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**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

In the Matter of the Application of California-
American Water Company (U 210 W) for an
Order Authorizing the Transfer of Costs
Incurred in 2010 for Its Long-Term Water
Supply Solution for the Monterey District to Its
Special Request 1 Surcharge Balancing Account

A.11-06-030
(Filed June 30, 2011)

**JOINT MOTION TO ADOPT THE SETTLEMENT AGREEMENT BETWEEN
CALIFORNIA-AMERICAN WATER COMPANY AND
THE DIVISION OF RATEPAYER ADVOCATES**

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Dated: June 22, 2012

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

In the Matter of the Application of California-American Water Company (U 210 W) for an Order Authorizing the Transfer of Costs Incurred in 2010 for Its Long-Term Water Supply Solution for the Monterey District to Its Special Request 1 Surcharge Balancing Account

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I. INTRODUCTION

Pursuant to Rule 12.1 of the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission”), the Division of Ratepayer Advocates (“DRA”) and California-American Water Company (“California American Water”) (collectively “the Parties”) submit this joint motion to approve the *Settlement Agreement Between California-American Water Company and the Division of Ratepayer Advocates* (“Settlement”), attached as Appendix A. The Settlement addresses the transfer of certain costs incurred through 2010 for California American Water's long-term water supply solution for the Monterey District to its Special Request 1 Surcharge Balancing Account.

The proposed Settlement fulfills the criteria that the Commission requires for approval of such settlements. The Commission should grant this Motion to adopt the Settlement. The Parties request that the Commission introduce into evidence all testimony that has been served in this matter, with the following proposed exhibit numbers:

CAW-01	Direct Testimony of John Kilpatrick, P.E.
CAW-02	Direct Testimony of Sherrene P. Chew
CAW-03	Rebuttal Testimony of David P. Stephenson
DRA-01	Audit Report on California American Water Company's Coastal Water Project 2010 Preconstruction Costs

II. PROCEDURAL BACKGROUND

On September 20, 2004, California American Water filed application (“A.”) 04-09-019 seeking a Certificate of Public Convenience and Necessity to construct a water supply augmentation project to resolve water supply deficits in the Company’s Monterey service territory. On December 14, 2006, the Commission issued decision (“D.”) 06-12-040, authorizing California American Water to collect a surcharge from Monterey ratepayers to recover already incurred preconstruction costs, including certain public outreach and project management costs incurred through 2005 that it had recorded in a memorandum account established to track the Coastal Water Project’s preconstruction costs.¹ In that order, the Commission also created a procedure for reviewing the Coastal Water Project’s preconstruction engineering costs through 2005 and future preconstruction costs for the project.²

On April 10, 2008, California American Water, as authorized in D.06-12-040, filed application A.08-04-019 to seeking reasonableness review of, and the transfer to the Special Request 1 Surcharge balancing account of the preconstruction costs incurred through 2007. In D.08-12-034, the Commission adopted a settlement agreement between California American Water and DRA resolving this application. California American Water and DRA agreed, and the Commission ordered, *inter alia*, that California American Water should file subsequent annual applications to recover preconstruction costs incurred after December 31, 2007.

¹ D. 06-12-040, pp. 38-39.

² D. 06-12-040, p. 40.

On June 30, 2011, pursuant to D.08-12-034 and an extension granted by the Executive Director,³ California American Water filed application A.11-06-030 seeking authorization to transfer \$ 5,354,229.24 in preconstruction costs incurred during 2010 for the Coastal Water Project to the Special Request 1 Surcharge Balancing Account. On March 16, 2012, DRA issued its audit report of the Company's 2010 Coastal Water Project preconstruction costs. On March 29, 2012, California American Water served rebuttal testimony in which it responded to DRA's audit report. On April 4, 2012, California American Water and DRA met to discuss the open issues and agreed to consider the positions before continuing settlement.⁴ On May 16, 2012, California American Water and DRA again met for settlement discussions and reached the agreement described below in Appendix A.

