BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Application of California-American Water Company (U210W) for Authorization to increase its Revenues for Water Service by $4,134,600 or 2.55% in the year 2011, by $33,105,800 or 19.68% in the year 2012, by $9,897,200 or 4.92% in the year 2013, and by $10,874,600 or 5.16% in the year 2014.	Application 10-07-007 (Filed July 1, 2010)

MOTION FOR ADOPTION OF PARTIAL SETTLEMENT AGREEMENT BETWEEN THE NATURAL RESOURCES DEFENSE COUNCIL AND CALIFORNIA-AMERICAN WATER COMPANY ON CERTAIN ISSUES PRESENTED IN THE GENERAL RATE CASE

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May 19, 2011

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Application of California-American Water Company (U210W) for Authorization to Increase its Revenues for Water Service by $4,134,600 or 2.55% in the year 2011, by $33,105,800 or 19.68% in the year 2012, by $9,897,200 or 4.92% in the year 2013, and by $10,874,600 or 5.16% in the year 2014.	Application 10-07-007 (Filed July 1, 2010)

MOTION FOR ADOPTION OF PARTIAL SETTLEMENT AGREEMENT BETWEEN THE NATURAL RESOURCES DEFENSE COUNCIL AND CALIFORNIA-AMERICAN WATER COMPANY ON CERTAIN ISSUES PRESENTED IN THE GENERAL RATE CASE

I. INTRODUCTION

Pursuant to Rule 12.1 of the Rules of Practice and Procedure of the California Public Utilities Commission ("Commission"), the Natural Resources Defense Council ("NRDC") and California-American Water Company ("California American Water") (collectively "the Parties") submit this motion requesting approval of the *Partial Settlement Agreement Between the Natural Resources Defense Council and California-American Water Company on Certain Issues Presented in the General Rate Case* ("Settlement"), attached hereto as Appendix A.

The proposed Settlement addresses frequency of meter reading for certain districts, irrigation rates for certain districts, billing format, advanced metering infrastructure ("AMI"), low-income tariff consolidation, low-income surcredits, the authorization of a water revenue adjustment mechanism ("WRAM") and modified cost balancing account ("MCBA") for the Sacramento District, volumetric rate structure for wastewater customers, and water loss reporting.

The Parties sponsor the proposed Settlement jointly. The proposed Settlement fulfills the criteria that the Commission requires for approval of such settlements. The issues addressed in the proposed Settlement are limited to the issues raised in A.10-07-007 and do not extend to substantive issues presently before the Commission in other proceedings or to issues likely to come before the Commission in future proceedings.

II. PROCEDURAL BACKGROUND

On July 1, 2010, California American Water filed its applications for orders authorizing it to increase its revenues for water service in all districts. On August 2, 2010, California American Water submitted its rate design compliance filing. NRDC served testimony on California American Water's proposals on February 4, 2011. California American Water served rebuttal testimony on March 22, 2011. After several weeks of discussions, the Parties reached settlement on the issues discussed below. The Parties executed the Settlement on May 19, 2011.

III. OVERVIEW OF THE SETTLEMENT

The Settlement relate generally to measures needed to promote conservation efforts and support for low-income customers. After extensive negotiation, the Parties agreed to a number of specific measures that balanced the need to promote conservation with the customers' interest in reasonable rates. The Parties reached agreement on nine separate items.

1. Special Request #1: Monthly Meter Reading

California American Water demonstrated in its rebuttal testimony that the additional expenses to be incurred for meter reading and bill distribution are not greatly disproportionate to the projected savings. California American Water and NRDC support the switch to monthly meter reading. The parties agree that it provides better data and sends more effective conservation signals. The parties recommend that the Commission adopt the monthly meter-reading proposal that California American Water included in its general rate case application, including the new positions needed to implement monthly meter reading.

2. Irrigation Rates

California American Water and NRDC propose an irrigation rate for the Larkfield, Los Angeles County, San Diego County, and Ventura County Districts. The irrigation meter rate in each district would be comparable to the highest residential tier rate in that district.

This irrigation rate is aimed at landscape and ornamental spaces receiving potable water for irrigation. The irrigation rate would not apply to commercial customers irrigating horticultural products for sale. This also does not apply to the separate irrigation system currently providing untreated water in the Duarte service area of the Los Angeles County District. The irrigation rate would apply to ornamental landscaping for (1) individual residential customers with a separate irrigation meter, (2) multi-unit residential buildings with a separate irrigation meter, (3) commercial entities with a separate irrigation meter, and (4) public authority customers with a separate irrigation meter.

The parties recommend that the Commission approve a requirement that all new non-residential or multi-unit residential customers with irrigated landscape must receive a separate irrigation meter for billing within the irrigation rate class. The parties also request that the Commission authorize California American Water to provide separate irrigation services at no additional cost to existing customers upon request, with a maximum length of 100 feet, to the extent there is funding available in California American Water's conservation budget in either the CII or large landscape categories.

3. Billing Format

The parties recognize that California American Water's current billing system is not robust enough to implement the billing modifications that NRDC has requested in this application. The parties agree that California American Water's customers will benefit from an updated billing system that will include the flexibility to provide different types of information and in an improved format. The parties recommend that the Commission order California American Water to update its billing format. Upon completion of the Business Transformation program, California American Water will include the following on its customer bills: (1) quantity provided in gallons, (2) consistent tier names, (3) a graphic showing customer consumption.

As part of the process of developing the new bill format, customers will be surveyed on the following: (1) ease of understanding water consumption (2) ease of understanding how the bill is calculated and (3) ease of understanding the charges on the bill. As part of that survey, the customers will also have the opportunity to provide a rating of excellent, very good, good, fair and poor.

