



BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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Application of California-American Water Company (U210W) for Authorization to Increase its Revenues for Water Service in its Monterey District by \$24,718,200 or 80.30% in the year 2009; \$6,503,900 or 11.72% in the year 2010; and \$7,598,300 or 12.25% in the year 2011 Under the Current Rate Design and to Increase its Revenues for Water Service in the Toro Service Area of its Monterey District by \$354,324 or 114.97% in the year 2009; \$25,000 or 3.77% in the year 2010; and \$46,500 or 6.76% in the year 2011 Under the Current Rate Design.

And Related Matters.

Application 08-01-027
(Filed January 30, 2008)

Application 08-01-023
Application 08-01-024
(Filed January 30, 2008)

**MOTION FOR ADOPTION OF PARTIAL SETTLEMENT AGREEMENTS AS TO
WATER AND WASTEWATER ISSUES BETWEEN THE DIVISION OF RATEPAYER
ADVOCATES AND CALIFORNIA-AMERICAN WATER COMPANY**

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November 24, 2008

**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 in its Monterey District by \$24,718,200 or 80.30% in the year 2009; \$6,503,900 or 11.72% in the year 2010; and \$7,598,300 or 12.25% in the year 2011 Under the Current Rate Design and to Increase its Revenues for Water Service in the Toro Service Area of its Monterey District by \$354,324 or 114.97% in the year 2009; \$25,000 or 3.77% in the year 2010; and \$46,500 or 6.76% in the year 2011 Under the Current Rate Design.

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**MOTION FOR ADOPTION OF PARTIAL SETTLEMENT AGREEMENTS AS TO
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RATEPAYER ADVOCATES AND CALIFORNIA-AMERICAN WATER COMPANY
AND MOTION TO SHORTEN COMMENT PERIOD**

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 motion to approve the *Partial Settlement Agreement Between the Division of Ratepayer Advocates and California-American Water Company on Monterey District Water and Wastewater Issues* ("Settlement"), attached as an Appendix A. The Settlement addresses capital projects in the Monterey and Toro Water Districts and all components of the revenue requirement (except allocated general office expenses) in the Monterey Wastewater District.

The proposed Settlement is sponsored by DRA and California American Water. Additionally, the Parties are fairly representative of affected interests. The Parties include DRA, who represents the interests of customers in general and California American Water, who represents the interest of the utility. The proposed Settlement fulfills the criteria that the Commission requires for approval of such settlements.

II. PROCEDURAL BACKGROUND

On January 30, 2008, California American Water filed its applications for orders authorizing it to increase its revenues for water service in its Monterey and Toro Districts, water service in its Felton District,¹ wastewater service in its Monterey District, and its General Office. The parties reached partial settlement on water issues in the Monterey and Toro Districts and on wastewater issues, but did not reach agreement on General Office issues. Additionally, the parties reached agreement on rate design issues and will submit that settlement agreement to the Commission for approval in a separate motion.

III. DISCUSSION

A. OVERVIEW OF THE SETTLEMENT

1. Monterey and Toro Water Service

The Settlement of the Monterey and Toro Water Districts relate to capital projects and special requests. After extensive negotiation, the Parties agreed to a comprehensive capital program that balanced the need for capital improvements with the customers' interest in reasonable rates. The majority of the capital projects are designed to rehabilitate or replace aging plant. The Parties reached agreement on sixteen capital projects for the Monterey District and one capital project for the Toro District. These projects are individually addressed in the Settlement included as Appendix A.

The Parties settled five of California American Water's Special Requests, most of which relate to memorandum accounts. The following issues were settled:

¹ On June 13, 2008 California American Water filed a Motion to withdraw its Felton Application. On August 6, 2008, the assigned Administrative Law Judge issued a ruling granting California American Water's request.

ESA Costs Memorandum Account

DRA concurred with California American Water's request to continue tracking compliance costs related to operations on the Carmel River

ESA Assessments Memorandum Account

California American Water agreed to withdraw this request to track levies imposed by NOAA for violating the ESA

NOAA Memorandum Account

DRA concurred with California American Water's request to continue this memorandum account to record payments California American Water makes to NOAA or its designee as specified under the 2006 settlement agreement between California American Water and NOAA.

Recovery of Any Existing Balances in Balancing Accounts

DRA agreed with California American Water's request to recover those existing memorandum and balancing account balances (except San Clemente Dam account), that were unrecovered as of January 1, 2009, through a twelve-month surcharge that would begin on July 1, 2009.

Request to Eliminate Requirement of Proof of Synergy Savings

DRA concurs with California American Water's request that the Commission remove the requirement that it prove the continuation of net synergy savings generated from the purchase of Citizens' water assets approved in D.01-09-057.

2. Monterey Wastewater Service

The Parties settled all issues in the Monterey Wastewater Application, except those related to General Office. Below is a summary of the settled issues:

Table of Rates Based On a Two-Rate System

The Parties agreed that the Commission should authorize California American Water to organize the eight wastewater districts into two rate areas: 1) Indian Springs, Carmel Valley Ranch, Pasadera and Las Palmas; and 2) White Oaks, Spreckels, Village Green and Oak Hills. The rationale for organizing two rate areas involved recognizing the differences in technology and cost of service among the eight wastewater systems.

Number of Customers (Revenues)

As agreed to by the parties, the customer count for Pasadera should reflect the current number of customers 275, not the 261 as reflected in the application.

Payroll (Expenses)

DRA concurred with the need for the two additional operators; one operator in training, and one certified operator. This agreement was based on a showing by California American Water that it currently has ten operators (including temporary employees) and this level of work force is necessary due to the requirements of the system. The parties agreed that temporary labor costs should be removed from the estimates because it is no longer necessary since the DRA and California American Water have agree to include expenses for ten full time employees in this settlement.

Comprehensive Planning Study (Expenses)

The parties agree that the costs for the Comprehensive Planning Study and Sanitary Sewer Management Plan (as discussed below) should be expensed over three years with the unamortized balance earning interest at the 90-day commercial paper rate.

Uncollectibles (Expenses)

The parties agreed to an uncollectible rate of 0.2643%.

