

APPENDIX A

SAN JOSE WATER COMPANY (U-168-W)
SUMMARY OF EARNINGS AND RATES OF RETURNS
ESTIMATED AT PRESENT AND PROPOSED RATES
(2009 - 2012)

TABLE 14-B

(Thousands of Dollars)

	Present Rates				Proposed Rates			
	2009	2010	2011	2012	2009	2010	2011	2012
Operating Revenue (Table 7E)	\$195,120.4	\$201,572.4	\$204,191.0	\$204,985.0	\$195,120.4	\$220,168.6	\$227,726.6	\$238,814.8
Operating Expense								
Purchased Water (Table 8B)	\$42,346.0	\$41,441.0	\$41,815.0	\$41,815.0	\$42,346.0	\$41,441.0	\$41,815.0	\$41,815.0
Purchased Power (Table 8B)	\$7,482.1	\$7,676.5	\$7,703.7	\$7,732.1	\$7,482.1	\$7,676.5	\$7,703.7	\$7,732.1
Pump Taxes (Table 8B)	\$34,977.0	\$37,704.0	\$37,666.0	\$37,953.0	\$34,977.0	\$37,704.0	\$37,666.0	\$37,953.0
Other Operating Expenses	\$9,554.7	\$9,769.6	\$10,127.8	\$10,566.3	\$9,554.7	\$9,769.6	\$10,127.8	\$10,566.3
Sub-Total	\$94,359.8	\$96,591.1	\$97,312.5	\$98,066.4	\$94,359.8	\$96,591.1	\$97,312.5	\$98,066.4
Customer Account Expense	\$7,642.4	\$8,412.3	\$8,256.4	\$7,687.0	\$7,642.4	\$8,412.3	\$8,256.4	\$7,687.0
Administrative & General Expense	\$21,206.0	\$20,993.9	\$21,578.7	\$22,265.6	\$21,206.0	\$20,993.9	\$21,578.7	\$22,265.6
Maintenance Expense	\$12,481.7	\$12,785.6	\$13,108.1	\$13,292.4	\$12,481.7	\$12,785.6	\$13,108.1	\$13,292.4
Total O & M Expense	\$135,689.9	\$138,782.9	\$140,255.7	\$141,311.4	\$135,689.9	\$138,782.9	\$140,255.7	\$141,311.4
Taxes, Other than Income								
Based on Income	\$6,581.6	\$6,789.7	\$7,107.8	\$7,386.5	\$6,581.6	\$6,837.3	\$7,168.0	\$7,475.0
Depreciation & Amortization	\$24,928.1	\$26,751.1	\$28,962.2	\$31,173.2	\$24,928.1	\$26,470.1	\$28,962.2	\$31,173.2
Total, Excluding Taxes								
Based on Income	\$167,199.7	\$172,323.7	\$176,325.7	\$179,871.2	\$167,199.7	\$172,090.3	\$176,385.9	\$179,959.7
Net Operating Revenue								
Before Taxes, Based on Income	\$27,920.7	\$29,248.7	\$27,865.3	\$25,113.8	\$27,920.7	\$48,078.3	\$51,340.7	\$58,855.1
Taxes, Based on Income	\$5,905.4	\$0.0	\$0.0	\$0.0	\$5,905.4	\$12,520.2	\$13,197.5	\$17,979.7
After Taxes, Based on Income	\$22,015.3	\$29,248.7	\$27,865.3	\$25,113.8	\$22,015.3	\$35,558.1	\$38,143.2	\$40,875.4
Weighted Average Rate Base	\$382,071.1	\$403,930.4	\$433,551.6	\$464,430.1	\$382,071.1	\$403,930.4	\$433,551.6	\$464,430.1
Rate of Return %	5.76%	7.24%	6.43%	5.41%	5.76%	8.80%	8.80%	8.80%
Change from Previous Year		1.48%	-0.81%	-1.02%		3.04%	0.00%	0.00%

TABLE 13-L

SAN JOSE WATER COMPANY (U-168-W)

WEIGHTED AVERAGE RATE BASE
(2009 - 2012)

(Thousands of Dollars, Except per Customer Data)

		Transition <u>2009</u>	Test Year <u>2010</u>	Test Year <u>2011</u>	Attrition <u>2012</u>
Utility Plant	(from Table 11-D)	\$858,852.4	\$915,813.0	\$978,507.3	
Adjustments to Plant	(from Table 13-C)	(\$179,795.0)	(\$187,843.5)	(\$195,868.3)	
Working Capital	(from Table 13-G)	\$12,230.8	\$10,351.0	\$12,107.8	
Tax Deferrals	(from Table 13-I)	(\$44,784.7)	(\$45,304.3)	(\$45,587.4)	
Ratebase on Taxing Contributions & Advances	(from Table 13-E)	<u>\$7,604.7</u>	<u>\$6,997.1</u>	<u>\$6,516.6</u>	
Undepreciated Rate Base		\$654,108.1	\$700,013.3	\$755,676.0	\$812,596.0
Depreciation Reserve	(from Table 12-B)	<u>\$272,037.0</u>	<u>\$296,082.9</u>	<u>\$322,124.4</u>	<u>\$348,165.9</u>
Weighted Average Rate Base - Amount		<u>\$382,071.1</u>	<u>\$403,930.4</u>	<u>\$433,551.6</u>	<u>\$464,430.1</u>
Weighted Average Rate Base - Per Customer		<u>\$1,751</u>	<u>\$1,842</u>	<u>\$1,968</u>	<u>\$2,100</u>

Tiered Rate Bill Comparison Residential 3/4-Inch Meter				
Usage (ccf)	Current Rates AL 405-A	Proposed Rates 2010	Increase	Increase
5	\$26.35	\$28.37	7.67%	\$2.02
10	\$37.44	\$40.44	8.01%	\$3.00
Average:	\$48.98	\$52.99	8.19%	\$4.01
20	\$61.17	\$66.27	8.34%	\$5.10
30	\$85.57	\$92.83	8.48%	\$7.26
50	\$134.35	\$145.94	8.63%	\$11.59
100	\$256.32	\$278.74	8.75%	\$22.42

Tiered Rate Bill Comparison Residential 3/4-Inch Meter				
Usage (ccf)	Proposed Rates 2010	Proposed Rates 2011	Increase	Increase
5	\$28.37	\$29.35	3.45%	\$0.98
10	\$40.44	\$41.64	2.97%	\$1.20
Average:	\$52.99	\$54.41	2.68%	\$1.42
20	\$66.27	\$67.92	2.49%	\$1.65
30	\$92.83	\$94.94	2.27%	\$2.11
50	\$145.94	\$148.97	2.08%	\$3.03
100	\$278.74	\$284.06	1.91%	\$5.32

Tiered Rate Bill Comparison Residential 3/4-Inch Meter				
Usage (ccf)	Proposed Rates 2011	Proposed Rates 2012	Increase	Increase
5	\$29.35	\$30.79	4.91%	\$1.44
10	\$41.64	\$43.79	5.16%	\$2.15
Average:	\$54.41	\$57.32	5.35%	\$2.91
20	\$67.92	\$71.62	5.45%	\$3.70
30	\$94.94	\$100.22	5.56%	\$5.28
50	\$148.97	\$157.43	5.68%	\$8.46
100	\$284.06	\$300.45	5.77%	\$16.39

**SAN JOSE WATER COMPANY (U-168-W)
PROPOSED RATES**

**Schedule No. 1
GENERAL METERED SERVICE**

APPLICABILITY

Applicable to general metered water service.

TERRITORY

Portions of Cupertino, San Jose, and Santa Clara, and in Campbell, Los Gatos, Monte Sereno, and Saratoga and in contiguous territory in the County of Santa Clara.

RATES

Quantity Rate Per 100 cu. ft. (Ccf): **2010**

Residential Customers with 5/8 x 3/4-inch, 3/4 –inch or 1-inch meter

For Total Monthly Usage from 0 to 13 Ccf.	\$2.440
For Total Monthly Usage over 13 Ccf.	\$2.684

Residential Customers with 1 ½-inch or 2-inch meter

For Total Monthly Usage from 0 to 26 Ccf.	\$2.440
For Total Monthly Usage over 26 Ccf.	\$2.684

All Other Customers

Other Customers

For all water delivered, per 100 cu. ft.	\$2.5223
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Service Charges: Per Meter Per Month

For	3/4-inch meter	\$16.31
For	1-inch meter	\$27.18
For	1-1/2-inch meter	\$54.37
For	2-inch meter	\$86.99
For	3-inch meter	\$163.11
For	4-inch meter	\$271.84
For	6-inch meter	\$543.69
For	8-inch meter	\$869.90
For	10-inch meter	\$1250.48

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the charge for water used computed at the Quantity Rates.

SPECIAL CONDITIONS

1. To repay the over-collection of the Balancing Account, a surcredit of \$0.0278 per 100 cu. Ft. is to be calculated based on the Quantity Rate shown above for a 12-month period beginning with the effective date of this tariff.

(No Other Changes Proposed)

**SAN JOSE WATER COMPANY (U-168-W)
PROPOSED RATES**

**Schedule No. 1B
GENERAL METERED SERVICE WITH
AUTOMATIC FIRE SPRINKLER SYSTEM**

APPLICABILITY

Applicable to all detached single family structures whose automatic fire sprinkler system is served through the meter providing residential water service.

TERRITORY

Portions of Cupertino, San Jose, and Santa Clara, and in Campbell, Los Gatos, Monte Sereno, and Saratoga and in contiguous territory in the County of Santa Clara.

RATES

	<u>2010</u>
Quantity Rate:	
Per 100 cu. Ft	\$ 2.5223
Service Charges: Per Meter Per Month	
For 3/4-inch meter	\$ 16.31
For 1-inch meter	\$ 27.18
For 1-1/2-inch meter	\$ 54.37
For 2-inch meter	\$ 86.99
Upsize Charges:	
For 1/4-inch meter upsize	\$1.39
For 1/2-inch meter upsize	\$2.77
For 3/4-inch meter upsize	\$4.16
For 1-inch meter upsize	\$5.55

SPECIAL CONDITIONS

1. To repay the over-collection of the Balancing Account, a surcredit of \$0.0278 per 100 cu. Ft. is to be calculated based on the Quantity Rate shown above for a 12-month period beginning with the effective date of this tariff.

(No Other Changes Proposed)

**AN JOSE WATER COMPANY (U-168-W)
PROPOSED RATES**

**Schedule No. 1C
GENERAL METERED SERVICE
Mountain District**

APPLICABILITY

Applicable to general metered water service.

TERRITORY

Portions of Los Gatos and in contiguous territory in the County of Santa Clara.