4. AMI

California American Water and NRDC recommend that the Commission authorize and direct California American Water to conduct a comprehensive AMI study for use in the next general rate case, with regular progress reports during the study period. The study will analyze the benefits of AMI and the relative costs in all districts. California American Water will include the study and its recommendations for AMI in its next general rate case. California American Water is not at this time agreeing to propose any AMI in its next general rate case proposal; California American Water will make its decision once it has reviewed the study. The Parties agree that the Commission should authorize California American Water to open and track the costs of the AMI study in a memorandum account for recovery in the next general rate case.

5. Low-Income Tariff Consolidation

The Parties recommend that the Commission grant California American Water's request to consolidate all the current low-income tariffs into a single company-wide low-income tariff for water service and a single low-income tariff for wastewater service.

6. Low-Income Surcredit (Water)

California American Water and NRDC recommend that the low-income assistance credit for the Larkfield, Los Angeles County, Sacramento, San Diego County and Ventura County Districts; and the Ambler Park, Ralph Lane and Toro service areas of the Monterey

County District be increased to the equivalent of a 20% discount on the average residential bill.

If the Commission adopts this proposal, the parties recommend that, with the exception of the Monterey County District (other than the Ambler Park, Ralph Lane and Toro service areas) and Monterey Wastewater District, California American Water administer and recover the net costs of the low-income assistance program on a statewide basis. This proposal would include recovery of all net costs of the program by a meter surcharge on all non-low income customers throughout all customers in California American Water, except those in Monterey County District (excluding Ambler Park, Ralph Lane and Toro) and Monterey Wastewater District. This will avoid the problem of disproportionately burdening customers in districts with a high percentage of customers receiving low-income assistance.

7. Special Request #5: Establish a WRAM/MCBA in Sacramento

California American Water and NRDC recognize that a key action necessary to substantially increase the water conservation actions of regulated utilities is for the Commission to remove the current financial disincentive to take actions that will encourage customers to conserve water. California American Water and NRDC agree that the need to decouple revenues from sales is not limited to the implementation of tiered rates where there are other major actions that can also significantly influence customer consumption levels, such as the installation of water meters in the Sacramento District. A WRAM provides water companies and customers revenue neutrality with respect to the effects of water conservation programs and is consistent with the Commission's successful revenue decoupling mechanisms for gas and electric utilities. California American Water and NRDC recommend that the Commission authorize California American Water to implement a WRAM in California American Water's Sacramento District.

8. Volumetric Rate Structure for Wastewater Customers

Regarding the Monterey Wastewater District, the parties recommend that the Commission order California American Water to develop and submit a proposal for a volumetric rate structure for its wastewater customers in its next general rate case. In furtherance of this recommendation, California American will do the following:

i. Enter into agreements with each retail water supplier serving California American Water customers within the Wastewater District regarding the timing and availability of customer water consumption information;

ii. Incorporate customer water consumption and return flow information into the forthcoming cost of service analysis for the Wastewater District;

iii. Submit a volumetric rate proposal consistent with the requirements of BMP 1.4 Part II-A for consideration by the Commission.

Regarding all California American Water water supply districts, the parties recommend that the Commission direct California American Water to take the following steps:

- Inventory the rate designs, billing cycles, and billing software of each wastewater service provider serving customers in each of California American Water's water supply districts.
- Develop a standard protocol for making customer water consumption data available to non-California American Water wastewater service providers for billing purposes, consistent with Commission requirements on the handling of customer data.
- Based on dialog with non-California American Water wastewater service providers, identify any specific remaining financial or institutional barriers to the adoption of volumetric wastewater rates by such wastewater service providers serving common customers within the California American Water's water service areas, together with a plan to encourage the removal of such barriers, as per the BMP. Submit a report

presenting its findings on each of the three points above to the service list in this case by July 1, 2012.

9. Water Loss Reporting

The parties recommend that the Commission direct California American Water to undertake the following actions:

1. Corrective measures for the record of this proceeding regarding the generation of reports with AWWA Water Audit Software

a. Establishment and description of a uniform, statewide quality control process for the definition, sourcing, collection, assessment, and entry of all data collected for use in the AWWA Water Audit Software.

b. Identification of a qualified individual with responsibility and authority to execute the quality control program statewide.

c. Documentation of the actions and practices taken by California American Water during the reporting year covered by the audit that substantiate the data quality score assigned by California American Water to each data entry in the AWWA Water Audit Software Reporting Worksheet ("AWWA Worksheet").

d. Correction of all errors known to California American Water in previously completed AWWA Worksheets for each service area and district.

e. Review and attestation by signature of all completed AWWA Worksheets by the California American Water Vice President of Operations.

f. If allowed by the Commission upon request by California American Water, resubmission of corrected AWWA Worksheets in this docket. In addition, the parties agree that California American Water will correct and resubmit any AWWA Worksheets completed prior to this settlement that have been submitted to any California public agency or to the California Urban Water Conservation Council.

2. Record-keeping for the repair of reported leaks and breaks

a. Consistent with the requirement of CUWCC BMP 1.2(C)(5), which requires documentation of leak running time from report to repair, the California American Water Repair Crew Leak Report form will be modified to capture the time the leak or break is reported to California American Water (not simply the date), as well as the time the repair is completed.