Maintenance Costs (Expenses)

The parties agree that the expenses related to Greenline will continue to occur. Greenline performs work related to cleaning of septic tanks and videoing monitoring of sewer collection lines. California American Water does not have the proper equipment to perform these tasks economically.

Administrative and General Expenses

The settled Pensions and Benefits, Outside Services, Other A&G, and Rents. These expenses are addressed individually in the attached Settlement in Appendix B.

Capital Projects

As discussed above, the Parties agreed that the CPS should be expensed. Several capital projects were either scaled back or postponed to the next General Rate Case in the interest of balancing the need for capital improvements with the customers' interest in reasonable rates. The individual projects are listed in the Settlement in the attached Appendix B.

Depreciation, General Taxes And Income Taxes

The parties agreed to the level of depreciation, general taxes and income taxes based on the agreed upon plant investment and the number of employees.

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 Settlements are reasonable in that they take into account the principles of ratemaking as they relate to capital spending, and expenses and revenues. The Parties began with agreement on the need to provide safe, reliable water and wastewater services to California American Water’s customers, but had differing views on the capital investment and expenses necessary to provide that service. As required by the Commission’s Rules of Practice and Procedure, the Parties properly noticed and held a settlement agreement meeting on September 19, 2008. 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 Settlements. The issues resolved in the Settlements are within the scope of the proceeding. The Settlements produce just and reasonable rates.

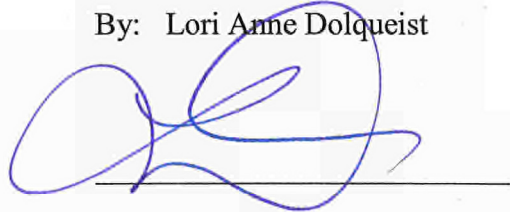
Finally, the Settlements are in the public interest. The principal public interest affected by this proceeding is delivery of safe, reliable water service at reasonable rates. The Settlements are also consistent with the Commission’s Water Action Plan objective for setting rates that balance investment, promote conservation, and ensure affordability. In addition, Commission approval of the Settlements 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 Settlements.

Respectfully submitted,

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APPENDIX A

**BEFORE THE PUBLIC UTILITIES COMMISSION
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And Related Matters.	Application 08-01-023 Application 08-01-024 (Filed January 30, 2008)

**PARTIAL SETTLEMENT AGREEMENT BETWEEN THE DIVISION OF
RATEPAYER ADVOCATES AND CALIFORNIA-AMERICAN WATER COMPANY
ON MONTEREY WATER AND WASTEWATER ISSUES**

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**PARTIAL SETTLEMENT AGREEMENT BETWEEN THE DIVISION OF
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ON MONTEREY WATER AND WASTEWATER ISSUES**

1. GENERAL

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

1.2 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.)

1.3 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.

1.4 The Parties agree that this Settlement Agreement is an integrated agreement, so that if the Commission rejects any portion of this Settlement Agreement, each Party has the right to withdraw. Furthermore, the Settlement Agreement is being presented as an integrated package such that the Parties are agreeing to the Settlement as a whole, as opposed to agreeing to specific elements of the Settlement. If the Commission adopts the Settlement Agreement with modifications, all Parties must consent to the modifications or the Settlement Agreement is void.

1.5 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 Agreement without change and find the Settlement Agreement to be reasonable, consistent with the law, and in the public interest.

1.6 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.

1.7 Resolution of a number of the differences between California American Water's and DRA's original estimates resulted in either DRA or California American Water moving from its original position to concur in whole or in part with the other's position. Many stipulated items are the consequence of additional discussions between the Parties leading to a compromise of positions, the overall results of which led to agreements in amounts between California American Water's original estimates and DRA's original estimates.

2. SUMMARY

2.1 This Settlement Agreement addresses issues in California American Water's Monterey Water District and Monterey Wastewater District. This settlement does not reflect any changes in the Cost of Capital that is being determined in a separate proceeding (A. 08-05-003). Because of their potential complexity, the Parties will submit a separate settlement that addresses issues regarding rate design for the Monterey Water District.

3. MONTEREY WATER

3.1 California American Water agreed to accept DRA's position that the Endangered Species Act ("ESA") costs (DRA Project Number 29) should continue to receive memorandum account treatment, rather than utility plant in service treatment as originally proposed by California American Water.

3.2 The parties agree that California American Water should recover the following amounts for the Comprehensive Planning Study (DRA Project Number 15) and the Los Padres Dredging Study (DRA Project Number 16): \$450,000 in lieu of California American Water's original proposal of \$915,176 for the Comprehensive Planning Study (CPS) and \$200,983 for the Los Padres Dredging Study.

3.3 The parties agree that California American Water should amortize the expenses for the CPS and the Los Padres Dredging Study over the three-year GRC period. The annual average unrecovered and unamortized balance should accrue interest at the 90-day commercial paper rate for the unamortized portion of the expenses.

3.4 Investment Project IP-0540-175, 176, 179, and 180, Booster Station Rehabilitation (DRA Project Number 14)

As a result of negotiation, California American Water agreed that the 2008, 2009 test year, and the 2010 escalation year estimates for this investment project should be a total of \$529,000 (e.g., \$88,500 in 2008; \$220,250 in 2009; and \$220,250 in 2010), rather than the original requested amount of \$100,057 in 2008; \$250,000 in 2009; and \$250,000 in 2010.

3.5 Investment Project 05400513, Second (New) Segunda Tank (DRA Project Number 20)

As a result of negotiation and reviewing information provided in California American Water's rebuttal testimony, DRA accepted California American Water's original request of \$2,905,598 for completion of this Advice Letter project in this GRC. DRA's original position was \$2,223,098 for this Advice Letter project in this GRC. The parties further agreed that this project would continue to receive Advice Letter treatment and DRA would withdraw that part of its testimony that alleges California American Water had inadequate planning for this project.

3.6 Investment Project IP-0540-151, IP-0540-152 and IP-0540-153, Valve Replacement (DRA Project Number 10)

As a result of negotiation, DRA agreed to accept California American Water's original request of \$559,000 over the 2008, 2009 test year, and the 2010 escalation years (e.g., 32,504 in 2008; \$263,243 in 2009; and \$263,243 in 2010), and move away from its recommendation to disallow the cost of this project.