RATES

Quantity Rate Per 100 cu. ft. (Ccf): **2010**

Oversue Rates beyond 500 gallons per day limit

For Total Monthly Usage from 0 to 13 Ccf.	\$2.440
For Total Monthly Usage from 13 to 20 Ccf.	\$2.684
For Total Monthly Usage over 20 Ccf.	\$7.000

Service Charges: Per Meter Per Month

For 3/4-inch meter	\$16.31
For 1-inch meter	\$27.18
For 1-1/2-inch meter	\$54.37
For 2-inch meter	\$86.99
For 3-inch meter	\$163.11
For 4-inch meter	\$271.84
For 6-inch meter	\$543.69
For 8-inch meter	\$869.90
For 10-inch meter	\$1250.48

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the charge for water used computed at the Quantity Rates.

SPECIAL CONDITIONS

1. An Elevation Charge of \$0.7632 per Ccf. is to be added to the Quantity Rate.
2. It is the Company's intent to provide service to all its customers to the full extent of its capacity to serve, except that in the event that there is a substantial risk to the Company's ability to maintain service to customers in the Mountain District, the Company, at its sole discretion, may temporarily interrupt or reduce service to such customers.

Such interruption or reduction of service may occur when (1) customer consumption, or (2) significant electrical, mechanical or supply issues challenge the Company's ability to meet demand

for service. Should service be interrupted, the Company shall give timely priority to remedies that are within its control to alleviate the need for the interruption of service. The Company will inform customers of planned improvements to its facilities serving the Mountain District through its annual system status report to Redwood Estates Services Association.

When service is interrupted, the Company agrees to promptly notify the interrupted customer's designated representative (one per mutual water company). Such notification shall be provided by telephone or by a reasonable alternative method specified by the customer and acceptable to the Company. It is the customer's responsibility to provide the Company, in writing, the name and contact information for its designated representative, to update that information, in writing when appropriate, and to ensure that any designated representative shall maintain an active answering system and e-mail address capable of receiving and recording service interruption information.

3. Each of the seven Mutual Water Companies served by San Jose Water Company in the Mountain District shall be charged one Service Charge, based on a $\frac{3}{4}$ -inch meter, per customer individually served by the Mutual Water Company. San Jose Water Company shall provide each of the Mutual Water Companies one usage allocation per customer, individually served by the mutual as described under Quantity Rates per Ccf. above. Thus, each Mutual Water Company will be charged at the first tier Quantity Rate for usage up to 13 Ccf times the number of Service Charges it pays (Usage Amount A), will be charged at the second tier Quantity Rate for usage in excess of Usage Amount A and up to 20 Ccf times the number of Service Charges it pays (Usage Amount B), and will be charged at the third tier Quantity Rate for usage in excess of Usage Amount B.
4. To repay the over-collection of the Balancing Account, a surcredit of \$0.0278 per 100 cu. Ft. is to be calculated based on the Quantity Rate shown above for a 12-month period beginning with the effective date of this tariff.

(No Other Changes Proposed)

**SAN JOSE WATER COMPANY (U-168-W)
PROPOSED RATES**

**Schedule No. 4
PRIVATE FIRE SERVICE**

APPLICABILITY

Applicable to all water service furnished to privately owned fire protection systems.

TERRITORY

Portions of Cupertino, San Jose, and Santa Clara, and in Campbell, Los Gatos, Monte Sereno, and Saratoga and in contiguous territory in the County of Santa Clara.

RATES

Per Service Connection per Month **2010**

Service Charges: Per Meter Per Month

For each 2-inch service	20.48
For each 3-inch service	30.72
For each 4-inch service	40.96
For each 6-inch service	61.45
For each 8-inch service	81.92
For each 10-inch service	102.40
For each 12-inch service	122.88

SPECIAL CONDITIONS

1. To repay the over-collection of the Balancing Account, a surcredit of \$0.0278 per 100 cu. Ft. is to be calculated based on the Quantity Rate shown above for a 12-month period beginning with the effective date of this tariff.

(No Other Changes Proposed)

PROPOSED RATES

Schedule No. RW
RAW WATER SERVICE

APPLICABILITY

Applicable to all raw water metered service.

TERRITORY

Portions of Cupertino, San Jose, and Santa Clara, and in Campbell, Los Gatos, Monte Sereno, and Saratoga and in contiguous territory in the County of Santa Clara.

RATES

Quantity Rate: **2010**
Per 100 cu. ft. \$2.2927

Service Charges: Per Meter Per Month

For 5/8 x 3/4-inch meter	\$16.31
For 3/4-inch meter	16.31
For 1-inch meter	27.18
For 1-1/2-inch meter	54.37
For 2-inch meter	86.99
For 3-inch meter	163.11
For 4-inch meter	271.84
For 6-inch meter	543.69
For 8-inch meter	869.90
For 10-inch meter	1250.48

SPECIAL CONDITIONS

(No Changes Proposed)

(END OF APPENDIX A)

APPENDIX B

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

In the Matter of the Application of SAN JOSE
WATER COMPANY (U 168 W) for an Order
authorizing it to increase rates charged for water
service by \$36,207,000 or 18.44% in 2010; by
\$15,171,000 or 6.52% in 2011; and by
\$19,899,000 or 8.10% in 2012.

Application 09-01-009
(Filed January 21, 2009)

JOINT SETTLEMENT
OF THE DIVISION OF RATEPAYER ADVOCATES
AND SAN JOSE WATER COMPANY
ADDRESSING REVENUE REQUIREMENT ISSUES

JOINT SETTLEMENT

1.0 INTRODUCTION

- 1.1 This Settlement is entered into as of the date listed below, by and between San Jose Water Company (SJWC) and the Division of Ratepayer Advocates (DRA) of the California Public Utilities Commission (Commission) (collectively, the Parties). This Settlement resolves some, but not all, of the issues raised by DRA concerning SJWC's general rate increase request.
- 1.2 On January 21, 2009, SJWC filed Application 09-01-009, seeking authorization to increase rates charged for water service throughout its service territory by \$36,207,000 or 18.44% in 2010, by \$15,171,000 or 6.52% in 2011, and by \$19,899,000 or 8.10% in 2012. DRA protested SJWC's Application.
- 1.3 DRA conducted an independent review of SJWC's Application, supporting testimony and work papers. As part of this review, written discovery was exchanged and field tours were held. Upon conclusion of its review, on May 15, 2009, DRA submitted its Report on the Results of Operations of SJWC. DRA's testimony indicated particular areas of disagreement with SJWC's Application and rate request. SJWC served its Rebuttal testimony on June 3, 2009. This Settlement Agreement generally addresses the issues in the same order as they were presented in DRA's Report.
- 1.4 Beginning with a settlement conference on June 5, 2009, and including two days of mediation sessions facilitated by Administrative Law Judge Janet Econome on June 9, 2009 through June 10, 2009, the Parties met to discuss the areas of disagreement with SJWC's Application. As a result of such discussions and negotiations, the Parties resolved certain issues in the manner set forth in greater detail below. Appendix A to this Settlement is a Comparison Exhibit, which shows a summary of earnings comparison reflecting SJWC's requests, DRA's positions, and the modification of their respective positions based on the Settlement results. This comparison exhibit demonstrates the

impact of the Settlement in relation to SJWC's application and DRA's contested issues, as required by Rule 51.1(c) of the Commission's Rules of Practice and Procedure.

- 1.5 Several important issues presented by SJWC's application and DRA's report were not resolved by the Settlement. Those unresolved issues were addressed at the evidentiary hearings held June 17, 2009 - June 19, 2009, on July 27, 2009 and also in the Parties' briefs.
- 1.6 This Settlement resolves most of the previously contested issues in this proceeding and provides benefits to SJWC's customers. The Parties believe that this Settlement, together with the materials presented on the formal record in this proceeding, provide the Commission with a sufficient basis for finding that the Settlement is reasonable, fair and in the public interest.

2.0 CUSTOMER SALES AND REVENUES

- 2.1 Average Business Sales: Based on a regression analysis, SJWC proposed business sales of 876 Ccf per customer, while DRA used the recorded business sales number for 2008 of 997 Ccf per customer. After reviewing the most recent sales numbers, the Parties agreed to adopt an average sales number of 960 Ccf per customer.

References: Exhibit 2 (SJWC), ch. 6; Exhibit 9 (DRA), p. 2-10.

3.0 OPERATION AND MAINTENANCE EXPENSES

A. Purchased Water Expense

- 3.1 SJWC estimated surface water supply based on a regression analysis of surface water production less bypass flows and IESWTR, producing an estimate for this GRC cycle of 3,094 million gallons per year ("MG/yr"). DRA provided an estimate of 3,394 MG/yr, relying on a 10-year average that excluded the years of the last drought. Based on further

analysis and discussions, SJWC and DRA agreed on an estimate of 3,294 MG/yr. This estimate incorporates the 40 MG/yr of surface water supply to which the parties agreed in resolving the proposed pumping improvements at the Lower Cavanaugh station, as addressed in Section 7.3, below.

References: Exhibit 2 (SJWC), ch 6; Exhibit 9 (DRA), pp. 3-5 to 3-6.

B. Conservation

3.2 SJWC requested \$1,591,660 for conservation program expense in Test Year 2010, including \$1,099,000 for recycled water customer retrofit costs. DRA proposed to disallow the recycled water retrofit costs and to allow only \$84,000 in 2010 for customer educational conservation programs. In Rebuttal testimony, SJWC provided current invoice costs for bill inserts supporting an allowance of \$100,956. Considering this information, DRA and SJWC agree to include \$90,000 for bill inserts and a total conservation expense of \$117,000 in rates, which excludes the recycled water retrofit program.

References: Exhibit 2 (SJWC), ch. 18; Exhibit 4 (SJWC), pp. 28, 34-53; Exhibit 9 (DRA), p. 3-6 and ch. 13; Exhibit 5 (SJWC), p. 1-1.

4.0 ADMINISTRATIVE AND GENERAL EXPENSES

A. Payroll (including both O&M and A&G payroll)

4.1 SJWC estimated its total annual payroll expense for beginning of the year 2009 based on existing positions at then-current salary and wage rates, escalating these amounts to Test Year 2010 by applying a 3.0% labor inflation factor for union and 2.5% for non-union, and adding a total of 32 new positions in the course of years 2009 through 2012. DRA escalated 2008 total payroll expenditures from 2008 to 2010, using the 2009 wage increase negotiated by SJWC's union employees of 3.3% to escalate total payroll expense

and the latest labor inflation factor of -1.9%, to arrive at an estimate for Test Year 2010, with allowance for nine (9) additional positions with associated payroll calculated at average salary. The overall difference in estimates for Test Year 2010, including both expensed and capitalized payroll, was \$3,531,767. This was equivalent to 10.5% of SJWC's estimate of \$33,593,704. Recognizing SJWC's need for additional escalation of salaries and wages, DRA agreed to add an allowance of \$717,730 to its original estimate of \$30,061,937, producing total annual payroll expenditures for Test Year 2010 of \$30,779,667, which was accepted by SJWC.

B. Property, Liability, and Worker's Compensation Insurance

- 4.2 For Property Insurance, SJWC's and DRA's original test year estimates were \$116,000 and \$112,000, respectively. The difference was due solely to the different inflation factors applied. Considering the slight difference between their positions, the Parties compromised on a settlement amount for Property Insurance expense, rounded, of \$114,000.