3. Non-Revenue Water Action Plan

Prepare and submit to the Commission by not later than October 1, 2012, Preliminary Non-Revenue Water Action Plan to reduce the volume of non-revenue water throughout the company with the following elements. The Final Action Plan for all districts will be submitted with California American Water's next general rate case.

a. Continuation of annual reporting of the volumes of non-revenue water, using the most recent version of the AWWA Water Audit Software, following the procedures outlined in item 1. above.

b. Compilation of Repair Crew Leak Reports in digital format, assembled into a searchable database with summary functions for the following: type and dimension of leaking pipe or fitting; leak running time from report to repair; leakage volume from report to repair; and, cost of repair, including damages if any.

c. A census of all customer service meters by customer class, size, type, year installed, and manufacturer's warranted accuracy when new, and the approved schedule of meter testing, repair, and replacement by size, type, and customer class.

d. Comparison of the requirements of Decision 09-07-021regarding meter replacement, main replacement, and service line replacement with the levels of implementation achieved.

e. A component analysis of leakage in each district, as described in AWWA Manual M-36, *Water Audits and Loss Control Programs, Third Edition*, 2009.

f. An engineering and financial evaluation of candidate measures to reduce non-revenue water in each district, including evaluation of at least the following: right-sizing of large meters; improved dispatch to reported leaks and breaks; acoustic survey of distribution system; fixed and variable pressure management; and main replacement. The costs of all such evaluations and studies will be deferred and captured as part of rate case expense in the next GRC.

g. Recommended measures for cost-effective reductions of non-revenue water for each district, with supporting budgets (capital and expense) and estimated savings for a three-year period. Proposed expenditures in excess of authorized levels in the current GRC will be proposed as part of the next GRC, to be filed on May 1, 2013.

IV. THE SETTLEMENT IS REASONABLE IN LIGHT OF THE ENTIRE RECORD, CONSISTENT WITH THE LAW, AND IN THE PUBLIC INTEREST.

Rule 12.1 requires that a settlement be "reasonable in light of the whole record, consistent with law, and in the public interest." The Settlement meets these requirements.

First, the Settlement is reasonable in light of the whole record. The Parties began with agreement on the need to promote conservation while providing safe, reliable, and reasonably priced water and wastewater services to California American Water's customers, but had differing views on the measures and expenses necessary to provide that service. The Parties engaged in extensive settlement negotiations over the course of several weeks. The Parties fully considered the facts and the law relevant to this case, and reached reasonable compromises on the issues.

Second, the Parties are aware of no statutory provision or prior Commission decision that would be contravened or compromised by the Settlement. The issues resolved in the Settlements are within the scope of the proceeding. The Settlement promotes conservation and maintains just and reasonable rates.

Finally, the Settlement is in the public interest. The principal public interest affected by this Settlement is the promotion of conservation and the assurance of reasonable rates for low-income customers. The Settlement is also consistent with the Commission's Water Action Plan objective for setting rates that balance investment, promote conservation, and ensure affordability. In addition, Commission approval of the Settlement will provide speedy resolution of contested issues, will save unnecessary litigation expense, and will conserve Commission resources. The Commission has acknowledged that "[t]here is a strong public policy favoring the settlement of disputes to avoid costly and protracted litigation." *Re PG&E*, D.88-12-083, 30 CPUC 2d 189, 221.

V. CONCLUSION

For the reasons discussed above, the Parties request that the Commission approve the proposed Settlement.

Dated: May 19, 2011

Respectfully submitted,

By: */s/ Sarah E. Leeper*
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APPENDIX A

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Application of California-American Water Company (U210W) for Authorization to Increase its Revenues for Water Service by $4,134,600 or 2.55% in the year 2011, by $33,105,800 or 19.68% in the year 2012, by $9,897,200 or 4.92% in the year 2013, and by $10,874,600 or 5.16% in the year 2014.	A.10-07-007 (Filed July 1, 2010)

PARTIAL SETTLEMENT AGREEMENT BETWEEN THE NATURAL RESOURCES DEFENSE COUNCIL AND CALIFORNIA-AMERICAN WATER COMPANY ON ISSUES PRESENTED IN THE GENERAL RATE CASE

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Dated: May 19, 2011

TABLE OF CONTENTS

Page

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Application of California-American Water Company (U210W) for Authorization to Increase its Revenues for Water Service by $4,134,600 or 2.55% in the year 2011, by $33,105,800 or 19.68% in the year 2012, by $9,897,200 or 4.92% in the year 2013, and by $10,874,600 or 5.16% in the year 2014.	A.10-07-007 (Filed July 1, 2010)

PARTIAL SETTLEMENT AGREEMENT BETWEEN THE NATURAL RESOURCES DEFENSE COUNCIL AND CALIFORNIA-AMERICAN WATER COMPANY ON ISSUES PRESENTED IN THE GENERAL RATE CASE

I. GENERAL PROVISIONS

A. Pursuant to Article 12 of the Rules of Practice and Procedure of the California Public Utilities Commission ("Commission"), the Natural Resources Defense Council ("NRDC") and California-American Water Company ("California American Water") (collectively, "the Parties") have agreed on the terms of this partial settlement agreement (the "Settlement Agreement") which they now submit, for approval. This Settlement Agreement addresses many of the differences presented by the testimony and exhibits submitted into evidence by California American Water and NRDC and interveners in Application ("A.") 10-07-007.

B. The Parties, desiring to avoid the expense, inconvenience, and the uncertainty attendant to litigation of matters in dispute between them have agreed on this Settlement Agreement, which they now submit for approval.

C. Because this Settlement Agreement represents a compromise by them, the Parties have entered into each stipulation contained in the Settlement Agreement on the basis that its approval by the Commission not be construed as an admission or concession by any Party regarding any fact or matter of law in dispute in this proceeding.

