratepayer Assistance Memorandum Account
MCBA	Modified Cost Balancing Account
MCL	Maximum Containment Level
MFRPMA	Military Family Relief Program Memorandum Account
NTP&S	Non-Tariffed or Unregulated Products and Services
OEEPMA	Operational Energy Efficiency Program Memorandum Account
ORA	Office of Ratepayer Advocates (formerly DRA)
PCBA	Pension Cost Balancing Account
PCBA2	Pension Cost Balancing Account Preliminary Statement AA2
PCELMA	PCE Litigation Memorandum Account
PRVMA	Pressure Reducing Valve Memorandum Account
RAW or R.A.W.	Residents Against Water Rates
RWMA	Recycled Water Memorandum Account
RSFBA	Rate Support Fund Balancing Account
RSF	Rate Support Fund
SLMA	Stockton Litigation Memorandum Account
SRM	Sales Reconciliation Mechanism
SWTMA	Salinas Water Treatment Memorandum Account
TCPLMA	Trichloropropone Litigation Memorandum Account
TIRBA	Temporary Interest Rate Balancing Account
WCCM	Water Cost-of-Capital Adjustment Mechanism
WCEMA	Water Conservation Expense Memorandum Account
WCLMA	Water Contamination Litigation Memorandum Account
WCMA	Water Conservation Memorandum Account
WMA	Wausau Insurance Litigation Memorandum Account
WRAM	Water Revenue Adjustment Mechanism

DECISION GRANTING JOINT MOTION TO ADOPT THE PROPOSED SETTLEMENT AGREEMENT AUTHORIZING CALIFORNIA WATER SERVICE COMPANY'S GENERAL RATE INCREASES FOR 2014, 2015, AND 2016

1. Summary

This decision grants the joint motion to adopt the proposed settlement agreement authorizing California Water Service Company's (Cal Water's) general rate increases for 2014, 2015, and 2016. The decision adopts an overall revenue requirement for test-year 2014 of $537,030,690. This represents an increase of $45,328,580, in 2014 over 2013 revenues a 9.2% increase.

The settlement agreement was signed by the following parties, with some parties providing conditional support as specified in Chapter 1 of the settlement agreement: the Office of Ratepayer Advocates, California Water Service Company, 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, R.A.W. (Residents Against Water Rates), the Utility Reform Network, and Jeffrey Young.

This decision also grants Cal Water's request to implement a Sales Reconciliation Mechanism to address errors in sales forecasting for the escalation years of the general rate case period.

Finally, this decision approves the working cash methodology, which was used to develop the proposed settlement agreement to compensate shareholders who provide funds to pay for the day-to-day operating expenses in advance of the receipt of offsetting revenues from customers.

This proceeding is closed.

2. Background

2.1. California Water Service Company's (Cal Water or CWS) Application

On July 5, 2012, Cal Water filed this application for an order (1) authorizing it to increase rates for water service in 23 districts 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.

2.2. Office of Ratepayer Advocates (ORA) and The Utility Reform Network's (TURN) Protests

On August 6, 2012, TURN filed a Protest to Cal Water's Application, claiming that TURN intends to address the reasonableness of the revenue requirements and the associated ratemaking mechanisms on behalf of residential ratepayers.

On August 8, 2012, ORA (formerly known as DRA) filed a Protest to Cal Water's Application, claiming that it needs to determine whether the estimated levels of revenues, expenses, and rate base are just and reasonable.

2.3. Motions for Party Status

Thus far, Motions for Party Status have been granted in favor of County of Lake, County of Kern, Denise Rushing, Residents Against Water Rates (R.A.W.), City of Lancaster, City of Oroville, City of Oroville's Historic District Neighborhood Watch, Leona Valley Town Council, City of Selma, City of Visalia, and Jeffrey Young.

2.4. Joint Prehearing Conference (PHC) Statement

On October 22, 2012, Cal Water, TURN, ORA, City of Selma, City of Visalia, and the Leona Valley Town Council filed their Joint PHC Statement.

Along with a proposed schedule for the case, Cal Water suggested that the Commission hold 18 Public Participation Hearings (PPH) to allow consumers in the affected districts to comment on the Application.

2.5. The PHC

The PHC was held on October 29, 2012.

2.6. Scoping Memo and Ruling

On December 3, 2012, the assigned Commissioner and assigned Administrative Law Judge (ALJ) issued their scoping memo and ruling which identified the following issues as being part of the proceeding's scope for resolution:

- Whether Cal Water's proposed revenue rate increases for Test and Escalation Years are reasonable and justified;
- Whether Cal Water's estimate of its operation and maintenance and administrative and general expenses are reasonable;
- Whether Cal Water's proposed additions to the plant are accurate, reasonable, and justified; and
- Whether Cal Water's estimate of its General Office expenses and capital additions are reasonable.

Additionally, based on the Cal Water 2009 General Rate Case (GRC), the assigned Commissioner and assigned ALJ identified the following issues that need to be addressed:

- Expenses and revenues;
- Rate base;
- Allocation of costs;
- Rate design, including charges and costs;
- Applicant's compliance with decisions generally applicable to water utilities, or specifically to Applicant and its facilities;

- Coordination with other relevant proceedings; and
- Other issues that may affect Applicant's ability to provide efficient, safe, and reliable water service as reasonable rates.

2.7. PPHs

PPHs were held on the following dates and locations:

- April 8, 2013 in Marysville, California;
- April 9, 2013 in Commerce, California;
- April 10, 2013 in Carson, California;
- April 11, 2013 in Tomales, California;
- April 12, 2013 in Lucerne, California;
- April 15, 2013 in Chico, California;
- April 16, 2013 in Guerneville, California;
- April 29, 2013 in Bakersfield, California;
- April 30, 2013 in Lake Isabella, California;
- May 3, 2013 in San Mateo, California;
- May 6, 2013 in King City and Salinas, California;
- May 13, 2013 in Dixon, California;
- May 15, 2013 in Visalia, California;
- May 17, 2013 in Livermore, California; and
- May 23, 2013 in Lancaster, California.

Overall, the PPHs were well attended, and the consensus was that customers were opposed to the proposed rate increases. The major points that the customers raised were as follows:

- The requested rate increases are far more than both the inflation rate and what is charged in neighboring locations that are served by municipal water utilities and, therefore, are not reasonable;
- Many customers are on fixed and/or low incomes and cannot afford the increase in water rates;
- The Low Income Rate Assistance (LIRA) Program is an insufficient offset for the proposed increase in water rates;
- Because of the Water Rate Adjustment Mechanism (WRAM), there is no benefit to water conservation because water rates will continue to increase if Cal Water's projections for water usage are not met; and
- Infrastructure projects that have been authorized under the prior GRC have not been started so it is inappropriate for Cal Water to seek additional water rate increases.

In addition, customers sent letters and e-mails to the Commission that reflected the same or similar sentiments conveyed at the PPHs.

In analyzing the record in the proceeding and reaching this decision, the Commission gave full consideration to these customer concerns and objections.

2.8. Assigned Commissioner and Assigned ALJ Ruling Amending Scoping Memo and Ruling

On September 13, 2013, the assigned Commissioner and assigned ALJ issued their ruling amending the December 3, 2012 Scoping Memo and Ruling by cancelling certain evidentiary hearing (EH) dates, and setting a new schedule for the parties to meet-and-confer in an effort to reach a settlement of this proceeding.

2.9. Joint Motion to Adopt Proposed Settlement Agreement

On October 30, 2013, Cal Water, ORA, City of Carson, City of Lancaster, City of Selma, City of Visalia, County of Kern, County of Lake, Leona Valley Town Council, Residents Against Water Rates, TURN, and Jeffrey Young (Settling Parties or Parties) filed a Joint Motion to Adopt the Proposed Settlement Agreement (Joint Motion). The Proposed Settlement Agreement (Settlement or Agreement) resolved the following issues in this GRC:

- Affordability issues (Chapter 2);
- Rate design issues (Chapter 3);
- Conservation program (Chapter 4);
- Affiliate transactions and non-tariffed services (Chapter 5);
- Special requests (Chapter 6);
- Balancing and memorandum accounts (Chapter 7);
- Sales and services (Chapter 8);
- General offices expenses (Chapter 9);
- District expenses (Chapter 10);
- Taxes (Chapter 11);
- Global plant issues (Chapter 12);
- General office plant issues (Chapter 13); and
- Specific water district issues involving advance capital budget projects, carryover projects, Advise Letter (AL) projects, projects excluded from plant additions, and adjustment to recorded plant balances (Chapters 14-37).

Most settling parties were focused on negotiations in one or more of the following general areas: revenue requirement determination for a specific area; modification of LIRA and the Rate Support Fund (RSF) (collectively, "affordability" issues); and rate design (the shift in revenues recovered through

the service charge versus the quantity charges). TURN also addressed certain special requests. To the extent that an issue was specifically negotiated between a subset of the parties, the Settlement identifies those parties at the beginning of the relevant section or chapter.

Because of its length, portions of the Settlement are incorporated into this decision as necessary. The entirety of the Settlement is attached as Exhibit A to this decision.

Along with the Settlement, the Parties appended the following attachments:

- Attachment 1: Summary of Earnings Comparison Tables, by district;
- Attachment 2: Rate Base Comparison Tables, by District;
- Attachment 3: Draft Modifications to Customer Service Rules (Special Request #15);
- Attachment 4: Draft Modifications to Cross-Connection Rules (Special Request #19);
- Attachment 5: Draft Preliminary Statements;
- Attachment 6: Summary of Annual Depreciation Rates;
- Attachment 7: Non-Specific Capital Budgets;
- Attachment 8: Meter Replacement Program;
- Attachment 9: Rate Base Offset AL Projects; and
- Attachment 10: Conservation Budget.

These Attachments are contained in Exhibit B to this decision. Of note is the fact that the Settlement does not include specific rates or tariffs. Instead, as

set forth in the Scoping Memo and Ruling,[1] the parties will propose rates and tariffs in their comments on the decision. Also, the Settlement does not resolve Cal Water's cost of capital, which the Commission resolved in Decision (D.) 12-07-009.[2] Finally, some parties did not fully agree with all aspects of the Settlement and reserved the right to present alternative proposals.

The Parties were given the opportunity to serve and file opening and reply comments regarding the Settlement as well as the following issues that were not resolved by the Settlement:

- Cal Water's proposed Sales Reconciliation Mechanism (SRM); and
- Cal Water's proposed working cash methodology.

On January 6, 2014 Cal Water filed a correction to the Motion to Adopt Settlement Agreement. This Motion is granted.

2.10. Cal Water's Motion for Interim Rates

On October 30, 2013, Cal Water filed its Motion for Interim Rates which, if granted, would allow Cal Water to maintain the existing water rates until such time as the Commission ruled on this GRC.

On November 13, 2013, ORA filed its response opposing Cal Water's Motion on the ground that "it leaves several pathways for calculating and filing for recovery of 'Retro LIRA Credits' and 'RSF Credits' open to Cal Water."[3]

On December 19, 2013, the assigned ALJ granted Cal Water's Motion for Interim Rates.

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[1] Scoping Memo and Ruling, at 5. While the Scoping Memo and Ruling referenced the Presiding Officer's Decision, EH were not held. Hence, only a decision is being issued.

[2] Decision Approving Settlement Agreement.

[3] Response at 1.

2.11. Motion to Move Previously Served Testimony into the Record

On December 23, 2013, Cal Water filed a Motion to Move Previously Served Testimony into the Record. By this decision, Cal Water's Motion is granted. The Exhibit List that was attached to the Motion is attached as Exhibit C to this decision.

2.12. Motion for Consideration of Proposed Ordering Paragraphs

On January 6, 2014, Cal Water filed a Motion for Commission Consideration of Proposed Ordering Paragraphs.

On January 21, 2014, ORA filed its response and proposed its own ordering paragraphs.

The proposed ordering paragraphs, with ORA's edits, have been adopted and are set forth, *infra*, in this decision.

2.13. Ruling Setting Aside Submission

On March 28, 2014, the assigned ALJ set aside the submission and reopened the record and instructed the parties to address the following issues:

- The Reasonableness of Individual Settlement Provisions in Light of the Whole Record.
    - Please explain how the following settlement provisions are reasonable:
    - The LIRA Program. How does the LIRA address the complaints of fixed low incomes and high unemployment that were raised at the PPHs?
    - Conservation Program. How does the Conservation Program address the complaints raised at the PPHs that conservation can sometimes lead to higher monthly water charges due to a lower than anticipated water consumption forecasts?

Consistent with Law

- Has Cal Water's proposed affiliate transaction reporting procedures been authorized by the Commission in other GRC proceedings?
- Beyond the standards of Rule 12.1(d), are there any legal standards for determining if the proposed SRM is consistent with Commission law?

In The Public Interest

- Has Cal Water's proposed SRM ever been adopted by this Commission or any other state regulatory body?
- Has an SRM ever been rejected by this Commission or any other state regulatory body?
- In addition to D.13-05-010, has a working cash methodology been approved by the Commission?
- Have there been any instances where a working cash methodology has been rejected by the Commission?

Parties filed and served responses on April 18, 2014, with replies filed and served on April 25, 2014.

3. Overview of Settlement

In this portion of the decision, we detail, in chart form, the key revenue requirements, revenue increases, and typical ratepayer water bill increases for the 2014 test year to which the Settling Parties have agreed.

3.1. Proposed Revenue Requirements for Test Year 2014

California Water Service Company
2012 GRC
Table 1: Proposed Revenue Requirements for Test Year 2014
($ in thousands)

District	Cal Water Proposal	ORA Proposal	Settlement Proposal
Antelope Valley (Total) [1]	$ 3,095.0	$ 2,278.4	$ 2,332.1
AV - Leona Valley [2]	$ 1,057.0	$ 778.1	$ 781.2
AV - Lancaster [2]	$ 1,620.6	$ 1,193.0	$ 1,184.7
AV - Fremont & Lake Hughes [2]	$ 417.4	$ 307.3	$ 366.1
Bayshore	$ 70,659.5	$ 61,758.0	$ 62,989.3
Bakersfield	$ 77,524.8	$ 64,536.7	$ 71,127.9
Bear Gulch	$ 40,472.0	$ 37,231.9	$ 39,305.9
Chico	$ 22,620.9	$ 19,458.6	$ 21,305.3
Dixon	$ 3,265.1	$ 2,799.0	$ 3,031.3
Dominguez	$ 59,937.8	$ 52,761.0	$ 56,532.3
East Los Angeles	$ 33,274.0	$ 26,957.6	$ 30,915.0
Hermosa Redondo	$ 29,035.9	$ 25,653.4	$ 27,736.3
Kern River Valley	$ 6,751.7	$ 6,227.0	$ 6,248.6
King City	$ 3,677.2	$ 3,144.9	$ 3,158.5
Livermore	$ 21,434.3	$ 19,105.4	$ 19,491.3
Los Altos	$ 27,157.9	$ 24,948.0	$ 26,203.4
Marysville	$ 3,909.9	$ 3,333.7	$ 3,538.1
Oroville	$ 4,764.4	$ 4,312.1	$ 4,522.8
Palos Verdes	$ 40,596.8	$ 38,249.0	$ 41,233.5
Redwood - Coast Springs [3]	$ 550.6	$ 491.3	$ 513.7
Redwood - Lucerne [3]	$ 2,254.2	$ 2,134.0	$ 2,170.9
Redwood - Unified [3]	$ 846.8	$ 777.2	$ 802.4
Salinas	$ 31,051.2	$ 25,338.5	$ 27,049.0
Selma	$ 5,274.6	$ 4,545.6	$ 4,985.7
Stockton	$ 36,287.3	$ 31,647.7	$ 35,576.3
Visalia	$ 28,005.7	$ 23,869.3	$ 26,865.1
Westlake	$ 18,310.8	$ 16,348.8	$ 17,046.5
Willows	$ 2,412.2	$ 1,969.4	$ 2,349.7
Total	**$ 573,170.6**	**$ 499,876.4**	**$ 537,030.7**

3.2. Proposed Revenue Increases for Test Year 2014

California Water Service Company
2012 GRC
Table 2: Proposed Revenue *Increases* for Test Year 2014 [4]
($ in thousands)

District	Cal Water Proposal	ORA Proposal	Settlement Proposal
Antelope Valley (Total) [1]	$ 1,157.0	$ 500.7	$ 637.1
AV - Leona Valley [2]	$ 395.1	$ 188.9	$ 209.0
AV - Lancaster [2]	$ 605.8	$ 263.0	$ 313.0
AV - Fremont & Lake Hughes [2]	$ 156.0	$ 48.9	$ 115.1
Bayshore	$ 10,436.0	$ 1,222.0	$ 1,715.9
Bakersfield	$ 12,931.0	$ 1,035.0	$ 7,871.7
Bear Gulch	$ 5,556.0	$ 754.0	$ 2,507.6
Chico	$ 4,725.0	$ 1,300.0	$ 3,437.0
Dixon	$ 1,182.0	$ 715.0	$ 877.1
Dominguez	$ 6,425.0	$ (436.0)	$ 1,800.7
East Los Angeles	$ 4,633.0	$ (1,894.0)	$ 765.4
Hermosa Redondo	$ 4,339.0	$ 1,069.0	$ 2,593.6
Kern River Valley	$ 1,694.0	$ 1,016.0	$ 1,327.7
King City	$ 1,018.0	$ 534.0	$ 510.9
Livermore	$ 3,759.0	$ 937.0	$ 1,353.1
Los Altos	$ 3,357.0	$ 1,100.0	$ 1,535.0
Marysville	$ 1,011.0	$ 412.0	$ 326.4
Oroville	$ 992.0	$ 599.0	$ 829.7
Palos Verdes	$ 6,252.0	$ 1,684.0	$ 2,867.5
Redwood - Coast Springs [3]	$ 137.0	$ 66.0	$ 99.5
Redwood - Lucerne [3]	$ 818.0	$ 674.0	$ 732.9
Redwood - Unified [3]	$ 284.0	$ 205.0	$ 240.7
Salinas	$ 6,342.0	$ 1,204.0	$ 2,629.8
Selma	$ 987.0	$ 205.0	$ 819.8
Stockton	$ 4,963.0	$ 1,317.0	$ 3,945.6
Visalia	$ 5,369.0	$ 1,025.0	$ 3,620.4
Westlake	$ 3,979.0	$ 805.0	$ 1,946.3
Willows	$ 417.0	$ (24.0)	$ 337.1
Total	**$ 92,765.0**	**$ 16,024.7**	**$ 45,328.6**

3.3. Typical Residential Bill Comparison Showing Current Rates, Cal Water's Proposal, ORA's Proposal, and the Settlement Proposal

Table 3: Typical Residential Bill Comparison (2012 GRC)

This table compares the bill amounts of a typical residential customer under current rates, as well as under the proposals of Cal Water, ORA, and the Settlement Agreement. Each bill amount reflects the total of (1) the monthly service charge, (2) the relevant quantity charges assuming consumption at the average residential usage in the given area, and, (3) in RSF areas, the offsetting RSF credit.