References: Exhibit 2 (SJWC), ch 8; Exhibit 9 (DRA), p. 4-5.

- 4.3 For Worker's Compensation Insurance, SJWC and DRA's original estimates for the test year were \$249,000 and \$220,000, respectively. However, based upon updated premium information of \$550,000, the Parties agree to a settlement amount of \$385,500.

References: Exhibit 2 (SJWC), ch.8; Exhibit 9 (DRA), p. 4-5.

C. Pensions and Benefits

- 4.4 Retirement Plan Contributions: SJWC and DRA's original estimates of retirement plan contributions for the test year were \$6,865,900 and \$4,580,300, respectively. During discovery, SJWC provided updated actuarial reports as of January 1, 2009, for DRA's review. DRA and SJWC agree to \$6,000,000 in Pension expense for the test year, subject to a capped balancing account. SJWC and DRA agree that the Company should

be required to establish a balancing account, effective January 1, 2010, to record cash contributions to the retirement plan, with SJWC's recovery of this expense for ratemaking purposes capped at the level of Pension expense calculated according to the method prescribed by SFAS 87 for each concurrent year.

References: Exhibit 2 (SJWC), ch. 9; Exhibit 9 (DRA), pp. 4-7 to 4-10; Exhibit 5 (SJWC), pp. 2-43 to 2-47.

- 4.5 Retirement Savings Plan: SJWC proposed to apply a contribution rate of 4.0% of payroll expense, while DRA supported a rate of 3.3%. DRA and SJWC agree to split the small difference, resulting in a Retirement Savings Plan expense contribution rate of 3.65%.

References: Exhibit 2 (SJWC), ch. 9; Exhibit 9 (DRA), p. 4-10; Exhibit 5 (SJWC), pp. 2-36 to 2-37.

- 4.6 Unfunded Pensions: SJWC and DRA's estimates were \$35,700 and \$26,500, respectively. SJWC agreed to DRA's methodology, which was to apply an inflation factor to the 2008 amount of \$25,900, providing a settlement amount of \$27,500 for Test Year 2010.

References: Exhibit 2 (SJWC), ch. 9; Exhibit 9 (DRA), p. 4-11.

- 4.7 Post-Retirement Benefits Other than Pensions (PBOPs): SJWC's estimate of test year PBOP expense was \$684,200, while DRA's application of a lower inflation rate produced a test year estimate of \$673,800. DRA and SJWC agree to split the small difference, supporting a \$679,000 estimate for test year 2010.

References: Exhibit 2 (SJWC), ch. 9; Exhibit 9 (DRA), p. 4-11; Exhibit 5 (SJWC), p. 2-37.

- 4.8 Life Insurance: SJWC's estimate of test year life insurance expense was \$194,800, while DRA's application of a lower inflation rate and lower estimates of cost increases

produced a test year estimate of \$173,800. DRA and SJWC agree to split the small difference, supporting a \$184,300 estimate for test year 2010.

References: Exhibit 2 (SJWC), ch. 9; Exhibit 9 (DRA), p. 4-11; Exhibit 5 (SJWC), p. 2-37.

- 4.9 Health Insurance: Both SJWC and DRA estimated costs for coverage of employees under three different health insurance plans. DRA and SJWC agree that it would be reasonable to apply a 5% escalation factor to the amounts of premium expenses SJWC calculated in its rebuttal, resulting in an agreed-upon test year 2010 expense estimate of \$3,545,340.

References: Exhibit 2 (SJWC), pp. 5-6 to 5-7, ch. 9; Exhibit 9 (DRA), pp. 4-11 to 4-14; Exhibit 5 (SJWC), pp. 2-37 to 2-41.

- 4.10 Dental Insurance: SJWC's estimate of test year expense for the Delta Dental plan was \$536,100, while DRA's application of a lower allowance for new employees produced a test year estimate of \$509,100. DRA and SJWC agree to split the small difference, supporting a \$522,600 estimate for test year 2010..

References: Exhibit 2 (SJWC), p. 5-7, ch. 9; Exhibit 9 (DRA), pp. 4-11 to 4-12; Exhibit 5 (SJWC), pp. 2-37 to 2-41.

- 4.11 Other Employee Benefits: SJWC's estimate of test year expense for other employee benefits was \$177,500, while DRA's test year estimate for this expense was \$157,600. DRA and SJWC agree to split the small difference, supporting a \$167,550 estimate for test year 2010.

References: Exhibit 2 (SJWC), p. 5-7, ch. 9; Exhibit 9 (DRA), p. 4-14; Exhibit 5 (SJWC), p. 2-41.

4.12 Long Term Disability Insurance: SJWC's estimate of test year expense for Long Term Disability Insurance was \$195,900, while DRA's test year estimate for this expense was \$159,400. DRA and SJWC agree to split the small difference, supporting a \$177,650 estimate for test year 2010.

References: Exhibit 2 (SJWC), p. 5-7, ch. 9; Exhibit 9 (DRA), p. 4-14; Exhibit 5 (SJWC), p. 2-41.

D. Regulatory Commission Expense

4.13 DRA accepted SJWC's \$200,000 estimate of Regulatory Commission expense for 2009, but the parties' differing inflation factors produced 2010 estimates of \$204,000 for SJWC and \$202,000 for DRA. DRA and SJWC agree to split the small difference, supporting a \$ 203,000 estimate for test year 2010.

References: Exhibit 2 (SJWC), ch. 9; Exhibit 9 (DRA), p. 4-15.

5.0 TAXES

A. Ad Valorem Taxes

5.1 DRA accepted SJWC's methodology for calculating ad valorem tax and the resulting effective tax rate of .0118 for this rate case period. Differences between DRA and SJWC resulted from differences in Plant Estimates as discussed below.

References: Exhibit 2 (SJWC), p. 10-1; Exhibit 9 (DRA), pp. 5-1, 5-6.

B. Payroll Taxes

5.2 Payroll taxes include Social Security and Medicare taxes pursuant to the Federal Insurance Contribution Act ("FICA"), Federal Unemployment Insurance ("FUI"), and

State Unemployment Insurance (“SUI”). DRA’s estimates of these tax expenses differ from SJWC’s based on differences in payroll estimates, DRA’s correction of clerical errors, and DRA’s use of 2008 FICA tax rates instead of SJWC’s estimated FICA tax rates. SJWC accepts DRA’s methodology, which will be applied to develop estimates of payroll taxes matching the agreed upon payroll estimates, for inclusion in the Comparison Exhibit.

References: Exhibit 2 (SJWC), p. 10-1; Exhibit 9 (DRA), pp. 5-2 to 5-6.

C. Income Taxes

- 5.3 The differences between DRA’s and SJWC’s estimates of income tax expense were due primarily to differences in forecasts of revenues, expenses, and rate base, with remaining differences due to DRA’s correction of errors in formulas applied by SJWC. Specifically, DRA used a different methodology than SJWC’s for the California Corporate Franchise Taxes as a deduction for Federal Income Tax purposes to reflect changes in the California Revenue and Taxation Code effective for taxable years beginning on or after January 1, 2000. For settlement purposes, SJWC accepts DRA’s methodology for calculating income taxes.

References: Exhibit 2 (SJWC), pp. 10-2 to 10-3 and Tables 10-A to 10-C; Exhibit 9 (DRA), ch. 6.

6.0 NET TO GROSS MULTIPLIER

- 6.1 DRA and SJWC used the same methodology to calculate the net-to gross multiplier. DRA accepts SJWC’s uncollectibles rate and franchise tax rate. Both parties calculate a multiplier of 1.6959.

References: Exhibit 2 (SJWC), ch 14; Exhibit 9 (DRA), pp. 7-1 to 7-2.

7.0 PLANT

- 7.1 Inflation: The original estimates of SJWC and DRA were 4.5% and 1.34% for 2009, 4.5% and 0.98% for 2010, and 4.5% and 2.26% for 2011. Except where specific dollar estimates are determined for projects, DRA and SJWC agree to apply 3% as an inflation factor for 2009, 2010, and 2011 in the calculation of utility plant estimates.

References: Exhibit 3 (SJWC), p. 4; Exhibit 9 (DRA), pp. 8-2 to 8-3; Exhibit 5 (SJWC), pp. 3-2 to 3-3.

A. Recommended Plant Additions Adjustments for 2009

- 7.2 Based on additional review of project information provided by both Parties, DRA and SJWC agree to resolve certain of the Plant Addition Adjustments presented in Table 8-C of the DRA Report (Exhibit 9) for 2009 that were previously in dispute. DRA and SJWC agree that the projects addressed below, subject to the adjustments provided for in this Settlement, are prudent, necessary and in the public interest. Each project is discussed in greater detail in the sections below.
- 7.3 Project 3333, Lower Cavanee Station – The original positions of SJWC and DRA were \$723,100 and \$0 respectively. During discovery, SJWC explained that the proposed increase in the capacity of the Lower Cavanee pumping equipment will optimize the capture of local surface water and maximize the use of SJWC's existing water rights to this creek. DRA considered SJWC's position and DRA and SJWC agree to include \$712,721 (including the 3% annual inflation factor) in rates in exchange for a 40 million gallon addition to the projected surface water availability.

References: Exhibit 2 (SJWC), ch. 11; Exhibit 3 (SJWC), #3333; Exhibit 20 (SJWC), CIP 2009, p. 1 ; Exhibit 9 (DRA), pp. 8-4, 8-21 to 8-22; Exhibit 5 (SJWC), pp. 3-3, 3-21 to 3-22.

7.4 Project 3472, Install Groundwater Disinfection System, Needles Station – The original positions of SJWC and DRA were \$418,400 and \$0, respectively. During discovery, DRA reviewed the data and rationale SJWC provided and agrees to allow \$412,394 in rates, including the agreed upon 3% annual inflation factor.

References: Exhibit 2 (SJWC), ch. 11 ; Exhibit 20 (SJWC), CIP 2009, p. 2; Exhibit 9 (DRA), pp. 8-4, 8-22 to 8-26.

7.5 Project 185, Replace 1.25 million gallon welded steel Tank #2 at Greenridge Terrace Station – SJWC estimated the project cost at \$2,487,600. DRA proposed to allow only \$605,131, for recoating the interior and exterior of the tank. On rebuttal, SJWC acknowledged an error in applying inflation factors, correcting the tank replacement cost as being \$2,380,500, but provided additional project justification. DRA agrees with SJWC to support the Greenridge Terrace Tank #2 replacement as an advice letter filing with a budgetary cap of \$2,200,000.

References: Exhibit 2 (SJWC), ch. 11; Exhibit 3 (SJWC), #185; Exhibit 20 (SJWC), CIP 2009, p. 3; Exhibit 9 (DRA), pp. 8-31 to 8-32; Exhibit 5 (SJWC), pp. 3-4 to 3-5.

7.6 Project 38, Replace Various Hydrants on Existing Mains – The original estimates of SJWC and DRA were \$50,900 and \$45,574, respectively. During discovery, SJWC provided DRA additional information regarding needed hydrant installations. DRA reviewed the information and agrees to include \$48,236 in rates.