III. ARGUMENT

A. This Settlement Agreement is Reasonable in Light of the Entire Record

This Settlement Agreement is reasonable in light of the entire record. The terms proposed in the Settlement Agreement are just and reasonable, and reflect only reasonable and prudent costs for services incurred by California American Water through 2010. The Parties believe the changes to the Parties' positions, as set forth in the Settlement Agreement, are justified. The Parties have agreed that the Commission should authorize California American Water to transfer \$5,111,492.96 of costs incurred for prudent services received through year-end 2010 from the authorized memorandum accounts to the Special Request 1 Surcharge Balancing Account. As set forth in the Settlement Agreement, this amount reflects a decrease to California American Water's originally requested preconstruction costs through 2010.

Moreover, a substantial record supports the attached Settlement Agreement. As part of this proceeding, California American Water submitted extensive supporting testimony,

³ On March 28, 2011, Paul Clanon, the Commission's Executive Director, granted California American Water's March 16, 2011 request for a 3-month extension until June 30, 2011 to file its application addressing the reasonableness of its 2010 Coastal Water Project costs, as set forth in D.08-12-034.

⁴ Rule 12.1(b) of the Commission's Rules of Practice and Procedure requires the settling parties to serve a notice of the date, time, and place of the settlement at least seven days in advance of the conference. Due to the fact that DRA and California American Water are the only parties to this proceeding, the parties complied with this requirement through informal correspondence.

which contain an explanation of the costs for which California American Water seeks recovery, and in many cases, supporting invoices or a description of the specific activity, the service time period, the nature of the work conducted by the vendor, and invoice data. DRA reviewed all of the evidence and found all costs, except as otherwise noted, to be both reasonable and prudent.

B. This Settlement Agreement is Consistent with Applicable Law and is in the Public Interest

The Settlement Agreement is also consistent with applicable law and in the public interest. The Parties believe the preconstruction costs set forth in the Settlement Agreement were reasonably and properly incurred in the pursuit of a long-term water supply solution, as set forth in A.04-09-019, to satisfy directives to California American Water contained in State Water Resources Control Board Order 95-10. Additionally, customer contributions will serve the public interest by providing California American Water with adequate resources to provide reliable water service and mitigate the rate increases associated with a long-term water supply solution and will provide customer benefits.

Moreover, the Parties agree that resolving this matter short of evidentiary hearings is in the public interest. If the proceeding were to continue to full evidentiary hearings on the merits to address the costs included in the above-referenced application, the Parties would need to invest additional time and resources. The Parties believe the Settlement Agreement will serve the public interest by avoiding the uncertainty inherent in litigation and resolving the issues in this proceeding in a manner acceptable to the Parties. Additionally, this Settlement Agreement further benefits ratepayers because the Parties will be able to save valuable time and resources that would have been expended (the costs of which would be passed on to customers) to litigate these issues.

Lastly, 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.”⁵

IV. CONCLUSION

For the reasons discussed above, the Parties request that the Commission approve the proposed Settlement and introduce into evidence, as part of the record, all testimony served in this matter.

Dated: June 22, 2012

Respectfully submitted,

By: 
Sarah Leeper

Attorney for Applicant
California-American Water Company

⁵ D.88-12-083, *Application of Pacific Gas and Electric Company, for Authorization to Establish a Rate Adjustment Procedure for Its Diablo Canyon Nuclear Power Plant; to Increase Its Electric Rates to Reflect the Costs of Owning, Operating, Maintaining and Eventually Decommissioning Units 1 and 2 of the Plant; and to Reduce Electric Rates Under Its Energy Cost Adjustment Clause and Annual Energy Rate to Reflect Decreased Fuel Expenses; And Related Matter*, 1988 Cal. PUC LEXIS 886, *85.

Appendix A

**BEFORE THE PUBLIC UTILITIES COMMISSION
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In the Matter of the Application of California-American
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COMPANY AND THE DIVISION OF RATEPAYER ADVOCATES**

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June 22, 2012

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COMPANY AND THE DIVISION OF RATEPAYER ADVOCATES**

I. RECITALS

- A. On September 20, 2004, California-American Water Company ("California American Water" or "Company") filed Application ("A.") 04-09-019 with the California Public Utilities Commission ("Commission") seeking a Certificate of Public Convenience and Necessity to construct the Coastal Water Project, a water supply augmentation project that includes a 10 million gallon per day desalination facility, aquifer storage and recovery facilities, and transmission facilities to resolve water supply deficits in the Company's Monterey service territory.
- B. On December 14, 2006, the Commission issued decision ("D.") 06-12-040, authorizing California American Water to collect a surcharge from Monterey ratepayers to recover preconstruction costs, related to public outreach and project management incurred through 2005 that it had recorded in a memorandum account established to track the Coastal Water Project's preconstruction costs, subject to reasonableness review. In that order, the Commission also created a procedure for reviewing the Coastal Water Project's preconstruction costs related to engineering costs through 2006 and all other preconstruction costs incurred in 2006.