			Estimated Typical Residential Monthly Bill [6]			
	District	Average Usage, ccf	At Current Rates [2]	Cal Water Proposal [3]	ORA Proposal [4]	Settlement Proposal [5]
1	Antelope Valley					
	Lancaster	24	$ 90.35	$ 146.94	$ 123.91	$ 123.22
	Leona Valley	16	$ 95.58	$ 148.57	$ 129.42	$ 128.82
	Fremont Valley	7	$ 51.88	$ 86.05	$ 75.59	$ 79.81
	Lake Hughes	7	$ 63.98	$ 86.05	$ 75.59	$ 79.81
2	Bakersfield	21	$ 45.74	$ 53.54	$ 46.03	$ 50.57
3	Bayshore	11	$ 59.42	$ 68.23	$ 59.30	$ 59.73
4	Bear Gulch	24	$ 133.82	$ 146.97	$ 133.25	$ 134.78
5	Chico	20	$ 33.63	$ 42.42	$ 35.37	$ 40.94
6	Dixon	13	$ 47.25	$ 72.13	$ 61.44	$ 67.16
7	Dominguez	12	$ 43.25	$ 47.98	$ 47.96	$ 47.96
8	East LA	13	$ 57.43	$ 63.60	$ 51.34	$ 58.84
9	Hermosa Redondo	11	$ 46.84	$ 54.02	$ 47.71	$ 51.31
10	Kern River Valley	7	$ 70.17	$ 100.78	$ 101.56	$ 95.98
11	King City	13	$ 44.87	$ 60.81	$ 53.22	$ 53.31
12	Livermore	15	$ 59.81	$ 71.19	$ 69.26	$ 61.64
13	Los Altos	19	$ 77.27	$ 85.06	$ 77.83	$ 79.90
14	Marysville	13	$ 39.36	$ 52.11	$ 52.05	$ 43.65
15	Oroville	12	$ 52.16	$ 60.46	$ 59.57	$ 60.55
16	Palos Verdes	24	$ 102.36	$ 114.87	$ 101.19	$ 106.10
17	Redwood Valley					
	Coast Springs	2.33	$ 102.01	$ 145.21	$ 89.75	$ 77.26
	Lucerne	5	$ 60.64	$ 102.76	$ 80.80	$ 72.86
	Unified	6	$ 89.96	$ 141.00	$ 105.96	$ 94.09
18	Salinas	11	$ 38.26	$ 47.68	$ 39.71	$ 42.67
19	Selma	23	$ 40.60	$ 52.42	$ 44.83	$ 48.33
20	Stockton	12	$ 36.85	$ 40.62	$ 36.93	$ 41.63
21	Visalia	21	$ 32.03	$ 39.54	$ 39.11	$ 37.77
22	Westlake	31	$ 139.80	$ 174.15	$ 142.61	$ 150.71
23	Willows	15	$ 55.63	$ 65.49	$ 54.65	$ 63.53

3.4. Parties Opposed to Portions of the Settlement

3.4.1. The City of Lancaster (Lancaster)

Lancaster opposes the Settlement and any rate increase in the Lancaster area of the Antelope Valley District as it is unreasonable and not supported by the record. Instead, Lancaster asks the Commission to modify the Settlement's Test Year 2014 sales forecast for the Lancaster area of the Antelope Valley District, changing the Settlement's average residential monthly usage forecast by 50% from 24 one hundred cubic feet (CCF) to 36 CCF. Lancaster also asks the Commission to establish a new SRM.

3.4.2. The City of Selma (Selma)

Selma opposes the rate increase for the Selma District and proposed to modify the agreement's sales forecast for the Selma District. Selma also objected to the Selma plant section of the Settlement.

3.4.3. The City of Visalia (Visalia)

Visalia does not support the rate increase for the Visalia District.

3.4.4. The County of Kern (Kern) and Residents Against Water Rates (RAW)

Kern and RAW support the 30%/70% rate design goal but oppose the long implementation period for the Kern River Valley District. Instead of 4+ years, Kern and RAW propose the rate design goal be implemented in three GRC cycles or less.[4] They assert that a faster implementation of the 30%/70% rate design goal will reduce charges for low volume customers and increase charges for higher volume customers.[5]

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[4] Kern and RAW Comments at 2.

[5] *Id.* at 7.

3.4.5. Oroville's Historic District Neighborhood Watch District (OHDNW)

OHNWD recommends that Cal Water calculate the Tier 1 residential service at 0-12 CCFs and that Tier 1 remains $1.6821 per CCF. The service charge, Tier 2 and 3 should increase 10% in total, rather than each, taking into consideration the new 30%/70 rate design shift. OHNWD asserts its proposal will allow low income families to meet their water needs without having to pay the more expensive Tier 2 or Tier 3 pricing.[6]

3.4.6. The City Oroville (Oroville)

Oroville requests that the Commission establish a rate increase no greater than the rate of the Consumer Price Index, which is currently 2% per year for the Oroville District.[7]

3.5. Reply to the Oppositions

3.5.1. Oroville

Cal Water states that Oroville's Consumer Price Index, or currently 2% per year proposal is perplexing since the Oroville city council approved a three-year 30.09% increase in its sewer rates on August 26, 2012, and its sewer rates have increased by approximately 190% since 2006.[8] Nor does Oroville explain why using the Consumer Price Index to establish water utility rates is more appropriate that the rate structure that was negotiated by the Settlement.

3.5.2. OHDNW

Cal Water asserts that OHDNW fails to refute or confront the parts of the Settlement that document the costs Cal Water incurs in operating, maintaining,

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[6] OHDNW Comments, at 5.

[7] Oroville at 4.

[8] Cal Water Reply at 6.

and improving the water utility system in Oroville. Nor does OHDNW explain why any of the 20 specific projects included in the Advanced Capital Budget are either unnecessary or unjustified. Cal Water also asserts that OHDNW's proposal to expand the first tier rates up to 12 CCF is not feasible as it skips the calculated revenue step required by the GRC process.[9]

3.5.3. Selma

Cal Water and ORA assert that Selma does not provide any substantive analysis of the identified projects and expenses for the Selma District that justify the rate increase.[10]

3.5.4. Kern and RAW

Cal Water and ORA assert that increasing the time frame to achieve the 30%/70% ratio overlooks that fact that the Kern River Valley District, as well as the Fremont and Lake Hughes areas of the Antelope Valley District, continue to be outliers that merit different treatment.[11] As there is much variation among the districts as to the revenue ratio between the service charge and the quantity charge, there is a corresponding variation in the number of GRC cycles over which the Settlement proposes a district should achieve the 30%/70% ratio. Kern and RAW's proposal would cause an increase to the overall subsidy amount needed for the Kern River Valley district under the modified RSF program, resulting in an increase of $315,000 per year or $945,000 for the GRC cycle.[12]

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[9] Cal Water Reply at 6-8.

[10] Cal Water and ORA Joint Reply at 2.

[11] *Id*. at 5.

[12] *Id.* at 5-6.

3.5.5. Lancaster

ORA responds that the proposed 36 CCF/month forecast is not based on facts presented in the proceeding, nor on any forecasting methodology or recorded values, but is instead "an artificial device to achieve the City of Lancaster's desired level of Test Year rate increase by a short-term revenue deferral."[13] Furthermore, adopting an unrealistically high sales forecast will perpetuate conditions requiring a large rate increase in the future.[14] ORA also faults, Lancaster for allegedly failing to provide complete information on the impacts of its proposal. There is no attempt to provide numerical estimates for Escalation Years' rate increases if actual sales fall short of it estimates.[15]

3.6. Issues not Resolved by the Settlement

3.6.1. SRM

Cal Water has proposed a SRM to compensate for the inaccuracy of forecasting estimate of consumption of water which results in large WRAM balances. According to Cal Water, the SRM "would adjust the adopted sales forecast for escalation years if recorded aggregates sales for the past year are more than 5% different (higher/lower) than adopted test year sales. The mechanism would make a 50% adjustment, so if, for example, sales are 6% above adopted, escalation years rates would be set based upon a 3% upward adjustment in sales forecast."[16] Cal Water asserts that a SRM provides the following advantages:

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[13] ORA Reply at 5.

[14] *Id.* at 8.

[15] *Id.* at 9.

[16] Cal Water Opening Brief, at 4, quoting Direct Testimony of Thomas Smegal, Exhibit CWS-2 at 4.

- Tends to reduce WRAM/MCBA balances in the second and third years of a rate case cycle;
- Increases inter-generational equity by more quickly reflecting sales declines in rates;
- In the case of sales declines during the rate case period, the SRM increases the conservation price signals given to customers, while phasing in a necessary rate change over a longer period;
- Reduces sales-related increases in subsequent GRCs; and
- Incorporating the SRM into the Commission's process for escalation eliminates the need for an additional informal filing.[17]

ORA and TURN oppose the SRM on the grounds that it is "single-issue ratemaking," a concept that deviates from the Commission's GRC Plan for Class A Water Utilities such as Cal Water.[18] Instead, they assert that if Cal Water wants to utilize the SRM, it should petition for a modification of D.07-05-062 to ensure that general water rates are not set outside of the GRC process.[19]

After having weighed the pros and cons, as well as the policy implications both sides have raised, the Commission will give Cal Water the opportunity to deploy the SRM as a means to mitigate against a high WRAM balance. We find that the SRM is in the public interest. The SRM benefits ratepayers as it would limit the revenue disparity that is tracked by the WRAM by changing rates, as opposed to applying surcharges and surcredits after the fact, when a disparity

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[17] Direct Testimony of Thomas Smegal at 5.

[18] ORA Opening Brief, at 2; Exhibit ORA-1 (Company-Wide Report referring to the SRM as in conflict with the Commission's rate case plan; Exhibit TURN-2 (Rubin Direct), at 34 (referring to the SRM as "single-issue ratemaking").

[19] ORA Opening Brief, at 2-4, citing ORA-1 (Rauschmeier), at 14-1, 14-3. 14-4, and Attachment B at 1.

between adopted and actual sales will contribute to the WRAM balance at the end of the year. Thus, if recorded sales are more than 5 percent different than adopted sales, Cal Water would adjust its overall sales forecast by 50 percent of the recorded sales variation, flow that change through the revenue requirement, and calculate rates based on the adjusted sales. Rather than benefit Cal Water as TURN claims, the SRM can mitigate the rate adjustments under the WRAM. Such a result would be consistent with the Commission's objective, expressed in D.12-04-048, to consider ways to bring revenue closer to the adopted revenue requirement.

Accordingly, and in light of the current drought, Cal Water will be authorized to implement the SRM as a pilot program for the second and third years of the rate case period by calculating the recorded sales for the period of the previous October through September for each district, and comparing the amounts to the sales adopted in this decision.

Finally, we authorize Cal Water to open a drought SRM Balancing Account to track any change in rates associated with the mechanism. This drought SRM Balancing Account will be subject to review in Cal Water's next general rate case.

3.6.2. Working Cash Methodology

In D.13-05-010, the Commission explained that "working cash is a subset of working capital that is included in rate base, and is to compensate shareholders for providing funds to pay for the day-to-day operating expenses in advance of the receipt of offsetting revenues from customers."[20] Cal Water argues that the working cash methodology is consistent with the Commission's Water Division's standard practice (*i.e. Standard Practice*) for determining a

[20] Finding of Fact 399.

company's working cash allowance. In fact, Cal Water claims that the working cash methodology has been used in other rate cases and, in this instance, Cal Water worked out its disagreements with ORA.[21]

TURN, however, argues that the inclusion of "non-cash" transactions may have the effect of significantly overstating Cal Water's working cash requirements.[22] TURN does not believe that items such as depreciation, deferred taxes, and amortization expenses should be included in a lead-lag study. TURN also asserts that Cal Water's long-term debt interest payments are a significant source of cash working capital that Cal Water should include in its working cash calculation.[23]

We have reviewed the arguments and evidence and conclude that Cal Water may utilize the working cash methodology as it is consistent with Commission practice.

4. Standard of Review for Settlements

Rule 12.1(d) of the Commission's Rules of Practice and Procedure provides that the "Commission will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with the law, and in the public interest." The proponents of a settlement have the burden of demonstrating that the settlement satisfies Rule 12.1(d).

The Commission favors the settlement of disputes. (D.14-01-017; D.11-05-018; D.07-05-060; and D.88-12-083.) This policy supports many goals,

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[21] Exhibit CWS-136 (Rebuttal Book) at 19.

[22] Exhibit TURN-1 (Peterman Direct) at 5-6.

[23] *Id.* at 6.

including reducing the expense of litigation, conserving scarce Commission resources, and allowing parties to reduce the risk that litigation will produce unacceptable results. As long as a settlement is reasonable in light of the whole record, consistent with the law, and in the public interest, it should normally be adopted without alteration. (D.06-06-014; and D.90-08-068.)

5. Application of the Standard of Review to the Settlement

5.1. The Settlement is Reasonable in Light of the Whole Record

The Settling Parties' evaluation of the issues leading to the Settlement is based on the Application, Protests, Cal Water's and ORA's prepared testimony and supporting evidence, Cal Water's response to ORA's inquiries, ORA's stipulated facts set forth in the Settlement, and the time spent by counsel for the Settling Parties in drafting the Settlement. These sources provide sufficient information to enable the Commission to approve the Settlement as reasonable, implement its provisions, terms, and conditions, and to discharge its future regulatory obligations with respect to Cal Water. Given the size of the Settlement and the supporting documents, we do not repeat each part of the Settlement but instead, attach same as Exhibits A and B, respectively, to this decision, and incorporate the terms herein by this reference. We do, however, discuss some of the Settlement terms to explain how they are consistent with Rule 12.1(d).

5.1.1. Promotion of Affordability through LIRA and the RSF Programs

We must address the question of whether the rate increases are reasonable in view of the economic concerns ratepayers and parties raised in this proceeding. As noted above, many participants at the PPH argued that Cal Water should not be allowed any rate increases due to the state of the

economy, as well as the residents in Cal Water's water districts who are either unemployed or are on fixed incomes. Such concerns are legitimate as it is the Commission's duty pursuant to Pub. Util. Code § 451 to establish just and reasonable rates.

The Settlement does take these economic concerns into account and has proposed mechanisms to offset the potentially negative impacts that the rate increase may have on ratepayers with either fixed or no income.

5.1.1.1. LIRA

The Settlement proposes an enhanced LIRA Program which increases the $12 LIRA credit cap to $18 for non-RSF districts, and to $30 for RSF districts. For non-RSF districts, this represents a 50% increase in the maximum LIRA benefit. In RSF areas, the maximum monthly LIRA benefit increases by 150% from $12 to $30. We note the following components:

1. In addition the other components of the LIRA Program include: The LIRA program will be funded by an estimated surcharge of 2.313% applied to a customer's monthly service charge and quantity charges. The LIRA surcharge applies to all customers in all districts, except for LIRA customers. The amount of the surcharge will be set sufficient to fund the LIRA program.
2. A balancing account will be used to track and true-up the credits and surcharges of the LIRA program (*see* LIRA Balancing Account in Chapter 7 of this Settlement Agreement).
3. There is a new requirement to the LIRA program that Cal Water will report upon its efforts to verify participant eligibility. Specifically, prior to Cal Water's next GRC, it shall report on its efforts to recertify and verify LIRA customers. This reporting can be combined with the annual report of Cal Water's LIRA program that Cal Water is required to submit to the Division of Water and Audits

and Office of Ratepayer Advocates per D.06-11-053. (*See* ORA Company-Wide Report on the Results of Operations of California Water Service Company, March 1, 2013, at 15-3, lines 13–17, at 15-9, lines 18-19, and Cal Water's Testimony in Rebuttal to ORA Report on General Issues, April 30, 2013, at 45, lines 15-16.).

5.1.1.2. RSF Program

Settling Parties have agreed to an enhanced RSF that lowers rates in the high-cost water districts by spreading some of their costs across all of Cal Water's service areas. The components of the RSF are as follows:

1. The districts eligible for benefits under the RSF program are limited to the Leona Valley, Fremont, and Lake Hughes areas of the Antelope Valley District; the Coast Springs, Lucerne, and Unified ratemaking areas of the Redwood Valley District; and the Kern River Valley District (collectively, the "RSF Districts"), subject to paragraph 6, below.
2. All customers in the RSF Districts (with the exception of fire service) will receive a quantity rate discount on the first units of water consumption, up to a certain number of units per month (one unit = one hundred cubic feet or CCF). For the Coast Springs area (in the Redwood Valley District), the "RSF Usage Limit" is 4 CCFs per month; for all other areas of the RSF Districts, the RSF Usage Limit is 10 CCFs per month. The adopted Quantity Rate will apply to all water consumption above the monthly RSF Usage Limit.
    a. Example: If a customer uses 12 units of water in a district (rate area) with an RSF Usage Limit of 10 units, a discount off of the Quantity Rate will be applied to 10 units, and the full Quantity Rate[24] will be applied to the remaining 2 units.

[24] For districts (rate areas) with tiered Quantity Rates, applicable tiered Quantity Rates apply to units (in CCF) above the Rate Usage Limit.

3. The Quantity Rate discount will be equal to the difference between the adopted Quantity Rate and an "RSF Index Rate." The RSF Index Rate will be 150% of the system-wide average rate of total residential usage revenue divided by total residential water sales. Using the quantity rates resulting from this Agreement, the final RSF Index Rate is $4.52. (Based on the proposed rates in Cal Water's 2012 GRC Application, the system-wide average rate was calculated to be $3.28/CCF, resulting in an RSF Index Rate of $4.92/CCF.)
   a. Example: For a customer using 12 units per month, with an RSF Index Rate of $4.52/unit and a Quantity Rate of $15.00/unit, the RSF Quantity Rate discount is $104.80 ($15.00 - $4.52, multiplied by 10 units). The quantity charge for this customer would then be $75.20 ($4.52 x 10 units + $15.00 x 2 units).

With the proposed RSF discount structure and the revenue requirement resulting from this Settlement Agreement, the Parties anticipate the following change to the RSF credits.

	Current Support[25]	**Proposed Support**
Kern River Valley	$25.00 surcredit / month	Discounted quantity rate equal to RSF Index Rate and applicable to first 10 CCF (for RVW – Coast Springs, first 4 CCFs). The RSF Index Rate = 150% of system-wide quantity rate = approximately $4.52 / CCF
Antelope Valley - Fremont	$12.10 surcredit / month	
Antelope Valley – Lake Hughes	None	
Antelope Valley - Leona Valley	None	
Redwood Valley - Lucerne	$24.00 surcredit / month	
Redwood -	$10.37 surcredit / CCF	

[25] Based upon 9/1/2010 "Settlement of the Division of Ratepayer Advocates and California Water Service Company (U 60 W) of Special Request #12: Continuation and Enhancement of RSF.

Coast Springs		
Redwood - Unified	$2.31 surcredit / CCF	

4. The RSF program will be funded by an estimated surcharge of 0.502% applied to a customer's monthly service charge and quantity charges. The RSF surcharge applies to all customers in all districts, except for LIRA customers in RSF Districts and fire protection service. The amount of the surcharge will be set sufficient to fund the RSF program.
5. A balancing account will be used to track and true-up the credits and surcharges of the RSF program (see RSF Balancing Account in Chapter 7 of this Settlement Agreement). Cal Water will continue to provide a summary report on RSF benefits provided and surcharges collected in the next GRC for each RSF district.
6. In the RSF Districts, where the Quantity Rate is lower than the RSF Index Rate, the Quantity Rate will apply, resulting in no Quantity Rate discount.

Collectively, then, these Settlement provisions, as well as others, are designed to addressed the ratepayers' economic concerns.

5.1.2. Consistent with Water Rate Design Principles

Nevertheless, ratepayers argue that the conservation measures have not lead to a lessening of their bills and that, in fact, their bills continue to rise even when they use little or no water during a monthly billing cycle as a result of a presence of the WRAM and the modified cost balancing account (MCBA). Ratepayers find it counterintuitive that conservation efforts should lead to higher monthly water bills.

5.1.2.1. Fixed versus Variable Costs

Yet this argument does not accurately take into account the manner in which water rates and bills are calculated. Cal Water's water service is a

business that is comprised, primarily, of fixed costs. Approximately 70% of the costs of delivering water to retail customers are fixed, comprising of infrastructure, operation and maintenance, administrative, and general costs that do not vary with the amount of water consumed.[26] As we will see in the following chart, in Cal Water's case, its last three annual reports showed that the fixed versus variable cost ratios were slightly lower than the average fixed costs, with the average at 65/35 in 2011,[27] 65/35 in 2012,[28] and approximately 62/38 in 2013[29]:

Year	Variable Costs	Divided by Total Revenues	Fixed/Variable Cost Ratio Percentage[30]
2011	$161,307,472	$462,701,684	65/35
2012	$180,500,405	$516,544,435	65/35
2013	$203,750,711	$541,612,765	62/38

Even a customer who is not in his/her residence during a monthly billing cycle or used very little water will experience monthly charges because of these fixed

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[26] *See* letter from Rami Kahlon, Director Division of Water and Audits, California Public Utilities Commission, dated Mary 8, 2014 and addressed to the Honorable Chris R. Holden and the Honorable Carol Liu. A similar sentiment was expressed in *Introducing Competition into the Piped Water Market* by Urs Meister (2005) wherein the author states: "Production steps such as storage, water transportation, water allocation and retailing activities mainly affect fixed costs. These fixed costs arise due to investment and maintenance, related to the storage facilities and the pipe network. The share of costs related to the pipe network often ranges from 70% to 90% of total utilities costs."