3.7 Investment Project 05400541, Withers Pump Station (DRA Project Number 18)

Upon receiving additional data from California American Water, DRA accepted California American Water's original request of \$461,500 for 2008 and moved away from its recommendation that the Commission disallow the costs of this project. This investment project is complete and in service, and the dollars represent the completed cost.

3.8 Investment Project IP-0540-135, New Tanks at Hidden Hills (DRA Project Number 23)

Based on information provided in California American Water's rebuttal testimony, DRA has agreed to accept California American Water's original request of \$322,000 for construction of two new tanks, and without Advice Letter Treatment. DRA had originally recommended that California American Water construct only one tank at a cost of \$161,000 with Advice Letter treatment.

3.9 Investment Project 05400194, CRV Production and Distribution System Improvements (DRA Project Number 30)

Upon receiving additional data from California American Water, DRA accepted California American Water's original request of \$1,527,352 for 2008 and moved away from its recommendation that the Commission disallow the costs of this project. This investment project is complete and in service, and the dollars represent the completed cost.

3.10 Investment Project IP-0540-162, Combined Hydrant Replacement (DRA Project Number 11)

The Parties agree that the 2008, 2009 test year, and the 2010 escalation year estimates for this investment project should be \$598,000 (\$2,578 in 2008; \$375,081 in 2009; and \$220,341 in 2010) rather than California American Water's original requested amount of \$758,000. DRA's original recommended amount was \$363,000.

3.11 Investment Project IP-0540-156, 158, and 160, Hydrant Replacement (DRA Project Number 12)

The Parties agree that the 2008, 2009 test year, and the 2010 escalation year estimates for this investment project should be included under the Combined Hydrant Replacement project, IP-0540-162. California American Water had originally requested \$160,000 over the same three years, while DRA originally recommended disallowance for this project.

3.12 Investment Project 05400527, Bishop Iron/Manganese Removal Facilities (DRA Project Number 19)

California American Water accepted DRA's recommendation of an Advice Letter cap of \$750,000 for the 2009 test year. California American Water's original request was \$1,308,782.

3.13 Investment Project IP-0540-245 and IP-0540-246, ASR System (DRA Project Number 21)

With the recognition that "DRA supports Cal Am's and MPWMD's efforts to reduce California American Water's summer pumping from the Carmel River that would be facilitated by this project" (DRA Report, p. 7-56.), California American Water agrees with DRA's position that costs be "tracked in a Memorandum Account and recovered from rates only when the project is used and useful." (DRA Report, p. 7-56.) California American Water does so with the understanding that moving project costs out of the Memorandum Account and into Rate Base will be considered during the filing of the 2012-2014 State-Wide General Rate Case, scheduled for filing in the spring of 2010. Parties agree to include the ASR system in the memorandum account with the understanding that DRA and the Commission reserve the right to review all costs both below and above the \$14,380,000 for reasonableness in the 2012-2014 GRC. The Parties agree to cap the costs at \$14,380,000. California American Water agrees to demonstrate that no costs booked under the ASR project in the 2012-2014 GRC are booked under the Coastal Water Project Proceeding, A.04-09-019.

3.14 Investment Project IP-0540-198, MLOG System (no DRA Project Number)

DRA accepted California American Water's original request of \$716,000 for 2008 and the 2009. DRA's original position was \$553,218 over that same time period.

3.15 Recurring Project RP-0540-Q1, Process Plant Replacement (DRA Project Number 26)

As a result of negotiation, the parties agree that the 2008, 2009 test year, and the 2010 escalation year estimates for this normal recurring investment item should be \$2,500,000 rather than the original requested amount of \$3,358,863 for 2008-2010. The settled number is derived by calculating the average expenditure during the years 2006 and 2007.

3.16 Carmel River Water Rights – IP-0540-197 CWIP Balance (DRA Project Number 31)

California American Water accepted DRA's recommendation to remove this project from this proceeding. California American Water's original request was \$3,000,000 over three years.

4. MONTEREY WATER SPECIAL REQUESTS

4.1 ESA Costs Memorandum Account

DRA concurs with California American Water's request to continue tracking compliance costs, related to operations on the Carmel River, in this memorandum account.

4.2 ESA Assessments Memorandum Account

California American Water agreed to withdraw this request to track levies imposed by NOAA for violating the ESA.

4.3 NOAA Memorandum Account

DRA concurs with California American Water's request to continue this memorandum account to record payments California American Water makes to NOAA or its designee as specified under the 2006 settlement agreement between California American Water and NOAA.

4.4 Recovery of Any Existing Balances in Balancing Accounts

DRA agrees with California American Water's request to recover those existing memorandum and balancing account balances (except San Clemente Dam account), that were unrecovered as of January 1, 2009, through a twelve-month surcharge that would begin on July 1, 2009. The applicable accounts have been listed in Table A.

Table A – California American Water Balancing Accounts or Memorandum Accounts

(1) Title	(2) Settlement Position
American Jobs Creation Act	Subject to reasonableness review prior to approval.
Catastrophic Event Memorandum Account	PU Code requires reasonableness review of any expenses prior to approval.
Emergency Rationing Costs for MPWMD	Subject to reasonableness review prior to approval.
Expanded Conservation & Rationing Costs	Subject to reasonableness review prior to approval.
Emergency WRAM	Subject to reasonableness review prior to approval.
Carmel River Dam Abandon Project Cost	Recommend approval.
Conservation Balancing Accounts	Recommend approval.
Credit Card Payments	Recommend approval
Emergency Retirement Inc. Security Act (ERISA)	Recommend approval

(1) Title	(2) Settlement Position
Purchased Power Memorandum Account	Recommend approval

4.5 Request to Eliminate Requirement of Proof of Synergy Savings

DRA concurs with California American Water's request that the Commission remove the requirement that it prove the continuation of net synergy savings generated from the purchase of Citizens' water assets approved in D. 01-09-057.