References: Exhibit 2 (SJWC), ch. 11; Exhibit 20 (SJWC), CIP 2009, p. 13; Exhibit 9 (DRA), p. 8-36 to 8-39; Exhibit 5 (SJWC), p. 3-6.

7.7 Project 272, Replace Various Hydrants outside the City of San Jose – The original estimates of SJWC and DRA were \$144,200 and \$80,000, respectively. SJWC agrees with DRA's proposed allowance of \$80,000 in rates.

References: Exhibit 2 (SJWC), ch. 11; Exhibit 20 (SJWC), CIP 2009, p. 13; Exhibit 9 (DRA), p. 8-36 to 8-39; Exhibit 5 (SJWC), p. 3-7.

- 7.8 Project 273, Replace Various Hydrants within the City of San Jose – The original estimates of SJWC and DRA were \$285,500 and \$100,000, respectively. During discovery, SJWC provided DRA additional information regarding needed hydrant replacements. DRA reviewed the information and the Parties have agreed to support \$160,000 in rates.

References: Exhibit 2 (SJWC), ch. 11; Exhibit 20 (SJWC), CIP 2009, p. 13; Exhibit 9 (DRA), p. 8-36 to 8-39; Exhibit 5 (SJWC), p. 3-7.

- 7.9 Project 3261, Replace Various Hydrants for Emergency Situations – The original estimates of SJWC and DRA were \$26,100 and \$22,787, respectively. During discovery, SJWC provided DRA additional information regarding needed hydrant replacements. DRA reviewed the information and agrees to include \$24,444 in rates.

Exhibit 2 (SJWC), ch. 11; Exhibit 20 (SJWC), CIP 2009, p. 13; Exhibit 9 (DRA), p. 8-36 to 8-39; Exhibit 5 (SJWC), p. 3-7 to 3-8.

- 7.10 Project 181, Replace High Mileage Vehicles – The original estimates of SJWC and DRA were \$776,900 and \$476,615, respectively. During discovery, SJWC explained that the company has extended its replacement period by two years to maximize the useful lives of vehicles and that variations in replacement timing are due to differences in mileage accumulation. DRA considered SJWC's position. DRA and SJWC agree to include \$625,758 in rates.

References: Exhibit 2 (SJWC), ch. 11; Exhibit 3 (SJWC), #181&182; Exhibit 20 (SJWC), at CIP 2009, p. 17; Exhibit 9 (DRA), pp. 8-39 to 8-40; Exhibit 5 (SJWC), pp. 3-8 to 3-9.

7.11 Project 182, Vehicles for New Staff positions – The original positions of SJWC and DRA were \$106,500 and \$0, respectively. During discovery, SJWC explained that the company has extended its replacement period by two years to maximize the useful lives of vehicles and that variations in replacement timing are due to mileage accumulation. DRA considered SJWC's position. DRA and SJWC agree to include \$53,250 in rates for vehicles purchased in 2009.

References: Exhibit 2 (SJWC), ch. 11; Exhibit 3 (SJWC), #181&182; Exhibit 20 (SJWC), at CIP 2009, p. 17; Exhibit 9 (DRA), pp. 8-40 to 8-41; Exhibit 5 (SJWC), p. 9.

7.12 Project 23, Facilities Retirements – The original estimates for SJWC and DRA were \$1,421,200 and \$919,666, respectively. DRA's lower estimate reflects DRA's adjustment of SJWC's proposed pipeline replacement program for 2009. DRA has agreed with SJWC's assertion that, adjusted for the agreed upon inflation factor, 75% (or \$1,050,600) of the SJWC proposed Facilities Retirement budget is related to pipeline retirements, and 25% (or \$350,200) of the proposed budget is related to non-pipeline plant. The Parties agree to include 25% (\$350,200) for non-pipeline plant. In regard to the remaining 75% (\$1,050,600) related to pipeline plant, the Parties agree to include for ratemaking purposes a percentage of that amount equal to the ratio of the Commission's allowance to SJWC's proposed 2009 pipeline replacement budget. For example, if the Commission approves DRA's pipeline replacement recommended allowance of approximately 65.7%, then the Facilities Retirements budget would be \$350,200 plus 65.7% of \$1,050,600 (equal to \$689,757) for a total budget of \$1,039,957.

References: Exhibit 2 (SJWC), ch. 11; Exhibit 20 (SJWC), CIP 2009, p. 12; Exhibit 9 (DRA), pp. 8-41 to 8-42, 8-55; Exhibit 5 (SJWC), at 3-9 to 3-10.

7.13 Project 3514, Cox Avenue Motor Control Center – The original estimates of SJWC and DRA were \$1,240,400 and \$1,154,500, respectively. During discovery, SJWC explained that a reasonable contingency rate of between 5% and 10% is commonly applied to projects of this type. DRA considered SJWC's position. DRA and SJWC agree to include \$1,197,450 in rates.

References: Exhibit 2 (SJWC), ch. 11; Exhibit 3 (SJWC), #3514; Exhibit 20 (SJWC), CIP 2009, p. 5; Exhibit 9 (DRA), p. 8-43; Exhibit 5 (SJWC), p. 3-10.

- 7.14 Project 3513, Cox Avenue Station Booster – The original estimates of SJWC and DRA were \$582,100 and \$541,708, respectively. During discovery, SJWC explained that a reasonable contingency rate of between 5% and 10% is commonly applied to projects of this type. DRA considered SJWC’s position. DRA and SJWC agree to include \$561,904 in rates.

References: Exhibit 2 (SJWC), ch. 11; Exhibit 3 (SJWC), #3513; Exhibit 20 (SJWC), CIP 2009, p. 5; Exhibit 9 (DRA), p. 8-43; Exhibit 5 (SJWC), p. 3-10.

- 7.15 Project 3483, Winfield Booster and Motor Control Center – The original estimates of SJWC and DRA were \$553,800 and \$515,234, respectively. During discovery, SJWC explained that a reasonable contingency rate of between 5% and 10% is commonly applied to projects of this type. DRA considered SJWC’s position. DRA and SJWC agree to include \$534,517 in rates.

References: Exhibit 2 (SJWC), ch. 11; Exhibit 3 (SJWC), #3483; Exhibit 20 (SJWC), CIP 2009, p. 5; Exhibit 9 (DRA), p. 8-44; Exhibit 5 (SJWC), p. 3-11.

- 7.16 Project 3466, Graystone Lane Cinder Block Tank – The original estimates of SJWC and DRA were \$600,700 and \$574,800, respectively. During discovery, SJWC explained that the original costs presented did not reflect any adjustment for inflation. DRA considered SJWC’s position. DRA and SJWC agree to include \$587,750 in rates.

References: Exhibit 2 (SJWC), ch. 11; Exhibit 3 (SJWC), #3466; Exhibit 20 (SJWC), CIP 2009, p. 3; Exhibit 9 (DRA), p. 8-46; Exhibit 5 (SJWC), p. 3-12.

B. Recommended Plant Additions Adjustments for 2010

7.17 Project 38, Replace Various Hydrants on Existing Mains – The original estimates of SJWC and DRA were \$60,100 and \$45,574, respectively. During discovery, SJWC provided DRA additional information regarding needed hydrant replacements. DRA reviewed the information and has agreed to include \$52,837 in rates.

References: Exhibit 2 (SJWC), ch. 11; Exhibit 20 (SJWC), CIP 2009, p. 13; Exhibit 9 (DRA), p. 8-36 to 8-39; Exhibit 5 (SJWC), p. 3-6.

7.18 Project 272, Replace Various Hydrants outside the City of San Jose – The original estimates of SJWC and DRA were \$163,800 and \$80,000, respectively. SJWC agrees with DRA's proposed amount of \$82,400 (including 3% annual inflation) in rates.

References: Exhibit 2 (SJWC), ch. 11; Exhibit 20 (SJWC), CIP 2009, p. 13; Exhibit 9 (DRA), p. 8-36 to 8-39; Exhibit 5 (SJWC), p. 3-7.

7.19 Project 273, Replace Various Hydrants within the City of San Jose – The original estimates of SJWC and DRA were \$327,600 and \$100,000, respectively. During discovery, SJWC provided DRA additional information regarding needed hydrant replacements. DRA reviewed the information and has agreed to include \$164,800 in rates.

References: Exhibit 2 (SJWC), ch. 11; Exhibit 20 (SJWC), CIP 2009, p. 13; Exhibit 9 (DRA), p. 8-36 to 8-39; Exhibit 5 (SJWC), p. 3-7.

7.20 Project 3261, Replace Various Hydrants for Emergency Situations – The original estimates of SJWC and DRA were \$27,300 and \$22,787, respectively. During discovery, SJWC provided DRA additional information regarding needed hydrant replacements. DRA reviewed the information and has agreed to include \$25,044 in rates.

References: Exhibit 2 (SJWC), ch. 11; Exhibit 20 (SJWC), CIP 2009, p. 13; Exhibit 9 (DRA), p. 8-36 to 8-39; Exhibit 5 (SJWC), pp. 3-7 to 3-8.

- 7.21 Project 181, Replace High Mileage Vehicles – The original estimates of SJWC and DRA were \$429,200 and \$304,388, respectively. During discovery, SJWC explained that the company has extended its replacement period by two years to maximize the useful lives of vehicles and that variations in replacement timing are due to mileage accumulation. DRA considered SJWC's position. DRA and SJWC agree to include \$366,794 in rates.

References: Exhibit 2 (SJWC), ch. 11; Exhibit 3 (SJWC), #181&182; Exhibit 20 (SJWC), at CIP 2010, p. 15, p. 13; Exhibit 9 (DRA), pp. 8-39 to 8-40; Exhibit 5 (SJWC), pp. 3-8 to 3-9.

- 7.22 Project 182, Vehicles for New Staff positions – The original positions of SJWC and DRA were \$95,900 and \$0, respectively. During discovery, SJWC explained that the company has extended its replacement period by two years to maximize the useful lives of vehicles and that variations in replacement timing are due to mileage accumulation. DRA considered SJWC's position. DRA and SJWC agree to include \$47,950 in rates.

Exhibit 2 (SJWC), ch. 11; Exhibit 3 (SJWC), #181&182; Exhibit 20 (SJWC), at CIP 2010, p. 15; Exhibit 9 (DRA), pp. 8-40 to 8-41; Exhibit 5 (SJWC), p. 9.

- 7.23 Project 3539, Branham Lane Tank Replacement – The original estimates of SJWC and DRA were to allow \$765,600 for replacement in 2011 and \$647,958 for replacement in 2009 respectively. During discovery, SJWC explained that a design and bid process will take approximately four to five months and it would not be reasonable to expect completion of the project in 2009. Therefore, DRA and SJWC agree to move the project to 2010 and adjust the original estimate to 2010 costs. DRA and SJWC agree to include \$707,000 in rates.

