



BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

FILED

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In the matter of the application of

CALIFORNIA WATER SERVICE COMPANY,
(U-60-W), a California corporation, for an order 1)
authorizing it to increase rates for water service by
\$70,592,000 or 16.75% in test year 2011, 2)
authorizing it to increase rates on January 1, 2012 by
\$24,777,000 or 5.04% and January 1, 2013 by
\$24,777,000 or 4.79% in accordance with the Rate
Case Plan, and 3) adopting other related rulings and
relief necessary to implement the Commission's
ratemaking policies.

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Application No.

Filed

APPLICATION

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July 2, 2009

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of

CALIFORNIA WATER SERVICE COMPANY, (U-60-W), a California corporation, for an order 1) authorizing it to increase rates for water service by \$70,592,000 or 16.75% in test year 2011, 2) authorizing it to increase rates on January 1, 2012 by \$24,777,000 or 5.04% and January 1, 2013 by \$24,777,000 or 4.79% in accordance with the Rate Case Plan, and 3) adopting other related rulings and relief necessary to implement the Commission’s ratemaking policies.

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APPLICATION

A. Authority for Filing

In compliance with the Commission’s Rule of Practice and Procedure (Rule) 2.1, this application is made pursuant to Sections 454, et. seq., of the California Public Utilities Code and in compliance with D.07-05-062 and its Appendix (The Rate Case Plan or RCP). D.07-05-062, Ordering Paragraph 4 requires all Class A water utilities to “comply with the filing schedule and all other general rate case (GRC) requirements as set forth in the RCP.” Applicant California Water Service Company (Cal Water) respectfully states that it is a Class A water utility and therefore required to comply with the RCP.

B. Statement of Relief Sought

By this application, Cal Water is seeking general rate relief and several specific findings, conclusions, and orders from the Commission.

C. General Relief

Cal Water seeks general increases in rates in each of its operating districts¹ as shown in the following table:

Table 1 - \$ in thousands

District	Total Increase 2011	Percent Increase 2011	Total Increase 2012	Percent Increase 2012	Total Increase 2013	Percent Increase 2013
Antelope Valley	\$ 1,212	73.0%	\$ 487	16.9%	\$ 487	14.5%
Bakersfield	\$ 9,073	15.1%	\$ 2,328	3.4%	\$ 2,328	3.3%
Bear Gulch	\$ 4,681	17.4%	\$ 909	2.9%	\$ 909	2.8%
Chico	\$ 2,826	15.4%	\$ 1,397	6.6%	\$ 1,397	6.2%
Dixon	\$ 251	14.3%	\$ 304	15.2%	\$ 304	13.2%
Dominguez South Bay	\$ 6,427	15.3%	\$ 1,677	3.5%	\$ 1,677	3.3%
East Los Angeles	\$ 4,942	18.6%	\$ 2,250	7.1%	\$ 2,250	6.7%
Hermosa-Redondo	\$ 2,218	9.7%	\$ 42	0.2%	\$ 42	0.2%
King City	\$ 266	10.7%	\$ 247	9.0%	\$ 247	8.2%
Kern River Valley	\$ 1,687	36.5%	\$ 156	2.5%	\$ 156	2.4%
Livermore	\$ 2,917	16.6%	\$ 442	2.2%	\$ 442	2.1%
Los Altos	\$ 2,358	10.4%	\$ 706	2.8%	\$ 706	2.7%
Marysville	\$ 505	22.0%	\$ 693	24.7%	\$ 693	19.8%
Mid-Peninsula	\$ 5,398	17.7%	\$ 1,990	5.5%	\$ 1,990	5.2%
Oroville	\$ 485	14.1%	\$ 577	14.7%	\$ 577	12.8%
Palos Verdes	\$ 2,145	6.3%	\$ 721	2.0%	\$ 721	2.0%
Redwood Valley - Coast Springs	\$ 399	154.8%	\$ 58	8.8%	\$ 58	8.1%
Redwood Valley - Lucerne	\$ 683	54.9%	\$ 135	7.0%	\$ 135	6.6%
Redwood Valley - Unified	\$ 428	86.3%	\$ 7	0.7%	\$ 7	0.7%
Salinas	\$ 5,498	25.1%	\$ 1,659	6.1%	\$ 1,659	5.7%
Selma	\$ 554	16.5%	\$ 669	17.1%	\$ 669	14.6%
South San Francisco	\$ 1,709	11.5%	\$ 543	3.3%	\$ 543	3.2%
Stockton	\$ 6,797	22.8%	\$ 1,845	5.0%	\$ 1,845	4.8%
Visalia	\$ 3,482	21.1%	\$ 4,466	22.3%	\$ 4,466	18.2%
Westlake	\$ 3,340	24.0%	\$ 88	0.5%	\$ 88	0.5%
Willows	\$ 314	20.4%	\$ 381	20.6%	\$ 381	17.0%
Total	\$70,592	16.75%	\$24,777	5.04%	\$24,777	4.79%

Note: The increases shown for the Dixon, King City, Marysville, Oroville, Selma, Visalia, and Willows Districts show requested phasing-in of rates, not increased calculated revenue requirements.

¹ The Grand Oaks water system is excluded from this filing, as it is treated as a stand-alone Class D water company under ordering paragraph 3 of D.07-05-053.

D. Procedural Requests

Procedural Request 1 – Modified Schedule for Rate Design

Due to rate changes ordered by D.08-02-036 and the inclusion of 26 ratemaking areas in this filing, the task of developing rate designs that meet the Commission's policy objectives and allow Cal Water the opportunity to collect its revenue requirement has become extremely complex. Cal Water management asserts that individual tariffs should be extensively reviewed for errors and consistency with policy objectives before they are implemented. The process embedded in the RCP asking the Division of Water and Audit to single-handedly design rates, followed by a short review period during pendency of a proposed decision, is inadequate to ensure that customer rates reflect costs and the Commission's policy objectives. Cal Water requests that the assigned Commissioner and Administrative Law Judge for this proceeding adopt the schedule proposed by Cal Water in Attachment A. That schedule allows for parties to propose rate designs in a limited second phase of the proceeding with sufficient time for thoughtful construction and review of tariffs. Mr. Smegal discusses this proposal in detail in his testimony.

Procedural Request 2 – MtBE Coordination

Cal Water has received partial settlement proceeds from an MtBE contamination lawsuit totaling approximately \$34 million. Cal Water is planning to file an application to request approval of its proposed accounting treatment of this amount and any future proceeds arising from this litigation. The proposed accounting treatment applies funds from the settlement proceeds toward districts with known MtBE impacts and projects that have been or will be constructed to improve water supplies in those areas. In its separate application, Cal Water will propose including the litigation proceeds in rate base when specific projects are constructed and accounting for 50% of the proceeds as a contribution in aid of construction. Cal Water's Results of Operation reports reflect these assumptions. Cal Water also recognizes that the Commission has opened R.09-03-014 to determine whether the Commission should adopt a generic policy for treatment of litigation proceeds. The Commission is scheduled to issue its decision in R.09-03-014 in March 2010, before the anticipated resolution of this proceeding. Therefore, Cal Water requests the

Commission reflect a final decision in both Cal Water's MtBE application and its rulemaking in any final decision in this application.

Procedural Request 3 – Affiliate and Excess Capacity Coordination

Cal Water has provided information in this filing required by the RCP and required by its settlement with DRA in D.05-07-22 with regard to unregulated and affiliate transactions. In addition, consistent with the Commission's order in D.07-12-055, Cal Water filed two applications, A.08-05-019 and A.08-07-004. The first requested Commission approval of Cal Water's billing and marketing arrangement for a third-party service provider. The second requested modification to Cal Water's holding company D.97-12-011 to clarify the available accounting for unregulated, affiliate, and non-tariffed services. Additionally, on April 16, 2009, the Commission opened a rulemaking (R.09-04-012) to review these issues for the water industry generally. The Commission anticipates issuing a decision on the rulemaking in July 2010. Cal Water requests the Commission reflect a final decision in any or all of the open matters in its revenue requirement in this proceeding, to the extent they are issued before a final decision is rendered here.

E. Additional Rate-Related Relief Requested

Request 4 – Amend and True-up Interim Rates

Cal Water requests a finding and order from the Commission to allow a true-up of interim rates for the Antelope Valley, Bear Gulch, Dominguez-South Bay, Hermosa-Redondo, Kern River Valley, Marysville, Palos Verdes, and Redwood Valley Districts that were the subject of A.05-08-006, et. seq. Cal Water filed as allowed under D.07-05-062 for interim rates in eight districts effective July 1, 2009 and anticipates filing for additional interim rates effective on July 1, 2010. Cal Water seeks clarification that it may apply these additional transitional interim rates in July 2010, either by increasing rates by the inflation index (CPI-U) as a Tier 1 advice letter or by a different amount using a Tier 2 advice letter. The Commission staff has allowed Tier 1 treatment of interim rates which meet the rate of inflation (pursuant to ALJ Bushey's ruling in A.08-01-027) and Tier 2 treatment of other transitional interim rate increases.

