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APPENDIX A

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 a Certificate of Public Convenience and Necessity to Construct and Operate its Coastal Water Project to Resolve the Long-Term Water Supply Deficit in its Monterey District and to Recover All Present and Future Costs in Connection Therewith in Rates	A. 04-09-019

SETTLEMENT AGREEMENT BETWEEN CALIFORNIA-AMERICAN WATER COMPANY AND THE DIVISION OF RATEPAYER ADVOCATES

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Attorneys for Applicant
California-American Water Company

Dated: October 30, 2007

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 a Certificate of Public Convenience and Necessity to Construct and Operate its Coastal Water Project to Resolve the Long-Term Water Supply Deficit in its Monterey District and to Recover All Present and Future Costs in Connection Therewith in Rates	A. 04-09-019

SETTLEMENT AGREEMENT BETWEEN CALIFORNIA-AMERICAN WATER COMPANY AND THE DIVISION OF RATEPAYER ADVOCATES

1. GENERAL

1.1 The Parties to this Settlement Agreement before the California Public Utilities Commission ("Commission") are California-American Water Company ("California American Water") and the Division of Ratepayer Advocates ("DRA," collectively, "the Parties"). 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 Since 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 of 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.

1.5 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.

1.6 Resolution 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. EXPENSES

2.1 The Parties agree that the Commission should authorize California American Water to transfer $9,312,664 of costs incurred for the Coastal Water Project through December 31, 2006 from the authorized memorandum accounts to the Surcharge #1 cost recovery balancing account. This amount reflects disallowances totaling $104,709, described below.

2.2 The Parties agree that the $4,707 stated by DRA as potential duplicative invoices are in fact duplicate invoice charges and therefore should reduce California American Water's request for recovery.

2.3 As a compromise, the Parties agree that the $126,107 in charges from ASR Systems and Derrik Williams for the ASR studies through 2005 should be reduced by sixty percent. This equals a reduction in California American Water's recovery of $75,665.

2.4 In an effort to reach settlement, DRA and California American Water agree that ten percent, or $16,025, of the RBF's Task 4: Permitting and Agency Co-ordination costs should be disallowed.

2.5 The Parties agree that the abovementioned reductions of $96,397 will necessarily reduce California American Water's AFUDC request by $8,312. This reduction in AFUDC, combined with the other reductions in expenses, equals a total adjustment of $104,709 to California American Water's request.

2.6 The Parties agree that the $9,312,664 referenced above shall constitute the entirety of California American Water's recovery of Coastal Water Project preconstruction costs incurred through December 31, 2006 which were or could have been recovered in *California American Water's Report on the Reasonableness of Coastal Water Project Preconstruction Costs Incurred Through 2006*. Nothing in this agreement affects California American Water's ability to recover preconstruction costs incurred for the Coastal Water Project after December 31, 2006 and tracked in the memorandum accounts approved in D.03-09-022.

3. COMPLIANCE

3.1 California American Water shall submit a report to the Commission and all parties to this proceeding, within 90 days of the decision approving this settlement, that demonstrates Monterey District Labor and related costs, for 2006 and beyond, which California American Water seeks to recover via Surcharge #1, have not been recovered through other mechanisms, such as a general rate case application. If DRA determines that this report provides insufficient information to conclude that the above mentioned costs have not been recovered through other mechanisms, DRA reserves the right to protest the sufficiency of the report in the upcoming General Rate Case for California American Water.

Respectfully submitted,

By: _____
Dana Appling, Director
DIVISION OF RATEPAYER ADVOCATES
California Public Utilities Commission
505 Van Ness Avenue, Room 5122
San Francisco, CA 94102-3298

October 30, 2007

Respectfully submitted,

By: _____
David P. Stephenson, Assistant Treasurer
CALIFORNIA-AMERICAN WATER COMPANY
4701 Beloit Drive
Sacramento, CA 95838

October 30, 2007

Respectfully submitted,

By:_____
Dana Appling, Director
DIVISION OF RATEPAYER ADVOCATES
California Public Utilities Commission
505 Van Ness Avenue, Room 5122
San Francisco, CA 94102-3298

October __, 2007

Respectfully submitted,

By:_____
David P. Stephenson, Assistant Treasurer
CALIFORNIA-AMERICAN WATER COMPANY
4701 Beloit Drive
Sacramento, CA 95838

October 30, 2007

PROOF OF SERVICE

I, Michelle Chavez, 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 the within cause; my business address is STEEFEL, LEVITT & WEISS, One Embarcadero Center, 30th Floor, San Francisco, California 94111-3719. On October 30, 2007, I served the within:

Joint Motion to Adopt the Settlement Agreement Between California-American Water Company and the Division of Ratepayer Advocates

on the interested parties in this action by placing a true copy thereof in a sealed envelope, addressed as follows:

Please see attached Service List

☒ **(BY PERSONAL SERVICE)** By causing such envelope to be delivered by hand, as addressed by delivering same to SPECIALIZED LEGAL SERVICES with instructions that it be personally served.

☒ **(BY PUC E-MAIL SERVICE)** By transmitting such document electronically from Steefel, Levitt & Weiss, San Francisco, California, to the electronic mail addresses listed above. I am readily familiar with the practice of Steefel, Levitt & Weiss 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 2.3(b) of the Public Utilities Commission of the State of California and all protocols described therein.

☒ **(BY MAIL)** By placing such document(s) in a sealed envelope, with postage thereon fully prepaid for first class mail, for collection and mailing at Steefel, Levitt & Weiss, San Francisco, California following ordinary business practice. I am readily familiar with the practice at Steefel, Levitt & Weiss 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 October 30, 2007 at San Francisco, California.

/s/ Michelle Chavez
Michelle Chavez

PUC Service List- A.04-09-019
[Updated October 2, 2007]

VIA HAND DELIVERY:

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Administrative Law Judge Division
California Public Utilities Commission
505 Van Ness Avenue, Room 5117
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VIA REGULAR U.S. MAIL:

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PUC E-Mail Service List- A.04-09-019
[Updated October 2, 2007]

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(END OF APPENDIX A)