References: Exhibit 2 (SJWC), ch. 11; Exhibit 3 (SJWC), #3539; Exhibit 20 (SJWC), CIP 2011, p. 2; Exhibit 9 (DRA), p. 8-42; Exhibit 5 (SJWC), p. 3-10.

7.24 Project 3093, 17th Street Station Motor Control Center – The original estimates of SJWC and DRA were to allow \$1,350,800 and \$1,214,897, respectively. DRA identified an error in that the contingency rate element was presented as being 5%, but a 10% factor was applied to this project. SJWC acknowledged the error, but contended that a 10% factor was appropriate. DRA considered SJWC’s position. DRA and SJWC agree to include \$1,282,849 in rates.

References: Exhibit 2 (SJWC), ch. 11; Exhibit 3 (SJWC), #3093; Exhibit 20 (SJWC), CIP 2010, p. 3; Exhibit 9 (DRA), pp. 8-43 to 8-44; Exhibit 5 (SJWC), pp. 3-11.

7.25 Project 3523, Mt. Springs Booster and Motor Control Center – The original estimates of SJWC and DRA were to allow \$1,207,800 and \$1,044,736, respectively. During discovery, SJWC explained that a reasonable contingency rate of between 5% and 10% is commonly applied to projects of this type. DRA considered SJWC’s position. DRA and SJWC agree to include \$1,145,000 in rates.

References: Exhibit 2 (SJWC), ch. 11; Exhibit 3 (SJWC), #3523; Exhibit 20 (SJWC), CIP 2010, p. 4; Exhibit 9 (DRA), pp. 8-44 to 8-45; Exhibit 5 (SJWC), pp. 3-11 to 3-12.

7.26 Project 3542, Seven Mile Station Boosters and Motor Control Center – The original estimates of SJWC and DRA were \$1,066,900 and \$959,632, respectively. During discovery, SJWC explained that a reasonable contingency rate of between 5% and 10% is commonly applied to projects of this type. DRA considered SJWC’s position. DRA and SJWC agree to include \$1,013,266 in rates.

References: Exhibit 2 (SJWC), ch. 11; Exhibit 3 (SJWC), #3542; Exhibit 20 (SJWC), CIP 2010, p. 4; Exhibit 9 (DRA), p. 8-45; Exhibit 5 (SJWC), p. 3-12.

7.27 Project 3475, Rainbow’s End Tank Replacement – The original estimates of SJWC and DRA were to allow \$713,200 and \$653,100, respectively. During discovery, SJWC explained that the original costs presented did not reflect any adjustment for inflation.

DRA and SJWC agree to support including \$683,150 (including a 3% annual inflation factor) in rates.

References: Exhibit 2 (SJWC), ch. 11; Exhibit 3 (SJWC), #3475; Exhibit 20 (SJWC), CIP 2010, p. 2; Exhibit 9 (DRA), p. 8-46; Exhibit 5 (SJWC), p. 3-12.

7.28 Project 23, Facilities Retirements – The original estimates for SJWC and DRA were \$1,834,600 and \$1,294,204, respectively. DRA’s lower estimate reflects DRA’s adjustment of SJWC’s proposed pipeline replacement program for 2010. DRA has agreed with SJWC’s assertion that, adjusted for the agreed upon inflation factor, 75% (or \$1,336,875) of SJWC’s proposed Facilities Retirement budget is related to pipeline retirements, and 25% (or \$445,625) of the proposed budget is related to non-pipeline plant. The Parties agree to include 25% (\$445,625) for non-pipeline plant. In regard to the remaining 75% (\$1,336,875) related to pipeline plant, the Parties agree to include for ratemaking purposes a percentage of that amount equal to the ratio of the Commission’s allowance to SJWC’s proposed 2010 pipeline replacement budget. For example, if the Commission approves DRA’s pipeline replacement recommended allowance of approximately 72.6%, then the Facilities Retirements budget would be \$445,625 plus 72.6% of \$1,336,875 (equal to \$970,640) for a total budget of \$1,416,265.

References: Exhibit 2 (SJWC), ch. 11; Exhibit 20 (SJWC), CIP 2010, p. 12; Exhibit 9 (DRA), pp. 8-41 to 8-42, 8-55; Exhibit 5 (SJWC), at 3-9 to 3-10.

C. Recommended Plant Additions Adjustments for 2011

7.29 Project 29172 Construct two new wells at Needles Station – SJWC proposed to construct two new production wells at an estimated cost of \$4,564,000. DRA opposed this project, arguing that the Needles Drive Station was not an ideal location due to a variety of factors, including the high cost of construction and the limited specific capacity of an existing well at the site. In Rebuttal testimony, SJWC explained that the Needles Drive site is projected to be a good producing well field and is the last available location at SJWC’s active well fields where new wells can be placed. During discovery, DRA

reviewed the data and rationale provided by SJWC. DRA agrees with SJWC to include the two new wells as an advice letter project subject to a total project cap of \$4,000,000, consistent with DRA's view that there should be cost savings by locating two wells at one site.

References: Exhibit 2 (SJWC), ch. 11; Exhibit 20 (SJWC), CIP 2011, p. 1; Exhibit 7 (SJWC), Well and Groundwater Study; Exhibit 9 (DRA), pp. 8-4, 8-22 to 8-26; Exhibit 5 (SJWC), pp. 3-31 to 3-33.

7.30 Project 38, Replace Various Hydrants on Existing Mains – The original estimates of SJWC and DRA were \$68,500 and \$45,574, respectively. During discovery, SJWC provided DRA additional information regarding needed hydrant replacements. DRA reviewed the information and has agreed to allow \$57,037 in rates.

References: Exhibit 2 (SJWC), ch. 11; Exhibit 20 (SJWC), CIP 2009, p. 13; Exhibit 9 (DRA), p. 8-36 to 8-39; Exhibit 5 (SJWC), p. 3-6.

7.31 Project 272, Replace Various Hydrants outside the City of San Jose – The original estimates of SJWC and DRA were \$163,800 and \$80,000, respectively. SJWC agrees with DRA's proposed amount of \$84,872 (including 3% annual inflation) in rates.

References: Exhibit 2 (SJWC), ch. 11; Exhibit 20 (SJWC), CIP 2009, p. 13; Exhibit 9 (DRA), p. 8-36 to 8-39; Exhibit 5 (SJWC), p. 3-7.

7.32 Project 273, Replace Various Hydrants within the City of San Jose – The original estimates of SJWC and DRA were \$327,600 and \$100,000, respectively. During discovery, SJWC provided DRA additional information regarding needed hydrant replacements. DRA reviewed the information and has agreed to include \$169,744 in rates.

References: Exhibit 2 (SJWC), ch. 11; Exhibit 20 (SJWC), CIP 2009, p. 13; Exhibit 9 (DRA), p. 8-36 to 8-39; Exhibit 5 (SJWC), p. 3-7.

7.33 Project 3261, Replace Various Hydrants for Emergency Situations – The original estimates of SJWC and DRA were \$28,500 and \$22,787, respectively. During discovery SJWC provided DRA additional information regarding needed hydrant replacements. DRA reviewed the information and has agreed to include \$25,643 in rates.

References: Exhibit 2 (SJWC), ch. 11; Exhibit 20 (SJWC), CIP 2009, p. 13; Exhibit 9 (DRA), p. 8-36 to 8-39; Exhibit 5 (SJWC), pp. 3-7 to 3-8.

7.34 Project 181, Replace High Mileage Vehicles – The original estimates of SJWC and DRA were \$569,600 and \$520,382, respectively. During discovery, SJWC explained that the company has extended its replacement period by two years to maximize the useful lives of vehicles and that variations in replacement timing are due to mileage accumulation. DRA considered SJWC's position. DRA and SJWC agree to include \$544,991 in rates.

References: Exhibit 2 (SJWC), ch. 11; Exhibit 3 (SJWC), #181&182; Exhibit 20 (SJWC), at CIP 2011, p. 13; Exhibit 9 (DRA), pp. 8-39 to 8-40; Exhibit 5 (SJWC), pp. 3-8 to 3-9.

7.35 Project 182, Vehicles for New Staff positions – The original positions of SJWC and DRA were \$23,000 and \$0, respectively. During discovery, SJWC explained that the company has extended its replacement period by two years to maximize the useful lives of vehicles and that variations in replacement timing are due to mileage accumulation. DRA considered SJWC's position. DRA and SJWC agree to include \$11,500 in rates.

Exhibit 2 (SJWC), ch. 11; Exhibit 3 (SJWC), #181&182; Exhibit 20 (SJWC), at CIP 2011, p. 13; Exhibit 9 (DRA), pp. 8-40 to 8-41; Exhibit 5 (SJWC), p. 9.

7.36 Project 23, Facilities Retirements – The original estimates for SJWC and DRA were \$2,282,000 and \$943,750, respectively. DRA's lower estimate reflects DRA's adjustment of SJWC's proposed pipeline replacement program for 2011. DRA has agreed with SJWC's assertion that, adjusted for the agreed upon inflation rate, 75% (or

\$1,639,500) of SJWC's proposed Facilities Retirement budget is related to pipeline retirements, and 25% (or \$546,500) of the proposed budget is related to non-pipeline plant. The Parties agree to include 25% (\$546,500) for non-pipeline plant. In regard to the remaining 75% (\$1,639,500) related to pipeline plant, the Parties agree to allow a percentage of that amount equal to the ratio of the Commission's allowance to SJWC's proposed 2011 pipeline replacement budget.

For example, if the Commission approves DRA's pipeline replacement recommended allowance of approximately 41.4%, then the Facilities Retirements budget would be \$546,500 plus 41.4% of \$1,639,500 (equal to \$707,810) for a total budget of \$1,254,310.

References: Exhibit 2 (SJWC), ch. 11; Exhibit 20 (SJWC), CIP 2011, p. 10; Exhibit 9 (DRA), pp. 8-41 to 8-42, 8-55; Exhibit 5 (SJWC), at 3-9 to 3-10.

8.0 RATE BASE

8.1 DRA and SJWC agree that rate base should be calculated on a basis that incorporates the changes to plant identified above.

8.2 SJWC provided a lead/lag calculation of working cash supporting a Working Cash Allowance for Test Year 2010 of \$10,598,800. DRA's analysis indicated that SJWC erroneously used zero lag days for property tax payments. Thus, DRA revised the allowance to reflect a lag factor for those payments of 52.4 days. Based on information SJWC provided to DRA during discovery, SJWC and DRA agree to apply a revised net lag days of 39.59 for Property Tax payments. The effects of this adjustment are to produce a Working Cash Allowance of \$9,815,100, and a total Working Capital of \$10,350,200, as an element of Rate Base for Test Year 2010.

References: Exhibit 2 (SJWC), ch. 13, Tables 13-G, 13-L; Exhibit 9 (DRA), p. 10-2.