In addition, Cal Water requests a finding and order to allow a true-up of interim rates for the Bakersfield, Dixon, King City, Oroville, Selma, South San Francisco, Westlake, and Willows Districts that were the subject of A.06-07-018, et. seq. Cal Water anticipates filing for interim rates as allowed under D.07-05-062 with rates effective on July 1, 2010.

Cal Water's workpapers and Results of Operations reports estimate test year revenue requirements for these districts for the transitional interim test years 2008-2009 and 2009-2010.

Request 5- Increased Fees

Cal Water requests a finding and order allowing it to increase rates under Rule 11 for restoration of service during working hours and restoration of service after hours. The fees charged for these services have not been updated since 1999. The charges do not reflect the cost of the activities, meaning that customers incurring these charges are being subsidized by other customers. Mr. Smegal's testimony addresses the details of this proposal.

Cal Water further requests a finding and order allowing it to charge for fire flow tests in all districts not included in A.07-07-001. Ordering Paragraph 23 of D.08-07-008 adopted a fire-flow test charge for the eight districts at issue in that application. Cal Water also requests to increase fire flow test charges from \$450 to \$525 per test.

Request 6 – Non-Residential Tiered Rates

Cal Water requests a finding that its presentation on non-residential tiered rates is in compliance with D.08-08-030, Ordering Paragraph 3. Cal Water presents analysis of tiered rates for non-residential customers in the testimony of David Morse. Mr. Morse concludes that the Commission's order should not be applied for a variety of factors. Mr. Morse provides a proposal for other measures to implement to promote conservation for non-residential customers.

Request 7 – Residential Sprinkler Service Rates

Ordering Paragraph 10 of D.08-07-008 ordered Cal Water to make a proposal to address customers outside the Livermore District who pay for 1-inch metered service solely to meet

sprinkler system fire-flow requirements. Cal Water has investigated this matter, as discussed in Mr. Smegal's testimony. Cal Water requests the Commission find and order that it is in the public interest to address this problem through generic rate design mechanisms. The Commission has now adopted rates for different water customer classes, with the residential class having a distinct tariff in all ratemaking areas. Cal Water proposes lowering overall service charges as a ratio of total revenue requirement, and additionally lowering the rate differential between residential meter sizes. These relative reductions would be offset by raising tiered quantity rates, furthering the Commission's conservation rate design approach. This rate design change would be simple to implement and would not require obtaining additional data, but most importantly it would allow customer water use patterns to "discover" which large meters are for fire protection and which are needed for increased flows. The proposed design furthers the public interest by promoting water conservation.

Request 8 – Recognize Subsequent Offsets

Cal Water anticipates that, subsequent to the filing of its application and prior to the issuance of a decision by the Commission, it may file one or more advice letter requests relating to its operating districts to offset increases in water production expenses that may be incurred by that District. Any such offset rate increases requested by advice letter will be in addition to the increases in rates requested in the application.

Request 9 - Amortize Balancing and Memorandum Accounts

Cal Water requests authority to amortize certain balancing and memorandum account balances in its filed operating districts that are not currently undergoing an amortization, or for which prior Commission consent to amortize has not been obtained. Mr. Smegal's testimony describes in detail Cal Water's requested amortizations.

Request 10 - Consolidation of South San Francisco and Mid-Peninsula districts

Cal Water requests a finding and order from the Commission that it is reasonable to combine the South San Francisco and Mid-Peninsula districts for ratemaking. This consolidation is consistent

with the Rate Case Plan Minimum Data Requirement Section K.3 and the Water Action Plan goal of simplifying ratemaking. These districts have been joined operationally since 2002. Mr. Smegal's testimony notes the similarity between the districts, including a proposed revenue requirement per customer that differs by roughly 5%. Mr. Smegal also notes the ratemaking benefits of such a change.

Request 11 – Review Parameters of Conservation Rates

D.08-02-036 adopted a settlement between Cal Water, DRA, and TURN implementing a residential tiered-rate structure and a modified rate design for non-residential customers. These rate designs will have been in place for twelve months at the time this application is filed. Cal Water requests the Commission consider various minor adjustments to the rate design such as redistribution of tier breakpoints, increased tier price differential, and changes to percentage of fixed cost recovery in the service charge, to the extent that these changes will further the Commission's goals to promote conservation through price mechanisms. While Cal Water has made other specific rate design requests discussed above, Cal Water intends to propose these minor adjustments to rate structure in its proposed rate design phase.

Request 12 – Enhancement of the Rate Support Fund

In partial settlement of A.05-08-006, et. seq., Cal Water and all other parties in the proceeding developed a Rate Support Fund (RSF). This mechanism was adopted in Ordering Paragraph 1 of D.06-08-011. The RSF provides an explicit subsidy, delineated on customer bills, for customers in service areas with some combination of low community income levels, large additional infrastructure needs, and high operating costs. The approved settlement, section seven, requires Cal Water to make a request in this GRC regarding continuing or modifying the RSF. Section eight of the settlement requires Cal Water to report annually on the status of the RSF balancing account and to file to adjust the surcharge if the balancing account reaches certain triggers.

Cal Water requests that the Commission find it in compliance with the RSF settlement. Cal Water further requests the Commission find and order that it is in the public interest to continue the RSF subsidies. Further, Cal Water proposes that the RSF subsidies be updated to reflect current economic conditions and water system revenue requirements. Cal Water requests that

the RSF surcharge be increased from \$0.009 per ccf to \$.014 per ccf to add approximately \$800,000 to the RSF subsidies. Under Cal Water's proposed update, Kern River Valley general support would be \$25 per month or \$1,301,000 for the district as a whole. The support has the effect of reducing typical customer monthly bills \$25 from \$106 per month to \$81 per month. The Coast Springs Redwood Valley area general support would increase to \$15 per Ccf for a total support of \$137,700. This support lowers typical monthly bills from \$230 to \$185 per month. The Redwood Valley Unified Area general support would increase to \$3 per Ccf for a total support of \$107,352. This support lowers typical monthly bills from \$170 to \$149. The Redwood Valley Lucerne Area general support would increase to \$25 per month for a total support of \$385,200. This support lowers typical monthly bills from \$109 to \$84. The Antelope Valley Fremont Area general support would increase to \$20 per month for a total support of \$22,300. This support lowers typical monthly bills from \$97 to \$77. Customers in many of these areas have additional Safe Drinking Water Bond Act or State Revolving Fund charges which are not included in these percentages. Finally, Cal Water requests that any adjustments to the RSF subsidy for the districts at issue in D.06-08-011 be made effective on the first day of the fiscal test year beginning July 1, 2009, and included in any refund or charge authorized by the Commission to true-up interim rates granted for that test period. Mr. Smegal's testimony addresses these issues.

Request 13 – Rate Deferrals

Cal Water requests a finding and order adopting a rate deferral with subsequent recovery for districts with a high ratio of water rates to household income and a relatively large percentage change in revenue requirement. At Cal Water's proposed rates, several districts including Dixon, King City, Marysville, Oroville, Selma, Visalia, and Willows may be appropriate candidates for rate phase-in treatment. Due to the Commission's process, rate case increase requests are necessarily larger in the test year than in the escalation years. Many customers at public hearings request the Commission smooth out the granted rate increase to avoid rate shock. Cal Water management believes it is in the public interest to allow this treatment in specific circumstances, so long as the deferred amounts accrue interest and are later recovered.

Request 14 – Modify Methods of Escalation

Cal Water requests a finding and order that the escalation methodology adopted in D.04-06-018 (The 2004 Rate Case Plan) and not included in the scope of changes adopted in D.07-05-062 is unreasonable and does not allow Cal Water a reasonable opportunity to earn its authorized rate of return in escalation years 2012 and 2013. Cal Water requests that the Commission adopt equitable modifications to the method of escalation to fairly include costs related to employees hired subsequent to the beginning of the test year, operations costs changes due to capital improvements, and health care costs that typically increase more rapidly than inflation. The details of this proposal are included in Mr. Smegal’s testimony.

Request 15 – Modify or Eliminate Weather-Normalized Earnings Test

Cal Water requests a finding and order that the weather-normalized earnings test employed by Commission staff in escalation filings as outlined in staff standard practice U-34-W is unnecessary and unreasonable. Cal Water requests that the test be modified in application or eliminated from the escalation process. First, the test must be modified to remove conflicts with the WRAM and MCBA mechanisms. Second, the test procedures are vague as to the applicability of normalization to many categories of expense. Third, the test is punitive on water utilities because it is applied as a triggered one-way test. In other words, if a utility is earning above authorized it is penalized, while if it is earning below authorized it cannot receive additional revenue. Finally, the adjustment to revenue recovery is permanent until the next general rate case. There is no make-up provision if a later period reflects earnings at or below authorized. The details of this proposal are included in Mr. Smegal’s testimony.

F. Other Additional Requests

Request 16 – Water Quality Finding

Cal Water requests a finding from the Commission that all operating districts provide water service that meets or exceeds state and federal drinking water standards and meets the requirements of General Order 103. This request is consistent with page 26 of D.07-05-062:

We also will incorporate water quality into the MDRs and require that any proposed decision in a GRC proceeding make specific findings and recommendations concerning the utility's water quality compliance.