[27] Cal Water 2011 Annual Report at 34 and 35.

[28] Cal Water 2012 Annual Report numbers can be found in the Cal Water 2013 Annual Report, at 34 and 36.

[29] Cal Water 2013 Annual Report at 34 and 36.

[30] These costs do not include pump taxes.

costs. Thus, in reaching a Settlement regarding rate increases, Cal Water was entitled to and did factor in its level of fixed costs.[31]

5.1.2.2. Monthly Service Charges and Quantity Rates

Further, rates are designed on a two-part basis: a monthly service charge and a quantity rate that is applied to each unit of metered water consumed. The quantity rate under conservation is an increasing block design where the per unit rate increases for larger blocks of consumption. As part of the Commission's conservation rate design, and consistent with the best management practice 1.4 from the California Urban Water Conservation Council (CUWCC),[32] approximately 70% of a utility's costs are designed to be recovered through the volumetric quantity rate with the remaining 30% recovered through the monthly service charge.[33]

The Settlement's rate design has been structured in a manner consistent with best management practice 1.4. Rates "will be designed so that the percentage of average customer revenue that is derived from the monthly service charge, versus the quantity charges, moves towards a ratio of 30%/70%, respectively."[34] The rate design in the Settlement is based on the movement toward this ratio that will occur gradually over a period of GRC cycles, and as set forth below. The Settlement provides a table identifying the number of GRC

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[31] Settlement *passim*.

[32] CUWCC Best Management Practices Memorandum of Understanding Regarding Urban Water Conservation in California, as amended June 9, 2010, at 29-38.

[33] *See* D.10-04-031 (Decision Authorizing Changes in rate Design and Ratesetting Mechanisms, and Denying Motion for Establishment of a Memorandum Account) at 26-27, and OP 1.

[34] Settlement at 9.

cycles over which each district could achieve the 30%/70% ratio. The Parties agree that the guideline was not binding prospectively, however, and that Parties could propose deviations from the guidance in future GRCs.

DISTRICT	RATE OF CHANGE TO ACHIEVE 30%/70% RATIO
Antelope Valley - Leona Valley	Modify ratio over 3 GRCs
Antelope Valley - Lancaster	Modify ratio over 3 GRCs
Antelope Valley - Fremont and Lake Hughes	Modify ratio over 4+ GRCs
Bayshore	Modify ratio over 2 GRCs
Bakersfield	Modify in this GRC
Bear Gulch	Modify ratio over 2 GRCs
Chico	Modify ratio over 2 GRCs
Dixon	Modify ratio over 2 GRCs
Dominguez	Modify ratio over 3 GRCs
East Los Angeles	Keep Prelim Settlement Ratios
Hermosa Redondo	Modify ratio over 2 GRCs
Kern River Valley *	Modify ratio over 4+ GRCs
King City	Modify ratio over 2 GRCs
Livermore	Modify ratio over 2 GRCs
Los Altos	Modify ratio over 2 GRCs
Marysville	Modify ratio over 2 GRCs
Oroville	Modify ratio over 2 GRCs
Palos Verdes	Modify ratio over 2 GRCs
Redwood - Coast Springs	Modify ratio over 3 GRCs
Redwood – Lucerne	Modify ratio over 2 GRCs
Redwood – Unified	Modify ratio over 3 GRCs
Salinas	Modify ratio over 2 GRCs
Selma	Modify ratio over 2 GRCs
Stockton	Keep Prelim Settlement Ratios

DISTRICT	RATE OF CHANGE TO ACHIEVE 30% / 70% RATIO
Visalia	Modify in this GRC
Westlake	Modify ratio over 2 GRCs
Willows	Modify ratio over 4+ GRCs
* Neither RAW nor the County of Kern support the service charge ratio change proposed for Kern River Valley.	

5.1.2.3. The Cost Tracking Mechanisms

If ratepayers consume less water due to conservation efforts that are greater than what was forecasted when the volumetric rates were established in the GRC, then a portion of the utility's costs will not have been recovered. The WRAM mechanism tracks this shortfall in costs that would have been collected through the revenue from volumetric rates.

Conservation may also cause variable costs to be lower than was forecast in the GRC. To account for that contingency, the MCBA tracks the over collection in variable costs and nets it against the revenue shortfall tracked in the WRAM. A volumetric surcharge or surcredit is calculated to recover the net impact of the WRAM and MCBA mechanisms. In effect, the surcharge adjusts the volumetric quantity rate to correct for the incorrect quantity rate set too low in the GRC because of an over estimate in forecasted sales volume. The increase in the quantity rate because of the added surcharge will increase, not decrease, the incentive for consumers to conserve their water consumption.[35]

[35] For a discussion of these principles, and how they are consistent with California's conservation goals, *see* D.08-08-030 (Decision Resolving Phase 1B Settlement Agreements and Return on Equity Adjustment) at 14-16.

But the parties have not been able to agree on whether to implement the SRM. Despite the value of the WRAM and the MCBA,[36] the Commission has recognized that the inaccuracy of forecasting estimates has led to large WRAM balances, much to the chagrin of ratepayers.[37] Accordingly, Cal Water has proposed the adoption of a SRM. As ORA opposes the SRM, we will address and resolve this issue in the unresolved issues section of this decision.

5.1.2.4. Reasonable Rate of Return

Finally, it also must be borne in mind that the rate structure approved can contain an amount reflecting a reasonable rate of return. In *SFPP v. Public Utilities Commission* (2013) 217 Cal.App.4th 784, 790, the Court confirmed that "the basic principle [of ratemaking] is to establish a rate which will permit the utility to recover its cost and expenses plus a reasonable return on the value of the property devoted to public use[,]" (quoting *Southern California Gas Company v. Public Utilities Commission* (1979) 23 Cal.3d 470, 476).

5.1.3. Balancing and Memorandum Accounts

5.1.3.1. General Issues

In *Decision Authorizing the elimination of Certain Redundant Balancing and Memorandum Accounts and the Recovery of Outstanding Account Balances in the Rewards and Penalties Balancing Account*,[38] the Commission explained the function and purpose of balancing and memorandum accounts:

> There is usually [a] significant distinction between a balancing account and a memorandum account as used by the

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[36] *See* discussion in D.08-02-036 at 25-26.

[37] D.13-05-011 (Decision on the 2011 GRC for Golden State Water Company) at 80.

[38] D.03-06-013.

> Commission. Both accounts are typically employed to ensure the accurate recovery of the actual cost of a regulatory program. The goal is to avoid the risk of over-or under-recovery in retail rates of reasonably incurred program costs. Balancing accounts have an associated expectation of recovery. They have been pre-authorized by the Commission, and it is the amounts—and not the creation of the accounts themselves—that the Commission reviews for reasonableness.
>
> Memorandum accounts, in contrast, are accounts in which the utilities record amounts for tracking purposes. While the utilities may later ask for recovery of the amounts in those accounts, recovery is not guaranteed.[39]

ISSUE: In its Application and the Testimony of Mr. Thomas F. Smegal, Cal Water summarized the existing memorandum and balancing accounts authorized by the Commission (generally, "accounts"). Most accounts are associated with a "preliminary statement" that describes the purpose of and accounting procedures for the account, and that is included in Cal Water's tariffs. Some accounts are not associated with a preliminary statement.
Cal Water requested authority to close some accounts, to amortize some accounts, and to continue and/or modify some accounts. For some accounts that are continuing that do not have an existing preliminary statement,
Cal Water also requested creation of a preliminary statement (International Financial Reporting Standards Memorandum Account, Water Contamination Litigation Memorandum Account, Infrastructure Memorandum Account, RSF Balancing Account, and Credit Card Program Memorandum Account). In addition, Cal Water submitted a revised Preliminary Statement for the 2010 Tax Law Memorandum Account.

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[39] *Id*. at 4-5.

ORA reviewed the memorandum and balancing accounts, sought additional information through data requests, and provided recommendations in its Report on the Balances in the Memorandum and Balancing Accounts of California Water Service Company.

RESOLUTION: In settlement negotiations, Cal Water and ORA reached agreement on the status of all existing and proposed accounts. For the purposes of this chapter, "Parties" refers to Cal Water and ORA unless otherwise specified.

In Section 5.1.3.3., the Parties identify the memo and balancing accounts that they agree should be closed because no future transactions are appropriate, and the balances are zero. The Parties request that the Commission authorize closure of the accounts. To the extent that an account to be closed has a "preliminary statement," the Parties request that the Commission also authorize Cal Water to file a Tier 1 Advice Letter to remove the preliminary statement from its tariff.

In Section 5.1.3.4., the Parties identify the memo and balancing accounts that have balances, but that should be closed after appropriate disposition of those balances. If an account in this category has already been amortized once, and there is still a small residual balance, the Parties recommend that the residual be transferred to the General District Balancing Accounts (discussed in Section 5.1.3.6. below) so that small balances can be aggregated for later amortization. If an account in this category does not have a preliminary statement, the Parties do not recommend adding a preliminary statement because the accounts are intended to be closed in the near future. However, there are two accounts that must be amortized before closing that were established to track costs in the 2011-2013 rate case period – the Conservation Expense Balancing Account and the Pension Cost Balancing Account. Because

the Parties are proposing in this Agreement that new balancing accounts for the same purposes be opened for the 2014-2016 rate case period, the preliminary statement "identifiers" of the old accounts – Z and AA – should be changed to Z1 and AA1 to prevent confusion with the two new accounts, which will be designated Z2 and AA2.

In Section 5.1.3.5., the Parties identify the memorandum and balancing accounts that they agree should continue. For accounts in this category without an existing preliminary statement, the Parties request Commission approval for Cal Water to file Tier 1 Advice Letter to add preliminary statements to its tariff that are substantially similar to those provided in Attachment 5 (Draft Preliminary Statements).

The Parties agree to establish the following new balancing and memorandum accounts for the rate case period of 2014 through 2016: Chromium-6 Memorandum Account (Preliminary Statement AI), Conservation Expense Balancing Account (Preliminary Statement Z2), Pension Cost Balancing Account (Preliminary Statement AA2), Health Cost Balancing Account (Preliminary Statement AB2), and East Los Angeles Memorandum Account (new preliminary statement). In addition, the Parties agree to the creation of a General District Balancing Account for each ratemaking area to aggregate small residual balances for later amortization. (See Section F of this Chapter.) In the event that the Commission does not adopt this settlement until after the first day of the first test year, all memorandum and balancing accounts that would have become effective on the first day of the first test year, will become effective instead on the effective date of the final decision in this proceeding. Cal Water will propose an interim rate memorandum account and a method to track in the interim rate memorandum account any revenue requirement components that would have

been tracked in other balancing or memorandum accounts agreed to in this settlement.

For the Advice Letter that the Parties propose be authorized in this chapter, the deadline for filing will be 120 days after a final decision in this proceeding, unless otherwise specified.

Formal Procedures for Reviewing Memo and Balancing Accounts

ISSUE: ORA noted in its report that Cal Water did not have formal procedures in place for recording transactions in and maintaining its numerous existing memo and balancing accounts consistently.

RESOLUTION: The Parties agree that Cal Water should establish more formal internal procedures to ensure that the company's memo and balancing accounts are more consistently maintained. During the settlement process the parties discussed how the process should be improved. Cal Water will apply the formal processes established for new memo and balancing accounts to existing memo and balancing accounts. As part of the improvement process, Cal Water's goal is to maintain a current running balance in each of the accounts going forward (except in situations where the amounts to be included in the account may not be identified until a later date, e.g., tax accounts, certain legal accounts that may not be billed until the end of the case, etc.).

The milestones for developing a more formal internal review process, and procedures/guidelines for memorandum and balancing accounts are as follows:

- November 27, 2013: Complete spreadsheet with details of all memorandum and balancing accounts.
- January 6, 2014: Complete modifications to written internal procedures/guidelines for maintaining memorandum and balancing accounts.

These spreadsheets and written internal procedures/guidelines will include:

1. A detailed description of the step-by-step process of recording transactions in the memorandum and balancing accounts;
2. Detailed instructions for the process of determining which transactions are eligible to be included (e.g., effective date that transactions can begin being recorded in the accounts, types of costs, etc.);
3. A detailed discussion of how certain departments will coordinate with respect to memorandum and balancing accounts that require different types of costs to be captured (e.g., engineering (plant expenditures), legal costs, etc.);
4. A finalized approach for storing and organizing legal invoices and detailed instructions as to how the legal invoices will be recorded and/or allocated to the litigation memorandum accounts;
5. A detailed discussion of how to ensure that expenses that are already included in rates, are not also double-counted in the memorandum and balancing accounts (e.g., internal labor, overhead costs, legal expense, etc.);
6. Instructions for maintaining the older balancing and memorandum accounts;
7. Identification of any special reporting Cal Water is required to make in association with each memorandum and balancing account (e.g., litigation status reports, conservation reports, etc.);
8. All preliminary statements should be attached to the guidelines for ease of reference; and
9. A process for systematically updating the guidelines and spreadsheets every GRC cycle and periodically to account for any new changes in the existing accounts as well as addition/deletion of accounts.

Balance Sheet Treatment vs. Income Statement Treatment

ISSUE: In its report, ORA noted that Cal Water records some memo accounts on its balance sheet. Per Standard Practice, balances in memorandum accounts are not a guarantee of recovery as they have not been reviewed by the Commission, with the exception of instances where there is a Commission directive identifying a known and measurable liability or recovery amount (e.g., Methyl Tertiary-Butyl Ether (MTBE) memorandum account, etc.).

Cal Water maintains that in the normal course of the company's accounting practices, revenues and expenses flow into its "income statement," which forms the basis for the revenues and expenses forecasted in GRCs to develop new rates.

RESOLUTION: As part of a settlement in this proceeding, to the extent Cal Water determines without a relevant Commission order that an amount in a balancing or memo account should be recorded as a regulatory liability or asset on the company's "balance sheet," rather than being included on its income statement, Cal Water agrees that it will not cite that accounting treatment as justification in favor of a particular disposition of the given amounts in an informal or formal Commission proceeding. This is not intended to prohibit Cal Water from referencing the regulatory treatment that has been applied to an amount.

Elimination of Residual Account Balances

ISSUE: Cal Water requests authority to establish district-specific general balancing accounts because, currently, there is no mechanism for Cal Water to close out small balances that remain from memo and balancing accounts that have been over-or under-amortized. For Cal Water to implement small surcredits and surcharges to eliminate these balances, the administrative burden

to Cal Water and the Commission and the confusion to customers of another surcharge/surcredit outweigh the minor benefits of closing out the accounts.

RESOLUTION: Accordingly, the Parties agree that small residual account balances that meet certain conditions can be transferred to district-specific general balancing accounts so that they can be aggregated, and amortized together. The conditions that apply to transfer residual account balances to the new "general district balancing accounts" are discussed below in Section F of this Chapter.

5.1.3.2. Summary of Agreement on Balancing and Memo Accounts

	REGULATORY ACCOUNT	PRELIM. (ABBREV.)	CLOSE	CON'T.	ACTION TO PRELIM.	NOTES
1	Recycled Water Memo Account	E RWMA	X		Eliminate via AL.	No balance to amortize.
2	MTBE Memo Account	F MTBE MA		X		File AL for projects completed after 2011.
3	Military Family Relief Program MA	G MFRP	X		Eliminate via AL.	No balance to amortize.
4	Low-Income Ratepayer Assistance Memo Account	H LIRA MA		X		Tier 1 - amortize thru 2011. Tier 3 - amortize 2012-2013.
5	Water Conservation Memo Account	I WCMA	X		Eliminate via AL.	No balance to amortize.
6	Credit Card Pilot Program Memo Account	J1 CCPP MA	X		Eliminate via AL.	No balance to amortize.
7	Credit/Debit Card Pilot Program Memo Account (Modified)	J2 CCPP MA		New	Add via AL	New account.
8	Wausau Memo Account	K WMA		X		
9	Water Conservation Exp. Memo Account	L WCEMA	X		Eliminate via AL.	Transfer balance to District BAs.
10	Water Revenue Adj. Mech. /Modified Cost Bal. Account	M WRAM/MCBA		X		
11	Water Conservation Expense One-Way Balancing Account	N WCBA			Eliminate via AL.	Transfer balance to District BAs.
12	Groundwater Rule Compliance Cost MA	O GRCC MA	X		Eliminate via AL.	No balance to amortize.

	REGULATORY ACCOUNT	PRELIM. (ABBREV.)	CLOSE	CON'T.	ACTION TO PRELIM.	NOTES
13	Dept of Toxic Substances Control Memo Account	P DTSC MA		X		
14	A.08-05-019 Memo Account (HomeServe)	Q HomeServe MA	X		Eliminate after amortization.	Balance to amortize (surcredit only).
15	Temporary Interest Rate Balancing Account	R TIRBA	X		Eliminate via AL.	Transfer balance to District BAs.
16	Water Cost of Capital Adjustment Mechanism	S WCCM		X		
17	Lucerne Balancing Account	T LBA		X		
18	Tort Litigation Memo Account	U TLMA	X		Eliminate after amortization.	Balance to amortize.
19	PCE Litigation Memo Account	V PCE LMA		X		
20	TCP Litigation Memo Account	W TCP LMA		X		
21	Operational Energy Efficiency Program Memo Account	X OEEP MA	X		Eliminate after amortization.	Balance to amortize (rate base offsets).
22	OII 07-01-022 Memo Account	Y OII 07-01-022	X		Eliminate via AL.	No balance to amortize.
23	Conservation Expense One-Way Balancing Account	Z1 CEBA	X		Eliminate after amortization.	Balance to amortize (surcredit only).
24	Conservation Expense One-Way Balancing Account	Z2 CEBA2		New	Add via AL.	New account.
25	Pension Cost Balancing Account	AA1 PCBA	X		Eliminate after amortization.	Balance to amortize (2011-2013 balance).
26	Pension Cost Balancing Account	AA2 PCBA2		New	Add via AL.	New account.
27	Health Care Expense Memo Account	AB1 HCEMA	X		Eliminate via AL.	No balance to amortize.
28	Health Cost Balancing Account	AB2 HCBA		New	Add via AL.	New account.
30	Pressure Reducing Valve MA	AC PRV MA		X		
31	Stockton Litigation Memo Account	AD SLMA		X		File reports every October and April.
32	Tax Act Memo Account	AE Tax Act MA		X	Modify via AL.	Update prelim.
33	Caltrans Litigation Memo Account	AF CLMA	X		Eliminate via AL.	Project included in rates.
34	Catastrophic Event Memo Account	AG CEMA		X		
35	Cost of Capital Interim Rate Memo Account	AH CCIMA	X		Eliminate via AL.	Transfer balance to District BAs.
36	Chromium – 6 Memo Account	A1 Chromium-6 MA		New	Add via AL	Authorized in AL2128 on June 11,2014

	REGULATORY ACCOUNT	PRELIM. (ABBREV.)	CLOSE	CON'T.	ACTION TO PRELIM.	NOTES
37	LIRA Balancing Account	AJ LIRA BA		X		
38	ICBAs	ICBAs	X		[none]	Transfer balances and eliminate.
39	General Office Synergies Memo Account	GOS MA	X		[none]	Eliminate.
40	Salinas Water Treatment Memo Account	Salinas WT MA	X		[none]	Eliminate.
41	Kern River Improvements Memo Account	KRIMA	X		[none]	Eliminate.
42	American Job Creation Act Adjustment Mechanism	AJCA	X		[none]	Eliminate after amortization.
43	General District Balancing Accounts	Gen BA		New	New Prelim	Add prelim and amortize balances.
44	Water Contamination Lit. Memo Account	WCLMA		X	New Prelim	Continuing account (new prelim).
45	Infrastructure Act Memo Account	Infrastructure MA		X	New Prelim	Continuing account (new prelim).
46	RSF Balancing Account	RSF BA		X	New Prelim	Continuing account (new prelim).
47	International Financial Reporting Standards MA	IFRS MA		X	New Prelim	A "triggered" new account; Cal Water may only file the AL to establish the account if the SEC adopts the final International Financial Reporting Standards.
48	East Los Angeles Memo Account	ELAMA		New	New Prelim	New account.
	Shaded accounts to be eliminated.					