8.3 Interest Bearing Construction Work in Progress ("IBCWIP"): SJWC capitalizes Interest During Construction ("IDC"). DRA noted that inclusion of IBCWIP in rate base could

cause SJWC to “earn twice” for IBCWIP through accrual of IDC while earning a rate of return on IBCWIP in rate base. DRA, therefore, excluded the average balance of IBCWIP from rate base. In rebuttal testimony, SJWC explained that, pursuant to an agreement with DRA, it accrues IDC but does not recognize CWIP at all. Therefore, deduction of IBCWIP would leave SJWC with a negative CWIP allowance. DRA recognized that this result would not be appropriate and agreed that the proposed IBCWIP exclusion was unnecessary.

References: Exhibit 9 (DRA), p. 10-2; Exhibit 5 (SJWC), p. 5-1.

9.0 RATE DESIGN

- 9.1 DRA agrees with SJWC’s methodology for the proposed rate design, including a two tiered water quantity charge for residential customers, which is in compliance with D.86-05-064 in the Commission’s Order Instituting Investigation into Water Rate Design Policy (I.84-11-041) issued May 28, 1986, as modified by D.08-08-030 in the Commission’s Water Conservation Investigation (I.07-01-022) issued August 21, 2008. DRA accepts SJWC’s proposal to consolidate the Mountain District tariffs with SJWC’s main system, while including a higher third tier quantity charge for the Mountain District. This higher third tier quantity charge is intended to provide a disincentive for usage exceeding SJWC’s per-customer delivery capacity as well as a \$0.7632/Ccf elevation charge to recover power costs needed to pump to the Mountain District. SJWC accepts DRA’s recommendation to file a separate rate schedule for the mutual water company customers served from the Mountain District. These elements of rate design for the Mountain District to which SJWC and DRA have agreed are consistent with the terms of the Mountain District Rate Design Settlement Agreement that also is being proposed for adoption by the Commission in this proceeding.

References: Exhibit 2 (SJWC), ch. 22; Exhibit 9 (DRA), ch. 14; Exhibit 6 (SJWC).

10.0 OTHER RELIEF REQUESTED

10.1 Water Quality Memorandum Account: SJWC's current Water Quality Memorandum Account (WQMA) was established in its last GRC proceeding and approved in D.06-11-015, subject to a cap of \$500,000 on the accrual of incremental water quality expenses related to future compliance with new state or federal water quality standards. SJWC requested removal of the \$500,000 cap based on the ongoing emergence of many new water regulations and issues, the impact of which cannot yet be quantified with any specificity. DRA opposed removal of the cap, contending that SJWC had not demonstrated what specific facts and circumstances had changed since the cap was established. For settlement purposes, SJWC withdrew its request for removal of the \$500,000 cap.

References: Exhibit 2 (SJWC), pp. 17-1 to 17-2; Exhibit 9 (DRA), pp. 15-1 to 15-4, 15-10 to 15-12.

10.2 Pension Expense Memorandum Account: SJWC's request for a Pension Expense Memorandum Account, originally opposed by DRA, was resolved by SJWC and DRA as outlined in Section 4.4 above.

References: Exhibit 2 (SJWC), ch 17; Exhibit 9 (DRA), pp. 15-7 to 15-8.

11.0 MISCELLANEOUS PROVISIONS

11.1 The signatories to this Joint Settlement personally and independently verify that all parts of the Settlement, including any appendices and/or attachments, are correct, complete, and internally consistent, to the best of their knowledge and ability.

- 11.2 Entering into this Settlement or approval of this Settlement by the Commission shall not be construed as an admission or concession by any Party regarding any fact or matter of law in dispute in this proceeding.
- 11.3 The Commission shall have jurisdiction over this Settlement. The Parties agree that no legal action may be brought by either Party in any state or federal court, or any other forum, against any individual signatory representing the interests of either of the Parties, or any attorneys representing the Parties involving any matter related to this Settlement.
- 11.4 The Parties acknowledge that the positions expressed in this Settlement were reached after consideration of all positions advanced in testimony as well as during discovery and settlement negotiations. This Settlement embodies compromises of the Parties' positions.
- 11.5 This Settlement sets forth the entire understanding and agreement between the Parties, and may not be modified or terminated except through written assent by all Parties.
- 11.6 Each individual executing this Settlement on behalf of any entity hereby warrants that he or she is authorized to execute this Settlement on behalf of said entity. The Parties agree that no signatory to this Settlement, nor any officer, employee, or member of SJWC or DRA, assumes any personal liability as a result of this Settlement.
- 11.7 The Parties agree to support the Settlement and use their best efforts to secure Commission approval of the Settlement in its entirety and without modification.
- 11.8 The Parties agree that if the Commission fails to adopt the Settlement in its entirety, the Parties shall convene a settlement conference within 15 days thereof to discuss whether they can resolve issues raised by the Commission's actions. If the Parties cannot mutually agree to resolve the issues raised by the Commission's actions, the Settlement shall be rescinded and the Parties shall be released from their obligation to support the Settlement. Thereafter, the Parties may pursue any action they deem appropriate, but agree to cooperate to establish a procedural schedule.

11.9 This Settlement shall be governed by the laws of the State of California as to all matters, including, but not limited to matters of validity, construction, effect, performance and remedies.

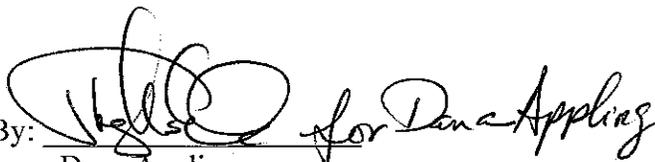
12. CONCLUSION

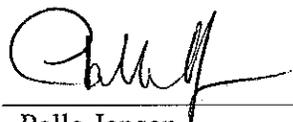
The Parties mutually believe that based on the terms and conditions stated above, this Settlement is reasonable in light of the whole record, consistent with the law, and in the public interest.

Dated: August 17, 2009

DIVISION OF RATEPAYER ADVOCATES

SAN JOSE WATER COMPANY

By: 
Dana Appling
Director, Division of Ratepayer Advocates

By: 
Palle Jensen
Vice President, Regulatory Affairs

California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

San Jose Water Company.
110 West Taylor Street
San Jose, CA 95110

**AMENDED
ATTACHMENT A**

**APPENDIX B
TO
JOINT SETTLEMENT**

SAN JOSE WATER COMPANY
Test Year 2010
Summary of Earnings, Dollars

Description	SJWC	SJWC	SJWC EXCEEDS	DRA	DRA	DRA
	REQUEST MARCH UPDATE (Dollars in Thousands)	SETTLEMENT INCLUDING LITIGATED ISSUES (Dollars in Thousands)	(Dollars in Thousands)	SETTLEMENT INCLUDING LITIGATED ISSUES (Dollars in Thousands)	SETTLEMENT INCLUDING LITIGATED ISSUES (Dollars in Thousands)	ANALYSIS (Dollars in Thousands)
<u>Operating Revenues:</u>						
Water	229,884	222,660	15,385	207,275	206,199	
Misc. Revenues	204	204	0	204	204	
Deferred	521	521	0	521	521	
Total Revenues	230,609	223,385	15,385	208,000	206,924	
<u>Expenses:</u>						
Operations and Maintenance Expenses						
Purchased Water	32,997	30,558	1,131	29,427	28,979	
Pump Tax	41,441	41,441	0	41,441	41,441	
Purchased Power	35,985	37,704	0	37,704	38,501	
Chemicals	7,463	7,676	(36)	7,712	7,689	
Administrative and General Expenses	440	435	0	435	435	
Taxes Other Than Income	23,200	20,673	(354)	21,027	19,439	
Depreciation & Amortization Expenses	7,575	6,973	241	6,733	6,609	
CCFT	27,330	26,934	5,364	21,570	21,663	
FIT	3,646	3,347	1,124	2,223	2,308	
Total Expenses	12,650	10,244	3,872	6,373	6,894	
Total Expenses	192,727	185,985	11,340	174,645	173,959	
Net Revenue	37,882	37,401	4,045	33,355	32,966	
Rate Base	430,686	425,010	46,026	378,984	371,235	
Rate of Return	8.80%	8.80%	0	8.80%	8.88%	

SAN JOSE WATER COMPANY
Test Year 2010
Summary of Earnings, Dollars

Description	SJWC	SJWC	SJWC	SJWC	SJWC	DRA	DRA
	REQUEST MARCH UPDATE (Dollars in Thousands)	SETTLEMENT INCLUDING LITIGATED ISSUES (Dollars in Thousands)	SETTLEMENT INCLUDING LITIGATED ISSUES (Dollars in Thousands)	SJWC EXCEEDS DRA (Dollars in Thousands)	SETTLEMENT INCLUDING LITIGATED ISSUES (Dollars in Thousands)	DRA ANALYSIS (Dollars in Thousands)	DRA ANALYSIS (Dollars in Thousands)
Operating Revenues:							
Water	229,884	222,660	15,385	207,275	206,199	204	204
Misc. Revenues	204	204	0	204	204	521	521
Deferred	521	521	0	521	521		
Total Revenues	230,609	223,385	15,385	208,000	206,924		
Expenses:							
Operations and Maintenance Expenses							
Purchased Water	41,441	41,441	0	41,441	41,441		41,441
Pump Tax	35,985	37,704	0	37,704	38,501		38,501
Purchased Power	7,463	7,676	(36)	7,712	7,689		7,689
Chemicals	440	435	0	435	435		435
Conservation	493	117	0	117	84		84
Conservation Recycled Water Retrofit	1,099	1,099	1,099	0	0		0
Uncollectables	535	518	35	483	539		539
Non-Tariffed Services	(432)	(432)	24	(456)	(456)		(456)
Other, including payroll	31,302	29,256	(27)	29,283	28,812		28,812
Administrative and General Expenses							
Retirement and SERP	6,866	6,000	0	6,000	4,580		4,580
Retirement Savings Plan	1,344	1,124	0	1,124	1,007		1,007
Unfunded Pensions	36	28	0	28	27		27
PBOP	684	679	0	679	674		674
Life Insurance	195	184	0	184	174		174
Health Insurance	4,409	3,545	0	3,545	3,476		3,476
Dental Insurance	536	523	0	523	509		509
Other Employee Benefits	178	168	0	168	158		158
Long Term Disability	196	178	0	178	159		159
Property Insurance	116	114	0	114	112		112
Workers Comp Insurance	249	386	0	386	220		220
Regulatory Commission Expense	204	203	0	203	202		202
Rent	529	529	(333)	862	862		862
Other, including payroll	7,660	7,014	(21)	7,035	7,281		7,281
Taxes Other Than Income	7,575	6,973	241	6,733	6,609		6,609
Depreciation & Amortization Expenses	27,330	26,934	5,364	21,570	21,663		21,663
CCFT	3,646	3,347	1,124	2,223	2,308		2,308
FIT	12,650	10,244	3,872	6,373	6,894		6,894
Total Expenses	192,727	185,985	11,340	174,645	173,959		
Net Revenue	37,882	37,401	4,045	33,355	32,966		
Rate Base	430,686	425,010	46,026	378,984	371,235		
Rate of Return	8.80%	8.80%	0	8.80%	8.88%		