Moreover, Ordering Paragraphs 7 and 8, respectively, of D.07-05-062 require the Division of Water and Audit to appoint a water quality expert and the presiding officer to rely on the testimony of the expert in support of a water quality finding. Cal Water provides evidence of this compliance in the Prepared Testimony of Chet Auckly on Water Quality. Mr. Auckly is Cal Water's Director of Water Quality and Environmental Affairs. He will testify in the proceeding as an expert in water quality regulation.

Request 17 – Waiver of Additional Notice

Cal Water has estimated escalation-year rates using known inflation factors provided by Commission staff and has applied those factors as directed in the RCP except as noted in the special requests section below. Applicant acknowledges that the escalation-year filings for calendar years 2012 and 2013 are based on future projections of inflation rates. Any increase requested at this time cannot be predictive of inflation present at that time. For this reason, Applicant requests an order from the Commission waiving the notice requirement under Rule 3.2 (c-d) or General Order 96-B should the actual escalation-year increase exceed that noticed in this application. Language to this effect is included in the proposed notice to customers.

Request 18 – AMI Pilot

In compliance with Ordering Paragraph 10 of D.07-12-055, Cal Water made an information-only filing in March 2008 and a compliance response to DWA Director Kahlon in August 2008. Cal Water committed to propose an advanced metering pilot in the 2009 general rate case. Cal Water is proposing this pilot in the East Los Angeles district. More information on this pilot program is included in the district Report on Operations.

Request 19 – Rate Base Offset Pilot

Cal Water requests that the Commission delay its review of the rate base offset pilot approved in Ordering Paragraph 9 of D.08-07-008. To date, Cal Water has not filed any advice letters under

the pilot. Therefore no information has been obtained. Cal Water recognizes that the underlying regulatory treatment of rate base offset advice letters has changed with the approval of Resolution W-4749. Nevertheless, Cal Water requests that the pilot continue and expand to include any projects determined to be eligible for rate base offset treatment in this application. Mr. Smegal's testimony addresses this request.

Request 20 – Compliance with D.08-03-020

In A.06-11-021, which was Cal Water's request to continue a service connection moratorium in the Coast Springs System, the Commission issued D.08-03-020. That decision, Ordering Paragraph 3, required Cal Water to submit a report on alternatives to increase water supplies to the area. Cal Water was also required to submit a plan for redundancy and backup service (Ordering Paragraph 5) and to present evidence of its customer information protection policies (Ordering Paragraph 8).

Cal Water seeks a finding that it has complied with all applicable aspects of D.08-03-020. Cal Water is submitting its reports as part of its Results of Operation Report for the Redwood Valley District.

Request 21 – Pension Contribution Balancing Account

Cal Water seeks a finding and order authorizing a balancing account to track the difference between authorized pension contributions included in rates in this proceeding and the costs actually incurred. Cal Water seeks such an account because of the dramatic increase in required pension funding that is the result of the recent collapse of the financial markets. The recent collapse has caused a significant loss in pension asset value, and has caused other changes to actuarial assumptions. The combination of these factors is causing the ERISA funding requirements to increase significantly from previous forecasts and the amount allowed in previous Commission authorizations.

While Cal Water has obtained recent estimates from its actuary that are included in the proposed revenue requirement, the pension funding obligation is a significant expense item. Mr. Smegal's

testimony discusses the magnitude of the expense and why it is in the public interest to establish a balancing mechanism.

Request 22 – Medical Cost Balancing Account

Cal Water seeks a finding and order authorizing a balancing account to track the difference between medical costs for employees and retirees included in rates in this proceeding and the costs actually incurred. Cal Water customers and employees benefit from its self-administered health care plans for both employees and retirees. However, these systems are prone to cost volatility based on the Company's claims experience. For instance, until 2008, medical costs rose at rates significantly above general measures of inflation for at least the prior five years. In 2008, claims decreased and medical costs declined approximately 20%. Cal Water acknowledges its opportunity to recover test-year health care costs through this application, though Cal Water is limited by the requirement to submit its actuarial estimate eighteen months before the beginning of the test year. However, an additional significant factor is the limitation on escalation in the 2nd and 3rd years of the rate case cycle by the RCP. Health care cost inflation is limited to CPI-U, which has consistently not reflected the change in Cal Water's health care expense. This means that Cal Water is forced to accept asymmetric risk (risk of loss without commensurate opportunity for gain). All else being equal, asymmetric risks do not allow Cal Water the opportunity, over time, to earn the rate of return authorized as reasonable by the Commission.

Request 23 – Water Quality Memorandum Account

Due to the uncertain nature and expense of various water quality compliance actions, the Applicant requests that the Commission authorize Cal Water a Water Quality Memorandum Account without limit, as described in Mr. Smegal's testimony.

Request 24 – Fluoride Memorandum Account

Due to the uncertain nature and expense associated with the potential implementation of fluoridation in certain districts, Cal Water requests that the Commission authorize the

establishment of a Fluoridation Memorandum Account, as described in Mr. Smegal's supplemental testimony.

Request 25 – Project Financing in Bakersfield and Palos Verdes

Cal Water requests a finding and order from the Commission allowing Cal Water to accrue Allowance for Funds Used During Construction (AFUDC) for its South Bakersfield treatment plant and its Palos Verdes pipeline reliability project. Such AFUDC should accrue at Cal Water's authorized rate of return based on Commission precedents elaborated on in D.08-05-036, as well as D.00-06-074 and D.04-03-039, which are referenced in D.08-05-036. The South Bakersfield project is estimated to take between three and four years to construct at a total cost currently estimated to be \$54 million. This project is described in the application supporting materials, but it is not included in test year revenue requirements as it is expected to be completed in 2013. The South Bakersfield treatment plant will mitigate water quality problems in a wide area of the water system. The Palos Verdes project is to construct robust and redundant transmission facilities serving the system's main reservoir. Cal Water has been planning and coordinating this project with local authorities for a number of years. The project is estimated to take between three and four years to construct at a total cost currently estimated to be \$20-30 million. This project is described in the application supporting materials but is not included in test year revenue requirements as it is expected to be completed in 2013. The Palos Verdes project will improve system reliability.

These are substantial sums compared to Cal Water's overall annual financing activity and could not reasonably be financed with short-term commercial paper. The Commission recognized Cal Water's major construction costs of its Northeast Bakersfield treatment plant in D.01-09-003 and allowed interim relief during construction in lieu of AFUDC. This alternative should be reviewed as well and the appropriate policy adopted.

Request 26 – Rate Base Treatment for Conservation Fixtures

Cal Water requests a finding and order allowing it to include in rate base an intangible asset recording the cost of programs to install conservation infrastructure in residential and commercial buildings. Cal Water would amortize this investment over the life of the installed

device consistent with the estimated yearly water saved from the program. As water savings are expected to decline consistently with time, so too would the revenue requirement from the program investment. This accounting treatment is in the public interest, as it aligns ratepayer payments with the benefit gained from water conservation. Moreover, the Commission has approved rate base treatment for installations beyond the point of service in the past for Southern California Water Company (now Golden State Water) and electric utilities.

Mr. Smegal's testimony discusses the program basis for this request as well as details of the proposal.

Request 27 – Allow Recovery of Unanticipated “Green” Projects

Cal Water requests a finding and order allowing potential recovery of investments or expenses related to cost-effective “green projects.” The benefits of such projects, to the extent they reduce water sales, purchased water cost, energy usage, or pump taxes, are not available to offset any additional outlay. For example, if Cal Water installs a more efficient pump not included in its capital budget, the energy savings flows to the MCBA and is refunded to customers, but there are no offsetting increases to revenue requirements due to increased rate base. Under these circumstances, the utility is deterred from making additional efforts to improve efficiency. While Cal Water carefully and routinely monitors its systems for efficiencies, there may be additional opportunities which become available during a rate case cycle. One example of an opportunity is the Anza recycled water extension in the Dominguez-South Bay District. This project is potentially partially funded through a 75% grant from the federal government, and would make recycled water available to additional large industrial and irrigation consumers. Use of recycled water in this area may significantly reduce the use of imported potable water, to great ratepayer and societal benefit. However, opportunities such as this may be lost if Cal Water cannot timely proceed with the project due to revenue recovery uncertainty.

Cal Water does not recommend a mechanism for this request, but proposes that both a memorandum account and authority to file offset, Tier 2 advice letters would provide the proper opportunity to vigorously promote these projects.