5.1.3.3. Accounts to be Closed (no balances)

Recycled Water Memorandum Account (RWMA) Preliminary Statement E

ISSUE: Cal Water filed AL 1614 and 1614-A pursuant to D.04-04-041 to establish a memo account to track the revenues and costs incurred that were associated with the sale of recycled water in the Palos Verdes and Dominguez Districts. Cal Water stated that the memorandum account is no longer necessary because recycled water is included in the WRAM and MCBA accounts, and requested that the account be closed and that Preliminary Statement E be canceled. Cal Water also requested that the Commission authorize it to remove the reference to the memo account from the Dominguez tariff. The balance in the memorandum account as of August 31, 2012 was zero. ORA agrees the account should be closed.

RESOLUTION: The Parties agree that the account should be closed and Preliminary Statement E should be canceled.

Military Family Relief Program Memorandum Account (MFRPMA) Preliminary Statement G

ISSUE: Cal Water filed AL 1761 to implement the Military Family Relief Program in compliance with Assembly Bill 1666. The MFRPMA tracks uncollectibles and the implementation costs for later recovery. Cal Water requested closure of the memorandum account because no costs were ever recorded in the account, and cancellation of Preliminary Statement G. The balance in the memorandum account as of August 31, 2012 was zero. ORA agrees the account should be closed.

RESOLUTION: The Parties agree that the account should be closed and Preliminary Statement G should be canceled.

Water Conservation Memorandum Account (WCMA) Preliminary Statement I

ISSUE: On January 11, 2007, an Order Instituting Investigation to Consider Policies to Achieve the Commission's Objectives for Class A Water Utilities was opened Investigation (I.) 07-01-022. In accordance with that proceeding, Cal Water received approval to establish a Conservation Memo Account for its South San Francisco, Mid-Peninsula, and Bear Gulch Districts. The account was superseded by the WRAM/MCBA accounts in July 2008.

Cal Water stated that it did not track a balance in this account and never requested amortization of any balance. Cal Water requests authorization to eliminate the memorandum account and to cancel Preliminary Statement I. The balance in the memorandum account as of August 31, 2012 was zero. ORA agrees the account should be closed.

RESOLUTION: The Parties agree that the account should be closed and Preliminary Statement I should be canceled.

Groundwater Rule Compliance Cost Memorandum Account (GRCCMA) Preliminary Statement O

ISSUE: In D.08-07-008, the Commission authorized Cal Water to implement the GRCCMA to record costs associated with complying with the Federal Groundwater Rule. Cal Water stated that there was no balance in this account because the company was able to meet the requirements without major expenditures. Cal Water requests authorization to close the memorandum account and to cancel Preliminary Statement O. The balance in the memorandum account as of August 31, 2012 was zero. ORA agrees the account should be closed.

RESOLUTION: The Parties agree that the account should be closed and Preliminary Statement O should be canceled.

Conservation OII Expenses I.07-01-022 Memorandum Account (COIIMA) Preliminary Statement Y

ISSUE: In D.08-02-036, the Commission authorized Class A water utilities to establish memorandum accounts to track legal and related costs of participating in I.07-01-022, an Order Instituting Investigation to Consider Policies to Achieve the Commission's Objectives for Class A Water Utilities. Cal Water does not request recovery for any incremental consultant costs incurred and requests authorization to close the account because I.07-01-022 is closed. The balance in the memorandum account as of August 31, 2012 was zero. ORA agrees the account should be closed.

RESOLUTION: The Parties agree that the account should be closed and Preliminary Statement Y should be canceled.

Kern River Improvement Memorandum Account (KRIMA) No Preliminary Statement

ISSUE: In D.06-01-018, the Commission authorized Cal Water to establish a memorandum account to record costs (not to exceed $7.5 million) associated with complying with new arsenic treatment standards adopted by the Federal Environmental Protection Agency. Cal Water stated that it completed its compliance, never recorded any balance in the account, and requests authorization to close the account without amortization. The balance in the memorandum account as of August 31, 2012 was zero. ORA agrees the account should be closed.

RESOLUTION: The Parties agree the account should be closed.

Salinas Water Treatment Memorandum Account (SWTMA) (No Preliminary Statement)

ISSUE: In D.02-08-054, the Commission authorized Cal Water to establish a memorandum account to record incremental costs, from the date of the decision, for ion-exchange purification equipment for four wells in the Salinas District. The decision stated that the company could seek Commission consideration of amounts in the account in its next GRC. D.04-03-025 modified the previous decision by allowing the company to seek ratemaking consideration by annual AL filings, rather than in the next GRC, in order to mitigate rate shock because the balance in the account had become significant. Cal Water made one filing to amortize the balance accrued from 11/1/2002 through 12/31/2004, did not further accrue any balances in the account after 2004, and requests closure of the account without further amortization. The balance in the memorandum account as of August 31, 2012 was zero. ORA agrees the account should be closed.
RESOLUTION: The Parties agree the account should be closed.

General Office Synergies Memorandum Account (GOSMA) (No Preliminary Statement)

ISSUE: The settlement in Application (A.) 01-09-062 authorized Cal Water to establish a memorandum account to track the revenue requirement associated with Cal Water's proposed synergies adjustment for subsequent recovery, if found reasonable, as a result of combining Dominguez Water Corporation and Cal Water's general offices. In its testimony, the company stated that, "due to the staggered nature of rate case filings until 2009, Cal Water amortized these balances pursuant to several different Commission Orders. Remaining amounts from under-amortizing the balances or due to interest remain in the account.

Cal Water requests authorization to amortize and close this account." The company stated that there is no balance in this account. ORA recommended the account be closed without amortization.

RESOLUTION: The Parties agree that there is no balance in the account and the account should be closed.

Health Care Memorandum Account (HCMA)
Preliminary Statement AB[1]

ISSUE: The settlement approved in D.10-12-017 authorized the company to implement a memorandum account to track costs limited to unknown and potentially significant cost changes related to the federal health care bill passed by Congress in April 2010. Cal Water proposed amortizing the balance in the HCMA at the end of 2013, and closing the account. ORA contends that the balance in the memo account as of August 31, 2012 was zero. Cal Water subsequently indicated that $438,600 related to 2011 and 2012 health care changes should be recoverable through the account. ORA recommended the account be closed without amortization because, in its analysis, there was no balance in the account as of August 31, 2012. Cal Water disagreed with ORA's interpretation of the balance that is properly recoverable through the account.

As discussed in this Agreement in Section F of this chapter, as well as in Chapter 6 (Section M), Cal Water proposed a different mechanism, a new Health Cost Balancing Account (HCBA) (Special Request #13), that would track the difference between actual and authorized health cost expenditures.

RESOLUTION: As part of this Settlement Agreement, the Parties agree to the following: (1) the HCMA should be closed, no costs will be requested for recovery, and Preliminary Statement AB[1] should be canceled, and; (2) as discussed in Section F of this chapter, and in Chapter 6 (Section M) addressing

Special Requests, Cal Water may open a new HCBA with a new Preliminary Statement AB2.

5.1.3.4. Accounts to be Amortized and Closed

Water Conservation Expense Memorandum Account (WCEMA) Preliminary Statement L

ISSUE: In D.07-12-055, the Commission authorized Cal Water to establish the WCEMA to track conservation expenses. On January 27, 2012, the company filed AL 2006-A pursuant to Resolution W-4870 to recover the $1,861,877 balance in the WCEMA through a surcharge. Cal Water stated that amortization should be completed in March 2013 and that it would request amortization of any under/over-collection in its next GRC. During the course of settlement, Cal Water modified its request to propose further amortization of any residual balance through the general district balancing accounts. The balance in the account as of August 31, 2012 was $959,879. ORA agrees the account balance should be amortized and closed.

RESOLUTION: The Parties agreed that the residual balance in the account should be transferred to the general district balancing accounts, and Preliminary Statement L should be canceled. Any residual balance other than the balance reviewed by ORA is subject to approval or rejection by the Commission, pursuant to General Order (GO) 96-B, Water Industry Rule 7.3.1, and Commission Standard Practice U-27-W.

Water Conservation Expense One-Way Balancing Account (WCEBA) Preliminary Statement N

ISSUE: In D.06-08-011, the Commission authorized Cal Water to establish the WCEBA to track conservation expenses by district against the corresponding

budget allowances adopted in the decision in a one-way balancing account for its Antelope Valley, Bear Gulch, Dominguez-South Bay, Hermosa Redondo, Kern River Valley, Marysville, Palos Verdes and Redwood Valley Districts. In D.08-07-008, the Commission also authorized Cal Water to establish a one-way balancing account to track conservation expenses for its Chico, East Los Angeles, Livermore, Los Altos, Mid-Peninsula, Salinas, Stockton and Visalia Districts.

The company requested to close the balancing accounts, cancel Preliminary Statement N, and transfer any residual balance to the general district balancing accounts. The accounts have been amortized via Advice Letter's 2025 and 2026, and a residual credit balance of $33,802 which represents a refund to ratepayers, remained as of August 31, 2012. ORA agrees that the account should be closed.

In addition, because the revised rate case plan delayed the GRCs for Cal Water's Antelope Valley, Bear Gulch, Dominguez-South Bay, Hermosa Redondo, Kern River Valley, Marysville, Palos Verdes and Redwood Valley Districts, the Commission increased the conservation budget for those districts in D.08-08-030. The settlement in that proceeding established a memo account for the 1.5 year gap for the eight districts, and provided that the additional conservation funding be booked into the memo account as a result of the delay. The company's rebuttal testimony stated that the account authorized in D.08-08-030 had no balance and agreed with ORA that the account should be closed.

<u>RESOLUTION</u>: The Parties agree that all of the conservation-related memo and balancing accounts described above (authorized by D.06-08-011, D.08-07-008, and D.08-08-030) should be closed, and Preliminary Statement N should be canceled.

The Parties also agree that residual balances should be transferred to the appropriate general district balancing accounts. Any residual balance other than the balance reviewed by ORA is subject to approval or rejection by the Commission, pursuant to GO 96-B, Water Industry Rule 7.3.1, and Commission Standard Practice U-27-W.

Conservation Expense Balancing Accounts (CEBA) (Preliminary Statement Z1)

ISSUE: The Commission authorized the CEBA in D.10-12-017 as a one-way balancing account to track the difference between actual and authorized conservation expenses for the rate case period of January 1, 2011 through December 31, 2013. The tracking methodology is described in Preliminary Statement Z. Cal Water requested authority to amortize the CEBA in 2014 via surcredits as appropriate. ORA verified the balance in this account to be $5,976,962 as of August 31, 2012.

RESOLUTION: The Parties agree that Cal Water should be authorized to request to amortize the CEBA for 2011-2013 via a Tier 1 AL within 120 days of a Commission decision on this Settlement. Any balance other than the balance reviewed by ORA is subject to approval or rejection by the Commission, pursuant to GO 96-B, Water Industry Rule 7.3.1, and Commission Standard Practice U-27-W. The preliminary statement for that CEBA must continue while the account is being amortized. In addition, as discussed in Section F, below, the Parties agree that Cal Water should be authorized to open a new CEBA for the period of 2014-2016. In order to retain "Preliminary Statement Z" to designate any current and future conservation balancing accounts in general, the Parties agree that the CEBA for the 2011-13 rate case period should be renamed "Preliminary Statement Z1." For the rate case period of 2014-2016, a new

preliminary statement designated "Preliminary Statement Z2" should be authorized.

Pension Cost Balancing Account (PCBA) (Preliminary Statement AA1)

ISSUE: In D.10-12-017, the Commission authorized creation of the PCBA to track the difference between actual and authorized pension costs for 2011-2013. ORA verified the balance in this account as $1,673,629 as of August 31, 2012.

RESOLUTION: The Parties agree that Cal Water should be authorized to amortize the PCBA for 2011-2013 via a Tier 1 AL within 120 days of a Commission decision on this Settlement. Any balance other than the balance reviewed by ORA is subject to approval or rejection by the Commission, pursuant to GO 96-B, Water Industry Rule 7.3.1, and Commission Standard Practice U-27-W. The preliminary statement for that PCBA must continue while the account is being amortized. In addition, as discussed in Section F, below, the Parties agree that Cal Water should be authorized to open a new PCBA for the period of 2014-2016. In order to retain "Preliminary Statement AA" to designate any current and future pension cost balancing accounts in general, the Parties agree that the PCBA for the 2011-13 rate case period should be renamed "Preliminary Statement AA1." For the rate case period of 2014-2016, a new preliminary statement designated "Preliminary Statement AA2" should be authorized.

A.08-05-019 Memorandum Account (HomeServe/ESP MA) (Preliminary Statement Q

ISSUE: ALJ Ruling dated May 11, 2009 in A.08-05-019 stated that:

> Pending the resolution of this proceeding, Cal Water is directed to track all revenues received from utility customers

> for the subject services and all costs incurred since the inception of the service in a memorandum account. Costs should be tracked under two methodologies: (1) Cal Water's affiliate transaction rules (greater of cost or fair market value); and (2) the excess capacity rules for utilities established in D.00-07-018, as modified by D.03-04-028 and D.04-12-023.

Cal Water's direct testimony in this proceeding stated :

> a proposed settlement agreement addresses the historical balance in this account, and would resolve how future costs and revenues should be handled, is currently before the Commission in A.08-05-019. If the proposed settlement is adopted, the only costs left to be tracked will be those incurred between June 30, 2011 and January 14, 2014. In that event, Cal Water proposes that this account be amortized and closed on or after December 31, 2013.

In D.13-02-026, the Commission approved a joint settlement between Cal Water and ORA that resolved all issues raised in A.08-05-019, including the disposition of costs in this memo account up through June 30, 2011. The decision ordered that the appropriate forecast for revenue sharing with customers be included in the new rates adopted in this GRC proceeding, and that the balance in the memo account for the period of July 1, 2011 to December 31, 2013 subsequently be amortized.

The balance in the account as of August 31, 2012 was $2,161,000 which represents a credit to ratepayers. ORA's report stated that it was not opposed to amortizing the balance and closing the memo account after the remaining transactions are reviewed.

<u>RESOLUTION</u>: Consistent with D.13-02-026, the Parties agree that Cal Water should be authorized to file a Tier 2 AL to request authorization to amortize the balance in the account for the period of July 1, 2011 through December 31, 2013

(which may only result in a surcredit to customers, rather than a surcharge, under the terms of the settlement in A.08-05-019). ORA agrees this should be a Tier 2 AL because Ordering Paragraph 10 of D.13-02-026 requires the surcredit to be given at the conclusion of A.12-07-007.

After amortization, Cal Water may file a Tier 1 AL to move any remaining residual balance to the general district balancing accounts, close this memo account, and remove Preliminary Statement Q from its tariff. As discussed in Chapter 5 regarding Non-Tariffed Services, the appropriate forecast for revenue sharing has been incorporated into the rates proposed in this Settlement.

Temporary Interest Rate Balancing Account (TIRBA) Preliminary Statement R

ISSUE: In D.09-05-019, the Commission adopted the TIRBA to track the difference between the interest cost for long-term debt issued after January 1, 2009, and the interest cost in the adopted cost of capital for debt issues in 2009 or later. D.12-07-09 dated July 12, 2012 authorized the balance of $1,141,919 in the TIRBA to be amortized over 12 months via a surcredit and elimination of the balancing account. Cal Water requests that the TIRBA be closed, Preliminary Statement R be canceled, and any residual balance be transferred to the general district balancing accounts. The balance in the account as of August 12, 2012 was ($1,141,920) which represents a credit to ratepayers. ORA agrees the account should be amortized and closed.

RESOLUTION: The Parties agree that the residual balance should be transferred to the general district balancing accounts, the account should be closed, and Preliminary Statement R should be canceled. Any residual balance other than the balance reviewed by ORA is subject to approval or rejection by the

Commission, pursuant to GO 96-B, Water Industry Rule 7.3.1, and Commission Standard Practice U-27-W.

Cost of Capital Interim Rate (CCIRMA) Memorandum Account Preliminary Statement AH

ISSUE: In A.11-05-001, the Commission addressed the rates of return (RORs) that should be adopted for Cal Water and other Class A water companies beginning January 1, 2012. When the Commission's consideration of a proposed settlement agreement between ORA and the companies was delayed, ORA requested that the Commission authorize memo accounts for the companies to ensure that customers would benefit from the lower rates of return in the proposed settlement. In D.12-07-009, the Commission subsequently adopted an ROR of 8.24% for Cal Water, which was lower than the 8.58% ROR in place at that time, and resulted in a refund to ratepayers of $2,489,044 for true-up of the new ROR back to January 1, 2012.

Cal Water stated that amortization would be completed in 2013, and requested that Preliminary Statement AH be canceled and that the residual balance be transferred to the general district balancing accounts. The balance in the account as of August 31, 2012 was ($2,489,044), which represents a credit to ratepayers. In its report, ORA agreed the account balance should be further amortized and closed when amortization is complete.

RESOLUTION: The Parties agree that Cal Water will recalculate the balance in the account to include interest and the resulting residual balance in the account should be transferred to the general district balancing accounts, the account should be closed, and Preliminary Statement AH should be canceled. Any residual balance other than the balance reviewed by ORA is subject to approval

or rejection by the Commission, pursuant to GO 96-B, Water Industry Rule 7.3.1, and Commission Standard Practice U-27-W.

ICBAs (No Preliminary Statement)

ISSUE: Cal Water described the purpose of this account as follows:

> Prior to the adoption of the WRAMs and MCBAs, each ratemaking area historically had a set of ICBAs to track increased costs caused by unit rate increases in purchased water and purchased power that occurred between rate cases. The ICBAs did not include increased costs caused solely by changes in water consumption.

Cal Water stated that it stopped booking to the accounts in July 2008 when they were replaced by the Water Revenue Adjustment Mechanisms and Modified Cost Balancing Accounts (WRAM/MCBAs). The remaining balances were amortized via ALs 1964, 1965, and 2024-A. Cal Water requested authority to move the residual balances to the general district balancing accounts. The net balance in the accounts as of August 31, 2012 was $367,867. ORA agrees the accounts should be amortized and closed.

RESOLUTION: The Parties agree the residuals in the accounts should be transferred to the general district balancing accounts and the accounts should be closed. Any residual balance other than the balance reviewed by ORA is subject to approval or rejection by the Commission, pursuant to GO 96-B, Water Industry Rule 7.3.1, and Commission Standard Practice U-27-W.

American Job Creation Act True-Up Mechanism (AJCA Adjustment Mechanism) (No Preliminary Statement)

ISSUE: In D.06-08-011, the Commission authorized Cal Water to collect, subject to refund, the amount of its adopted revenue requirement resulting from the Commission's computational assumption that the American Jobs Creation Act of

2004 (ACT) does not apply, until an order establishing in a future proceeding the actual tax benefit, if any, conveyed to Cal Water under the ACT. The company stated that it had determined that, due to the Act, there is a ratepayer benefit of $287,822 that should be returned to ratepayers. Cal Water proposed that this amount be returned to ratepayers in this GRC, and that the mechanism be discontinued after the balance is refunded to ratepayers. ORA reviewed the work papers supporting the balance and did not note any exceptions. ORA agrees the amount should be refunded to ratepayers and the mechanism be discontinued.

RESOLUTION: The Parties agree the account balance of $287,822 should be refunded to ratepayers, and the mechanism should be discontinued.