D. The Parties agree that no signatory to the Settlement Agreement assumes any personal liability as a result of their agreement. All rights and remedies of the Parties are limited to those available before the Commission. Furthermore, the Settlement Agreement is being presented as an integrated package such that the Parties are agreeing to the Settlement Agreement as a whole, as opposed to agreeing to specific elements of the Settlement Agreement. If the Commission adopts the Settlement Agreement with modifications, all the Parties must consent to the modifications or the Settlement Agreement is void. As between the Parties, this Settlement may be amended or changed only by a written agreement signed by the Parties. This Settlement may be supplemented by a larger settlement agreement with other Parties to this proceeding.

E. This Settlement Agreement may be executed in counterparts, each of which shall be deemed an original, and the counterparts together shall constitute one and the same instrument.

F. The Parties agree to use their best efforts to obtain Commission approval of the Settlement Agreement. The Parties shall request that the Commission approve the Settlement Agreement without change and find the Settlement Agreement to be reasonable, consistent with the law, and in the public interest.

II. TOPICS RESOLVED BY SETTLEMENT AGREEMENT

A. SPECIAL REQUEST #1: MONTHLY METER READING

CALIFORNIA AMERICAN WATER REQUEST:

California American Water requests authorization to change from bimonthly to monthly meter reading schedules in the Los Angeles County, Sacramento, and San Diego County Districts. Presently, in these districts, California American Water reads and bills approximately one half of the customer meters on odd months and the other on even months. If this request is granted California American will revise the current bi-monthly meter reading and billing cycles and create monthly meter reading and billing cycles. This request will improve service and result in cost savings for customers by reducing revenue lag, enhancing conservation, improving troubleshooting, allowing customers to better budget for water bills and manage usage, and enabling the Company to better analyze consumption trends and target conservation programming. To accomplish this change, California American Water requests five new full-time meter reader positions and associated costs.

NRDC POSITION:

NRDC supports California American Water request to institute monthly meter reading and customer billing in Los Angeles, San Diego, and Sacramento. More timely billing information will help customers to better educate water usage practices with the size of their bill. And as block rates become more steeply ascending, monthly billing can provide an earlier warning about a customer's inadvertent usage and leakage that would have greater financial impact on the bill. Additionally, the accumulation of customer consumption data that more effectively tracks the seasonal transitions between peak and off-peak periods, is an additional benefit that will lead to a better rate analysis in future years.

NRDC notes that California American Water has estimated substantial dollars savings from the reduction in revenue lag attributable to monthly billing. NRDC believes that the benefits of more timely consumption data for customers and system managers alike argue for approval of this request, even if the readily monetized savings do not fully off-set the initial costs on a dollar-per-dollar basis. NRDC supports the recommendation assuming that California American Water can show that the additional expenses to be incurred for meter reading and bill distribution are not greatly disproportionate to the projected savings.

RESOLUTION:

California American Water demonstrated in its rebuttal testimony that the additional expenses to be incurred for meter reading and bill distribution are not greatly disproportionate to the projected savings. California American Water and NRDC support the switch to monthly meter reading. The Parties agree that it provides better data and sends more effective conservation signals. The Parties recommend that the Commission adopt the monthly meter-reading proposal that California American Water included in its general rate case application, including the new positions needed to implement monthly meter reading.

REFERENCES:

CAW Exh. 3, pp. 9-13; CAW Exh. 38, pp. 11-16.

NRDC Exh. 1, pp. 7-8.

B. IRRIGATION RATES

CALIFORNIA AMERICAN WATER REQUEST:

California American Water has proposed the establishment of separate rates for treated water used for dedicated irrigation service customers for the Larkfield, San Diego County, and Ventura County Districts and the Toro service area. Best management practices require separate irrigation meters for commercial and certain Multi-Dwelling Unit ("MDU") installations.

In Larkfield, California American Water proposes a single irrigation rate for irrigation and other uses such as temporary water for construction be set at the block 2 commercial rate, which is exceeded only by the higher residential block rates in Larkfield. In San Diego County, California American Water proposes a single irrigation rate to be set at the block three residential rate, which is equal to the highest residential block rate. In Ventura, California American Water proposes a single irrigation rate to be set equal to the industrial rate. In Toro, California American Water proposes a single irrigation rate for irrigation to be set at the block four residential rate, which is exceeded only by the highest residential block rate.

NRDC POSITION:

NRDC supports this request and states that California American Water should have already identified dedicated irrigation accounts within its existing commercial and industrial customer base, in order to improve water management and engage large landscape customers in water efficiency efforts. Nevertheless, NRDC supports the establishment of this rate class at this time, with the understanding that the final rate as approved will be sufficiently above the average cost of water that a strong price signal will be sent that will moderate seasonal peaks and encourage more efficient use of water in irrigated landscapes.

RESOLUTION:

California American Water and NRDC propose an irrigation rate for the Larkfield, Los Angeles County, San Diego County, and Ventura County Districts. The irrigation quantity rate in each district would be comparable to the highest residential tier rate in that district.

This irrigation rate is aimed at landscape and ornamental spaces receiving potable water for irrigation. The irrigation rate would not apply to commercial customers irrigating horticultural products for sale, nor would it apply to multi-residential living complexes. This also does not apply to the separate irrigation system currently providing untreated water in the Duarte service area of the Los Angeles County District. The irrigation rate would apply to ornamental landscaping for (1) individual residential customers with a separate irrigation meter, (2) commercial entities with a separate irrigation meter, and (3) public authority customers with a separate irrigation meter.

The Parties recommend that the Commission approve a requirement that all new non-residential customers with irrigated landscape must receive a separate irrigation meter for billing within the irrigation rate class. The Parties also request that the Commission authorize California American Water to provide separate irrigation services at no additional cost to existing customers upon request, with a maximum length of 100 feet, to the extent there is funding available in California American Water's conservation budget in either the CII or large landscape categories.