Request 28 – Modified WRAM/MCBA for Recycled Water

Pursuant to D.08-02-036, Cal Water tracks potable water production costs and revenue in its Modified Cost Balancing Account (MCBA) and Water Revenue Adjustment Mechanism (WRAM). Recycled water, on the other hand, is excluded from the WRAM, presumably because the Commission does not have a compelling interest in conserving recycled water. In this application, Cal Water is proposing a capital project which, when constructed, would reduce potable water sales in the Dominguez-South Bay District and replace those sales with Purchased Recycled Water. Under current regulatory treatment, Cal Water would record the loss of potable water revenue (net of reduced water production costs) in the WRAM and MCBA, benefitting shareholders, but also record increased recycled sales revenue (net of recycled water purchase costs) further benefitting shareholders. In addition, several large customers in Westlake, Hermosa-Redondo, and Dominguez-South Bay Districts have multiple service connections and may change their mix of sources for operational or financial reasons. These relative changes may unreasonably benefit shareholders or ratepayers. Cal Water requests the Commission find and order an expanded definition of the WRAM and MCBA for the three districts providing recycled water service. As discussed above, such a change would be in the interests of the public to avoid unjust shareholder enrichment or undue ratepayer benefit.

Request 29 – Modified Recovery for WRAM/MCBA Balances

Pursuant to D.08-02-036, Cal Water is required to file a report each March to identify over- or under-collections in the combined WRAM/MCBA balancing accounts and to subsequently file to amortize any balance that exceeds 2.5% of revenue requirement. In addition, Cal Water's practice is to record these balances and adjustments on its financial statements. After the Commission adopted this mechanism, Cal Water discovered that the recovery mechanism may conflict with Emerging Issues Task Force Issue Paper 92-07, which requires such mechanisms to collect revenue from customers within 24 months of the end of the period for which the revenue is recognized. Cal Water requests that in addition to refunding balances above 2.5% that all district balances may be amortized at least as often as every other year.

Request 30 – Memorandum Account for IFRS

Cal Water requests a memorandum account to record costs of compliance with proposed International Financial Reporting Standards. Details of this proposal are included in Mr. Smegal's testimony.

C. Statements in Compliance with the Commission's Rules of Practice and Procedure

1. Description of Applicant

In compliance with Rule 2.1 (a) and Rule 2.2, Applicant states that its exact legal name is California Water Service Company. Applicant is a California corporation. A copy of the Applicant's Restated Articles of Incorporation has been filed with the Public Utilities Commission in connection with Application (A.) 50350 and with A.96-12-029, and reference is hereby made thereto. There have been no subsequent changes in the Articles of Incorporation.

Applicant's principal place of business is 1720 North First Street, San Jose, CA 95112. Applicant is presently engaged in the business of the supply and distribution of water for domestic and industrial purposes in many localities in the State of California. This application relates to all areas served except the Grand Oaks service area, including service in Alameda, Butte, Fresno, Glenn, Kern, Lake, Los Angeles, Marin, Monterey, San Joaquin, San Mateo, Santa Clara, Solano, Sonoma, Tulare, Ventura, and Yuba Counties.

2. Contact Information

In compliance with Rule 2.1 (b), correspondence and communication concerning the application should be directed to:

Darin Duncan
Manager of Rates
California Water Service Company
1720 North First Street
San Jose, CA 95112
Phone: (408) 367-8200
Email: dduncan@calwater.com

with a copy to

Thomas F. Smegal
Vice President, Regulatory Matters and Corporate Relations
California Water Service Company
1720 North First Street
San Jose, CA 95112
Phone: (408) 367-8200
Email: tsmegal@calwater.com

and an additional copy to

Terry Houlihan
Bingham, McCutchen LLP
Three Embarcadero Center
San Francisco, California 94111
Phone: (415) 393-2000
Email: terry.houlihan@bingham.com

3. Category, Hearing, Issues, and Schedule (in compliance with Rule 2.1 (c))

Category: Cal Water proposes the category for this proceeding is ratesetting.

Hearing: This application will require a hearing.

Issues: Potentially, there may be factual disputes on material issues, which will necessitate hearings on such topics as water sales and operating revenue, operation and maintenance expenses, utility plant, depreciation, rate base, taxes, revenue requirements and rate of return, and rate design. In addition, Cal Water has made a number of proposals for regulatory rulings, which may implicate factual or legal issues, as well as the adopted policies of the Commission.

Schedule: Cal Water's proposed schedule in compliance with D.07-05-062 is attached as Attachment A.

4. Financial Statements

In compliance with Rule 2.3 and 3.2 (a)(1), attached hereto as Attachment B and incorporated herein by this reference, are the latest available unaudited balance sheet and income statement for California Water Service Company as of March 31, 2009. Cal Water is informed and

believes, and therefore alleges, that the original cost of the property equipment owned by it and the depreciation reserves applicable to such property and equipment are as shown on the balance sheet at March 31, 2009. For more detailed information with respect to Cal Water's financial position and its property and equipment, reference is made to other reports and information previously filed with the Commission which are incorporated herein by this reference.

5. Present and Proposed Rates (in compliance with Rule 3.2 (a)(2-3))

The rate schedules setting forth present rates in the districts are those last authorized by the Commission for each district. These schedules are attached as Attachment C. Rates proposed by this application are shown in Attachment D.

6. Description of Property

In compliance with Rule 3.2 (a) (4), Cal Water states that a description of its property and field of operation including information on original cost and depreciation reserves has been most recently filed with the Commission in connection with A.07-07-001, which is incorporated here by reference. In addition, a balance sheet showing the original cost of facilities along with current depreciation and amortization reserves is included in compliance with Rule 2.3.

The historical costs of properties used by Cal Water in water service in its districts are shown in Chapter 8 of the Results of Operation Reports. Table 8-A shows the original historical cost or estimated historical cost of the properties at the date of acquisition by Cal Water, subject only to certain minor exceptions generally approved by the Commission and accepted for rate-making purposes, with subsequent additions, betterments, extensions, and replacements being recorded at actual cost to Cal Water. Cal Water's depreciation reserve as recorded on its books as of December 31, 2008, is shown on Table 9-C in the RO Reports.

7. Summary of Earnings (in compliance with Rule 3.2 (a) (5-6))

Summary of earnings for each independent ratemaking district at present and proposed rates is shown in Table 11-B in the results of operations report. A summary of earnings at present and proposed rates for total utility operations is included as Attachment E.

8. Tax Declaration (in compliance with Rule 3.2 (a) (7))

Cal Water has elected to employ the full flow-through accelerated depreciation method in computing the depreciation deduction on pre-1981 plant additions, but has normalized depreciation expense on post-1980 plant additions as prescribed by the Economic Recovery Act of 1981 and the Tax Reform Act of 1986 for the purpose of determining its federal income tax payments. Cal Water has used the same method in calculating federal income taxes for the test year 2011 in the RO Report, Chapter 7.

9. Proxy Statement

In compliance with Rule 3.2 (a) (8), Cal Water is providing a copy of its parent company's 2008 Proxy statement to the Commission and to DRA as a hardcopy attachment, marked as Attachment F. Copies are available to other interested parties at <http://ir.calwatergroup.com/phoenix.zhtml?c=108851&p=irol-sec>.

10. Notice

Within ten days after filing the Application with the Commission, Cal Water will mail a notice to the following, stating in general terms the proposed increases in rates and also stating that a copy of the Application and related exhibits will be furnished by Cal Water upon written request: (a) the State, by mailing to the Attorney General and the Department of General Services, (b) the Counties served, by mailing to the County Counsel and the County Clerk, and (c) the cities and towns served by mailing to the City Attorney and the City Clerk or other officials identified by those entities.

Within ten days after the filing of the application, Cal Water will publish at least once in a newspaper of general circulation in each county in which the increases are proposed to be made effective, a notice, in general terms, of the proposed increases in rates. Such notice shall state that a copy of said application and related exhibits may be examined at the offices of the California Public Utilities Commission in San Francisco or Los Angeles and in Cal Water's local offices, and shall state the locations of such offices. Within ten days after publication, Cal Water

will file sworn verification listing the newspapers and publication dates, and including a sample of each different notice. As directed under Rule 3.2, Cal Water will maintain documentation of compliance and provide it upon request.

Within 45 days for all districts billed on a 30-day billing cycle, or within 75 days for districts billed on a 60-day billing cycle, Cal Water will furnish to its customers affected by the proposed increase notice of its application either by mailing such notice postage prepaid to such customers or by including such notice with the regular bill for charges transmitted to such customers. The notice shall state the amount of the proposed rate change expressed in both dollar and percentage terms for the entire rate change as well as for each customer classification, a brief statement of the reasons the change is required or sought, and the mailing, and if available, the e-mail, address of the commission to which any customer inquiries may be directed regarding how to participate in, or receive further notices regarding the date, time, and place of any hearing on the application, and the mailing address of the corporation to which any customer inquiries may be directed. As required by Rule 3.2, Cal Water will file proof of compliance within 10 days after completion of mailing.

D. Other Information (in compliance with Rule 2.1 (d))

D.1 Application Requirements of the Rate Case Plan

The RCP requires certain elements to be included in the proposed application. These include a summary table showing changes in each district, a listing of the five most important reasons for increased revenue requirements in each district, a listing of major controversial items included in the filing, and copies of proposed customer notices. Cal Water has also responded to other minimum data requirements of the RCP in its supporting documentation as required. A minimum data requirement cross-reference index is included with the filing.