5. **TORO SERVICE AREA**

5.1 IP-0548-1 Toro Arsenic Treatment

This project involves the planning, permitting, and construction of improvements to the existing treatment facility in order to meet safe drinking water standards for arsenic. Currently, this project is still in the planning and permitting stage. The federal maximum contaminant level (MCL) for arsenic in drinking water is 10 parts per billion (ppb). Since California American Water began operating the plant on January 1, 2008, the Toro system has yielded test samples for arsenic indicating between 12 to 29 ppb. Historical data indicate arsenic levels have, at times, exceeded 40 ppb. Prior to its January 1, 2008, purchase of the Toro system, and at the time it entered into the settlement agreement with DRA that the Commission approved in D.07-11-034, California American Water had little access to the system to determine its condition. At the time California American Water took ownership of Toro, its treatment system was only marginally functional.

The projected cost for this project has increased from the \$650,000 estimate that DRA and California American Water discussed at the time of the 2007 settlement. Because this project is still in the planning and permitting stage, however, there are still some uncertainties regarding the final cost. The Parties agree that once California American Water has completed the project, received all necessary permits from the Department of Public Health and begins operating the Toro Arsenic Treatment Plant, it may submit an advice letter for the arsenic treatment plant with a cap of \$685,000 and the capital amounts above that cap shall be subject to

reasonableness review by DRA prior to the approval of the rate treatment proposed in the Advice Letter.

5.2 Additional Capital Expenditures

In addition to its Arsenic Treatment Project, California American Water also included additional capital expenditures for Toro in its application. Specifically, California American Water included \$139,620 in 2008, \$616,620 in 2009 and \$99,620 in 2010. These proposed capital expenditures are for repairs, replacements and upgrades to the Toro system to bring it into compliance with applicable standards and regulations. Additional information on the condition of the Toro system and projects is attached as Attachment 1. The chart below summarizes California American Water's requested expenditures.

	2008	2009	2010
SCADA		\$75,000	
Hydrant and Valve Replacement	\$25,000	\$25,000	\$25,000
Service Replacement	\$61,500	\$61,500	\$61,500
Meter Replacement	\$13,120	\$13,120	\$13,120
Well Rehabilitation		\$270,000	
Miscellaneous Repairs, Upgrades and Replacements	\$40,000	\$172,000	
Total	\$139,620	\$616,620	\$99,620

After discussion of these projects and review of additional supporting materials, DRA agrees to accept California American Water's proposed amounts.

6. **MONTEREY WASTEWATER**

The revenue requirement for 2010 and 2011 will be escalated according to the standards set forth in the Commission's Rate Case Plan with the additional revenues shown above related to the advice letter projects, with the exception of the escalation of the Comprehensive Planning Study and the Sanitary Sewer Management Plan (CPS and SSMP respectively) amortization amounts which will be escalated in accordance with the discussion below. The increase from 2009 present rates to 2009 proposed rates based on settlement is \$1,316,600 or 77.4%.

7. WASTEWATER RATE DESIGN

7.1 The Parties agree that the Commission should authorize California American Water to organize the eight wastewater districts into two rate areas: 1) Indian Springs, Carmel Valley Ranch, Pasadera and Las Palmas; and 2) White Oaks, Spreckels, Village Green and Oak Hills. The rationale for organizing two rate areas involved recognizing the differences in technology and cost of service among the eight wastewater systems. The systems at White Oaks, Spreckels, Village Green and Oak Hills are simpler, less expensive, passive wastewater systems with a lower cost of service, while Las Palmas, Pasadera, Carmel Valley Ranch and Indian Springs are more technologically advanced active systems with higher costs of service. These points are further discussed in DRA's Results of Operations Report and in California American Water's rebuttal testimony. The rates for 2009 based on this agreement will then be as follows:

	Present Rates	Two Tier Rates	Percent Increase
White Oaks	\$56.57	\$48.78	-13.77%
Spreckels	\$35.93	\$48.78	35.76%
Village Green	\$56.57	\$48.78	-13.77%
Oak Hills	\$39.93	\$48.78	22.16%
Las Palmas	\$56.57	\$107.81	90.58%
Indian Springs	\$49.21	\$107.81	119.08%
Carmel Valley	\$56.57	\$107.81	90.58%
Pasadera	\$56.57	\$107.81	90.58%

8. WASTEWATER REVENUES

8.1 Number of Customers - As agreed to by the parties, the customer count for Pasadera should reflect the current number of customers 275, not the 261 as reflected in the application. This agreement is based on a current analysis by California American Water as presented in the spreadsheet analysis discussed with the customers at a public meeting.

9. WASTEWATER EXPENSES

9.1 Payroll - DRA concurs with the need for the two additional operators; one operator in training and one certified operator. This agreement was based on a showing by

California American Water that it currently has ten operators (including temporary employees) and this level of work force is necessary due to the requirements of the system.

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
819.7	645.9	810.6

9.2 Operation and Maintenance Expenses

(a) Source of Supply – Miscellaneous – The parties agree that temporary labor costs should be removed from the estimates because it is no longer necessary since the DRA and California American Water have agree to include expenses for ten full time employees in this settlement.

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
52.1	39.4	39.4

(b) Water Treatment Costs – Miscellaneous - The parties agree that temporary labor costs should be removed from the estimates because it is no longer necessary since the DRA and California American Water have agreed to include expenses for ten full time employees in this settlement.

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
238.6	190.5	190.5

(c) Distribution Costs – Miscellaneous The parties agree that temporary labor costs should be removed from the estimates because it is no longer necessary since DRA and California American Water have agree to include expenses for ten full time employees in this settlement.

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
5.6	2.4	195.3

In its Application, California American Water proposed capitalizing the costs of the Comprehensive Planning Study (CPS) and Sanitary Sewer Management Plan (SSMP) and stated in rebuttal that California American Water has historically requested the costs of such studies be considered as part of short-term assets and included in plant in service. DRA proposed that since the studies themselves do not create a physical plant asset, the accounting treatment should consider them as expenses rather than capitalized as short term assets. As a result of the settlement negotiations, the parties agree that California American Water should not earn a return for these costs in ratebase and instead should amortize the CPS and SSMP costs over three years with the unamortized balance earning interest at the 90-day commercial paper rate. The parties further adjusted the amortization so that the first year rate increase did not exceed California American Water's original request. Consequently, the parties agreed on the following amortization schedule: \$195,000 in 2008, \$224,000 in 2009, and \$257,500 in 2010.