REFERENCES:

CAW Exh. 30, p. 3; CAW Exh. 35, p. 3.

NRDC Exh. 1, pp. 9-10.

C. BILLING FORMAT

NRDC RECOMMENDATION:

NRDC recommends that billing formats be modified to include: (1) consumption information provided in gallons to the greatest extent possible; (2) rate tiers identified with a consistent nomenclature for each rate tier, such as Tier 1, Tier 2, etc., rather than simply inferred from a different volume charge; (3) a presentation of the rate design in graphic form, along with the customer's position within it. (See, for example, the "thermometer" graphic on Southern California Edison residential electric bills).

The bill is the principal means of communication between California American Water and its customers. With higher rates in general and more steeply ascending tiers in particular, it is important that customers readily understand the contours of the rate design and the degree to which changes in consumption will influence changes in the total customer bill.

NRDC recommends that the Commission's final order in this case direct improvements in the billing format for all California American Water districts, and that potential revisions be assessed in advance by one or more customer focus groups convened by California American Water to help identify the changes that customers will find most useful.

CALIFORNIA AMERICAN WATER POSITION:

California American Water agrees that improvements could be made. However, the Company is in the middle of a business transformation process, which will replace many existing programs and processes, including the billing system. As part of the transformation, the Company will be looking to develop new bill formats. The Company welcomes ideas but would not want the Commission to order any specific changes until it has had the opportunity to understand what is available through the software and vendors that have already been selected.

RESOLUTION:

The Parties recognize that California American Water's current billing system is not robust enough to implement the billing modifications that NRDC has requested in this application. The Parties agree that California American Water's customers will benefit from an updated billing system that will include the flexibility to provide different types of information and in an improved format. The Parties recommend that the Commission order California American Water to update its billing format. Upon completion of the Business Transformation program, California American Water will include the following on its customer bills: (1) quantity provided in gallons, (2) consistent tier names, (3) a graphic showing customer consumption.

As part of the process of developing the new bill format, customers will be surveyed on the following: (1) ease of understanding water consumption (2) ease of understanding how the bill is calculated and (3) ease of understanding the charges on the bill. As part of that survey, the customers will also have the opportunity to provide a rating of excellent, very good, good, fair and poor.

REFERENCES:

CAW Exh. 27, pp. 120-131, Attachment 6; CAW Exh. 51, p. 77.

NRDC Exh. 1, p. 7.

D. ADVANCED METERING INFRASTRUCTURE (AMI)

NRDC RECOMMENDATION:

Advanced metering infrastructure (AMI) is in the early stages of implementation by drinking water utilities in California. These systems involve automated data acquisition from customer meters, most often through a fixed network collection system. When coupled with enhanced customer data management software, AMI systems can provide a far more granular view of customer water consumption, with reads obtained at hourly or even quarter-hourly intervals, rather than monthly or bimonthly, at little incremental cost. Usage patterns that are indicative of leaks may be gleaned from the data and shared with customers in close to real time. Web based billing systems may be part of the package, and can add to administrative savings.

The potential savings offered by AMI, however substantial, need to be assessed against the costs to implement and operate such systems, and these costs may be substantial. California American Water has indicated that it currently does not deploy any fixed network metering, but is investigating the technical potential of fixed network metering in each of its districts. NRDC takes no position on whether or when implementation of this new technology should occur. But NRDC believes that California American Water needs to begin evaluating AMI with direction and guidance from the Commission and the Division of Ratepayer Advocates ("DRA") to ensure that its report on the matter is fully responsive to concerns of regulators and consumers.

NRDC requests that the final order in this proceeding direct California American Water to present in its filing for its next GRC the business case for investment in automated metering infrastructure for each of its districts. This analysis should be sufficiently detailed in scope and scheduling that the Commission will be able to reach a decision regarding the appropriateness and timing of such an investment. Regular progress reports from California American Water should also be required during this period.

<u>CALIFORNIA AMERICAN WATER POSITION:</u>

California American Water did not specifically provide testimony on this issue.

<u>RESOLUTION:</u>

California American Water and NRDC recommend that the Commission authorize and direct California American Water to conduct a comprehensive AMI study for use in the next general rate case, with regular progress reports during the study period.

The study will analyze the benefits of AMI and the relative costs in all districts. California American Water will include the study and its recommendations for AMI in its next general rate case. California American Water is not at this time agreeing to propose any AMI in its next general rate case proposal; California American Water will make its decision once it has reviewed the study.

The Parties agree that the Commission should authorize California American Water to open and track the costs of the AMI study in a memorandum account for recovery in the next general rate case.

<u>REFERENCES:</u>

NRDC Exh. 1, pp. 8-9.

E. LOW-INCOME TARIFF CONSOLIDATION

<u>CALIFORNIA AMERICAN WATER REQUEST:</u>

California American Water proposes to consolidate all the current low-income tariffs into a single company-wide low-income tariff for water service and a single low-income tariff for wastewater service. California American Water currently has nine separate water low-income program tariffs. All of the tariffs are the same and state the same parameters and conditions. Having a single tariff will make it much easier to make changes, much easier for customers to find the correct information, and much easier for the Company and the Commission to administer.

NRDC POSITION:

NRDC did not provide testimony on this issue.

RESOLUTION:

The Parties recommend that the Commission grant California American Water's request to consolidate all the current low-income tariffs into a single company-wide low-income tariff for water service and a single low-income tariff for wastewater service.

REFERENCES:

CAW Exh. 36, pp. 6-7; CAW Exh. 51, p. 76.