A. Summary Tables

**ANTELOPE VALLEY DISTRICT
Comparison Between Proposed Last Adopted, Last Recorded and Proposed Test Year
(Dollars in Thousands)**

	Last Adopted	Last Recorded Year 2008	Proposed Test Year 2011
Total Revenue Requirement	\$1,784.4	\$1,648.0	\$2,870.6
Rate Base \$	\$4,095.7	\$4,716.4	\$8,369.0
Rate Base \$ Difference	\$0.0	\$620.8	\$4,273.3
Rate Base % Difference	0.0%	13.2%	104.3%
Operating Expenses	\$1,432.3	\$1,412.5	\$2,152.6
Operating Expense \$ Difference	\$0.0	(\$19.8)	\$720.3
Operating Expense % Difference	0.0%	-1.4%	50.3%
Rate of Return	8.60%	4.99%	8.58%

**BAKERSFIELD DISTRICT
Comparison Between Proposed Last Adopted, Last Recorded and Proposed Test Year
(Dollars in Thousands)**

	Last Test Year Adopted	Last Recorded Year 2008	Proposed Test Year 2011
Total Revenue Requirement	\$60,939.2	\$59,511.5	\$69,034.8
Rate Base \$	\$113,586.3	\$158,448.4	\$115,978.4
Rate Base \$ Difference	\$0.0	\$44,862.1	\$2,392.1
Rate Base % Difference	0.0%	28.3%	2.1%
Operating Expenses	\$51,986.7	\$49,922.1	\$59,083.5
Operating Expense \$ Difference	\$0.0	(\$2,064.5)	\$7,096.8
Operating Expense % Difference	0.0%	-4.1%	13.7%
Rate of Return	7.88%	6.05%	8.58%

**BEAR GULCH DISTRICT
Comparison Between Proposed Last Adopted, Last Recorded and Proposed Test Year
(Dollars in Thousands)**

	Last Test Year Adopted	Last Recorded Year 2008	Proposed Test Year 2011
Total Revenue Requirement	\$26,242.9	\$24,203.6	\$31,580.8
Rate Base \$	\$40,041.9	\$41,211.8	\$57,702.6
Rate Base \$ Difference	\$0.0	\$1,169.8	\$17,660.6
Rate Base % Difference	0.0%	2.8%	44.1%
Operating Expenses	\$22,807.7	\$20,252.4	\$26,629.8
Operating Expense \$ Difference	\$0.0	(\$2,555.3)	\$3,822.2
Operating Expense % Difference	0.0%	-12.6%	16.8%
Rate of Return	8.58%	9.59%	8.58%

CHICO DISTRICT
Comparison Between Proposed Last Adopted, Last Recorded and Proposed Test Year
(Dollars in Thousands)

	Last Test Year Adopted	Last Recorded Year 2008	Proposed Test Year 2011
Total Revenue Requirement	\$17,232.4	\$15,568.0	\$21,203.9
Rate Base \$	\$36,470.9	\$30,517.9	\$44,665.5
Rate Base \$ Difference	\$0.0	(\$5,953.1)	\$8,194.5
Rate Base % Difference	0.0%	-19.5%	22.5%
Operating Expenses	\$14,101.7	\$12,701.3	\$17,371.6
Operating Expense \$ Difference	\$0.0	(\$1,400.5)	\$3,269.9
Operating Expense % Difference	0.0%	-11.0%	23.2%
Rate of Return	8.58%	9.39%	8.58%

DIXON DISTRICT
Comparison Between Proposed Last Adopted, Last Recorded and Proposed Test Year
(Dollars in Thousands)

	Last Test Year Adopted	Last Recorded Year 2008	Proposed Test Year 2011
Total Revenue Requirement	\$1,717.0	\$1,839.9	\$2,533.7
Rate Base \$	\$4,249.2	\$5,370.5	\$7,075.5
Rate Base \$ Difference	\$0.0	\$1,121.3	\$2,826.3
Rate Base % Difference	0.0%	20.9%	66.5%
Operating Expenses	\$1,352.6	\$1,409.8	\$1,926.6
Operating Expense \$ Difference	\$0.0	\$57.2	\$574.0
Operating Expense % Difference	0.0%	4.1%	42.4%
Rate of Return	8.58%	8.01%	8.58%

DOMINGUEZ DISTRICT
Comparison Between Proposed Last Adopted, Last Recorded and Proposed Test Year
(Dollars in Thousands)

	Last Test Year Adopted	Last Recorded Year 2008	Proposed Test Year 2011
Total Revenue Requirement	\$42,074.7	\$38,313.9	\$48,402.2
Rate Base \$	\$55,750.2	\$62,803.4	\$60,021.3
Rate Base \$ Difference	\$0.0	\$7,053.2	\$4,271.1
Rate Base % Difference	0.0%	11.2%	7.7%
Operating Expenses	\$37,292.9	\$31,074.6	\$43,251.9
Operating Expense \$ Difference	\$0.0	(\$6,218.3)	\$5,958.9
Operating Expense % Difference	0.0%	-20.0%	16.0%
Rate of Return	8.58%	11.53%	8.58%

EAST LOS ANGELES DISTRICT
Comparison Between Proposed Last Adopted, Last Recorded and Proposed Test Year
(Dollars in Thousands)

	Last Test Year Adopted	Last Recorded Year 2008	Proposed Test Year 2011
Total Revenue Requirement	\$26,698.1	\$21,833.7	\$31,478.4
Rate Base \$	\$34,827.2	\$33,138.7	\$49,707.0
Rate Base \$ Difference	\$0.0	(\$1,688.5)	\$14,879.8
Rate Base % Difference	0.0%	-5.1%	42.7%
Operating Expenses	\$23,708.6	\$18,943.0	\$27,213.4
Operating Expense \$ Difference	\$0.0	(\$4,765.6)	\$3,504.8
Operating Expense % Difference	0.0%	-25.2%	14.8%
Rate of Return	8.58%	8.72%	8.58%

HERMOSA REDONDO
Comparison Between Proposed Last Adopted, Last Recorded and Proposed Test Year
(Dollars in Thousands)

	Last Test Year Adopted	Last Recorded Year 2008	Proposed Test Year 2011
Total Revenue Requirement	\$22,571.0	\$19,480.2	\$25,031.3
Rate Base \$	\$31,927.8	\$31,383.4	\$36,144.1
Rate Base \$ Difference	\$0.0	(\$544.4)	\$4,216.3
Rate Base % Difference	0.0%	-1.7%	13.2%
Operating Expenses	\$19,831.4	\$17,302.5	\$21,930.0
Operating Expense \$ Difference	\$0.0	(\$2,528.9)	\$2,098.6
Operating Expense % Difference	0.0%	-14.6%	10.6%
Rate of Return	8.58%	6.94%	8.58%

KERN RIVER VALLEY DISTRICT
Comparison Between Proposed Last Adopted, Last Recorded and Proposed Test Year
(Dollars in Thousands)

	Last Test Year Adopted	Last Recorded Year 2008	Proposed Test Year 2011
Total Revenue Requirement	\$4,976.6	\$3,903.0	\$6,310.2
Rate Base \$	\$14,252.9	\$18,381.7	\$17,608.3
Rate Base \$ Difference	\$0.0	\$4,128.8	\$3,355.4
Rate Base % Difference	0.0%	22.5%	23.5%
Operating Expenses	\$3,753.4	\$3,096.8	\$4,799.3
Operating Expense \$ Difference	\$0.0	(\$656.6)	\$1,045.9
Operating Expense % Difference	0.0%	-21.2%	27.9%
Rate of Return	8.58%	4.39%	8.58%

KING CITY DISTRICT
Comparison Between Proposed Last Adopted, Last Recorded and Proposed Test Year
(Dollars in Thousands)

	Last Test Year Adopted	Last Recorded Year 2008	Proposed Test Year 2011
Total Revenue Requirement	\$2,138.5	\$2,348.7	\$3,145.9
Rate Base \$	\$5,918.8	\$3,777.3	\$8,548.2
Rate Base \$ Difference	\$0.0	(\$2,141.5)	\$2,629.4
Rate Base % Difference	0.0%	-56.7%	44.4%
Operating Expenses	\$1,630.8	\$1,700.2	\$2,412.5
Operating Expense \$ Difference	\$0.0	\$69.3	\$781.7
Operating Expense % Difference	0.0%	4.1%	47.9%
Rate of Return	8.58%	17.17%	8.58%

LIVERMORE DISTRICT
Comparison Between Proposed Last Adopted, Last Recorded and Proposed Test Year
(Dollars in Thousands)

	Last Test Year Adopted	Last Recorded Year 2008	Proposed Test Year 2011
Total Revenue Requirement	\$16,837.9	\$14,353.7	\$20,445.0
Rate Base \$	\$22,456.5	\$20,935.7	\$29,666.4
Rate Base \$ Difference	\$0.0	(\$1,520.8)	\$7,209.9
Rate Base % Difference	0.0%	-7.3%	32.1%
Operating Expenses	\$14,911.1	\$12,919.6	\$17,899.5
Operating Expense \$ Difference	\$0.0	(\$1,991.5)	\$2,988.4
Operating Expense % Difference	0.0%	-15.4%	20.0%
Rate of Return	8.58%	6.85%	8.58%