(d) Customer Service Costs – Miscellaneous - The parties agree that temporary labor costs should be removed from the estimates because it is no longer necessary since the DRA and California American Water have agree to include expenses for ten full time employees in this settlement.

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
9.0	8.5	8.5

(e) Uncollectibles – the parties agree to an uncollectible rate of 0.2643%

(f) Maintenance Costs –The parties agree that the expenses related to Greenline will continue to occur and the ten current employees will not be able to perform the work currently performed by Greenline. Greenline performs work related to cleaning of septic tanks and videoing monitoring of sewer collection lines. California American Water does not have the proper equipment to perform these tasks economically. The proposed settlement amount is higher than the original estimate of California American Water because of the use of actual year-end 2007 results in the averages (instead of the original estimates for 2007).

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
248.4	228.4	254.2

9.3 Administrative and General Expenses

(a) Pension and Benefits – This account ties directly to the number of employees, and based on the settlement in regards to the number of employees in paragraph 4.1 above, the parties agree to the following level of expense.

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
228.1	218.7	229.1

(b) Outside Services - The parties agree that temporary labor costs should be removed from the estimates because it is no longer necessary since the DRA and California American Water have agree to include expenses for ten full time employees in this settlement.

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
3.9	1.3	1.3

(c) Other Administrative and General - The parties agree that temporary labor costs should be removed from the estimates because it is no longer necessary since the DRA and California American Water have agree to include expenses for ten full time employees in this settlement.

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
216.5	223.8	205.8

(d) Rents – The parties agree that rents should be based on current allocated lease cost of the Monterey Office.

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
8.9	9.1	9.1

10. WASTEWATER CAPITAL PROJECTS

10.1 The parties agree that California American Water should recover the following amounts for the Comprehensive Planning Study and the Sanitary Sewer Management Plan: \$140,000 in lieu of \$197,000 for the CPS and \$175,000 in lieu of \$280,000 for the condition-based assessment part of the SSMP.

10.2 The parties agree that California American Water should amortize the expenses for the Comprehensive Planning Study and the SSMP over three years as discussed above.

10.3 Project RP-0549-L1 SCADA Equipment and System

The parties agree that the 2008, 2009 test year, and the 2010 escalation year estimates for this normal recurring investment item should be \$10,000 in each year rather than the original requested amount of \$10,000 in 2008; \$20,000 in 2009; and \$30,000 in 2010.

10.4 Routine Project RP-0549-Q1 Process Plant Replacement

The parties agree that the 2008, 2009 test year, and the 2010 escalation year estimates for this normal recurring investment item should be \$23,700 in each year rather than the original requested amount of \$23,700 in 2008; \$193,300 in 2009; and \$175,000 in 2010

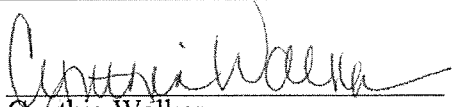
10.5 Clarifier and Sludge Removal

The Parties agree that California American Water should withdraw this request without prejudice and re-submit it in the next General Rate Case without prejudice.

11. DEPRECIATION, GENERAL TAXES AND INCOME TAXES

11.1 The parties agree to the level of depreciation, general taxes and income taxes based on the agreed upon plant investment and the number of employees.

Respectfully submitted,

 Cynthia Walker Deputy Director Division of Ratepayer Advocates California Public Utilities Commission 505 Van Ness Avenue San Francisco, CA 94102	 _____ David P. Stephenson, Asst Treasurer California American Water Company 4701 Beloit Drive Sacramento, CA 95838
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November 24, 2008

90041432.1

The parties agree that the 2008, 2009 test year, and the 2010 escalation year estimates for this normal recurring investment item should be \$23,700 in each year rather than the original requested amount of \$23,700 in 2008; \$193,300 in 2009; and \$175,000 in 2010

10.5 Clarifier and Sludge Removal

The Parties agree that California American Water should withdraw this request without prejudice and re-submit it in the next General Rate Case without prejudice.

11. WASTEWATER DEPRECIATION, GENERAL TAXES AND INCOME TAXES

11.1 The parties agree to the level of depreciation, general taxes and income taxes based on the agreed upon plant investment and the number of employees.

Respectfully submitted,

Cynthia Walker
Deputy Director
Division of Ratepayer Advocates
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

By: 

David P. Stephenson

CALIFORNIA-AMERICAN WATER COMPANY
4701 Beloit Drive
Sacramento, CA 95838

November 24, 2008

Attachment 1

TORO SERVICE AREA
DRAFT PROJECT NEED MEMORANDUM
(excerpt)

SCADA

SCADA is an essential element for operational efficiency at Toro. SCADA allows for remote control and sensing for critical elements at Toro including the treatment facility, wells, pump stations, and gravity and pneumatic tanks. The Toro system is complex and requires ongoing balancing of the storage and conveyance facilities in both the lower and upper pressure zones. SCADA enhanced PLC's were installed at the following locations:

1. Toro Treatment Plant, including Wells 1 & 2
2. Corte Cordillera tank
3. Corte Cordillera pumping plant
4. Lower Markham tank
5. Lower Markham pumping plant
6. Upper Markham tank
7. Upper Markham pumping plant
8. Vista Dorado tank (includes solar panel power supply)

The above-listed SCADA-enhanced facilities are estimated to cost a total of \$84,000.

Hydrant and Valve Replacement

Hydrants and valves in the Toro system show considerable signs of age. Visual inspections of these elements throughout the system have yielded a recommendation to replace a total of 15 hydrants and 20 valves each year. The cost of replacement is estimated at \$1,500.00 per hydrant and \$950.00 per valve. The total estimated cost for hydrants and valves at Toro is \$120,000.00.

Service Replacement

The material comprising the services at Toro is yet to be determined. A Condition Based Assessment will be required to determine both the material and remaining service life of the Toro system water services. An operation and maintenance budget of \$75,000 is proposed for years 2009 and 2010 for service replacements at Toro.

Meter Replacement

Water in Monterey County is a precious resource. Current regulations require that water be accounted for in an accurate manner in fairness to all customers. The bulk of the meters at Toro exhibited extreme wear and tear to the point that most were unreadable. The low confidence in the accuracy of meters in service upon CAW's assumption of operations at Toro cannot be overstated. All 412 meters in the Toro system have been replaced. Remote sensing meters were installed to allow per CAW's standard. The following is a breakdown of sizes and costs of meters.