F. LOW-INCOME SURCREDIT (WATER)

CALIFORNIA AMERICAN WATER REQUEST:

Currently, the low-income surcredit is a monthly discount that California American Water applies to each low-income customer bill. California American Water recommends recalculating current district-specific surcredits to ensure meeting the intent of the original 15% reduction. Additionally, although California American Water proposes a consolidated low-income program tariff, it recommends certain district or service area – specific surcredit arrangements. First, California American Water proposes separate surcredit for each service area in the Los Angeles County District. Presently, there is a single surcredit for all Los Angeles County District customers. Due to the different levels of usage between the service areas and the increasing purchased water costs, however, the use of separate surcredit levels for each Los Angeles County District services area is justified.

Second, California American Water proposes that the Ambler Park and Ralph Lane service areas in the Monterey County District have flat rate surcredits based on the applicable rates and level of consumption, similar to the surcredits in California American Water's districts other than the Monterey County District. Currently the Monterey County District surcredit is based on the number of people living in the residence. For the Monterey County District main system, California American Water collects this information for billing purposes. It does not collect this information, however, for the Ambler Park and Ralph Lane subsystems, making it difficult to obtain this information solely for low-income program purposes. Additionally, the unique surcredit for the Monterey County District was developed in part due to the very steep increasing block rates. These same conditions do not exist in the Ralph Lane or Ambler Park area, since they are not on the same billing structure as other Monterey County District customers.

NRDC POSITION:

NRDC recommends that consideration be given to increasing the surcredit for low-income customers from the current 15% to 20%, a level that is comparable to energy utility low-income assistance programs overseen by the Commission. Although starting from a relatively low base compared with other utility costs, water bills have been increasing in recent years to levels that are significantly impacting consumers' budgets. As a possible guideline, NRDC recommends that the Commission consider an increase to 20% in any district where the average monthly bill is larger than $50.00. It appears that several California American Water districts would qualify if such a criterion were applied.

RESOLUTION:

California American Water and NRDC recommend that the low-income assistance credit for the Larkfield, Los Angeles County, Sacramento, San Diego County and Ventura County Districts, and the Ambler Park, Ralph Lane and Toro service areas of the Monterey County District be increased to the equivalent of a 20% discount on the average residential bill.

If the Commission adopts this proposal, the Parties recommend that, with the exception of the Monterey County District (other than the Ambler Park, Ralph Lane and Toro service areas) and Monterey Wastewater District, California American Water administer and recover the net costs of the low-income assistance program on a statewide basis. This proposal would include recovery of all net costs of the program by a meter surcharge on all non-low income customers throughout all customers in California American Water, except those in Monterey County District (excluding Ambler Park, Ralph Lane and Toro) and Monterey Wastewater District. This will avoid the problem of disproportionately burdening customers in districts with a high percentage of customers receiving low-income assistance.

REFERENCES:

CAW Exh. 27, pp. 7-8; CAW Exh. 51, p. 76.

NRDC Exh. 1, p. 6.

G. SPECIAL REQUEST #5: ESTABLISH A WRAM/MCBA IN SACRAMENTO

CALIFORNIA AMERICAN WATER REQUEST:

California American Water requests that the Commission authorize a water revenue adjustment mechanism (WRAM) and modified cost balancing account (MCBA) for the Sacramento District as part of its decision on the revenue requirement in this case. The purpose of the WRAM and MCBA is to decouple the revenue requirement from revenue recovery, thereby providing an incentive for promoting conservation. California American Water seeks this request in order to reasonably forecast sales and revenues, remove disincentives, pass savings on to ratepayers, and reduce overall water consumption. California American has instituted a very proactive water conservation program to assist in reducing water sales. This proposal would allow California American Water the opportunity to be made whole for future revenue losses as a result of dramatic conservation measures in the Sacramento District.

NRDC POSITION:

NRDC strongly supports the use of the WRAM/MCBA because it provides protection to both the Company and rate payer and is a necessary component of an effective conservation program.

RESOLUTION:

California American Water and NRDC recognize that a key action necessary to substantially increase the water conservation actions of regulated utilities is for the Commission to remove the current financial disincentive to take actions that will encourage customers to conserve water. California American Water and NRDC agree that the need to decouple revenues from sales is not limited to the implementation of tiered rates where there are other major actions that can also significantly influence customer consumption levels, such as the installation of water meters in the Sacramento District. A WRAM provides water companies and customers revenue neutrality with respect to the effects of water conservation programs and is consistent with the Commission's successful revenue decoupling mechanisms for gas and electric utilities.

California American Water and NRDC recommend that the Commission authorize California American Water to implement a WRAM in California American Water's Sacramento District.

REFERENCES:

CAW Exh. 27, pp. 41-43; CAW Exh. 51, pp. 8-14.

NRDC Exh. 1, p. 5.

H. VOLUMETRIC RATE STRUCTURE FOR WASTEWATER CUSTOMERS

NRDC REQUEST:

Regarding the Monterey Wastewater District, NRDC objects to the approval of the rates proposed by California American Water for the Wastewater District. We recommend that any extension of the current flat rate design be limited by the Commission to such time as is necessary for California American Water to accomplish the following actions under the direction of the Commission:

i. In cooperation with each retail water supplier serving customers within the California American Water Wastewater District, survey the timing and availability of customer water consumption information;

ii. Modify the cost of service analysis contained in the current application to incorporate customer water consumption and return flow information;

iii. Submit a revised rate design consistent with the requirements of BMP 1.4 for consideration by the Commission.

Regarding all California American Water water supply districts, NRDC notes that retail water suppliers that do not provide retail sewer service have obligations under BMP 1.4 Part 2 as well. NRDC recommends that the Commission's final order in this case ensure that California American Water comply fully with BMP 1.4 by undertaking the following steps at the direction of the Commission:

- Inventory the rate designs, billing cycles, and billing software of each wastewater service provider serving customers in each of California American Water's water supply districts.