- C. On April 10, 2008, California American Water, as authorized in D.06-12-040, filed A.08-04-019 seeking reasonableness review of, and the transfer to the Special Request 1 Surcharge balancing account of, Coastal Water Project's preconstruction costs incurred through 2007. In D.08-12-034, the Commission adopted a settlement agreement between California American Water and the Division of Ratepayer Advocates ("DRA") resolving that application. California American Water and DRA agreed, and the Commission ordered, *inter alia*, that California American Water should file subsequent applications to recover preconstruction costs incurred after December 31, 2007.
- D. On June 30, 2011, pursuant to D.08-12-034 and an extension granted by the Executive Director, California American Water filed A.11-06-030 seeking authorization to transfer \$5,354,229.24 in preconstruction costs incurred during 2010 for the Coastal Water Project to the Special Request 1 Surcharge Balancing Account.
- E. On March 16, 2012, DRA issued its audit report of the Company's 2010 Coastal Water Project preconstruction costs.
- F. On March 29, 2012, California American Water served rebuttal testimony in which it responded to DRA's audit report.
- G. On April 4, 2012, California American Water and DRA met to discuss the open issues and agreed to consider the positions before continuing settlement.
- H. On May 16, 2012, California American Water and DRA again met for settlement discussions and reached the agreement described below.

II. GENERAL

A. Pursuant to Article 12 of the Rules of Practice and Procedure of the California Public Utilities Commission ("Commission"), the Division of Ratepayer Advocates ("DRA"), and California-American Water Company ("California American Water") (collectively, "the Parties"), desiring to avoid the expense, inconvenience and the uncertainty attendant to litigation of the matters in dispute between them, have agreed on the terms of this Settlement Agreement ("Settlement Agreement") which they now submit for approval.

B. 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. Furthermore, the Parties intend that the approval of this Settlement Agreement by the Commission not be construed as a precedent or statement of policy of any kind for or against any Party in any current or future proceeding. (Rule 12.5, Commission's Rules on Practice and Procedure.)

C. 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.

D. The Parties agree that the Settlement Agreement is an integrated agreement such that if the Commission rejects or modifies any portion of this Settlement Agreement, each party must consent to the Settlement Agreement as modified, or either party may withdraw from the Settlement Agreement.

E. 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.

F. 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.

III. TRANSFER OF PRE-CONSTRUCTION COSTS TO SPECIAL REQUEST 1 SURCHARGE BALANCING ACCOUNT

A. The Parties agree that the Commission should authorize California American Water to transfer \$5,111,492.96 of costs incurred for the Coastal Water Project for certain services rendered through 2010 from the authorized memorandum accounts to the Special Request 1 Surcharge Balancing Account. This amount reflects disallowances totaling \$242,816.28 described below.

B. The Parties agree that California American Water's total request for recovery of \$5,354,229.54 should be reduced by an amount of (a) \$1,838.75 to adjust for RMC contract billing rates; (b) \$3,028.32 to adjust for American Water Works Service Company contract billing rates; (c) \$13,135.78 to remove legal fees previously withdrawn by the Company; (d) \$28,156.41 to remove a portion of customer information costs; and (e) \$196,657.02 to adjust legal costs.

C. The Parties have reviewed the documents provided by California American Water. The Parties have found that the already-incurred costs that California American Water has sought for recovery, as adjusted, are reasonable.

June 22, 2012

DIVISION OF RATEPAYER ADVOCATES

By: 
Joseph P. Como, Acting Director

June __, 2012

CALIFORNIA-AMERICAN WATER COMPANY

By: _____
Robert MacLean, President

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By: _____
Joseph P. Como, Acting Director

June 22 2012

CALIFORNIA-AMERICAN WATER COMPANY

By:  _____
Robert MacLean, President