5/8" – 7 meters \$ 809.55

1" – 247 meters \$39,238.42

1-1/2" – 134 meters \$34,155.26

2" – 26 meters \$ 6,218.94

Total - \$80,422.17

Well Rehabilitation

Well rehabilitation has been ongoing since Cal Am's commencement of operations at Toro. Wells 1 and 2 both produced merely 150 to 160 gpm, falling short of the maximum day demand of 400 gpm and well below the peak-hour demand. Upon rehab of both Wells 1 and 2 produced in excess of 300 gpm with a combined production of 550 gpm. Well 3 is currently in need of rehabilitation in that it produces only about 100 gpm

as opposed to its original capacity of 250 gpm. Costs for well rehab at Toro are estimated as follows:

Well 1 \$75,000

Well 2, \$75,000

Well 3 \$75,000

Total \$225,000

Storage Tanks

Gravity Tanks

The gravity storage tanks at Toro are all submerged concrete type ranging from 40,000 to 50,000 gallons each. Upon visual inspection, the gravity tanks appear to be in good condition, overall. The concrete storage tanks have been upgraded with SCADA enhanced tank level sensors and alarms.

Pneumatic Tanks

The Toro system has two 5,000 gallon pneumatic tanks at Corte Cordillera and Upper Markham tank sites. The tanks are in need of corrosion protection and leak repair. The remaining service life for these tanks has not yet been determined. The remaining service life and full rehabilitation or replacement will be addressed in a Condition Based Assessment. The current budget proposed for corrosion protection and leak repair for the pneumatic tanks is \$250,000.

TORO SERVICE AREA
PHOTOGRAPHS



Photo 1: Toro Well No. 1 during rehabilitation



Photo 2: Toro Well No, 2 prior to rehabilitation.



Photo 3: Toro Well No. 3



Photo 4: Toro Well No, 3 blowoff



Photo 5: Toro Well No, 1 casings prior to rehabilitation



Photo 6: Toro corporation yard prior to Cal Am's operation of facility



Photo 7: Controls for Wells No. 1 & 2 showing significant corrosion



Photo 8: PLC prior to Cal Am's operation of facility

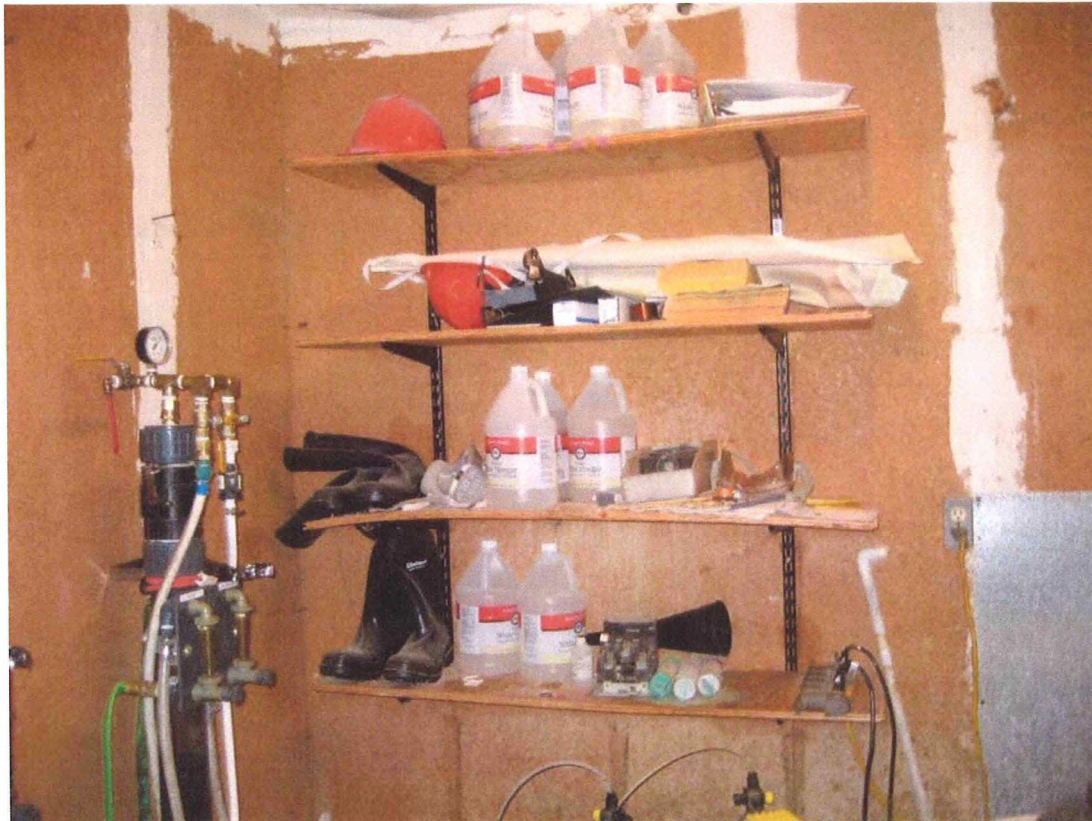


Photo 9: Toro storage shelves



Photo 10: Toro caustic tank and containment area



Photo 11: Safety first!