LOS ALTOS DISTRICT
Comparison Between Proposed Last Adopted, Last Recorded and Proposed Test Year
(Dollars in Thousands)

	Last Test Year Adopted	Last Recorded Year 2008	Proposed Test Year 2011
Total Revenue Requirement	\$22,166.6	\$20,210.9	\$25,058.6
Rate Base \$	\$28,584.2	\$26,942.4	\$33,858.2
Rate Base \$ Difference	\$0.0	(\$1,641.8)	\$5,274.0
Rate Base % Difference	0.0%	-6.1%	18.5%
Operating Expenses	\$19,713.0	\$18,182.9	\$22,153.4
Operating Expense \$ Difference	\$0.0	(\$1,530.1)	\$2,440.4
Operating Expense % Difference	0.0%	-8.4%	12.4%
Rate of Return	8.58%	7.53%	8.58%

MARYSVILLE DISTRICT
Comparison Between Proposed Last Adopted, Last Recorded and Proposed Test Year
(Dollars in Thousands)

	Last Test Year Adopted	Last Recorded Year 2008	Proposed Test Year 2011
Total Revenue Requirement	\$2,629.3	\$2,246.6	\$3,371.3
Rate Base \$	\$5,231.8	\$5,923.1	\$7,879.6
Rate Base \$ Difference	\$0.0	\$691.3	\$2,647.8
Rate Base % Difference	0.0%	11.7%	50.6%
Operating Expenses	\$2,180.5	\$1,728.5	\$2,695.2
Operating Expense \$ Difference	\$0.0	(\$452.0)	\$514.7
Operating Expense % Difference	0.0%	-26.2%	23.6%
Rate of Return	8.58%	8.75%	8.58%

MID-PENINSULA DISTRICT
Comparison Between Proposed Last Adopted, Last Recorded and Proposed Test Year
(Dollars in Thousands)

	Last Test Year Adopted	Last Recorded Year 2008	Proposed Test Year 2011
Total Revenue Requirement	\$29,686.6	\$26,023.5	\$35,919.7
Rate Base \$	\$39,882.3	\$36,018.9	\$54,215.3
Rate Base \$ Difference	\$0.0	(\$3,863.4)	\$14,333.0
Rate Base % Difference	0.0%	-10.7%	35.9%
Operating Expenses	\$26,263.1	\$22,895.8	\$31,268.0
Operating Expense \$ Difference	\$0.0	(\$3,367.3)	\$5,004.9
Operating Expense % Difference	0.0%	-14.7%	19.1%
Rate of Return	8.58%	8.68%	8.58%

OROVILLE DISTRICT
Comparison Between Proposed Last Adopted, Last Recorded and Proposed Test Year
(Dollars in Thousands)

	Last Test Year Adopted	Last Recorded Year 2008	Proposed Test Year 2011
Total Revenue Requirement	\$3,427.0	\$3,508.0	\$4,474.6
Rate Base \$	\$6,499.7	\$7,616.3	\$9,046.9
Rate Base \$ Difference	\$0.0	\$1,116.6	\$2,547.2
Rate Base % Difference	0.0%	14.7%	39.2%
Operating Expenses	\$2,869.5	\$2,597.2	\$3,698.4
Operating Expense \$ Difference	\$0.0	(\$272.3)	\$828.9
Operating Expense % Difference	0.0%	-10.5%	28.9%
Rate of Return	8.58%	11.96%	8.58%

PALOS VERDES DISTRICT
Comparison Between Proposed Last Adopted, Last Recorded and Proposed Test Year
(Dollars in Thousands)

	Last Test Year Adopted	Last Recorded Year 2008	Proposed Test Year 2011
Total Revenue Requirement	\$31,321.7	\$29,604.2	\$36,039.7
Rate Base \$	\$25,286.1	\$25,926.0	\$32,115.9
Rate Base \$ Difference	\$0.0	\$640.0	\$6,829.8
Rate Base % Difference	0.0%	2.5%	27.0%
Operating Expenses	\$29,152.8	\$26,992.3	\$33,284.2
Operating Expense \$ Difference	\$0.0	(\$2,160.5)	\$4,131.4
Operating Expense % Difference	0.0%	-8.0%	14.2%
Rate of Return	8.58%	10.07%	8.58%

REDWOOD - COAST SPRINGS DISTRICT
Comparison Between Proposed Last Adopted, Last Recorded and Proposed Test Year
(Dollars in Thousands)

	Last Test Year Adopted	Last Recorded Year 2008	Proposed Test Year 2011
Total Revenue Requirement	\$260.5	\$218.1	\$656.0
Rate Base \$	\$855.8	\$5,614.7	\$1,815.0
Rate Base \$ Difference	\$0.0	\$4,758.9	\$959.2
Rate Base % Difference	0.0%	84.8%	112.1%
Operating Expenses	\$187.2	\$261.2	\$500.2
Operating Expense \$ Difference	\$0.0	\$74.0	\$313.1
Operating Expense % Difference	0.0%	28.3%	167.3%
Rate of Return	8.58%	-0.77%	8.58%

REDWOOD - LUCERNE DISTRICT
Comparison Between Proposed Last Adopted, Last Recorded and Proposed Test Year
(Dollars in Thousands)

	Last Test Year Adopted	Last Recorded Year 2008	Proposed Test Year 2011
Total Revenue Requirement	\$1,244.8	\$1,359.2	\$1,925.4
Rate Base \$	\$3,269.4	\$3,340.9	\$4,770.1
Rate Base \$ Difference	\$0.0	\$71.5	\$1,500.7
Rate Base % Difference	0.0%	2.1%	45.9%
Operating Expenses	\$964.3	\$1,315.2	\$1,516.1
Operating Expense \$ Difference	\$0.0	\$350.9	\$551.9
Operating Expense % Difference	0.0%	26.7%	57.2%
Rate of Return	8.58%	1.32%	8.58%

REDWOOD - UNIFIED DISTRICT
Comparison Between Proposed Last Adopted, Last Recorded and Proposed Test Year
(Dollars in Thousands)

	Last Test Year Adopted	Last Recorded Year 2008	Proposed Test Year 2011
Total Revenue Requirement	\$588.8	\$400.1	\$924.2
Rate Base \$	\$1,351.6	\$1,251.7	\$2,122.1
Rate Base \$ Difference	\$0.0	(\$99.9)	\$770.6
Rate Base % Difference	0.0%	-8.0%	57.0%
Operating Expenses	\$472.9	\$433.8	\$738.0
Operating Expense \$ Difference	\$0.0	(\$39.1)	\$265.1
Operating Expense % Difference	0.0%	-9.0%	56.1%
Rate of Return	8.58%	-2.69%	8.77%

SALINAS DISTRICT
Comparison Between Proposed Last Adopted, Last Recorded and Proposed Test Year
(Dollars in Thousands)

	Last Test Year Adopted	Last Recorded Year 2008	Proposed Test Year 2011
Total Revenue Requirement	\$23,402.4	\$20,543.9	\$27,369.2
Rate Base \$	\$56,292.7	\$39,253.4	\$55,060.5
Rate Base \$ Difference	\$0.0	(\$17,039.3)	(\$1,232.1)
Rate Base % Difference	0.0%	-43.4%	-2.2%
Operating Expenses	\$18,571.4	\$16,827.9	\$22,645.0
Operating Expense \$ Difference	\$0.0	(\$1,743.5)	\$4,073.7
Operating Expense % Difference	0.0%	-10.4%	21.9%
Rate of Return	8.58%	9.47%	8.58%

SELMA DISTRICT
Comparison Between Proposed Last Adopted, Last Recorded and Proposed Test Year
(Dollars in Thousands)

	Last Test Year Adopted	Last Recorded Year 2008	Proposed Test Year 2011
Total Revenue Requirement	\$3,508.3	\$3,238.5	\$5,119.9
Rate Base \$	\$8,549.2	\$6,815.5	\$13,279.9
Rate Base \$ Difference	\$0.0	(\$1,733.7)	\$4,730.7
Rate Base % Difference	0.0%	-25.4%	55.3%
Operating Expenses	\$2,775.1	\$2,684.4	\$3,980.4
Operating Expense \$ Difference	\$0.0	(\$90.7)	\$1,205.3
Operating Expense % Difference	0.0%	-3.4%	43.4%
Rate of Return	8.58%	8.13%	8.58%

SO. SAN FRANCISCO DISTRICT
Comparison Between Proposed Last Adopted, Last Recorded and Proposed Test Year
(Dollars in Thousands)

	Last Test Year Adopted	Last Recorded Year 2008	Proposed Test Year 2011
Total Revenue Requirement	\$14,802.4	\$13,368.4	\$16,588.7
Rate Base \$	\$19,747.7	\$17,061.4	\$25,214.6
Rate Base \$ Difference	\$0.0	(\$2,686.3)	\$5,466.9
Rate Base % Difference	0.0%	-15.7%	27.7%
Operating Expenses	\$13,108.2	\$11,342.9	\$14,425.2
Operating Expense \$ Difference	\$0.0	(\$1,765.2)	\$1,317.1
Operating Expense % Difference	0.0%	-15.6%	10.0%
Rate of Return	8.58%	11.87%	8.58%