SUMMARY OF SETTLED ITEMS
Revenue, Expenses and Other Items

Settled Items	WP/Ch	Description	SJMC Estimate	Settlement	DRA's Position
Sales and Water Supply	Ch 7	Surface Supply Avg Business Sales	3,014 876 ccf	3,294 960 ccf	3,394 997 ccf
Payroll Conservation	Ch 8	Payroll - O&M and A&G Conservation Budget excluding Recycled Water	33,593,704 126,660	30,779,667 117,000	30,061,937 84,000
Pensions and Benefits	Ch 9	Retirement and SERP	6,865,900	6,000,000	4,580,300
		Retirement Savings Plan Contribution Rate	4.00%	w/ capped balancing acct - SFAS 87	
		Unfunded Pensions	35,700	3.70%	3,300%
		PBOP	684,200	27,500	26,500
		Life Insurance	194,800	679,000	673,800
		Health Insurance	4,373,600	184,300	173,800
				3,545,340	3,434,800
		Dental Insurance	536,100	522,600	509,100
		Other Employee Benefits	177,500	167,550	157,600
		Long Term Disability	195,900	177,650	159,400
Property, Liability and Workers' Comp		Property Insurance	116,000	114,000	112,000
		Workers Comp Insurance	249,000	385,500	220,000
Regulatory Commission Expense		Regulatory Commission Expense	204,000	203,000	202,000
Taxes Other Than Income	Ch 10	Ad Valorem Taxes Effective Tax Rate Payroll Taxes Income Taxes	0.0118	0.0118	
				Use DRA's methodology Use DRA's methodology	
Construction Escalation	Ch 11	Interest During Construction Construction Escalation	Include IBCWIP 4.50%	Include IBCWIP 3.00%	Exclude IBCWIP 0.98%
Water Quality Memorandum Account Rate Base	Ch 17	Water Quality Memorandum Account Pension Expense Memorandum Account	Remove cap Create memo acct	Retain \$500K cap Bal. acct. capped at SFAS 87 level	Retain \$500K cap No acct
	Ch 14 & LL	Working Cash Allowance Lag Days Property Taxes Working Capital Interest Bearing Construction Work in Progress (IBCWIP):	10,598,800 0 11,135,100 Include	9,815,100 39,59 10,350,200 Include	52.4 8,985,000 Exclude
Rate Design		Separate settlement agreement with certain Mountain District customers			

SUMMARY OF SETTLED ITEMS
Capital Items

Budget Year	Category/Description	Index No.	Description	S/M/C Estimate	Settlement	DRA's Position		
2009	Plant	333	Lower Cavaneer Station	723,100	712,721	0		
		3472	Groundwater Disinfection System Needles	418,400	412,394	0		
		185	Replace Tank #2 at Greenridge Terrace Station	2,487,600	2,200,000 by advice letter	605,131		
		38	Replacement Hydrants on Existing Mains	50,900	48,236	45,574		
		272	Replacement Hydrants outside City of San Jose	144,200	80,000	80,000		
		273	Replacement Hydrants within City of San Jose	285,500	160,000	100,000		
		3261	Replacement Hydrants for Emergency Situations	26,100	24,444	22,787		
		181	Replace high mileage vehicles	776,900	625,758	476,615		
		182	Vehicles of new staff	106,500	53,250	0		
		23	Facility Retirements	1,421,200	25% of request + 75% x % of proposed pipelines approved	919,666		
		3514	Cox Avenue MCC	1,240,400	1,197,450	1,154,500		
		3513	Cox Avenue Booster	582,100	561,904	541,708		
		3483	Winfield Booster and MCC	553,800	534,517	515,234		
		3466	Graystone Cinder Block Tank	600,700	587,750	574,800		
		2010	Plant	38	Replacement Hydrants on Existing Mains	60,100	52,837	45,574
				272	Replacement Hydrants outside City of San Jose	163,800	82,400	80,000
				273	Replacement Hydrants within City of San Jose	327,600	164,800	100,000
				3261	Replacement Hydrants for Emergency Situations	27,300	25,044	22,787
181	Replace high mileage vehicles			429,200	366,794	304,388		
182	Vehicles of new staff			95,900	47,950	0		
3539	Braham Lane Tank Replacement			765,600	707,000	647,958		
3093	17th Street Motor Control Center			1,350,800	1,282,849	1,214,897		
3523	Mt. Springs Booster & MCC			1,207,800	1,145,000	1,044,736		
3542	Seven Mile St. Boosters & MCC			1,066,900	1,013,266	959,632		
3475	Rainbow's End Tank Replacement			713,200	683,150	653,100		
23	Facility Retirements			1,834,600	25% of request + 75% x % of proposed pipelines approved	1,294,204		
2011	Plant			2917	Two Wells at Needles Station	4,564,000	4,000,000 by advice letter	0
				38	Replacement Hydrants on Existing Mains	68,500	57,037	45,574
				272	Replacement Hydrants outside City of San Jose	163,800	84,872	80,000
		273	Replacement Hydrants within City of San Jose	327,600	169,744	100,000		
		3261	Replacement Hydrants for Emergency Situations	28,500	25,643	22,787		
		181	Replace high mileage vehicles	569,600	544,991	520,382		
		182	Vehicles of new staff	23,000	11,500	0		
		23	Facility Retirements	2,282,000	25% of request + 75% x % of proposed pipelines approved	943,750		

SUMMARY OF LITIGATED ITEMS
Capital Projects and Rate Base

Budget Year	Items Being Litigated	Index No.	Description	Original S.I.W.C Estimate	Updated S.I.W.C Estimate w/ -3% Escalation	DRA's Position	Difference
2009	Solar Projects	3700	Solar -Williams Road #1	8,268,400	8,149,715	0	-8,149,715
2010		3702	Solar -Williams Road #2	8,640,200	8,393,936	0	-8,393,936
2011		3704	Solar -12th St Station	8,641,900	8,275,077	0	-8,275,077
2010	Hydro Projects	3703	Alum Road Hydro-Turbine	666,300	647,309	0	-647,309
2011		3705	Hostetter Rd. Hydro-Turbine	696,200	666,648	0	-666,648
2009	Pipelines	various	Annual Pipeline Program	28,249,400	27,843,906	18,280,330	-9,563,576
2010		various	Annual Pipeline Program	34,654,900	33,658,419	24,447,032	-9,211,387
2011		various	Annual Pipeline Program	47,318,200	45,309,682	19,569,045	-25,740,637
2009	Service Replacement 2 inches and under	28	Service Replacement 2 inches and under	3,283,000	3,235,876	3,200,114	-36,762
2010		28	Service Replacement 2 inches and under	4,237,800	4,117,014	3,231,475	-885,539
2011		28	Service Replacement 2 inches and under	5,271,400	5,047,645	3,304,506	-1,743,139
2009	Meter Replacement 2 inches and under	394	Meter Replacement 2 inches and under	961,300	947,501	464,143	-483,358
2010		394	Meter Replacement 2 inches and under	1,037,000	1,007,443	464,143	-543,300
2011		394	Meter Replacement 2 inches and under	1,177,300	1,127,327	464,143	-663,184
2009	Recycled Water Mains	3613	Recycled Water Mains	1,689,600	1,665,347	0	-1,665,347
2010		3614	Recycled Water Mains	6,977,600	6,778,724	0	-6,778,724
2011		3615	Recycled Water Mains	7,288,400	6,979,029	0	-6,979,029
2009	Montevina Station and Filter Plant	3585	Montevina Station and Filter Plant	209,000	206,000	0	-206,000
2010			Montevina Station and Filter Plant	4,695,600	4,561,766	0	-4,561,766
2011			Montevina Station and Filter Plant	7,987,000	7,647,975	0	-7,647,975
	Adjustments to Utility Plant Balance		Facilities Consolidation				
			110 W. Taylor Purchase	6,850,447		0	-6,850,447
			1265 S. Bascom Purchase	4,456,849		0	-4,456,849
			Proration of Taylor improvements	5,326,148		2,887,533	-2,438,615
		3340	Columbine Station	837,900		0	-837,900
			851 transactions				
			Campbell 1st Street, Blossom Hill Station and Doyle Lot				

SUMMARY OF LITIGATED ITEMS
Revenue, Expenses and Other Items

Litigated Items	WP Ch	Description	SJWC Estimate	DRA's Position	Difference
2009 Recycled Water Retrofit - Conservation Expense	Ch 8	Recycled Water Retrofit - Conservation Expense	366,000	0	-366,000
2010	Ch 8	Recycled Water Retrofit - Conservation Expense	1,099,000	0	-1,099,000
2011	Ch 8	Recycled Water Retrofit - Conservation Expense	778,000	0	-778,000
	Ch 8	Columbine Station power savings reversal	0	20,364	20,364
	Ch 8	Excess Capacity	431,565	456,044	24,479
	Ch 9	Rent Expense	529,000	862,196	333,196
	Ch 12	Depreciation	3.51%	3.05%	-0.46%
	Ch 17	Memorandum Account (Fluoridation)			

APPENDIX C

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

In the Matter of the Application of SAN JOSE
WATER COMPANY (U 168 W) for an Order
authorizing it to increase rates charged for water
service by \$36,207,000 or 18.44% in 2010; by
\$15,171,000 or 6.52% in 2011; and by
\$19,899,000 or 8.10% in 2012.

Application 09-01-009
(Filed January 21, 2009)

JOINT SETTLEMENT

**OF THE DIVISION OF RATEPAYER ADVOCATES, THE 7 MUTUAL WATER
COMPANY INTERVENORS, REDWOOD ESTATES SERVICES ASSOCIATION**

AND SAN JOSE WATER COMPANY

ADDRESSING MOUNTAIN DISTRICT RATE DESIGN ISSUES

JOINT SETTLEMENT AGREEMENT

1.0 INTRODUCTION

- 1.1 This Settlement is entered into as of the date listed below, by and between San Jose Water Company (SJWC), the 7 Mutual Water Company Interveners (Mutuals), the Redwood Estates Services Association (RESA) and the Division of Ratepayer Advocates (DRA) of the California Public Utilities Commission (Commission) (collectively, the Parties). This Settlement resolves all of the issues raised by the Mutuals and RESA concerning SJWC's proposed rate design for the Mountain District (Schedule No. 1C, General Metered Service. Mountain District).
- 1.2 On January 21, 2009, SJWC filed Application 09-01-009, seeking authorization to increase rates charged for water service throughout its service territory. This application contained a new rate design proposal for the customers of SJWC taking water service in SJWC's Mountain District.
- 1.3 On May 15, 2009 the Mutuals and RESA each submitted reports disputing SJWC's proposed rate design for the Mountain District. In particular, the Mutuals and RESA were concerned about the significant penalty imposed on usage beyond the existing 16 Ccf switch point. Due to its concerns about existing supply constraints, SJWC had proposed to place into effect a \$25 per Ccf penalty rate for water usage in excess of the 400 gallons per day, in order to encourage customers to stay within that usage.
- 1.4 Beginning with a settlement conference on June 5, 2009, and a mediation session facilitated by Administrative Law Judge Janet Econome on June 9, 2009, the Parties met to discuss the areas of disagreement with SJWC's rate design. As a result of such discussions and negotiations, the Parties resolved all the issues in the manner set forth in greater detail below. This Settlement strictly concerns rate design issues and will not impact SJWC's revenue requirement. Section 2.3 through 2.5 of this Settlement provides a comparison of SJWC's current rates in effect at the time of SJWC's filing, requested rates, and the agreed upon rate design. The tables set forth in Section 2.3 through 2.5 do

not reflect any surcharges and/or surcredits in effect at any given time. The rate design reflected in the schedule in Section 2.5, below, will ultimately be implemented, by the procedure specified in Section 2.6, below, with the rates approved by the Commission in this proceeding.