Photo 12: Toro control building ceiling



Photo 13: Toro control building – west facade



Photo 14 Upper Markham Pneumatic Tank showing signs of corrosion and leakage

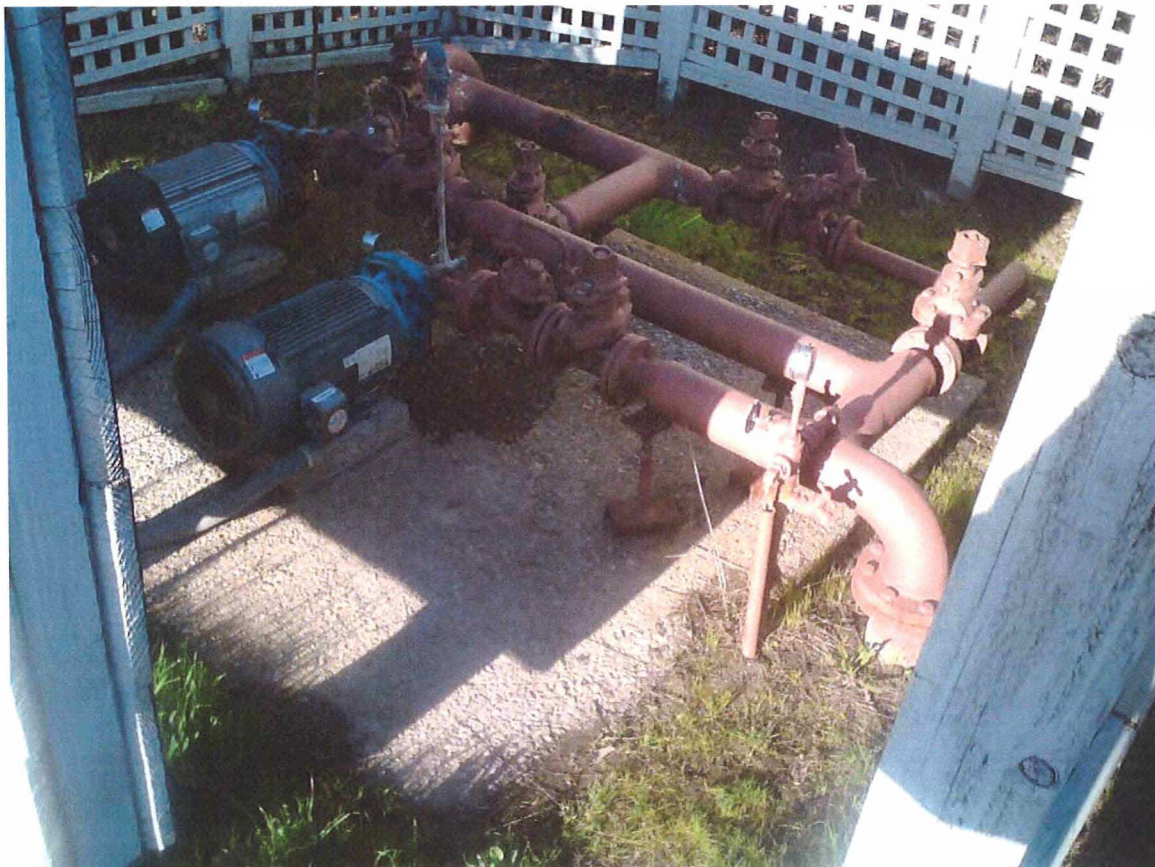


Photo 15: Lower Markham pump station showing signs of leakage



Photo 16: Lower Markham pump station controls



Photo 17: Toro WTP sodium hypochlorite tank and feed pump



Photo 18: Upper Markham pump station showing corrosion and leakage



Photo 19: Cordillera pump station with temporary rain shelter



Photo 20: Toro regulating station with heavy corrosion and missing valve



Photo 21: Toro regulating station with heavy corrosion and missing valve



Photo 22: Toro regulating station showing substantial corrosion and leakage



Photo 23: Toro regulating station (inundated/drowning hazard)



Photo 24: Toro regulating station (not in service)