Operational Energy Efficiency Program Memorandum Account (OEEPMA) Preliminary Statement X

ISSUE: In D.07-12-050, the Commission approved a one-year pilot for operational energy efficiency programs (OEEPs) totaling $6.37 million for the major gas and electric regulated utilities which were to develop partnerships with water agencies, undertake specific water conservation programs, and measure results. D.08-11-057 modified D.07-12-050 by approving an additional $1.33 million for the pilot OEEP to be done in collaboration with California regulated water utilities. D.10-04-030 then modified D.08-11-057 by approving $3.4 million for pilot programs to improve energy efficiency for well pumps and booster pumps, and authorizing the regulated water utilities to establish memorandum accounts for their OEEP costs. The memo accounts would track OEEP costs and payments from the energy utilities.

Cal Water initially believed that there was a continuing need for this account, but that the OEEP projects completed at that time were included in the

rates proposed in its GRC Application. Cal Water subsequently determined that, of the three completed OEEP projects, only one was included in recorded plant, and further, that no additional OEEP effort was planned. ORA recommended that the account be closed without amortization based on the conclusion that there was no balance in the account as of August 31, 2012.

RESOLUTION: As part of the settlement in this case, the Parties agree that the OEEP project that was included in recorded plant will be removed for ratemaking purposes (Chico PID 10950), and instead recovered through the memo account. Cal Water will request recovery for that project, as well as for the two remaining projects (Bakersfield PID 36947 and Visalia PID 28649) via a Tier 3 rate base offset Advice Letter within 120 days of a final Commission decision in this proceeding. The full rate of return may not be earned on the projects before they are used and useful. After amortization, the account will be closed, and Preliminary Statement X should be canceled.

CalTrans Litigation Memorandum Account (CTLMA) (Preliminary Statement AF)

ISSUE: Cal Water was permitted to record costs associated with litigation related to the relocation of water facilities in a state highway, and to record costs for the relocation of the facilities per its request in Advice Letter No. 2048. Cal Water initially requested this memo account remain open. The balance in this account was $2,061,649 as of August 31, 2012. ORA recommend removing charges in the account totaling $68,464 preceding the effective date of advice letter 2048 and offsetting the account balance by the litigation proceeds received.

RESOLUTION: During the settlement process Cal Water stated that the litigation had ceased and that the project was complete. The Parties agreed that the Caltrans memo account will not include costs that precede the effective date

of the account, the balance will be offset by settlement amounts obtained through litigation with Caltrans, and capital costs in the amount of $1,781,522.37 will be included in rate base. The Commission should authorize the resulting amount to be included in the rate base for the Marysville District, and authorize Cal Water to file a Tier 1 Advice Letter to request closure of the account, and removal of Preliminary Statement AF from Cal Water's tariff.

Tort Litigation Memorandum Account (TLMA) (Preliminary Statement U)

ISSUE: The TLMA was authorized in Resolution W-4835 to track the costs incurred for litigation initiated by Victor Guerrero and Hortencia Guerrero against Cal Water. When the GRC Application was filed in July 2012, Cal Water requested continuation of the TLMA because the need for the account continued. During the course of settlement, Cal Water stated that a confidential settlement had been reached with the plaintiffs, that there were insurance proceeds associated with the litigation, and that Cal Water would be filing an advice letter to amortize and close the account. ORA was not able to verify the balance in the account during the proceeding, and stated that the account should remain open until all the relevant transactions have been recorded.

RESOLUTION: The Parties agree that ORA was not able to verify the complete balance in the account and that when recovery is sought, Cal Water will have to demonstrate that any costs for which it seeks recovery are incremental to those in rates. Since the litigation has concluded, the Parties agree that when Cal Water seeks recovery, it may seek to amortize the account balance and then close the account and cancel Preliminary Statement U once the amortization is complete. Cal Water agrees that it will not seek recovery for outside litigation costs because they were included in the forecast for litigation expenses. Should

Cal Water seek recovery through an advice letter, it should be a Tier 3 Advice Letter.

5.1.3.5. Accounts To Continue

The Parties agree that several existing memorandum and balancing accounts should continue. Preliminary statements should be added to Cal Water's tariff for those existing accounts that are not currently associated with a preliminary statement. In addition, some existing preliminary statements should be modified as discussed herein. Drafts of the new and modified preliminary statements are included in Attachment 5 (Draft Preliminary Statements). The Parties agree that Cal Water should be authorized to add to its tariff preliminary statements that are substantially similar to those in Attachment 5 through a Tier 1 Advice Letter within 120 days of a final Commission decision on this Agreement.

Low Income Ratepayer Assistance Memorandum Account (LIRAMA) (Preliminary Statement H) (To Be Amortized)

ISSUE: In Cal Water's Smegal Testimony, Cal Water originally requested recovery for approximately $645,000, which reflects the incremental administrative expenses incurred from the inception of the LIRA program through December 31, 2011. Correcting for errors in the original calculation, Cal Water subsequently modified its request to $586,502 in a data request response. ORA verified the balance in the account as of August 31, 2012 as $586,502.

Cal Water has also been incurring incremental administrative expenses for the LIRA program (including the new data-sharing component of the LIRA program) for 2012 and 2013.

ORA's report also indicated that Cal Water was not in compliance with Section 4.5 of D.06-11-053, which requires Cal Water to submit an annual summary report of its LIRA program to ORA and DWA.

RESOLUTION: While Cal Water submits LIRA data with its annual report to the Commission every March, Cal Water agrees to ensure that it is explicitly in full compliance with Section 4.5 of D.06-11-053 in the future. The Parties agree that Cal Water should be authorized to file a Tier 2 Advice Letter to recover $586,502, the amount reviewed by ORA. Cal Water should also be authorized to file a Tier 3 Advice Letter to seek recovery for incremental administrative costs for the LIRA program from 2012 through 2013. These costs must be reviewed for reasonableness in accordance with Commission Standard Practice U-27-W, which is identified in General Order 96-B, Rule 7.3.3(7), and demonstrated to be incremental to rates.

Low Income Ratepayer Assistance Balancing Account (LIRABA) (Preliminary Statement AJ)

ISSUE: When Cal Water filed its GRC Application in July 2012, it was awaiting a Commission decision on a proposed settlement that would separate some amounts currently tracked in the LIRA Memorandum Account into a new LIRA Balancing Account. In September 2012, the Commission approved the settlement in D.12-09-020. ORA recommended that Cal Water separate amounts into the LIRA Balancing Account and the LIRA Memo Account to eliminate confusion during future reviews of the accounts.

RESOLUTION: The Parties agree that the LIRA Balancing Account should continue because the LIRA program, as modified in this Settlement Agreement, will continue. The LIRA Memorandum Account now only tracks the

administrative costs related to the program, and the LIRA Balancing Account only tracks the subsidies provided and the surcharge revenues received.

Pressure Reducing Valve Memorandum Account (PRVMA) Preliminary Statement AC

ISSUE: Cal Water was authorized to establish the PRVMA via Resolution W-4854 dated December 2, 2010 to track the costs associated with the proposed RD&D projects to test use of regenerative Flow Control Valves to expedite Commission consideration and approval so projects and ratepayers benefit from federal tax credits. Cal Water requested that the account continue as projects developed under this pilot have not yet been evaluated. As of August 2012, the balance in the account was $124,151. In its report, ORA recommended that the account be closed as the project did not appear to be progressing.

It appears the tax credits were extended by the American Taxpayer Relief Act of 2012. Cal Water subsequently provided an updated status report from Black & Veatch indicating the project was progressing. The company stated the estimated completion date of the project is December 2014.

RESOLUTION: As part of the Settlement, the Parties agreed that the account may continue.

International Financial Reporting Standards Memorandum Account (IFRS MA) (New Preliminary Statement, if triggered)

ISSUE: In D.10-12-017, the Commission authorized Cal Water to file a Tier 2 Advice Letter for a memorandum account to track costs required to comply with IFRS after the Securities and Exchange Commission (SEC) provides clear guidance on the timelines and actions necessary to implement IFRS. The decision stated that authorization for a triggered memo account would expire at the beginning of the test year for the next GRC. The memo account has not yet

been triggered as the SEC has not issued a clear action plan for IFRS. As the account has not yet been implemented, there is no balance.

Cal Water requested a memorandum account to prospectively record these costs because they are uncertain, are potentially significant, are outside Cal Water's control, and are likely to occur before the rates that will become effective in January 2017 as a result of the next GRC application to be filed in July 2015. ORA recommended the account be canceled as there is no definite timetable to at the SEC to implement IFRS in the near future.

RESOLUTION: As part of the settlement, the Parties agree that Cal Water should be authorized to file a Tier 2 Advice Letter for a memorandum account that will track costs required to comply with a conversion to IFRS after the SEC provides clear guidance on the timelines and actions necessary for companies to implement IFRS. Cal Water's advice letter filing will provide a clear explanation and documentation of the SEC action. The authority to file a Tier 2 Advice Letter and the memorandum account will expire at the beginning of the test year of the next GRC. No determination is made here as to the need or reasonableness of establishing an IFRS memorandum account.

Infrastructure Act Memorandum Account (IMA)
Public Utilities Code § 790 (New Preliminary Statement)

ISSUE: D. 06-05-041 ordered utilities to:

- Track all utility property that was at any time included in rate base and maintain sales records for each property that was at any time in rate base but was subsequently sold to any party, including a corporate affiliate.
- Obtain Commission authorization to establish a memorandum account in which to record the net proceeds from all sales of no longer needed utility property.

- Use the memorandum account fund as the utility's primary source of capital for investment in utility infrastructure.
- Invest all amounts recorded in the memorandum account within eight years of the calendar year in which the net proceeds were realized.

The company requested that the memo account continue. ORA requested that the company identify the balance and the offsetting entries for investment in infrastructure in this account. The company provided a statement of income and retained earnings containing a line titled "Gain on sale of non-utility property" for 2004 through June 2012 totaling $5,851,482. The company maintains that it has invested the amount of these gains and more in numerous rate cases. ORA recommends that the company track the investment in utility infrastructure per the requirements in Pub. Util. Code §§ 789 and 790 in this memo account.

RESOLUTION: The Parties agree that Cal Water will track the net proceeds from the sales of all real property that was ever included in utility rate base. As will be reflected in the company's written internal procedures, those net proceeds will be used as the primary source of funds for infrastructure investment. On an annual basis, Cal Water will identify the dollar amounts expended on utility infrastructure during the prior calendar year, by account (using the Uniform System of Accounts), up to the amount of net proceeds tracked in the account for that year. Any net gain that does not exceed infrastructure investment will be carried over to the next year, and will earn interest at the 90-day commercial paper rate until the infrastructure invested exceeds the tracked net proceeds. Any net gain not reinvested within eight years of the calendar year in which the net proceeds were obtained will be returned to ratepayers. The Parties agree that Cal Water should be authorized to include in its tariff a preliminary statement

that is substantially similar to the draft IMA preliminary statement included in Attachment 5 (Draft Preliminary Statements).

A RSF Balancing Account (RSFBA)
(New Preliminary Statement)

ISSUE: The RSFBA was authorized in D.06-08-011, and again in D.10-12-017 with some modifications. The account tracks the subsidies provided to RSF districts, as well as the surcharge revenues to fund the program. Cal Water requested that the account continue. As discussed in Chapter 2, Cal Water, ORA, and the other parties to this Agreement recommend modifications to the Low-Income Ratepayer Assistance program and the RSF program to increase the affordability of the rate increases proposed in this Agreement.

ORA verified the balance in this account of ($276,355) as of September 30, 2012. ORA determined that Cal Water was not removing administrative costs from the account as agreed-upon. ORA recommended that $88,544 in administrative charges be removed from this account as the Commission directed in D.10-12-017. ORA also noted that the Commission has the authority to fine Cal Water for the company's failure to report in this GRC certain information required by the Commission in D.10-12-017. ORA does not object to the RSF balancing account continuing because entries to the account are ongoing and will continue in the future.

RESOLUTION: Cal Water acknowledges that it can be fined for non-compliance with Commission requirements, such as the reporting requirement violation in D.10-12-017 relating to the RSF program, consistent with Resolution W-4799 (failing to remedy defects or failing to file a required report on time or at all, in violation of Rule 6.2 of GO 96-B).

The Parties agree that the $88,544 of administrative charges should not be included in the account. Balances in the account at the end of 2013 and each subsequent year may be rolled over to the following year. Balances may be recovered or returned to customers in the next rate case, or through a Tier 2 Advice Letter if the accumulated balance exceeds 2% of gross adopted annual revenues for Cal Water. Any balance other than the balance reviewed by ORA is subject to approval or rejection by the Commission, pursuant to GO 96-B, Water Industry Rule 7.3.1, and Commission Standard Practice U-27-W.

To implement modifications to the RSF program as discussed in Chapter 2 of the Agreement, the Parties agree that Cal Water should be authorized to add to its tariff a preliminary statement that is substantially similar to the draft for the RSFBA included in Attachment 5 (Draft Preliminary Statements). In addition, Cal Water may implement the new RSF surcharge estimated in Chapter 2 to fund the modified RSF program that takes into account any outstanding balance in the RSFBA, and anticipated RSF subsidy needs until the next GRC. Cal Water may file a Tier 2 Advice Letter to replace the existing RSF surcharge with the new RSF surcharge, and to add a preliminary statement for the modified RSFBA, within 120 days of a final Commission decision addressing this Agreement.

Stockton Litigation Memorandum Account (SLMA) (Preliminary Statement AD)

ISSUE: On March 9, 2011, the company filed Advice Letter 2028 requesting authority to add Preliminary Statement AD titled "Stockton Litigation Memorandum Account" (SLMA) to its tariff sheets to record costs associated with litigation related to a purchase water agreement with the Stockton East Water District (SEWD), and to record overpayments for purchased water made

to SEWD. The advice letter requested an effective date of 30 days after the filing. Cal Water requests that this memo account remain open. The costs in this account were $51,491 as of August 31, 2012, not including overpayments made to SEWD. ORA recommended that $41,606 associated transactions that occurred before the effective date of Advice Letter 2028 should be removed. ORA is not opposed to keeping this account open as litigation is still on going. ORA also stated that Cal Water is out of compliance with the twice-yearly reporting requirements of Paragraph 5 of Preliminary Statement AD.

RESOLUTION: Cal Water agrees that compliance with specific memo and balancing account requirements such as the twice-yearly report on the SLMA must be incorporated into the formal memo and balancing account management process being developed as a result of this rate case. Specifically, Cal Water agrees that it will file information-only advice letter on the SLMA every October and April of each year and will send a copy to the Water Branch Manager of ORA. During the settlement process, Cal Water agreed with ORA's adjustment to remove costs recorded in the account prior to the effective date of the AL. In addition, the Parties agree that Preliminary Statement AD should be modified to reflect the October and April reports, as well as to clarify the information that must be provided in those reports. With these clarifications, the Parties agree that this account should continue and the transactions preceding the filing of Advice Letter 2028 be removed.

Lucerne Balancing Account (LBA)
(Preliminary Statement T)

ISSUE: D.08-09-002 authorized Cal Water to impose a temporary surcharge on ratepayers in the Redwood Valley Tariff Area-Lucerne Division to repay the full requested Safe Drinking Water State Revolving Fund loan of $7,442,700, with the

provision to adjust the surcharges if the approved loan is less. The proceeds of the loan are to be used to exclusively finance the construction of a water treatment plant in the CWS Lucerne service area. Cal Water filed Advice Letter 1963 which stated that California Department of Public Health approved a loan amount of $7,078,698, and recalculated the surcharges downward to reflect the lower loan amount. Cal Water stated the need for this account continues and requested the Commission take no action in this GRC. The balance in the LBA was $6,471,280 as of August 31, 2012. ORA agrees that the account should continue.

RESOLUTION: The Parties agree that the account should continue because the loan is still in effect and surcharges are being collected from ratepayers.

Department of Toxic Substances Control Memorandum Account (DTSC MA) Preliminary Statement P

ISSUE: On February 2, 2009, Cal Water filed Advice Letter 1900 requesting authority to establish a memorandum account to record costs associated with the implementation of a pilot agreement with the California Department of Toxic Substances Control (DTSC) in relation to the Visalia District. These costs are intended to cover groundwater analyses required under the DTSC pilot agreement. Cal Water proposes to seek recovery of the recorded costs in a Tier 3 Advice Letter filing upon termination of the pilot agreement.

Cal Water stated the need for this account continues and requested the Commission take no action in this GRC. The balance in this account as of August 31, 2012 was $379,446. ORA reviewed a sample of invoices supporting the costs that were included in this account. ORA noted two invoices totaling $13,074 were included in the accounts which were not related to the pilot agreement, and $45,132 of internal labor was included in the account. ORA recommended

removing the amounts for unrelated invoices and internal labor from this account totaling $58,206. As the project appears to still be ongoing, ORA does not oppose keeping the DTSCMA open, but recommends a thorough review of transactions subsequent to August 31, 2012 be conducted when further amortization is sought.

RESOLUTION: Cal Water agrees with ORA's adjustments. The Parties agree that the account should continue.

Wausau Insurance Litigation Memorandum Account (WMA)(Preliminary Statement K)

ISSUE: On November 29, 2007, Cal Water filed Advice Letter 1839 requesting authority to establish a memo account to record costs associated with insurance coverage litigation. The purpose of the WMA is to track the costs incurred with litigation initiated by Wausau against Cal Water and Cal Water's counterclaim. The litigation involves disputed insurance coverage for two groundwater contamination lawsuits filed against Cal Water relating to the Chico District. Cal Water stated that the need for this account continues and requested that the Commission take no action in this GRC on this account.

The balance in this account as of August 31, 2012 was $416,713. ORA reviewed a sample of invoices supporting the costs that were included in this account. The company included numerous transactions totaling $423,758 in the account that were dated prior to the effective date of Advice Letter 1839. ORA recommended that the transactions recorded in the account totaling $423,758, which were incurred prior to the effective date of advice letter be removed. Since the Wausau litigation is related to the Perchloroethylene (PCE) litigation, which is still ongoing, ORA did not oppose the WMA remaining open, but recommended the balance be reviewed when amortization is sought.

RESOLUTION: Cal Water agrees with ORA's adjustments. The Parties agree that the account should continue.

Methyl Tertiary-Butyl Ether Memorandum Account (MTBEMA) Preliminary Statement F

ISSUE: Pursuant to Resolution W-4094 and W-4089, Cal Water filed Advice Letter 1707 requesting permission to establish a memorandum account to track actual costs the company incurs in connection with its legal action against manufacturers, refiners, and service station operators, referred to as potentially responsible parties, who produced, distributed, and/or released products that contained MTBE in the vicinity of Cal Water wells.

Cal Water filed A.09-07-011 for an order authorizing the allocation of net proceeds from MTBE groundwater contamination litigation. The Commission split the proceeding into two phases. In Phase 1, the Commission issued D.10-04-037 adopting the parties' settlement agreement which allowed the existing MTBE litigation memo account to be amended to track and utilize all funds available for investment or other purposes to construct or purchase MTBE treatment and replacement facilities. The available funds from the MTBE litigation settlement, determined to be $34,254,417.07 subject to adjustment based on specified contingencies, were ordered to be used for the construction or purchase of MTBE treatment and replacement facilities. Cal Water stated that the need for this account continues and requested that the Commission take no action on the account in this GRC. Cal Water included completed MTBE projects prior to December 31, 2011 in recorded plant, offset by Contributions in Aid of Construction (CIAC) as the projects were complete and became used and useful. Cal Water will file advice letters for MTBE projects competed after 2011.

As of August 2012, the balance in the account was $16,264,851. ORA reviewed copies of documentation supporting a sample of transactions in this account. ORA noted one duplicate invoice in the amount of $248,000 that should be removed and one capital project that should have been recorded using the Net Book Value, which would increase the account balance by approximately $12,500. ORA agreed that the account should continue.

RESOLUTION: The Parties agreed that the MTBEMA should continue, with the adjustments described above to its balance. Some MTBE projects were completed as of December 31, 2011 and transferred to CIAC (Projects 12826, 11449, 16301, and 10498). Any MTBE projects completed subsequently will be resolved via advice letter or in the next rate case, and recorded to CIAC per the Memorandum of Understanding adopted in D.11-03-043 and the decisions from the Contamination Order Instituting Rulemaking, including D.10-10-018 and D.10-12-058, with which Cal Water will continue to comply.