- 1.5 An interruptible Tariff is agreed to and an operational arrangement focused on minimizing interruptions and maximizing water deliveries has been agreed upon between SJWC and the Mutuels.
- 1.6 This Settlement resolves all issues contested by the Mutuels and RESA in this proceeding and provides benefits to SJWC's customers. The Parties believe that this Settlement, together with the materials presented on the formal record in this proceeding, provide the Commission with a sufficient basis for finding that the Settlement is reasonable, fair and in the public interest.

2.0 RATE DESIGN FOR THE MOUNTAIN DISTRICT

A. Service Charges

- 2.1 The new service charges for service to the Mountain District will be the same as service charges in effect for all of SJWC's remaining customers, as reflected on SJWC's Schedule 1, General Metered Service. The Mutuels served by SJWC agree that SJWC will continue to charge one service charge, based on a ¾-inch meter per customer, individually served by the mutual. In exchange, SJWC will provide each of the Mutuels with one usage allocation per service charge.

Reference: Exhibit 2 (SJWC), ch. 19.

B. Daily Usage Allocation (Restriction)

- 2.2 Due to the supply constraints affecting SJWC's provision of water service to the Mountain District, the current use restriction is 400 gallons per day per service, or 16 Ccf (12,000 gallons) per month per water service. System improvements to the Mountain District originally made it possible to increase the usage restriction from 250 gallons per

day per water service to the current 400 gallons per day per water service. Because the Mutuals and RESA have agreed to include an Interruptible Service Clause in the tariff, SJWC agrees to increase the use restriction to 500 gallons per day per service, or 20 Ccf (15,000 gallons) per month per service.

Reference: Exhibit 2 (SJWC), ch. 19.

C. Rates

2.3 SJWC’s Current Rate Design (effective December 1, 2008): The following table depicts the current rate design for the Mountain District:

Service Charges	Per Meter Per Month
Per Meter per Month	\$81.37
Per Meter per Month , Outside Mutuals	\$45.57
Quantity Rate	Per Ccf
For Total Monthly Usage from 0 to 16 Ccf.	\$ 3.43
For Total Monthly Usage from 17 to 22 Ccf.	\$ 4.29
For Total Monthly Usage from 23 to 25 Ccf.	\$ 6.88
For Total Monthly Usage from 26 to 35 Ccf.	\$10.32
For Total Monthly Usage from 36 to 46 Ccf.	\$13.76
For Total Monthly Usage from 47 to 55 Ccf.	\$17.20
For Total Monthly Usage from 56 Ccf.	\$20.64

Reference: Exhibit 2 (SJWC), ch. 19.

2.4 SJWC’s Proposed Rate Design: In this Application, SJWC requested that the quantity rates in effect for SJWC “valley” service area (Schedule 1, General Metered Service) be implemented for the base usage for the Mountain District with the addition of an elevation charge of \$0.7632/Cff to recover the incremental power cost necessary to serve the Mountain District. For all additional water use above 16 Ccf per month per service,

SJWC proposed a penalty rate of \$25/Ccf. The rate design originally proposed by SJWC is depicted in the following table:

Service Charges		Per Meter Per Month
For	3/4-inch meter	\$17.47
For	1-inch meter	\$29.12
For	1-1/2-inch meter	\$58.25
For	2-inch meter	\$93.20
For	3-inch meter	\$174.74
Quantity Rates		Per Ccf
For Total Monthly Usage from 0 to 13 Ccf.		\$ 2.639
For Total Monthly Usage from 13 to 16 Ccf.		\$ 2.902
For Total Monthly Water Usage above 16 Ccf		\$ 25.00
Elevation Charge		\$0.7632

Reference: Exhibit 2 (SJWC), ch. 19.

2.5 Settlement Rate Design: Following extensive discussions regarding system capacity limitations and water conservation concerns and contingent upon the institution of an Interruptible Service Clause for the Mountain District, the Parties agree to support SJWC's original proposal to apply the service charges, quantity rates, and tier switch points in effect for SJWC "valley" service area (Schedule 1, General Metered Service), for the base usage for the Mountain District with the addition of an elevation charge of \$0.7632/Ccf to recover the incremental power cost necessary to serve the Mountain District. The rate for all additional water usage above 20 Ccf per service per month was reduced from \$25.00/Ccf in SJWC's original proposal to \$7.00/Ccf. The agreed upon rate design is depicted in the following table:

Service Charge:		Per Meter Per Month
For	3/4-inch meter	\$17.47
For	1-inch meter	\$29.12
For	1-1/2-inch meter	\$58.25
For	2-inch meter	\$93.20
For	3-inch meter	\$174.74
Quantity Rates		Per Ccf
	For Total Monthly Usage from 0 to 13 Ccf.	\$ 2.639
	For Total Monthly Usage from 13 to 20 Ccf.	\$ 2.902
	For Total Monthly Usage above 20 Ccf	\$ 7.00
	Elevation Charge	\$0.7632

2.6 The Parties agree that the quantity rate for usage above 20 Ccf and the elevation charge should be set at the amounts proposed, but that the service charges and the other quantity rates should be modified proportionately from the amounts proposed in order to achieve the revenue requirement determined in accordance with the Commission's decision in this proceeding. All Mountain District rates shall be contained in SJWC's Tariff Schedule 1C, including rates applicable both to retail customers and to the Mutuals.

3.0 INTERRUPTIBILITY CLAUSE

3.1 As a result of (A) the increase from 400 gallons per day to 500 gallons per day in daily allowed per service allocation of water, and (B) the Settlement Rate Design set forth in Section 2.5 above, the Parties agree that the following Interruptibility clause will be added to the Mountain District tariff (Schedule No. 1C. General Metered Service. Mountain District):

"It is the Company's intent to provide service to all its customers to the full extent of its capacity to serve, except that in the event that there is a substantial risk to the Company's

ability to maintain service to customers in the Mountain District, the Company, at its sole discretion, may temporarily interrupt or reduce service to such customers.

“Such interruption or reduction of service may occur when (1) customer consumption, or (2) significant electrical, mechanical or supply issues challenge the Company’s ability to meet demand for service. Should service be interrupted, the Company shall give timely priority to remedies that are within its control to alleviate the need for the interruption of service. The Company will inform customers of planned improvements to its facilities serving the Mountain District through its annual system status report to Redwood Estates Services Association.

“When service is interrupted, the Company agrees to promptly notify the interrupted customer’s designated representative (one per mutual water company). Such notification shall be provided by telephone or by a reasonable alternative method specified by the customer and acceptable to the Company. It is the customer’s responsibility to provide the Company, in writing, the name and contact information for its designated representative, to update that information, in writing when appropriate, and to ensure that any designated representative shall maintain an active answering system and e-mail address capable of receiving and recording service interruption information.”

4.0 MISCELLANEOUS PROVISIONS

- 4.1 The signatories to this Joint Settlement personally and independently verify that all elements, including the attached tables, are correct, complete, and internally consistent, to the best of their knowledge and ability.
- 4.2 Entering into this Settlement or approval of this Settlement by the Commission shall not be construed as an admission or concession by any Party regarding any fact or matter of law in dispute in this proceeding.
- 4.3 The Commission shall have jurisdiction over this Settlement. The Parties agree that no legal action may be brought by SJWC, the Mutuals, or RESA in any state or federal

court, or any other forum, against any individual signatory representing the interests of any of the Parties, or any attorneys representing any of the Parties involving any matter related to this Settlement.

- 4.4 The Parties acknowledge that the positions expressed in this Settlement were reached after consideration of all positions advanced in testimony as well as during discovery and settlement negotiations. This Settlement embodies compromises of the Parties' positions.
- 4.5 This Settlement sets forth the entire understanding and agreement between the Parties, and may not be modified or terminated except through written assent by all Parties.
- 4.6 Notwithstanding this Settlement and its resolution of the issues raised by the Parties, the Parties reserve any or all rights to raise and fully litigate, as necessary, any issue relating to the rates charged and the conditions attached thereto in a future proceeding in which SJWC seeks to increase its rates.
- 4.7 Each individual executing this Settlement on behalf of any entity hereby warrants that he or she is authorized to execute this Settlement on behalf of said entity. The Parties agree that no signatory to this Settlement, nor any officer, employee, or member of DRA, the Mutuals, RESA or SJWC, assumes any personal liability as a result of this Settlement.
- 4.8 The Parties agree to support the Settlement and use their best efforts to secure Commission approval of the Settlement in its entirety and without modification.
- 4.9 The Parties agree that if the Commission fails to adopt the Settlement in its entirety, the Parties shall convene a settlement conference within 15 days thereof to discuss whether they can resolve issues raised by the Commission's actions. If the Parties cannot mutually agree to resolve the issues raised by the Commission's actions, the Settlement shall be rescinded and the Parties shall be released from their obligation to support the Settlement. Thereafter, the Parties may pursue any action they deem appropriate, but agree to cooperate to establish a procedural schedule.

4.10 This Settlement shall be governed by the laws of the State of California as to all matters, including, but not limited to matters of validity, construction, effect, performance and remedies.

5. **CONCLUSION**

The Parties mutually believe that based on the terms and conditions stated above, this Settlement is reasonable in light of the whole record, consistent with the law, and in the public interest.

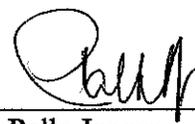
Dated: July 30, 2009

DIVISION OF RATEPAYER ADVOCATES

By: 
Dana Appling
Director, Division of Ratepayer Advocates

California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

SAN JOSE WATER COMPANY

By: 
Palle Jensen
Vice President, Regulatory Affairs

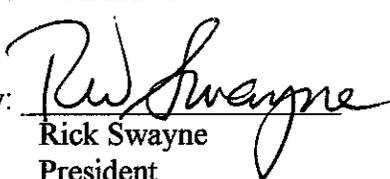
San Jose Water Company.
110 West Taylor Street
San Jose, CA 95110

**7 MUTUAL WATER
COMPANY INTERVENORS**

By: 
Bob Burke
Director & Secretary

Brush & Old Well Mutual Water Co.
21103 Old Well Rd.
Los Gatos, CA 95033

**REDWOOD ESTATES SERVICES
ASSOCIATION**

By: 
Rick Swayne
President

Redwood Estates Services Assoc.
21450 Madrone Dr.
Los Gatos, CA 95033