- Develop a standard protocol for the timely and secure transfer of customer water consumption data to wastewater service providers for billing purposes, consistent with Commission requirements on the handling of customer data.

- Based on dialog with wastewater service providers, identify any specific remaining financial or institutional barriers to the adoption of volumetric wastewater rates for customers within each California American Water water supply district, together with a plan to encourage the removal of such barriers, as per the BMP.

CALIFORNIA AMERICAN WATER POSITION:

With respect to the Monterey County District, California American Water believes that it is unnecessary to bill wastewater customers a rate based on volumetric charges due to the fact that it already bills water under a highly inverted rate structure that is intended to reduce all consumption to use only for necessary purposes. The recent implementation of Monterey's aggressive retail rate structure, in addition to the implementation of other BMPs in Monterey's long-running and robust conservation program, will have a more positive effect on ratepayers than the implementation of conservation pricing for sewer rates. Conservation pricing for sewer rates in the Monterey Wastewater District would further burden ratepayers without offering additional incentive to conserve water. California American Water would agree that once a water supply solution is in place in Monterey and a more normal conservation tariff can be instituted, it will work toward a volumetric wastewater rate, given that it can be protected as it is for water service today by de-coupling sales from earnings.

Regarding other districts, it is impractical to implement a program to share data in the Sacramento District and the Los Angeles County District at this time. In the Sacramento District, it is impractical due to the relatively large number of flat rate, unmetered customers in the service area; in the Los Angeles County District, it is impractical due to the limitations of the Los Angeles County Sanitation District to access the more than 200 jurisdictional databases necessary to implement volumetric sewer rates in the service area. In the Ventura County and Larkfield Districts, California American Water is willing to put forward a good faith effort to provide the information required for sewer service providers to adjust their billing structures, and in the Larkfield District, has actively approached this discussion with neighboring agencies. California American Water already provides water sales data in its San Diego County District to the City of San Diego for its use in billing wastewater customers. The Commission must keep in mind that some billing practices result in increased costs to customers.

RESOLUTION:

Regarding the Monterey Wastewater District, the Parties recommend that the Commission order California American Water to develop and submit a proposal for a volumetric rate structure for its wastewater customers in its next general rate case. In furtherance of this recommendation, California American will do the following:

i. Enter into agreements with each retail water supplier serving California American Water customers within the Wastewater District regarding the timing and availability of customer water consumption information;

ii. Incorporate customer water consumption and return flow information into the forthcoming cost of service analysis for the Wastewater District;

iii. Submit a volumetric rate proposal consistent with the requirements of BMP 1.4 Part II-A for consideration by the Commission.

Regarding all California American Water water supply districts, the Parties recommend that the Commission direct California American Water to take the following steps:

- Inventory the rate designs, billing cycles, and billing software of each wastewater service provider serving customers in each of California American Water's water supply districts.

- Develop a standard protocol for making customer water consumption data available to non-California American Water wastewater service providers for billing purposes, consistent with Commission requirements on the handling of customer data.

- Based on dialog with non-California American Water wastewater service providers, identify any specific remaining financial or institutional barriers to the adoption of volumetric wastewater rates by such wastewater service providers serving common customers within the California American Water's water service areas, together with a plan to encourage the removal of such barriers, as per the BMP. Submit a report presenting its findings on each of the three points above to the service list in this case by July 1, 2012.

REFERENCES:

CAW Exh. 51, pp. 77-80

NRDC Exh. 1, pp. 12-16.

I. WATER LOSS REPORTING

CALIFORNIA AMERICAN WATER REQUEST:

California American Water recommended that the Commission use the 2009 actual data to forecast non-revenue water. Utilizing a five-year average method for forecasting NRW (1) allows for one time occurrences in prior years to dictate the weight of the average, (2) assumes that NRW is directly proportional to water sales, (3) assumes that all causes of NRW are proportional and (4) assumes that no changes in water system facilities have any effect on NRW. The methodology employed by California American Water to use the latest NRW as a forecast of future NRW amounts takes these causes into effect by assuming that the latest information is driven by the most recent changes to the water system.

The AWWA audit validity scores were based on the confidence of the operating districts in the accuracy of the data researched, gathered and provided for input into the Audit Software. The AWWA Audit Reporting Worksheet it states "Indicate your confidence in the accuracy of the input data by grading each component (1-10) using the drop-down list to the left of the input cell." While NRDC disputes the validity of the scores, they are discretionary and California American Water is not obligated to use any standard other than the confidence in the data that was provided in the audit by each of the operating districts.

DRA's method of selecting the non-revenue water benchmark conflicts with its own testimony on the subject and is overly simplistic in its assumptions for forecasting future non-revenue water volumes. Both "real" and "apparent" losses are dynamic and subject to fluctuations based on weather, economic factors, system age, etc. The assumption that each year the non-revenue water volume will only decrease, even as existing infrastructure like water mains, meters, service lines, hydrants, and other system appurtenances age, is a flawed approach to forecasting future non-revenue water amounts. DRA's recommendation represents a value less than the American Water Works Association ("AWWA") defined "unavoidable annual real losses" or UARL. AWWA defines unavoidable annual real losses as a theoretical reference value that represents the lower limit of leakage that could be achieved if all of today's best technology could be successfully applied in the system. California American Water should not be required in any of its systems to reduce its non-revenue water volumes below that specified as unavoidable annual real losses.