Trichloropropone Litigation Memorandum Account (TCPLMA) Preliminary Statement W

ISSUE: The TCPLMA was implemented pursuant to Resolution W-4094 which allows all water utilities to establish a memorandum account for water contamination litigation expenses. The purpose of the TCPLMA is to track costs incurred, and proceeds received and applied, with respect to litigation against manufacturers and distributors (potentially responsible parties) that manufactured and distributed products in California that contained 1, 2, 3 Trichloropropone (TCP). Cal Water stated that the need for this account continues and requested that the Commission take no action on the account in this GRC.

The company initially identified a balance in the account, but later stated that the account balance was zero because none of the expenses previously identified had been actually invoiced to Cal Water – first, because legal costs will come out of any award proceeds, and; second, because allocation of the general TCP expenses among the numerous plaintiffs has not been finalized. The company stated that, when litigation has concluded and Cal Water seeks amortization of this account, ORA will have the opportunity to fully analyze these expenses without any confidentiality limitations related to pending litigation. As such, ORA was not able to verify the balance in this account. ORA does not object to the account remaining open because litigation is still ongoing. ORA recommends that all the transactions in this account be reviewed once the company has recorded all the expenses, any recoveries, and related capital projects in this account.

RESOLUTION: The Parties agree that the account should continue.

PCE Litigation Memorandum Account (PCELMA) (Preliminary Statement V)

ISSUE: Pursuant to Resolution W-4094 and W-4089, the company filed Advice Letter 1970 requesting authority to establish the PCELMA to record (i) legal fees and costs; (ii) monetary judgment or settlement in favor of Cal Water; (iii) a monetary judgment against Cal Water; and/or (iv) expenditures, expenses, or use of proceeds, related to PCE. The purpose of the PCELMA is to track costs incurred for litigation against manufacturers, refineries, and service station operators (potentially responsible parties), that produced and/or distributed products in California that contained perchloroethylene, also known as PCE. Cal Water stated that the need for this account continues and requested that the Commission take no action on the account in this GRC.

The company initially identified a balance in the account, but later stated that the account balance was zero because none of the expenses previously identified had been invoiced to Cal Water, similar in concept to the TCP memorandum account. ORA recommended adjustments to the account for costs that were unsupported, before learning from Cal Water that the account is treated similarly to the TCPLMA (in that the balance will not be known until the litigation concludes). As such, ORA was not able to verify the balance in this account. ORA recommends that the balance in this account be reviewed once the company has recorded all the relevant transactions in this account. ORA does not object to the account remaining open as litigation is still ongoing.

RESOLUTION: The Parties agree that the account should continue.

Catastrophic Event Memorandum Account (CEMA) Preliminary Statement AG

ISSUE: Resolution E-3238 authorizes each public utility, as defined under Section 216 of the Public Utilities Code, to establish a memorandum account to record costs of: (a) restoring utility service to its customers;
(b) repairing, replacing, or restoring damaged utility facilities; and
(c) complying with government agency orders resulting from declared disasters. Section 454.9 of the Public Utilities Code also authorizes public utilities to establish catastrophic event memorandum accounts.

The company requested the account remain open. There was no balance in this account as of August 31, 2012. ORA does not object to the account remaining open.

RESOLUTION: The Parties agree that the account should continue.

Water Contamination Litigation Memorandum Account (WCLMA) (New Preliminary Statement)

ISSUE: Resolution W-4094 authorized all water utilities to establish a memorandum account for water contamination litigation expenses. The company stated that this is a generic memo account authorized for all water companies by Resolution W-4094. At this time, Cal Water has separate memo account authorizations for contamination-related litigation that is currently active. If contamination-related litigation like that discussed in Res. W-4094 arises, Cal Water will follow the appropriate Commission-approved procedures to track those costs. As such, there was no balance in this account as of August 31, 2012. ORA does not object to the account remaining open.

RESOLUTION: The Parties agree that the account should continue.

Water Cost-of-Capital Adjustment Mechanism (WCCM) (Preliminary Statement S)

ISSUE: D.09-07-051 authorized an automatic adjustment mechanism (up or down) to a water utility's adopted return on equity for 2009, 2010 and 2011 only if there is a positive or negative difference of more than 100 basis points during a specific period. D.12-07-009 approved an all-party settlement that continued the WCCM with a base year of 2012.

The company stated that there is no balance to address with regard to the WCCM, which is not an account that tracks costs or revenues, but instead is a mechanism that, if triggered, requires Cal Water to change its return on equity beginning the January following the triggering event. The WCCM was triggered by lower interest rates over the period of October 1, 2011 through September 30, 2012, requiring Cal Water to decrease its rates to reflect the lower return on

equity of 5.03% beginning January 1, 2013. This triggering event occurred subsequent to the period of data reviewed by ORA.

RESOLUTION: The Parties agree that the mechanism should continue as authorized by D.12-07-009.

2010 Tax Law Memorandum Account
(Preliminary Statement AE)

ISSUE: The Commission required creation of this account in Resolution L-411A to track any ratepayer benefit associated with the bonus depreciation provided by the Tax Relief, Unemployment Insurance and Job Creation Act of 2010 for activities in the 2011 and 2012 calendar years. The American Taxpayer Relief Act of 2012 extended the 50% bonus depreciation through the 2013 calendar year (collectively, the "New Tax Laws"). As of August 31, 2012, there was no balance recorded in the account because the data was not yet completed by the company. ORA recommended that the Commission require the company to provide, on a Commission-jurisdictional, revenue requirement basis, the impacts of the New Tax Law not otherwise reflected in rates from April 14, 2011, until the effective date of the revenue requirement changes in the utility's next GRC. ORA recommended that the account continue.

RESOLUTION: The Parties agree that, at the conclusion of the rate case period of 2014-2016, the balance in this account shall be reviewed after the company has completed the required entries pursuant to Resolution L-411A, including bonus depreciation through 2013 and for the other years in the GRC cycle, if the bonus depreciation is subsequently extended. In its next 2015 GRC, Cal Water agrees to facilitate a detailed review of the account through 2013 for a determination of the impact of 2011 through 2013 bonus depreciation, and whether to close the account for the impact of 2011 through 2013 bonus depreciation.

Credit Card Pilot Program Memorandum Account (Preliminary Statement J2)

For the reasons discussed in Chapter 6 of the Settlement regarding Special Request #17, the Parties agree that Cal Water should be authorized to file a Tier 1 Advice Letter to modify the preliminary statement for this account consistent with the draft Preliminary Statement J2 included in Attachment 5 (Draft Preliminary Statements).

WRAM/MCBA (Preliminary Statement M)

ISSUE: The WRAM and the MCBA for each ratemaking area were adopted in conjunction with water rates intended to provide price signals that encourage customers to conserve water. The WRAM/MCBAs remove the disincentive for water companies to facilitate customer conservation.

RESOLUTION: As discussed in Chapter 6 regarding Special Request #33, the Parties agree to retain the WRAM/MCBAs without modification.

5.1.3.6. New Memo and Balancing Accounts

Cal Water and ORA agree that the Commission should authorize the establishment of the following new memorandum and balancing accounts, and that Cal Water should be authorized to add to its tariff the related preliminary statements which will be substantially similar to the draft preliminary statements included in Attachment 5 (Draft Preliminary Statements) via a Tier 1 Advice Letter.

General District Balancing Accounts

ISSUE: Cal Water identified accounts with residual amounts left over after amortization (for the Commission-authorized time period) had occurred, including the WCBA (an older conservation balancing account associated with Preliminary Statement N) and the obsolete balancing accounts for purchased

water and power (the ICBAs). Because the surcharges or surcredits for amortization are generally calculated based upon the authorized sales and services for each district, "under-" or "over-" amortization occurs to the extent that "actual" sales and services differ from the "authorized" sales and services used to calculate the surcharges/surcredits. Since Cal Water's July 2012 GRC Application, the amortization periods for additional accounts have ended, leaving residual balances.

RESOLUTION: As discussed above, and in Section A(3) of this chapter, regarding small residual amounts in memo and balancing accounts, the Parties agree that certain balances may be transferred to "district-specific" general balancing accounts, and aggregated for amortization. Cal Water agrees that balances should be maintained by ratemaking area. The conditions of the general district balancing accounts are as follows:

a. Each ratemaking area will have an associated "general balancing account" (referred to as a "general district balancing account");
b. Each general district balancing account may be amortized consistent with the Commission's standard practices (2% of last adopted revenue requirement), or in a GRC; and
c. For accounts for which the Commission has authorized a fixed period of amortization, the small residual balances that result from under- or over-amortization may be put into a general district balancing account.

In addition, the Parties agree that Cal Water may transfer the residual balances from the following accounts to the general district balancing accounts as part of this Agreement: Cost of Capital Interim Rate Memo Account (Preliminary Statement AH), Temporary Interest Rate Balancing Account (Preliminary Statement R), Water Conservation Expense Memo Account (Preliminary Statement L), Water Conservation Balancing Account (Preliminary Statement N),

and the ICBAs (no preliminary statement). Notwithstanding condition (b) of the general district balancing accounts described above, the Parties agree that Cal Water may amortize these amounts transferred to the general district balancing accounts via a Tier 1 Advice Letter within 120 days after a final Commission decision addressing this Agreement.

Conservation Expense Balancing Accounts (CEBA) Preliminary Statement Z2

ISSUE: As discussed in Chapter 4 of the Settlement, the Parties agree on a targeted conservation program with specific requirements, and a one-way balancing account to track the difference between actual and authorized conservation expenses for the next rate case period of January 1, 2014 through December 31, 2016.

RESOLUTION: As the Parties agreed to in Chapter 4 of the Settlement, and as with the CEBA (Preliminary Statement Z1) for the previous rate case period, the authorized conservation expenses for each district for 2014 through 2016 should be tracked in a capped, one-way balancing account with any unspent funds returned to ratepayers at the end of each rate case cycle. Cal Water should therefore be authorized to file a Tier 1 Advice Letter within 120 days of a Commission decision on this Agreement to add a preliminary statement substantially similar to Preliminary Statement Z2, included in Attachment 5 (Draft Preliminary Statements) to this Agreement, for a new CEBA.

Pension Cost Balancing Account (PCBA) Preliminary Statement AA2

ISSUE: In D.12-10-017, the Commission authorized creation of the PCBA to track the difference between actual and authorized pension costs for 2011-2013. ORA does not object to the continuation of the pension balancing account for the 2014-2016 period, but recommends that the Supplemental Executive Retirement

Plan (SERP) expense be excluded as explained in ORA's discussion of SERP expense in its GO Report (in Chapter 6 regarding Pension and Benefits).
RESOLUTION: The Parties agree that Cal Water should be authorized to open a new PCBA for the period of 2014-2016 with a new preliminary statement (substantially similar to the draft Preliminary Statement AA2 included in Attachment 5 (Draft Preliminary Statements) via a Tier 1 Advice Letter.

Health Cost Balancing Account (HCBA) Preliminary Statement AB2

ISSUE: In the HCMA (Preliminary Statement AB1) approved in D.10-12-017, Cal Water was authorized to track costs limited to unknown and potentially significant cost changes related to the federal health care bill passed by Congress in April 2010. In this rate case, Cal Water did not propose continuation or re-initialization of the HCMA, but instead proposed a different mechanism, a new HCBA (Special Request #13), that would track the difference between actual and authorized health cost expenditures, rather than just the incremental costs of compliance with the 2010 legislation tracked in the HCMA. The proposed HCBA is discussed in Chapter 6, Section M, of this Agreement.
RESOLUTION: As the Parties agreed in Special Request 13 in Chapter 9, Cal Water should be authorized to open a new HCBA for the period of 2014-2016 to capture changes in healthcare costs, including Post-Retirement and Benefits Other Than Pensions (PBOP), above or below adopted amounts. The HCBA would be in effect for this rate case cycle only, and whether or not to continue the balancing account would be revisited in the next rate case cycle. 85%of the cost changes will be flowed through to ratepayers, and 15% will be at the company's risk. The difference may be either positive or negative depending on how actual health care expenses compare to those included in rates.
Cal Water should be authorized to add to its tariff a new preliminary statement

substantially similar to the draft Preliminary Statement AB2 included in Attachment 5 (Draft Preliminary Statements) via a Tier 1 Advice Letter.

East Los Angeles Memorandum Account (ELAMA) New Preliminary Statement

As discussed in Chapter 21 regarding the settlement of plant issues in the East Los Angeles District, the Parties agree that Cal Water should be authorized to file a Tier 1 Advice Letter to add to its tariff a preliminary statement that is substantially similar to the draft ELAMA preliminary statement included in Attachment 5 (Draft Preliminary Statements).

5.2. The Settlement is Consistent with the Law

The Settlement make references to various Commission decisions to demonstrate that the Settlement is consistent with the law. Because of its length, we do not list each citation here but will, instead, highlight some of the authorities that cause us to conclude that the Settlement is legally sound.

5.2.1. Relief for Low-Income Ratepayers

First, the settlement promotes relief for low-income ratepayers. Pub. Util. Code § 739.8(b) states that the "Commission shall consider and may implement programs to provide rate relief for low-income ratepayers." The Commission has also recognized that low-income customers "often struggle with payments for basic monthly water service."[40] In conformity with that goal, the Settlement, includes a LIRA, RSF, and a Balanced Payment Plan that, as discussed, supra, are designed to provide rate relied to low-income rate payers. As for the RSF, in D.06-08-011, the Commission approved Cal Water's establishment of the RSF as a means to lower rates by spreading costs throughout Cal Water's service areas:

[40] 2005 Water Action Plan at 5.

> The RSF settlement addresses both components of affordability: the burden of high rate levels in districts that need critical water infrastructure improvements, and the ability of low-income customers to pay for those improvements in these largely rural areas. The fact that the RSF would subsidize all customers in these districts, even those who could afford to pay the true cost of water, concerns us. However, we see the RSF settlement as preferable in that regard to postponing or disallowing necessary improvements, or, in the alternative, approving them and imposing a ratemaking treatment that fails to provide sufficient revenue to cover their costs.[41]

Settling Parties have further documented that the enhanced RSF provides for further water-cost offsetting, expands the RSF to additional Cal Water service areas, and institutes a new methodology to collect RSF funding.

5.2.2. Conservation

The Settlement's conservation program is consistent with law requiring the promotion of water conservation goals. Pursuant to Pub. Util. Code § 739.8(c), "the Commission shall consider and may implement programs to assist low-income ratepayers in order to provide appropriate incentives and capabilities to achieve water conservation goals." Consistent with that legislative directive, the Commission Water Action Plan for Class A Water Utilities such as Cal Water placed an emphasis on providing "water conservation programs for low income water customers," and has approved settlements that promote conservation.[42] The Settlement here developed a three-year conservation program that establishes overall district budgets, criteria for the flexible use of

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[41] D.06-08-011 at 11-12.

[42] *See* D.08-06-002 Decision Adopting Conservation Rate Design Settlement.

conservation funding, a one-way balancing account to ensure that any unspent balance is refunded back to the ratepayers, and enhanced reporting formats. The average annual conservation budget for 2014-2015 is as follows:

Table 4: Average Annual Conservation Budget (2014-16)

District	Programs	Public Information	School Education	Administration Research	Total
Antelope Valley	$12,466	$3,748	$749	$3,500	$20,463
Bayshore	$662,262	$160,625	$39,799	$172,544	$1,035,231
Bakersfield	$365,608	$90,425	$21,972	$94,614	$572,618
Bear Gulch	$343,382	$86,611	$20,636	$90,318	$540,948
Chico	$141,303	$33,499	$8,492	$35,680	$218,974
Dixon	$7,426	$1,832	$446	$1,885	$11,589
Dominguez	$500,099	$129,155	$30,054	$138,410	$797,718
East Los Angeles	$255,499	$58,634	$15,354	$65,768	$395,255
Hermosa Redondo	$382,858	$92,235	$23,008	$101,903	$600,003
Kern River Valley	$11,621	$2,484	$698	$2,939	$17,742
King City	$12,463	$2,929	$749	$3,154	$19,294
Livermore	$244,587	$58,141	$14,699	$64,021	$381,447
Los Altos	$154,195	$43,682	$9,267	$39,792	$246,936
Marysville	$5,264	$1,435	$316	$1,506	$8,521
Oroville	$10,118	$2,287	$608	$2,528	$15,542
Palos Verdes	$329,325	$94,209	$19,791	$95,426	$538,752
Redwood Valley	$6,338	$1,598	$381	$1,652	$9,969
Salinas	$321,432	$98,586	$19,317	$95,728	$535,062

District	Programs	Public Information	School Education	Administration Research	Total
Selma	$18,092	$4,694	$1,087	$4,762	$28,635
Stockton	$140,781	34,331	$8,460	$36,928	$220,501
Visalia	$238,641	$61,958	$14,341	$63,404	$378,345
Westlake	$249,450	$61,607	$14,991	$67,486	$393,533
Willows	$7,672	$2,323	$461	$2,223	$12,679
Total	**$4,420,881**	**$1,127,029**	**$265,677**	**$1,186,170**	**$6,999,757**

Per the Settlement, the following conditions apply to the average annual conservation budget:

1. The budgets are separated into four categories of spending: Administrative/Research, Public Information, School Education, and Programs;
2. All administrative costs, including those for program activities, shall be part of the Administrative/Research Budget;
3. All marketing costs, including those for program activities, shall be part of the Public Information Budget;
4. The Administrative/Research, Public Information, and School Education budgets are subject to spending caps (amount shown in Table 1 in the Settlement);
5. Budgets allocated for Administrative/Research, Public Information, and School Education may also be used for Programs;
6. Budgets allocated for Programs shall not be used for Administrative/Research, Public Information, and School Education;
7. Budgets or balances for each district cannot be transferred to other districts;
8. A one-way balancing account will be established for each district; and

9. Any unspent monies left from the total three-year budget of $20,999,271 will be refunded to the ratepayers at the end of this GRC cycle.

These components meet the directive set forth in § 739.8(c).

5.2.3. Affiliate Transactions and Non-Tariffed Services

We must also address whether the Settlement is consistent with the Commission's rules regarding affiliate transactions and non-tariffed services.[43]

By way of background, in D.10-10-019,[44] the Commission reviewed and updated the rules regarding affiliated transaction and non-tariffed utility services. This decision was issued as a result of the Order Instituting Rulemaking (R.) 09-04-012) that called for consideration of the proper goals and objectives for rules regarding affiliate transaction rules and their use for non-tariffed utility services of regulated assets and employees included in revenue requirements. The Commission's objectives for reviewing these rules are as follows:

- Ensure ratepayers pay reasonable rates and receive high service water quality;
- Ensure water and sewer utilities have the opportunity to earn reasonable profits so as to provide a high quality of service;

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[43] A review of court decisions shows that the Courts have broadened the Commission's authority over affiliate corporations in past decades and this history is important to interpreting the law today. (*See Pacific Tel. & Tel. v. Public Utilities Commission* (1950) 34 Cal.2d 822, 832; *General Tel. Co. v. Public Utilities Commission* (1983) 34 Cal.3d 817, 825; and Pub. Util. Code §§ 451, 701, 706, and 851.

[44] Decision Adopting Standard Rules and Procedures for Class A and B Water and Sewer Utilities Governing Affiliate Transactions and the Use of Regulated Assets for Non-Tariffed Utility Services.

- Prevent utilities from assisting their affiliates to unfairly compete against other firms;
- Avoid imposing rules which would cause excessive; and
- Non-Tariffed Products and Services.

The Commission has also adopted rules that govern the water utilities' ability to provide non-tariffed products and services (NTP&S) through the use of regulated assets and personnel (formerly called excess capacity rules). The primary NTP&S decision is D.00-07-018, adopted in R.97-10-049. Two subsequent decisions in that proceeding made corrections, and a third approved in part a petition to modify D.00-07-018.[45] However, the basic substance of D.00-07-018 remained in place.