STOCKTON DISTRICT
Comparison Between Proposed Last Adopted, Last Recorded and Proposed Test Year
(Dollars in Thousands)

	Last Test Year Adopted	Last Recorded Year 2008	Proposed Test Year 2011
Total Revenue Requirement	\$29,279.4	\$29,144.7	\$36,615.5
Rate Base \$	\$55,609.3	\$47,587.8	\$69,811.0
Rate Base \$ Difference	\$0.0	(\$8,021.5)	\$14,201.7
Rate Base % Difference	0.0%	-16.9%	25.5%
Operating Expenses	\$24,508.4	\$25,174.7	\$30,625.8
Operating Expense \$ Difference	\$0.0	\$666.4	\$6,117.4
Operating Expense % Difference	0.0%	2.6%	25.0%
Rate of Return	8.58%	8.34%	8.58%

VISALIA DISTRICT
Comparison Between Proposed Test Year, Last Test Year Adopted and Last Recorded Year
(Dollars in Thousands)

	Last Test Year Adopted	Last Recorded Year 2008	Proposed Test Year 2011
Total Revenue Requirement	\$18,585.3	\$16,115.5	\$26,140.1
Rate Base \$	\$40,083.7	\$25,819.2	\$62,907.0
Rate Base \$ Difference	\$0.0	(\$14,264.5)	\$22,823.4
Rate Base % Difference	0.0%	-55.2%	56.9%
Operating Expenses	\$15,144.5	\$14,015.6	\$20,742.5
Operating Expense \$ Difference	\$0.0	(\$1,128.9)	\$5,598.0
Operating Expense % Difference	0.0%	-8.1%	37.0%
Rate of Return	8.58%	8.13%	8.58%

WESTLAKE DISTRICT
Comparison Between Proposed Last Adopted, Last Recorded and Proposed Test Year
(Dollars in Thousands)

	Last Test Year Adopted	Last Recorded Year 2008	Proposed Test Year 2011
Total Revenue Requirement	\$13,260.2	\$12,112.9	\$17,266.5
Rate Base \$	\$8,324.9	\$6,282.5	\$24,178.5
Rate Base \$ Difference	\$0.0	(\$2,042.4)	\$15,853.6
Rate Base % Difference	0.0%	-32.5%	190.4%
Operating Expenses	\$12,546.3	\$11,925.3	\$15,191.9
Operating Expense \$ Difference	\$0.0	(\$621.0)	\$2,645.6
Operating Expense % Difference	0.0%	-5.2%	21.1%
Rate of Return	8.58%	2.99%	8.58%

WILLOWS DISTRICT
Comparison Between Last Adopted, Last Recorded and Proposed Test Year
(Dollars in Thousands)

	Last Test Year Adopted	Last Recorded Year 2008	Proposed Test Year 2011
Total Revenue Requirement	\$1,539.4	\$1,505.5	\$2,426.2
Rate Base \$	\$2,778.2	\$2,544.0	\$5,495.9
Rate Base \$ Difference	\$0.0	(\$234.2)	\$2,717.7
Rate Base % Difference	0.0%	-9.2%	97.8%
Operating Expenses	\$1,301.0	\$1,567.4	\$1,954.7
Operating Expense \$ Difference	\$0.0	\$266.4	\$653.6
Operating Expense % Difference	0.0%	17.0%	50.2%
Rate of Return	8.58%	-2.43%	8.58%

B. Listing of five major causes of increased revenue requirement, per district

This information is included in Attachment H.

C. Issues of Controversy

Cal Water is not aware at this time of any issue that will cause controversy. However, Cal Water recognizes that the percentage increases in rates applicable to certain operating areas are large. Cal Water has made several ratemaking proposals that would mitigate these increases, including phasing-in some high percentage increases and enhancing the Rate Support Fund.

D. Proposed Notices to Customers

Cal Water is attaching a sample notice for each ratemaking area as Attachment G.

D.2 Organization of Supplemental Materials

The following attachments are marked as shown, incorporated herein, and attached hereto:

Attachment A	Proposed Schedule
Attachment B	Financial Statements
Attachment C	Present Rate Schedules
Attachment D	Proposed Rates
Attachment E	Total Company Summary of Earnings
Attachment F	Proxy Statement
Attachment G	Proposed Notice to Customers
Attachment H	Major reasons for rate increases

In accordance with D. 07-05-062, the following testimony and supplemental information is not filed, but is served on DRA and the Legal Division. Copies of these documents, in hard copy and electronic form, will be provided to all active parties and will be presented into evidence at the hearing in this matter as required to substantiate Cal Water’s request.

General Report	
Minimum Data Requirements Cross-Reference	
Results of Operation Report	All Districts (24)
Report on Sales Forecasts	
Report on Conservation Programs	
Report on Water Quality	
Report on Project Justifications	All Filed Districts and GO (25)
Report on Unregulated Operations	
Additional Prepared Testimony of Thomas Smegal	
Prepared Testimony of Kenneth G. Jenkins	
Additional Prepared Testimony of Darin T. Duncan	
DRA Supplemental Data Request Response	All Filed Districts and GO (25)
Workpapers	All Filed Districts and GO (25)
Urban Water Management Plans	
Water Supply and Facility Master Plans	All Districts (24)

VERIFICATON

I, Thomas F. Smegal, declare and say that I am an officer, to wit, Vice President of the Applicant, a California corporation, making the foregoing Application; that I make this verification on behalf of said Corporation; that I have read the Application and know the contents thereof; that the same is true of my own knowledge except as to the matters that are therein stated on information or belief, and as to those matters that I believe it to be true.

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

Executed on July 2, 2009, in San Jose, California.

_____/s/ Thomas F. Smegal
Thomas F. Smegal
Vice President
CALIFORNIA WATER SERVICE COMPANY
1720 N. First Street
San Jose, CA 95112
(408) 367-8200
tsmegal@calwater.com

Attachment A - Proposed Schedule

Event	Date
Proposed Application	May 1, 2009
Deficiency Letter Mailed	June 1, 2009
Appeal to Executive Director	June 5, 2009
Executive Director Acts	June 10, 2009
Application Filed/Testimony Served	July 1, 2009
Prehearing Conference	July 14, 2009
Update of Applicant's Showing	October 8, 2009
DRA Testimony	January 20, 2010
Other Parties Serve Testimony	February 3, 2010
Rebuttal Testimony	March 22, 2010
ADR or Settlement Process	March 29, 2010
Evidentiary Hearings (if required)	April 26, 2010
Opening Briefs Filed and Served	June 7, 2010
Motion for Interim Rates	June 8, 2010
Mandatory Status Conference	June 9, 2010
Reply Briefs Filed and Served (with Comparison Exhibit)	June 17, 2010
Water Division Technical Conference	July 5, 2010
<i>Preliminary ruling ordering parties to develop rate designs</i>	<i>September 3, 2010</i>
Proposed Decision Mailed	October 4, 2010
<i>Parties submit proposed rate designs</i>	<i>October 8, 2010</i>
Comments on Proposed Decision	October 25, 2010
Reply Comments	November 1, 2010
Commission Meeting	November 11, 2010
<i>Proposed Decision Adopting Rate Design Mailed (if necessary)</i>	<i>November 17, 2010</i>
<i>Comments on Proposed Decision</i>	<i>December 7, 2010</i>
<i>Reply Comments</i>	<i>December 13, 2010</i>
<i>Commission Meeting</i>	<i>December 16, 2010</i>

Standard RCP dates have been adjusted to avoid weekends and holidays. Dates in italics are in addition to those contemplated by the RCP.