NRDC POSITION:

NRDC objects to California American Water's proposed use of a recent 12-month period for forecasting non-revenue water. NRDC expressed concern regarding the quality of the data used by California American Water in the AWWA water audit worksheets. NRDC supports the following DRA recommendations for calculating non-revenue water for all of California American Water's districts:

a. The Commission should use the results of the most recent Water Loss Audit Report, including trends in water loss efficiency metrics, volumetric quantities, and the known feasible, cost-effective methods available to reduce non-revenue water in order to calculate non-revenue water volumes for forecasting and ratemaking purposes.

b. The Commission should adopt feasible and cost-effective methods for reducing non-revenue water in California American Water's districts based on California American Water's responses to the Minimum Data Requirements in the Rate Case Plan and DRA and other Parties recommended programs.

c. The Commission should adopt DRA's recommendations on hotspot and excavated pipeline cathodic protection programs for all districts.

d. The Commission should modify California American Water's Monterey County District non-revenue water financial incentive mechanism to: (1) reflect the above recommendations, (2) require California American Water to implement active distribution system pressure management which the Commission supported in the last GRC and perform feasibility studies on retrofit cathodic protection and pipeline rehabilitation programs to reduce non-revenue water, and (3) require California American Water to comply with providing the comprehensive report the Commission ordered in D.09-07-021 to provide on the highest quality engineering efforts to reduce unaccounted for water.

e. In California American Water's next GRC, it should provide information related to the feasibility and cost effectiveness of available, yet to be implemented, methods to reduce non-revenue water in each district. Combined with trends in water loss efficiency metrics including real and apparent loss volumes per service connection per day to target potential water savings, and results from the Monterey County District pilot non-revenue water incentive program, this information will allow the Commission to investigate the appropriateness of the non-revenue water financial incentive mechanisms and determine whether it should continue.

RESOLUTION:

The Parties recommend that the Commission direct California American Water to undertake the following actions:

1. Corrective measures for the record of this proceeding regarding the generation of reports with AWWA Water Audit Software

a. Establishment and description of a uniform, statewide quality control process for the definition, sourcing, collection, assessment, and entry of all data collected for use in the AWWA Water Audit Software.

b. Identification of a qualified individual with responsibility and authority to execute the quality control program statewide.

c. Documentation of the actions and practices taken by California American Water during the reporting year covered by the audit that substantiate the data quality score assigned by California American Water to each data entry in the AWWA Water Audit Software Reporting Worksheet ("AWWA Worksheet").

d. Correction of all errors known to California American Water in previously completed AWWA Worksheets for each service area and district.

e. Review and attestation by signature of all completed AWWA Worksheets by the California American Water Vice President of Operations.

f. If allowed by the Commission upon request by California American Water, resubmission of corrected AWWA Worksheets in this docket. In addition, the Parties agree that California American Water will correct and resubmit any AWWA Worksheets completed prior to this settlement that have been submitted to any California public agency or to the California Urban Water Conservation Council.

2. Record-keeping for the repair of reported leaks and breaks

a. Consistent with the requirement of CUWCC BMP 1.2(C)(5), which requires documentation of leak running time from report to repair, the California American Water Repair Crew Leak Report form will be modified to capture the time the leak or break is reported to California American Water (not simply the date), as well as the time the repair is completed.

3. Non-Revenue Water Action Plan

Prepare and submit to the Commission by not later than October 1, 2012, Preliminary Non-Revenue Water Action Plan to reduce the volume of non-revenue water throughout the Company with the following elements. The Final Action Plan for all districts will be submitted with California American Water's next general rate case.

a. Continuation of annual reporting of the volumes of non-revenue water, using the most recent version of the AWWA Water Audit Software, following the procedures outlined in item 1 above.

b. Compilation of Repair Crew Leak Reports in digital format, assembled into a searchable database with summary functions for the following: type and dimension of leaking pipe or fitting; leak running time from report to repair; leakage volume from report to repair; and, cost of repair, including damages if any.

c. A census of all customer service meters by customer class, size, type, year installed, and manufacturer's warranted accuracy when new, and the approved schedule of meter testing, repair, and replacement by size, type, and customer class.

d. Comparison of the requirements of Decision 09-07-021regarding meter replacement, main replacement, and service line replacement with the levels of implementation achieved.

e. A component analysis of leakage in each district, as described in AWWA Manual M-36, Water Audits and Loss Control Programs, Third Edition, 2009.

f. An engineering and financial evaluation of candidate measures to reduce non-revenue water in each district, including evaluation of at least the following: right-sizing of large meters; improved dispatch to reported leaks and breaks; acoustic survey of distribution system; fixed and variable pressure management; and main replacement. The costs of all such evaluations and studies will be deferred and captured as part of rate case expense in the next GRC.

g. Recommended measures for cost-effective reductions of non-revenue water for each district, with supporting budgets (capital and expense) and estimated savings for a three-year period. Proposed expenditures in excess of authorized levels in the current GRC will be proposed as part of the next GRC, to be filed on May 1, 2013.

REFERENCES:

CAW Exh. 3, pp. 5-9; CAW Exh. 11, p. 4; CAW Exh. 38, pp. 2-11, 21-25; CAW Exh. 48, pp. 2-16.

NRDC Exh. 1, pp. 11-12.

DRA Exh. 9, pp. 4-18 – 4-19.

J. CONCLUSION

This Settlement Agreement was executed by the Parties as of the date first set forth above.

Dated: May 19, 2011

Respectfully submitted,

By: Robert MacLean

Robert MacLean
President
California-American Water Company

Dated: May 19, 2011

Respectfully submitted,

By: ______________________________

Edward R. Osann
Senior Policy Analyst
Natural Resources Defense Council

Dated: May 19, 2011

Respectfully submitted,

By: ______________________

Robert MacLean
President
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