D.00-07-018 designated many potential non-tariffed offerings as either active or passive, and stated that any non-tariffed utility offerings not present on the decision's list would be designated as active if the shareholders incurred incremental investments costs of $125,000 or more.[46] D.00-07-018 required water utilities to file advice letters for the provision of certain types of active services, and required that the utilities provide certain information regarding each active service and each passive service in their annual reports. The rules include a methodology for water utilities to allocate revenue from non-tariffed utility services between ratepayers and shareholders depending upon whether the service is active or passive.

As part of D.10-10-019, the Commission adopted *Rules for Water and Sewer Utilities Regarding Affiliate transactions and the Use of Regulated Assets for*

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[45] The later decisions are D.01-01-026, D.03-04-028, and D.04-12-023.

[46] D.01-01-026 published that Appendix A.

Non-Tariffed Utility Services, which set forth 10 Rules to ensure compliance with the Commission's objectives.

Here the Settlement is consistent with the foregoing rules. Cal Water states it has three regulated affiliates in addition to its parent company, California Water Service Group (CWS Group): Washington Water Service Company, Hawaii Water Service Company, and New Mexico Water Service Company. Cal Water also states that it has one unregulated affiliate in California: CWS Utility Services (CWSUS). In order to provide adequate disclosure of the short-term loan from Cal Water to CWSUS, Cal Water agreed to credit the administrative charges transferred to recognize the interest in the amount of $86,960.[47] Cal Water also agreed that all future cash loans between itself and its affiliates must bear interest and terms in accordance with the Commission's Rule VI from D.10-10-019.[48] Cal Water further agrees to amend its affiliate transaction reporting procedure to comply with Rule VIII.F, Item 7, of D.10-10-019 regarding the Annual Statement on Affiliate Transactions.[49]

With respect to NTP&S, Cal Water has developed a methodology for allocating costs to unregulated activities and sharing 10% of gross revenues with ratepayers.[50] Specifically, the Settlement provides:

1. Cal Water will update its calculations to the Administrative Charges Transferred Account 8120 to reflect the new NTP&S rules;

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[47] Settlement, at 18.

[48] *Id*.

[49] *Id.*

[50] *Id.* at 19.

2. Cal Water will include revenue sharing forecasts for two new antenna lease contracts entered into in 2012 in the Bakersfield District;
3. Cal Water will update its revenue sharing forecasts to include the tenets of the HomeServe USA settlement agreement which allowed for annual revenue sharing with ratepayers of the anniversary payment; and
4. Cal Water agreed to use ORA's inflation escalation factors to escalate recorded revenue data for forecasting purposes.

The district-specific estimates for the Administrative Charges Transferred Account 8120 are presented in Chapter 1 of the Settlement (General District Expenses).

5.3. The Settlement is in the Public Interest

In *Re San Deigo Gas and Electric Company*, D.90-08-068, 37 CPUC2d 346, 363, the Commission explained its role in determining if a settlement is in the public interest:

> We recognize, as the settlements point out to us, that these settlements resulted from a good deal of give and take among the parties and reflect interrelated trade-offs that may not be apparent to a reviewer who did not participate in the settlement discussions. For that reason, we do not delve deeply into the details of the settlements and attempt to second-guess and reevaluate each aspect of the settlement, so long as the settlements as a whole area reasonable and in the public interest[.]

While the phrase "public interest" is not defined, the Commission has articulated a two part standard for determining if a settlement is in the public interest. First, the Commission must first consider if the settlement "commands broad support

among participants fairly reflective of the affected interests."[51] Second, the Commission must next determine that the settlement "does not contravene statutory provisions or prior Commission decisions."[52]

5.3.1. The Settlement has Broad Support from the Parties

As Moving Parties document, numerous parties participated actively in reaching the Settlement, and each chapter of the Settlement identifies which parties negotiated which Settlement issues. These parties represent the various affected interests in this proceeding. Whereas Cal Water has certainly played a role for itself and shareholders, ORA has the primary regulatory responsibility for representing all ratepayers in California. Additionally, the Intervenors represent the interests of ratepayers and local government entities. Finally, TURN also represents the ratepayers' interests. Given the number of parties involved in the Settlement, we can safely say that the Settlement does command the broad support among the participants.

5.3.2. The Settlement ends a Costly and Contentious Legal Dispute

The Commission has acknowledged that there "is a strong public policy favoring the settlement of disputes to avoid costly and protracted litigation."[53] Given the size and number of water districts that Cal Water Services, in addition to the number of exhibits parties proposed introducing into evidence if this

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[51] Order Adopting in Large Part an Agreement Proffered in Settlement of issues in Phase I of a GRC Proceeding for a Combined Electric and Gas Utility. D.92-12-019
Re San Diego Gas and Electric Company, 46 CPUC2d 538, 552.

[52] *Id.*

[53] D.88-12-083, 30 CPUC 2d 189, 221.

matter had proceeded to EH, this Settlement has helped to avoid weeks of hearing preparation and actual hearing dates.

5.3.3. The Settlement is Consistent with California's Goal of Water Conservation

The Commission 2012 Water Action Plan included six objectives, one of which was to strengthen water conservation programs to a level comparable to those of energy utilities. Senate Bill (SB) 7-7 requires that California achieve a 20% reduction in urban per capita water use by December 31, 2020, with an interim reduction goal of 10% of or before December 31, 2015. To meet those goals, the Settlement developed a three-year conservation program that established overall district budgets, criteria for the flexible use of conservation funding, and a one-way balancing account to ensure any unspent balance is refunded back to the ratepayers. Such conservation measures are especially critical in light of the drought state of emergency that Governor Brown has declared.[54]

5.3.4. The Settlement is Coordinated with and Reflects the Outcomes of Other Open Cal Water Proceedings (Special Request #2)

Cal Water requested that the final decision in this proceeding reflect the outcomes of certain open proceedings to the extent that they are resolved in a timely manner. ORA expressed concerns about the cumulative impact of reflecting the outcome of those proceedings in final rates. Specifically, ORA was

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[54] On January 17, 2014, Governor Browed declared a drought state of emergency, finding that "the state's water supplies have dipped to alarming levels, indicated by snowpack in California's mountains is approximately 20 percent of the normal average for this date, California's major river systems, including the Sacramento and San Joaquin rivers, have significantly reduced surface water flows, and groundwater levels throughout the state have dropped significantly."

concerned that the inclusion of other proceedings and offsettable expenses could potentially lead to the perception of higher revenue changes than what Cal Water has requested in its filing. The Parties agree that final rates should reflect the outcomes of the following Commission proceedings, and that the cumulative impact of these outcomes do not cause the rate increases to exceed the revenue increases publicly-noticed by Cal Water for the reasons discussed below.

5.3.4.1. Billing Contracts with HomeServe USA (A.08-05-019)

After Cal Water filed its GRC Application, the Commission adopted a settlement agreement between Cal Water and ORA in A.08-05-019, a proceeding initiated to address whether Cal Water could use its regulated utility to provide a full suite of unregulated products to its customers via a third-party provider of home insurance services, HomeServe USA (HomeServe). In adopting the settlement, D.13-02-026 ordered issuance of customer surcredits, specified that new rates authorized in this GRC proceeding would reflect the sharing of 10% of gross unregulated revenues with ratepayers, and authorized amortization and closure of the HomeServe Memorandum Account (Preliminary Statement Q) after new rates are put into effect.

The Parties agree that, consistent with D.13-02-026, the rates proposed in this Settlement Agreement fully reflect the appropriate revenue sharing methodology, and thus serve to decrease the rates borne by ratepayers. In addition, as described in Chapter 7 of the Settlement regarding all of Cal Water's balancing and memorandum accounts, amortization of the HomeServe Memorandum Account after new rates go into effect will result in an additional ratepayer benefit in the form of a surcredit. After amortization is complete, the Parties agree that the HomeServe Memorandum Account should be closed.

5.3.4.1. Cost of Capital (A.11-05-001et seq.)

In the 2011 cost of capital proceeding for Cal Water and three other large Class A water companies, the companies and ORA reached a settlement on the appropriate rate of return for each company for the period of January 1, 2012 through December 31, 2014. When Cal Water filed this GRC Application on July 5, 2012, the Commission had released a proposed decision adopting the settlement, but had not yet voted on the proposed decision. The proposed new rates in this Agreement reflect the Commission-authorized cost of capital (D.12-07-009). Below is a comparison of the cost of capital used in Cal Water's July 2012 application, and the cost of capital reflected in ORA's March 2012 reports and in this Settlement Agreement.

Cost of Capital	Cal Water's July 2012 Application	Settlement Agreement
Cost of Debt	6.24%	6.24%
Cost of Equity	9.99%	9.43%
Weighted Cost of Debt	2.91%	2.91%
Weighted Cost of Equity	5.33%	5.03%
Rate of Return	8.24%	7.94%

5.3.4.2. LIRA Petition to Modify D.06-11-053 (A.05-10-035)

In D.12-09-020, the Commission approved the settlement agreement between ORA and Cal Water resolving all issues in the proceeding. Consistent with that decision, Cal Water has already implemented a temporary surcharge to recover historical balances in the memo account, and has modified the ongoing surcharge to reflect the expected level of LIRA subsidies in 2013.

5.3.4.3. Renovation of IT/HR Building on General Office Campus (A.12-06-016)

In A.12-06-016, Cal Water's requested cost recovery related to renovation of the Information Technology and Human Resources (IT/HR) building on the General Office campus that was completed at the end of 2011. Because the beginning plant balance for this rate case application is based upon plant in service as of December 31, 2011, Cal Water's proposed rates in this GRC already incorporate the costs of the building renovation. As Cal Water explained in A.12-06-016, however, Cal Water is aware that the settlement from the 2009 GRC indicated that Cal Water would file a separate application for the IT/HR building renovation. Upon the Commission's determination of the reasonable level of recovery for that renovation, a surcharge will be applied to customers' bills, and will end upon implementation of new rates from this GRC. ORA has agreed with this approach in an all-party settlement filed on March 4, 2013. Because the proposed settlement would decrease the costs for the project (Project 16992) from $6,011,172 to $5,734,400, the Parties agree that the lower costs for this project must also be incorporated in this GRC's revenue requirement calculations.

6. Motion to Accept Corrected Attachments

Along with its comments, Cal Water filed and served the following attachments: (1) (Proposed) Tables; (2) (Proposed) Tariff Schedules; (3) (Proposed) Tariff Rules; and (4) (Proposed) Preliminary Statements. After ORA raised objections, on August 11, 2014, Cal Water filed its Motion to Accept Corrected Attachments. The Motion is granted.

7. Comments on Proposed Decision

The proposed decision in this proceeding was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on August 1, 2014, and reply comments were filed on August 7, 2014. As necessary, changes to the decision were made to reflect the comments.

8. Assignment of Proceeding

Catherine J.K. Sandoval is the assigned Commissioner and Robert M. Mason is the assigned ALJ in this proceeding.

Findings of Fact

1. On July 5, 2012, Cal Water filed an Application 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.

2. On October 30, 2013, Cal Water, ORA, Carson, Lancaster, Selma, Visalia, Kern, Lake, Leona Valley, RAW, TURN, and Jeffrey Young served and filed a Motion to Adopt Settlement Agreement. The Settlement Agreement and supporting documents were served and filed concurrently therewith.

3. The record for the proposed settlement consists of the application, opening comments, reply comments, and the exhibit list that was served and filed on December 23, 2013.

4. By way at its application and settlement, Cal Water seeks general increases in rates in each of its following operating districts:

- Antelope Valley;
- Bayshore;
- Bakersfield;
- Bear Gulch;
- Chico;
- Dixon;
- Dominguez;
- East Los Angeles;
- Hermosa Redondo;
- Kern River Valley;
- King City;
- Livermore;
- Los Altos;
- Marysville;
- Oroville;
- Palos Verdes;
- Redwood—Coast Springs;
- Redwood—Lucerne;
- Redwood—Unified;
- Salinas;
- Selma;
- Stockton;
- Visalia;
- Westlake; and
- Willows.

5. The parties to the settlement adopted by this decision have a sound and thorough understanding of the issues and all the underlying assumptions and data and could, therefore, make informed decisions in the settlement process.

6. The settlement is a balance between the original positions as otherwise litigated in the pleadings and prepared testimony of the parties.

7. The Commission authorized Cal Water to open a Chromium-6 Memorandum Account on June 11, 2014, (via approval of Advice Letter 2128) that is consistent with the conditions in the Settlement Agreement resolving Cal Water's Special Request #18 (as discussed in Chapter 6 of the Settlement Agreement).

8. Cal Water meets all applicable water quality requirements.

9. In D.08-02-036, Cal Water's WRAM was adopted with the goal of encouraging customers to conserve water.

10. In D.08-02-036, the Commission reasoned that one of the goals of the WRAM was to sever the relationship between sales and revenue to remove the disincentive to implement conservation rates and conservation programs.

11. In D.13-05-011, the Commission found that in some service areas there were high WRAM balances that lead to high WRAM surcharges, due to the inaccuracy of forecasters' estimates of water consumption.

12. Cal Water's proposed SRM is an attempt to deal with the impact of current drought conditions on water usage, availability, and cost by calculating the recorded sales for the period of the previous October through September for each district, and comparing the amounts to the sales adopted in this decision.

13. If recorded sales are more than 5 percent different than adopted sales, Cal Water should be authorized to adjust its overall sales forecast by 50 percent

of the recorded sales variation, flow that change through the revenue requirement, and calculate rates based on the adjusted sales.

Conclusions of Law

1. Applicant alone bears the burden of proof to show that its requests are reasonable.

2. Rule 12.1(d) provides that 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 in the public interest.

3. The proposed settlement is reasonable because it fairly balances the interests of the utility and ratepayers.

4. The settlement is reasonable in light of the whole record as it promotes rate affordability through the Low Income Ratepayer and Rate Support Fund Programs.

5. The settlement is reasonable in light of the whole record as it summarizes and clarifies which existing balancing and memorandum accounts will be closed, amortized and closed, and allowed to continue.

6. The settlement is consistent with law as it is consistent with the standards for providing relief for low-income raters, and for promoting conservation.

7. The settlement is consistent with law as it is consistent with the laws regarding affiliate transactions and non-tariffed services.

8. The settlement is in the public in the public interest in that is has broad support from the parties that fairly reflect the affected interests.

9. The settlement is in the public interest because it ends a costly and contentious legal dispute.

10. The settlement is in the public interest because it is consistent with California's goal of achieving water conservation.

11. Adoption of the settlement is binding on all parties to the proceeding. However, pursuant to Rule 12.5, the settlement does not bind or otherwise impose a precedent in this or any future proceeding. Cal Water must not presume in any subsequent application that the Commission would deem the outcome adopted herein to be presumed reasonable and it must, therefore, fully justify every request and ratemaking proposal without reference to, or reliance on, the adoption of the settlement.

12. The proceeding should be closed.

O R D E R

IT IS ORDERED that:

1. The Motion to Adopt Settlement Agreement Between California Water Service Company (U60W), 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, filed on October 30, 2013, is granted. The settlement agreement attached to the motion, and included as Exhibit A to this decision, is adopted.

2. Within 60 days of the effective date of this decision, California Water Service Company is authorized to file Tier 1 Advice Letters with revised tariff schedules in compliance with this decision for each district and rate area in this proceeding. The adopted rates for test year 2014 are included as Exhibit A to this decision. This filing shall be subject to approval by the Commission's Division of Water and Audits.

3. California Water Service Company shall take steps described in Chapter 7, Section 1 of the Settlement Agreement to establish more formal internal

procedures to ensure that its memo and balancing accounts are more consistently maintained, and within five days of the effective date of this decision provide modifications to written internal procedures/guidelines for maintaining memorandum and balancing accounts to the Office of Ratepayer Advocate's Water Branch.

4. In its advice letters implementing the rates adopted herein, California Water Service Company (CWS) shall modify its Low-Income Ratepayer Assistance (LIRA) program as described in Chapter 2 of the Settlement Agreement attached to this decision as Exhibit A as follows:

- LIRA program eligibility will continue unchanged from current standards, and will continue to be offered in all districts;
- The LIRA benefit (credit) is equal to 50% of the monthly service charge; however the current $12.00 cap to this benefit is increased to $18.00 for non-Rate Support Fund Districts and $30.00 for Rate Support Fund Districts;
- The LIRA program will be funded by an estimated surcharge of 2.313% applied only to a customer's monthly service charge and quantity charges. The LIRA surcharge applies to all customers in all districts, except for LIRA customers. The amount of the surcharge will be set sufficient to fund the LIRA program;
- A balancing account will be used to track and true-up the credits and surcharges of the LIRA program; and
- There is a new requirement to the LIRA program that CWS will report upon its efforts in verification of participant eligibility. Specifically, prior to CWS's next general rate case, it shall report on its efforts in the process of recertification and verification of LIRA customers. This reporting may be combined with the annual report of Cal Water's LIRA program that CWS is required to submit to the Division of Water and Audits and Office of Ratepayer Advocates pursuant to D.06-11-053.

5. In its advice letters implementing the rates adopted herein, California Water Service Company (CWS) shall modify its Rate Support Fund (RSF) program as described in Chapter 2 of the Settlement Agreement attached to this decision as Exhibit A as follows:

- The districts eligible for benefits under the RSF program are limited to the Leona Valley, Fremont, and Lake Hughes areas of the Antelope Valley District; the Coast Springs, Lucerne, and Unified ratemaking areas of the Redwood Valley District; and the Kern River Valley District (collectively, the "RSF Districts"), subject to paragraph C.6 of the Settlement agreement attached to this decision as Exhibit A;
- All customers in the RSF Districts (with the exception of fire service) will receive a quantity rate discount on the first units of water consumption, up to a certain number of units per month (one unit = one hundred cubic feet or ccf). For the Coast Springs area (in the Redwood Valley District), the "RSF Usage Limit" is 4 ccfs per month; for all other areas of the RSF Districts, the RSF Usage Limit is 10 ccfs per month. The adopted Quantity Rate will apply to all water consumption above the monthly RSF Usage Limit;
- The Quantity Rate discount will be equal to the difference between the adopted Quantity Rate and an "RSF Index Rate." The RSF Index Rate will be 150% of the system-wide average rate of total residential usage revenue divided by total residential water sales. Using the quantity rates resulting from this Agreement, the final RSF Index Rate is $4.52. (Based on the proposed rates in CWS's 2012 Application 12-07-007, the system-wide average rate was calculated to be $3.28/ccf, resulting in an RSF Index Rate of $4.92/ccf.);
- The RSF program will be funded by an estimated surcharge of 0.502% applied only to a customer's monthly service charge and quantity charges. The RSF surcharge applies to all customers in all districts, except for LIRA customers in

RSF Districts and fire protection service. The amount of the surcharge will be set sufficient to fund the RSF program;

- A balancing account will be used to track and true-up the credits and surcharges of the RSF program (see Rate Support Fund Balancing Account in Chapter 7 of the Settlement Agreement attached to this decision as Exhibit A). Within 120 days of adoption of this decision, CWS is authorized to file a Tier 1 Advice Letter to implement the new RSF surcharge that takes into account any outstanding balance in the RSFBA and anticipated RSF subsidy needs until the next GRC. CWS must continue to provide a summary report on RSF benefits provided and surcharges collected in the next general rate case for each RSF district; and
- In the RSF Districts, where the Quantity Rate is lower than the RSF Index Rate, the Quantity Rate will apply, resulting in no Quantity Rate discount.