Attachment B, Page 1 - California Water Service Co. Income Statement

	<u>12 MONTHS TO DATE</u>		
	<u>This Year</u>	<u>Prior Year</u>	<u>Change</u>
Operating revenue	\$400,666,887	352,166,260	\$48,500,627
Operating expenses:			
Operations:			
Purchased water	113,704,231	105,986,750	7,717,481
Purchased power	21,471,870	21,361,598	110,272
Pump taxes	8,580,367	7,747,587	832,780
Administrative and General	58,888,843	51,645,782	7,243,061
Other operations	46,559,658	43,587,560	2,972,098
Total operations	<u>249,204,969</u>	<u>230,329,277</u>	<u>18,875,692</u>
Maintenance	18,992,283	17,548,805	1,443,478
Depreciation and amortization	36,068,997	32,729,650	3,339,347
Federal income taxes	20,448,707	13,207,038	7,241,670
State income taxes	4,608,130	3,504,956	1,103,174
Taxes other than income taxes	13,439,061	12,840,797	598,264
Total operating expenses	<u>342,762,148</u>	<u>310,160,523</u>	<u>32,601,625</u>
Net operating income	57,904,739	42,005,737	15,899,002
Other Income and Expenses:			
Non regulated revenue	7,893,479	8,778,678	(885,199)
Non regulated expense	(8,519,080)	(6,228,289)	(2,290,792)
New Business	(763,107)	(145,083)	(618,024)
Gain on sale on non-utility property	604,591	2,515,780	(1,911,190)
Miscellaneous	(387,423)	(700,585)	313,163
Income taxes on other income and exp	478,264	(1,720,594)	2,198,858
	<u>(693,276)</u>	<u>2,499,907</u>	<u>(3,193,184)</u>
Interest:			
Interest on long-term debt	18,351,811	18,442,438	(90,627)
Other interest	1,054,528	336,830	717,698
Interest capitalized	(3,461,524)	(2,535,179)	(926,346)
Amortization of bond premium and expense, r	673,400	673,969	(569)
	<u>16,618,215</u>	<u>16,918,058</u>	<u>(299,843)</u>
NET INCOME	<u>40,593,248</u>	<u>27,587,586</u>	<u>13,005,661</u>
Dividends on preferred stock	329,742	152,901	176,841
Balance for common stock	40,263,506	27,434,685	12,828,821
Dividends on common stock	22,878,474	22,815,092	63,382
Retained earnings, beginning of period	<u>\$158,132,528</u>	<u>\$153,512,935</u>	<u>\$4,619,593</u>
Retained earnings, end of period	<u>\$175,517,560</u>	<u>\$158,132,528</u>	<u>\$17,385,032</u>
EARNINGS PER SHARE	<u>\$ 2.70</u>	<u>1.84</u>	<u>\$ 0.86</u>
Fully diluted average shares outstanding	14,890,565	14,890,193	372
Number of customers	460,884	461,671	(787)

Attachment B, Page 2 - California Water Service Co. Balance Sheet

CALIFORNIA WATER SERVICE CO.

Balance Sheet

March 31, 2009 AND 2008

ASSETS	<u>2009</u>	<u>2008</u>
Utility Plant:		
Land	\$ 17,146,567	\$ 15,449,490
Depreciable plant and equipment	1,396,071,484	1,319,904,759
Construction work in progress	80,443,664	49,157,020
Intangible assets	15,066,838	13,683,140
	<u>1,508,728,553</u>	<u>1,398,194,408</u>
Less: Depreciation of plant and equipment	(452,557,740)	(421,077,225)
Amortization of intangibles	(9,226,097)	(8,443,125)
	<u>(461,783,837)</u>	<u>(429,520,351)</u>
Net utility plant	1,046,944,716	968,674,057
Current assets:		
Cash	460,190	(3,545,181)
Working funds, deposits, temporary cash investments	2,428,443	1,638,693
Accounts receivable:		
Customers, less allowance for doubtful accounts	16,540,216	16,530,402
Taxes Receivable	2,500,000	0
Unbilled revenue	11,076,938	10,804,744
Other Accounts Receivable	15,791,724	4,815,511
Materials and supplies	4,773,923	4,520,696
Prepaid expenses	9,948,079	3,748,920
Intercompany Transfers	3,942,446	(3,564,591)
Clearing accounts	2,360,805	7,281,942
Total current assets	<u>69,822,765</u>	<u>42,231,137</u>
Other assets:		
Regulatory assets	196,866,843	89,882,734
Other Intangible assets	0	0
Long Term Intercompany Receivable	0	0
Unamortized debt premium and expense	5,901,310	6,576,268
Investment In Non-Utility Property	4,086,608	3,113,817
Other	14,033,084	13,543,766
Total other assets	<u>220,887,845</u>	<u>113,116,585</u>
	<u>\$ 1,337,655,326</u>	<u>\$ 1,124,021,780</u>

Attachment B, Page 3 - California Water Service Co. Balance Sheet

CALIFORNIA WATER SERVICE CO.

Balance Sheet

March 31, 2009 AND 2008

CAPITALIZATION AND LIABILITIES	<u>2009</u>	<u>2008</u>
Capitalization		
Common stockholders' equity		
Common stock (Schedule 1)	\$ 196,746,586	\$ 196,746,586
Retained earnings	175,517,560	158,132,528
Accumulated other comprehensive loss	0	0
	<u>372,264,146</u>	<u>354,879,114</u>
	56.8%	55.0%
 Preferred stock (Schedule 1)	 0	 3,475,000
	0.0%	0.5%
 First mortgage bonds	 22,500,000	 24,500,000
Senior Notes	258,181,818	259,124,000
Long Term Intercompany Debt	0	0
Other Long-Term Debt	2,868,452	2,797,508
Total Long Term Debt (Schedule 2)	<u>283,550,270</u>	<u>286,421,508</u>
	43.2%	44.4%
 Total capitalization	 <u>655,814,415</u>	 <u>644,775,621</u>
	100.0%	100.0%
Current liabilities:		
Current maturities of LT Debt	2,117,759	0
Notes payable	40,000,000	14,000,000
Payable to Affiliates	0	0
Accounts payable	33,728,713	24,092,126
Accrued interest	6,719,686	7,635,385
Accrued general taxes	597,349	270,952
Income taxes	0	(1,707,556)
Short Term Intercompany Debt	0	0
Unearned revenue - charges billed in advance	2,615,126	2,335,470
Accrued and deferred compensation	9,531,016	9,104,166
Accrued pension and post retirement benefits	705,289	1,752,723
Accrued benefit and worker's compensation	5,362,213	4,998,912
Other	7,059,792	2,418,523
Total current liabilities	<u>108,436,943</u>	<u>64,900,700</u>
 Unamortized investment tax credit	 2,392,472	 2,466,829
Deferred income taxes	71,942,186	69,113,645
Regulatory liabilities	20,728,347	20,386,160
Advances for construction	176,156,325	167,262,603
Contributions in aid of construction	97,433,334	97,151,337
Other long-term liabilities	<u>204,751,303</u>	<u>57,964,884</u>
	<u>\$ 1,337,655,326</u>	<u>\$ 1,124,021,780</u>

Attachment C

Please see attached files.

Attachment D

Please See Attached Files

Attachment E - Total Company Summary of Earnings

TOTAL COMPANY
2009 General Rate Case
Summary of Earnings at Present and Proposed Rates
TABLE 11-B

	<u>PRESENT</u> <u>RATES</u>	<u>PROPOSED</u> <u>RATES</u>
	<u>2011</u>	<u>2011</u>
OPERATING REVENUES	\$421,400.7	\$501,933.8
OPERATING EXPENSES		
PURCHASED WATER	\$123,335.4	\$123,335.4
GROUNDWATER EXTRACTION CHARGES	\$10,970.1	\$10,970.1
PURCHASED POWER	\$21,976.3	\$21,976.3
PURCHASED CHEMICALS	\$2,764.2	\$2,764.2
PAYROLL -- DISTRICT	\$41,010.9	\$41,010.9
UNCOLLECTIBLES	\$2,009.3	\$2,426.6
CONSERVATION	\$16,574.2	\$16,574.2
OTHER OPERATION AND MAINTENANCE	\$26,871.2	\$26,871.2
DISTRICT PAYROLL BENEFITS	\$28,017.6	\$28,017.6
OTHER ADMIN AND GEN. EXP.	\$4,258.5	\$4,258.5
TOTAL O. & M., A. & G., & MISC. EXP.	\$277,787.7	\$278,204.9
TAXES OTHER THAN INCOME		
AD VALOREM TAXES	\$8,860.2	\$8,860.2
BUSINESS LICENSE FEES	\$786.0	\$957.3
LOCAL FRANCHISE TAXES	\$2,518.0	\$2,932.1
PAYROLL TAXES	\$3,526.9	\$3,526.9
TOTAL GENERAL TAXES	\$15,691.1	\$16,276.5
DEPRECIATION	\$42,681.5	\$42,681.5
G.O. PRORATED EXPENSES:		
PAYROLL AND BENEFITS	\$39,563.7	\$39,563.7
AD VALOREM TAXES	\$632.8	\$632.8
PAYROLL TAXES	\$2,679.2	\$2,679.2
OTHER PRORATED EXPENSES	\$19,767.4	\$19,767.4
TOTAL G.O. PRORATED EXPENSES	\$62,643.1	\$62,643.1
SUB -- TOTAL -- OPERATING EXPENSES	\$398,803.3	\$399,806.0
TOTAL INCOME TAXES:	(\$1,181.4)	\$30,288.3
TOTAL OPERATING EXPENSES	\$397,621.9	\$430,094.3
NET OPERATING REVENUE	\$23,778.8	\$71,839.5
DEPRECIATED RATE BASE	\$837,257.5	\$837,257.5
RATE OF RETURN	2.84%	8.58%

Attachment F – Proxy Statement

The California Water Service Company Proxy Statement is a large electronic file. It has been provided with printed copies of the application. Electronic recipients of this application may download the file from <http://ir.calwatergroup.com/phoenix.zhtml?c=108851&p=irol-sec>.

Attachment G – Notices to Customers

Please see attached files

Attachment H – Top Five Reasons for Rate Increases

Please see attached files