Photo 24 Well No. 1 during foundation rehab



Photo 24 Well No. 1 during foundation rehab



Photo 24 Welll No. 1 with new discharge piping



Photo 24: Welll No. 1 with new discharge piping



Photo 24: Toro well No. 2 with new wellhead piping



Photo 24: Toro control equipment moved outside during rehab of control building



Photo 24: Toro Yard piping installation



Photo 24: Toro Yard piping installation



Photo 24: Toro yard piping rehab



Photo 24: New SCADA-ready PLC installed

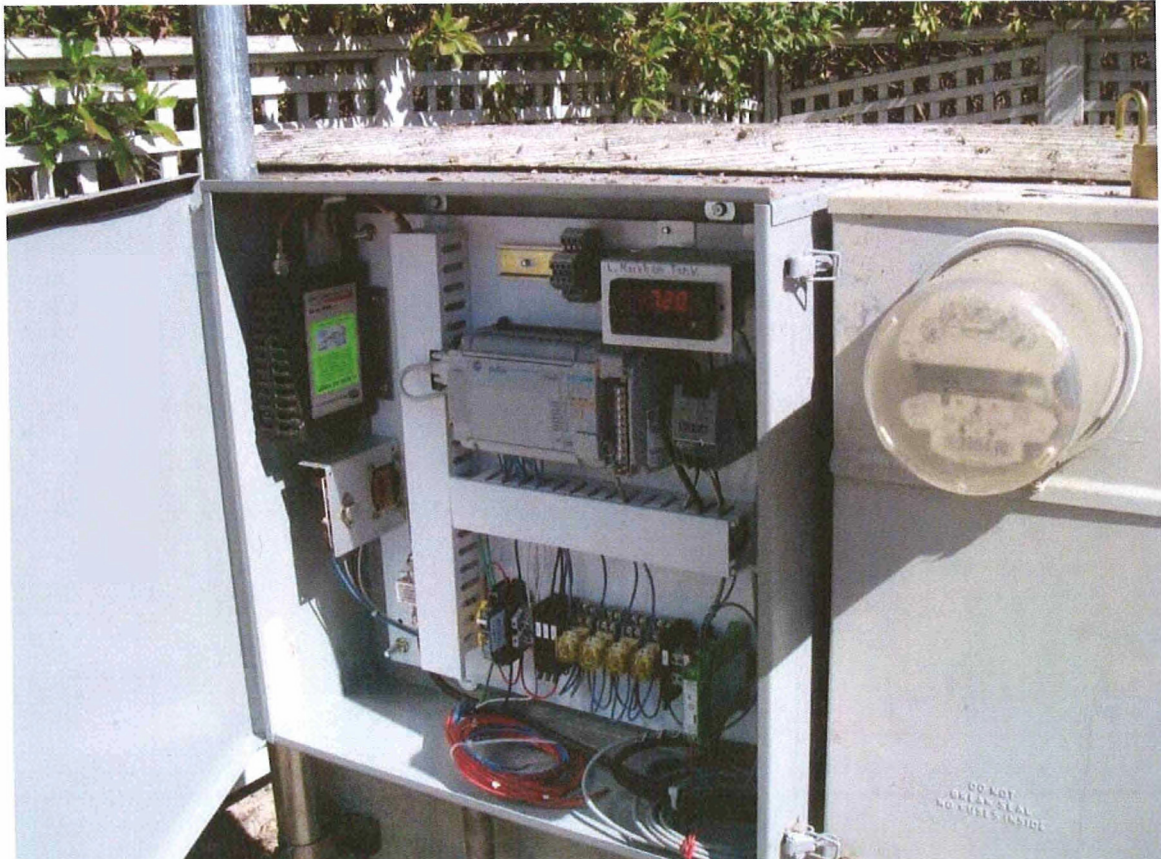


Photo 24: Inside new SCADA-ready PLC



Photo 24: New controls at Cordillera pump station



Photo 24: PLC and SCADA installation at Vista Dorado Tank



Photo 24: Conduit and wiring for tank level sensors and alarm system

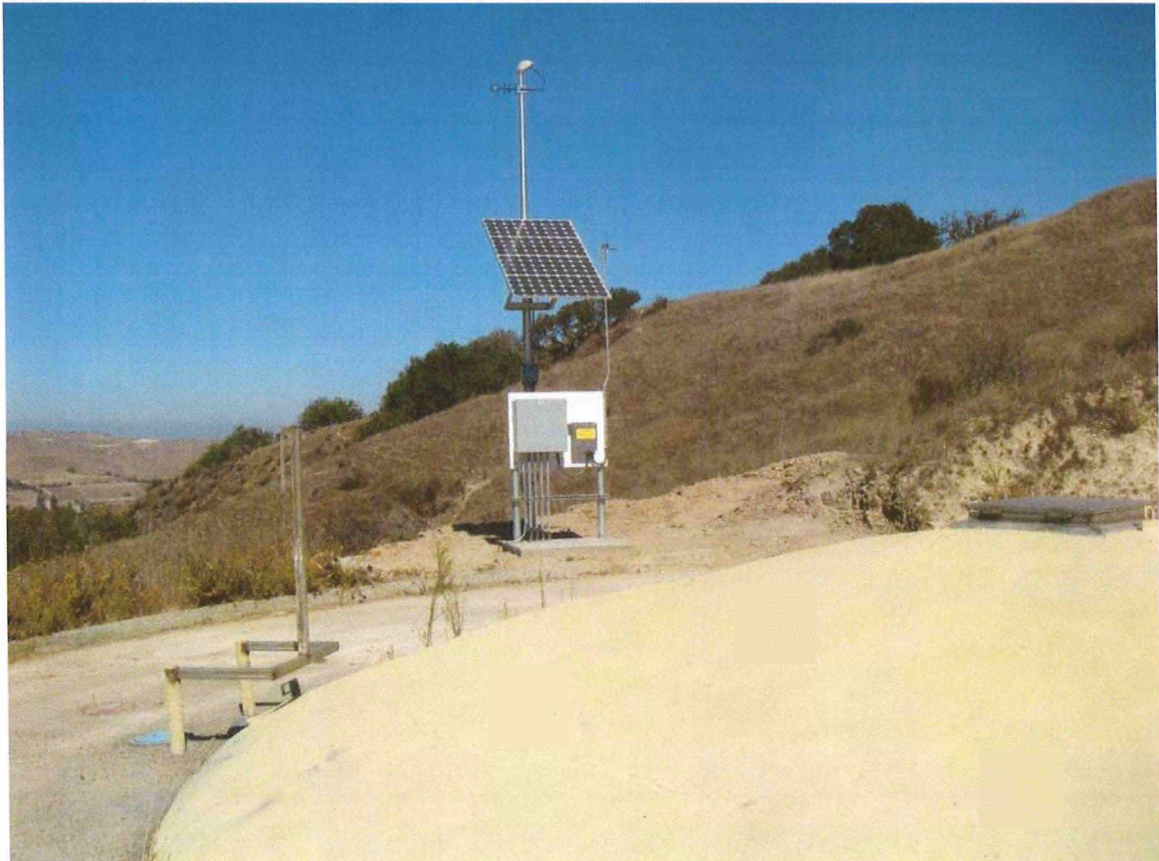


Photo 24: New SCADA-ready PLC with solar power at Vista Dorado tank



Photo 24: Toro yard piping rehab and control building



Photo 24: Toro regulators with new cover installed by Cal Am

PROOF OF SERVICE

I, Cinthia A. Velez, declare as follows:

I am employed in the City and County of San Francisco, California. I am over the age of eighteen years and not a party to this action. My business address is MANATT, PHELPS & PHILLIPS, LLP, One Embarcadero Center, 30th Floor, San Francisco, California 94111-3719. On November 24, 2008, I served the within:

Motion for Adoption of Partial Settlement Agreements as to Water and Wastewater Issues between the Division of Ratepayer Advocates and California-American Water Company

on the interested parties in this action addressed as follows:

See attached service list.



(BY PUC E-MAIL SERVICE) By transmitting such document electronically from Manatt, Phelps & Phillips, LLP, San Francisco, California, to the electronic mail addresses listed above. I am readily familiar with the practice of Manatt, Phelps & Phillips, LLP for transmitting documents by electronic mail, said practice being that in the ordinary course of business, such electronic mail is transmitted immediately after such document has been tendered for filing. Said practice also complies with Rule 1.10(b) of the Public Utilities Commission of the State of California and all protocols described therein.



(BY U.S. MAIL) By placing such document(s) in a sealed envelope, with postage thereon fully prepaid for first class mail, for collection and mailing at Manatt, Phelps & Phillips, LLP, San Francisco, California following ordinary business practice. I am readily familiar with the practice at Manatt, Phelps & Phillips, LLP for collection and processing of correspondence for mailing with the United States Postal Service, said practice being that in the ordinary course of business, correspondence is deposited in the United States Postal Service the same day as it is placed for collection.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct and that this declaration was executed on November 24, 2008, at San Francisco, California.



Cinthia A. Velez

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[Updated October 14, 2008]

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[Updated October 14, 2008]

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