6. In the rates adopted herein, California Water Service Company (CWS) shall reflect the rate design components for this rate case cycle, described in Chapter 3 of the Settlement Agreement attached to this decision as Exhibit A, solely for the purposes of the rates authorized for this rate case cycle, as follows:

- In recognition of California Urban Water Conservation Council Best Management Practices 1.4, rates will be designed so that the percentage of average customer revenue that is derived from the monthly service charge, versus the quantity charges, moves towards a ratio of 30% / 70%, respectively;
- The movement towards the 30% / 70% ratio will occur gradually to allow customers to become accustomed to rate design adjustments made in pursuit of this ratio;
- The Parties agree with the elements of the Low Income Rate Assistance ("LIRA") program and the Rate Support Fund ("RSF") program described elsewhere in the Settlement Agreement attached to this decision as Exhibit A;

- The Parties agree that no party will request a phase-in of customer rate increases in this general rate case;
- The Parties agree that non-residential customers will have a single quantity rate for all consumption (i.e., no tiered rates), except in the Visalia and Stockton Districts;
- The Parties agree that, in districts that do not have tiered rates, residential and non-residential customers will have the same rates;
- The Parties to the Settlement Agreement attached to this decision as Exhibit A, agree to defer to a future general rate case their positions on whether residential and non-residential customer service charges should be the same;
- CWS agrees to provide with its next general rate case filing up-to-date information that would enable the Parties to the Settlement Agreement attached to this decision as Exhibit A to propose modifications to the residential tier breakpoints using currently effective criteria. This provision does not require CWS to propose new breakpoints, only to provide the data necessary for a party to make such a proposal;
- The Parties to the Settlement Agreement attached to this decision as Exhibit A, agree to defer to a future general rate case the presentation of their positions on whether the rate differentials between the tiers in each district should be modified; and
- The Parties to this Settlement Agreement attached to this decision as Exhibit A, agree to defer to a future general rate case the presentation of their positions regarding changes to the uniform WRAM surcharges for all tiers.

7. In its next general rate case application, California Water Service Company will provide up-to-date data sufficient to enable a party to propose modifications to the residential tier breakpoints of the rate design.

8. California Water Service Company (CWS) shall file escalation advice letters for 2015 and 2016, as provided for in the Rate Case Plan adopted in

Decision 07-05-062, or its successor. The budgeted amounts for conservation expenses in the Settlement Agreement attached to this decision as Exhibit A are set forth as follows:

- Office of Ratepayer Advocates and CWS agree to an average annual conservation budget of $6,999,757 for Test Year 2014, Escalation Year 2015, and Escalation Year 2016 for a total 3-year budget that shall not exceed $20,999,271;
- These budgets are excluded from escalation and instead use the average annual budget in calculating the allowed revenue requirement for Test Year 2014, Escalation Year 2015, and Escalation Year 2016; and
- Budgets may be used in a district at any time during the 3-year rate case cycle as long as the total amount spent over the three years does not exceed the total 3-year budget.
- Funds are not transferrable across districts.

9. California Water Service Company (CWS) shall implement the pilot conservation policy for the Visalia District described in Chapter 4 of the Settlement Agreement, attached to this decision as Exhibit A, as follows:

- A pilot policy shall be implemented in the Visalia District for this rate cycle, whereby any change in the mix of programs, whether it be between the final agreed-upon programs in this settlement or new programs, must maintain or exceed the average overall cost-effectiveness for the Visalia conservation portfolio;
- CWS must submit documentation of the cost-effectiveness of such measures in its annual reports;
- If the Visalia District is not on track to meet the SB 7x7 mandate of reducing water usage by 20% by 2020, then within 60 days of Escalation Year 2016, the City of Visalia and CWS shall meet and develop an implementation strategy for the remaining conservation budget, which improves conservation while being mindful of cost-effectiveness; and

- Any measure that is implemented in Escalation Year 2016 must be at least as cost-effective as the least cost-effective program included in the final agreed-upon programs in this settlement for the Visalia District.

10. California Water Service Company (CWS) shall implement the conservation plan described in Chapter 4 of the Settlement Agreement attached to this decision as Exhibit A, as follows:

- The budgets are separated into four categories of spending: Administrative/Research, Public Information, School Education, and Programs;
- All administrative costs, including those for program activities, shall be part of the Administrative/Research Budget;
- All marketing costs, including those for program activities, shall be part of the Public Information Budget;
- The Administrative/Research, Public Information, and School Education budgets are subject to spending caps (amount shown in Table 1 in the Settlement Agreement attached to this decision as Exhibit A);
- Budgets allocated for Administrative/Research, Public Information, and School Education may also be used for Programs;
- Budgets allocated for Programs shall not be used for Administrative/Research, Public Information, and School Education;
- Budgets or balances for each district cannot be transferred to other districts;
- A one-way balancing account will be established for each district; and
- Any unspent monies left from the total three-year budget of $20,999,271 will be refunded to the ratepayers at the end of this GRC cycle.

11. California Water Service Company' (CWS) annual reports on conservation must meet the requirements of Schedule E-3, as specified in Decision 11-05-004. Any measure that is implemented, and not specifically enumerated in the program, must be at least as cost effective as the least cost effective enumerated program for the specific district, and must be documented in the annual report. CWS shall reflect the adjustments to recorded transactions and changes to its reporting procedures relating to transactions between affiliates and the provision of non-tariffed products and services.

12. California Water Service Company (CWS) shall incorporate any rate changes that became effective after the July 2012 filing of Application (A.) 12-07-007 into the new rates adopted in this decision, in accordance with the resolution of Special Request #8 in the Settlement Agreement attached to this decision as Exhibit A, as follows:

- Rate changes that occur after the July 2012 filing of CWS's A.12-07-007 should be incorporated into new rates; and
- For the rates proposed in this settlement, subsequent rate changes have been incorporated into the revenue requirements for the Dominguez, East Los Angeles, Los Altos, Hermosa Redondo, Oroville, Palos Verdes, Stockton, and Westlake Districts.

13. In the rates adopted herein, consistent with Decision 07-09-013, California Water Service Company shall apply the Salinas District's tariff to Buena Vista customers and eliminate the legacy tariff that applied to Buena Vista customers.

14. In the rates adopted herein, consistent with Decision 12-02-003, California Water Service Company shall apply the Kern River Valley District's Kernville tariff to James Water customers and eliminate the legacy tariff that applied to James Water customers.

15. Within 60 days of the adoption of this decision, California Water Service Company shall file Tier 1 Advice Letter to address the Special Requests identified in Chapter 6 of the Settlement Agreement attached to this decision as Exhibit A, in order to reflect:

- Modifications to its tariff relating to customer service rules, a modified credit card pilot program;
- Lot fees in Rule 15;
- The cross connection program in Rule 16; and
- Residential fire service charges.

16. At the times designated in this decision, California Water Service Company shall also comply with the various Tier 1, Tier 2, and Tier 3 Advice Letter authorizations, justifications, and reporting requirements relating to a balanced payment program and the modified credit card program.

17. Within 120 days of adoption of this decision, California Water Service Company is authorized to close the balancing and memorandum accounts with no balances identified in Chapter 7, Section C, of the settlement agreement attached to this decision as Exhibit A, and to file Tier 1 Advice Letters to eliminate their related preliminary statements, if necessary.

18. Within 120 days of adoption of this decision, California Water Service Company is authorized to file Tier 1 advice letters relating to the following existing balancing and memorandum accounts in order to modify, add, or replace preliminary statements in its tariff:

- Conservation Expense Balancing Account (Preliminary Statement Z1);
- Pension Cost Balancing Account (Preliminary Statement AA1);
- Infrastructure Act Memorandum Account, Rate Support Fund Balancing Account;

- Stockton Litigation Memorandum Account (Preliminary Statement AD);
- Water Contamination Litigation Memorandum Account;
- 2010 Tax Law Memorandum Account (Preliminary Statement AE); and
- Modified Credit Card Pilot Program Memorandum Account (Preliminary Statement J2).

The relevant preliminary statements will be substantially similar to the draft preliminary statements in Attachment 5 of the Settlement Agreement attached to this decision as Exhibit A.

19. Within 120 days of adoption of this decision, California Water Service Company is authorized to open the following new balancing and memorandum accounts for the rate case period of 2014 through 2016, and to file Tier 1 Advice Letters to add to its tariff preliminary statements that are substantially similar to the related draft preliminary statements in Attachment 5 to the Settlement Agreement attached to this decision as Exhibit A:

- Conservation Expense Balancing Account (Preliminary Statement Z2);Pension Cost Balancing Account (Preliminary Statement AA2);
- Health Cost Balancing (Preliminary Statement AB2); and
- East Los Angeles Memorandum Account (new preliminary statement designation).

20. Within 120 days of the adoption of this decision, CWS is authorized to file Tier 1 Advice Letters to amortize the balances in the following existing accounts identified in the attached Settlement Agreement: Conservation Expense Balancing Account:

- (Preliminary Statement Z1);
- Pension Cost Balancing Account (Preliminary Statement AA1); and

- The American Job Creation Act True-Up Mechanism (no preliminary statement).

The balance in each account shall be amortized in accordance with Commission Standard Practice U-27-W.

21. Within 120 days of the adoption of this decision, California Water Service Company is authorized to open General District Balancing Account (District BA) for each ratemaking area, and to file a Tier 1 Advice Letter to add a preliminary statement that is substantially similar to the relevant draft preliminary statement in Attachment 5 of the Settlement Agreement attached to this decision as Exhibit A. Small residual balances that meet certain conditions may be transferred to the relevant District BAs so that they can be aggregated, and amortized together.

22. California Water Service Company is authorized to transfer the residual balances in the following balancing and memorandum accounts to the relevant General District Balancing Accounts (District BA), close the accounts, and eliminate the preliminary statements for:

- Cost of Capital Interim Rate Memo Account (Preliminary Statement AH);
- Temporary Interest Rate Balancing Account (Preliminary Statement R);
- Water Conservation Expense Memo Account (Preliminary Statement L);
- Water Conservation Balancing Account (Preliminary Statement N); and
- The Incremental Cost Balancing Accounts (no preliminary statement).

Within 120 days of the adoption of this decision, CWS is authorized to file a Tier 1 Advice Letter to amortize the aggregate amounts in the District BA in accordance with Commission Standard Practice U-27-W, and to eliminate the

preliminary statements in accordance with the Settlement Agreement attached to this decision as Exhibit A.

23. Within 120 days of the adoption of this decision, California Water Service Company (CWS) is authorized to file a Tier 2 Advice Letter to amortize the balance in the Application 08-05-019 Memorandum Account (HomeServe) (Preliminary Statement Q) consistent with Ordering Paragraph 10 of Decision 13-02-026. The balance in each account shall be amortized in accordance with Commission Standard Practice U-27-W.

24. Within 120 days of adoption of this decision, California Water Service Company is authorized to file a Tier 3 rate base offset Advice Letter to amortize recovery for the projects in the Operational Energy Efficiency Program Memorandum Account (Preliminary Statement X). The full rate of return may not be earned on the projects before they are used and useful.

25. Within 120 days of adoption of this decision, California Water Service Company is authorized to close the Caltrans Litigation Memorandum Account, and to file a Tier 1 Advice Letter to eliminate the Preliminary Statement AF.

26. California Water Service Company (CWS) may file a Tier 3 Advice Letter to amortize the balance in the Tort Litigation Memorandum Account (Preliminary Statement U), but may not seek recovery for outside litigation costs because they were included in the forecast for litigation expenses. If no amortization is sought, CWS may close the account and file a Tier 1 Advice Letter to eliminate Preliminary Statement U.

27. Within 120 days of the adoption of this decision, California Water Service Company (CWS) is authorized to file a Tier 2 Advice Letter to amortize the amount of $586,502 from the Low-Income Ratepayer Assistance (LIRA) Memorandum Account (Preliminary Statement H) in accordance with

Commission Standard Practice U-27-W. CWS is also authorized to file a Tier 3 Advice Letter to seek recovery for incremental administrative costs for the LIRA program for 2012 and 2013. These costs must be reviewed for reasonableness in accordance with Commission Standard Practice U-27-W and demonstrated to be incremental to rates.

28. California Water Service Company is authorized to file a Tier 2 Advice Letter to open an International Financial Reporting Standards (IFRS) Memorandum Account, and add a preliminary statement that is substantially similar to the relevant draft preliminary statement in Attachment 5 of the Settlement Agreement attached to this decision as Exhibit A, after the Securities and Exchange Commission (SEC) provides clear guidance on timelines and actions necessary for companies to implement IFRS. The Tier 2 Advice Letter will provide a clear explanation and documentation of the SEC action, and the authority to file a Tier 2 Advice Letter and the memorandum account, if triggered as provided, will expire at the beginning of the test year of the next general rate case.

29. California Water Service Company (CWS) must address any projects tracked in the Methyl Tertiary-Butyl Ether (MTBE) Memorandum Account, and completed after December 31, 2011, through a Tier 3 Advice Letter or in its next general rate case, and make the adjustments to recorded costs. MTBE project costs will be recorded to Contributions in Aid of Construction per the Memorandum of Understanding adopted in Decision (D.) 11-03-043 and the decisions from the Contamination Order Institution Rulemaking, including D.10-10-018 and D.10-12-058, with which CWS must continue to comply.

30. In the General Office transportation expenses forecasted in future general rate cases, California Water Service Company shall not include the operations

and maintenance and administrative and general expenses associated with the four General Office vehicles for which capital costs have been excluded in this Application 12-07-007.

31. California Water Service Company is authorized an increase in contracted maintenance expenses in four districts (Bear Gulch, Bayshore, Los Altos, and Palos Verdes) to implement a high priority preventative maintenance pilot program for maintaining infrastructure. The increase in contracted maintenance expense is to be spent on high priority maintenance projects only, and adoption of the increase in contracted maintenance expense for high-priority maintenance projects in this Application 12-07-007 neither implies nor guarantees the program will be expanded beyond the districts indicated in the Settlement Agreement attached to this decision as Exhibit A or beyond this rate cycle (test year 2014-2016).

32. California Water Service Company will develop a more comprehensive and systematic main replacement program, and consult with the Office of Ratepayer Advocates on the new program, prior to filing its next general rate case application.

33. California Water Service Company (CWS) is authorized to conduct the Risk Analysis and Management for Critical Asset Protection (RAMCAP) projects (1) if required by the federal government; (2) as conditional advice letter projects; and (3) as specified in Chapter 7, Section F of the Settlement Agreement.

34. California Water Service Company (CWS) is authorized to file ratebase offset advice letters for the projects listed in Chapters 12 through 37 in the Settlement Agreement attached to this decision as Exhibit A in accordance with Commission Standard Practice U-27-W. The costs to be included in the advice letter filings may not exceed the caps listed in the Settlement Agreement attached

to this decision as Exhibit A. The ratebase offset advice letters may be filed only after each project is complete and in service to customers. If the foregoing criteria are met, CWS may submit the rate base offset advice letters as Tier 2. For advice letter projects that are still in progress in the next general rate case, CWS must provide status and updated cost estimates for the projects. CWS must also explain any significant delays, scope changes, and cost overruns in its general rate case application.

35. In its next general rate case application, California Water Service Company (CWS) must provide the following information for recorded and ongoing non-specific capital projects: project identification, brief description, cost, and status. CWS must also provide details on specific improvements in the company's capital program management processes that have been put into place since the company's last general rate case. The improvements should address the ability to deliver capital projects, especially large capital projects, on time and on budget, and to demonstrate that proposed capital facilities meet service requirements at the lowest life cycle cost. In the interim, CWS must provide status updates to the Office of Ratepayer Advocates' Water Branch on the initiative on a semi-annual basis with the first update due within five days of the effective date of this decision, the second update due in January 2015, and the third update due in July 2015, or submitted as part of its next general rate case application, whichever is earlier.

36. In future general rate case applications, California Water Service Company must provide more detailed and standardized support in capital project justifications. If any district has capital expenditures that are 20% or more over the previously-approved General Rate Case budget, the company must provide a specific justification for that difference.

37. California Water Service Company (CWS) is authorized to construct microwave link projects to the Bayshore and Salinas Districts (PID 67591 and 67593), but is required to track and present the benefits of those projects in its next general rate case filing as part of any justification for future inter-district microwave communications projects. CWS must show how the authorized projects benefit ratepayers by tracking communications outages and correlating those communications outages to loss of service and/or to down time in its operations.

38. California Water Service Company (CWS) and the Leona Valley Town Council, and separately, CWS and the City of Visalia shall meet twice each year according to the following procedures:

- CWS and each Intervenor (i.e. Leona Valley Town Council and City of Visalia) shall meet at a mutually agreeable time in or around March and September of each year;
- The purposes of the meetings are to improve communication and interaction between the parties, which can include a focus on the district's operations and capital projects, as well as the mix of conservation programs;
- Two weeks prior to each meeting, CWS must provide the Intervenor with a list of current, proposed, and long-term projects/programs, as well as brief status descriptions;
- One week before the meeting, CWS and the Intervenor will exchange proposed agendas describing topics and questions for discussion at the meeting, and will develop a mutually agreed-upon agenda;
- Based on that agenda, CWS and the Intervenor must each gather responsive information and arrange for appropriate/knowledgeable staff to participate in the meeting; and
- The parties will work to identify potential coordination opportunities, long-term solutions to joint problems, and

solutions to improve overall utility and governmental value to the district's customers and citizens.

39. In its next general rate case application, California Water Service Company must provide capital project justifications for all capital projects over $50,000 in the Antelope Valley District.

40. California Water Service Company (CWS) is authorized to conduct an Automatic Meter Reading (AMR) pilot program (Project 79661) in the Dominguez District. In its next general rate case application, CWS must provide a detailed presentation on the pilot program that includes reporting and analysis on costs, cost savings, and implementation/operational issues so that the Commission can determine the feasibility and cost effectiveness of a full-scale AMR implementation in the Dominguez District.

41. In its next general rate case application, California Water Service Company shall provide more information to the City of Visalia on future projects outside of the main Visalia system that could significantly impact Visalia customer rates.

42. California Water Service Company (CWS) shall not pursue in this general rate case period any consolidation between the Visalia District and the Selma District or any acquisitions of water systems adjacent to Visalia, and shall not initiate any acquisition or merger with the Visalia District. If the Commission, the California Department of Public Health, or other regulatory entity requests that CWS initiate an acquisition or merger, CWS shall promptly inform the City of Visalia of that direction and shall, no less than 30 days before filing any related advice letter or application with the Commission, provide relevant documentation to and consult with the City of Visalia regarding strategies for

ensuring that any acquisition or merger does not result in adverse financial consequences for existing Visalia ratepayers.

43. In light of the current drought, California Water Service Company (CWS) is authorized to implement a drought Sales Reconciliation Mechanism (SRM) as a pilot program for the second and third years of the rate case period by calculating the recorded sales for the period of the previous October through September for each district, and comparing the amounts to the sales adopted in this decision. If recorded sales are more than 5 percent different than adopted sales, CWS is authorized to adjust its overall sales forecast by 50 percent of the recorded sales variation, flow that change through the revenue requirement (also proportionally changing production costs to match the proposed sales change), and calculate rates based on the adjusted sales. If the drought SRM triggers a rate change in any area, CWS shall implement the adjusted rates with a notice to customers that the rate change is the result of the drought SRM. CWS is authorized to open a drought SRM Balancing Account (SRM BA) to track any change in rates associated with the drought SRM. The SRM BA is subject to review in CWS's next general rate case. The drought SRM is only authorized for this rate case period, and may be considered in CWS's next general rate case.

44. The effective date of the depreciation rates adopted in this proceeding shall be January 1, 2014, and shall apply to service rendered on and after that date. The adopted depreciation rates are included as Exhibit B to this decision (Attachment 6 to the Settlement Agreement).

45. Within 60 days of adoption of this decision, California Water Service Company is authorized to file a Tier 1 advice letter to amortize the 2012 Interim Rate Memorandum Account to true-up interim rates to the final rates adopted in this decision. Consistent with the December 19, 2013 Administrative Law

Judge's Ruling Granting California Water Service Company's Motion for Interim Rates, Cal Water is also authorized to open the following balancing accounts with an effective date of January 1, 2014, and to transfer balances from the 2012 Interim Rate Memorandum Account to their respective, newly-authorized accounts:

- Conservation Expense Balancing Account (Preliminary Statement Z2);
- Pension Cost Balancing Account (Preliminary Statement AA2; and
- Health Care Balancing Account (Preliminary Statement AB2).

46. California Water Service Company is authorized to implement its working cash methodology.

47. Application 12-07-007 is closed.

This order is effective today.

Dated _____, at San Francisco, California.