

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Joint Application of California Water Service Company and Grand Oaks Water Company to transfer ownership of the assets of Grand Oaks Water Company to California Water Service Company under Certain Terms and Conditions and to transfer the Certificate of Public Convenience and Necessity to provide water service to the name of California Water Service Company.

Application 05-12-012
(Filed December 12, 2005)

JOINT SETTLEMENT
OF THE DIVISION OF RATEPAYER ADVOCATES AND
CALIFORNIA WATER SERVICE COMPANY

GENERAL

The Parties to this Settlement before the California Public Utilities Commission (Commission) are California Water Service Company (Cal Water) and the Division of Ratepayer Advocates (DRA) (collectively, the Parties). The Parties, desiring to avoid the expense and inconvenience attendant to the litigation before the Commission, have agreed on this Settlement Agreement (Agreement), which they now submit for adoption. In addition, concurrent with the filing of this Agreement a copy has been sent to each Grand Oaks Water Company (Grand Oaks) customer.

In consideration of the mutual obligations, covenants and conditions contained herein, the Parties agree to the terms of this Agreement. Nothing in this Agreement shall be deemed to constitute an admission or an acceptance by any Party of any fact, principle, or position contained herein and this Agreement is subject to the limitations described in Section 13 with respect to the express limitation on precedent. The Parties, by signing this Agreement, acknowledge that they pledge support for Commission approval and subsequent implementation of all the provisions of the Agreement.

BACKGROUND

Due to its concern over the future of Grand Oaks, the Commission directed Cal Water to file an application to acquire Grand Oaks. On December 15, 2005, Cal Water filed Application (A.) 05-12-012 requesting authorization to acquire Grand Oaks. Due to concerns regarding the rate implications of Cal Water purchasing the water system, DRA protested Cal Water's application and sought out alternative parties to take over Grand Oaks.

DRA identified Golden Hills Community Service District (GHCS D) as a possible alternative party. In response to DRA's request, GHCS D agreed to explore the acquisition of Grand Oaks. However, GHCS D indicated that the approval of the annexation of Grand Oaks by Grand Oaks customers would be required prior to any action by Golden Hills.

On June 22, 2006, a public meeting was held in Tehachapi for the 43 customers of the Grand Oaks water system. Approximately 40 people representing 17 customers were in attendance. Additionally, representatives of the GHCSO, DRA, and Cal Water were present and made statements. Also, Administrative Law Judge Bertram Patrick was in attendance.

At the meeting, the participants addressed the possible annexation of the Grand Oaks water system to GHCSO and the needed water system improvements, including their impact on rates. Only one customer in attendance supported annexation by GHCSO. The other customers supported acquisition by Cal Water, but were strongly opposed to the high water bills that could result from the proposed infrastructure upgrades. Cal Water provided customers cost estimates and the customer bill impact associated with several major capital improvements to the Grand Oaks water system. (See Attachment A) Customers were concerned about the affordability of rates and strongly expressed their desire that major capital improvements be deferred unless absolutely necessary to maintain water service, but they generally supported the rehabilitation of a second well to improve reliability

During the meeting and in correspondence to the Commission the Grand Oaks customers supported Cal Water (1) acquiring the Grand Oaks water system, (2) deferring many of the proposed major capital additions until absolutely necessary to maintain water service, (3) working collaboratively with customers on the nature and extent of infrastructure upgrades needed, and (4) giving customers the option of making an up-front, lump sum payment in lieu of higher monthly/bimonthly water rates for major upgrades.

After hearing the customers' concerns, Cal Water's representative agreed to defer major capital improvements and rehabilitate Well # 3 at an estimated cost of \$15,000 as shown in Attachment A, work with customers on future water infrastructure needs, and provide customers an opportunity to make an up-front, lump sum payment in lieu of higher water rates for major upgrades.

Cal Water stated that its application to acquire the Grand Oaks water system is conditioned upon the Commission allowing it to use Water Division's current and future Class C and D water system ratemaking mechanisms and procedures without a time limit.

DRA has agreed to support a settlement that includes all of the above terms as long as Cal Water operates the Grand Oaks water system as an independent system and rates are not subsidized, except for low income ratepayer assistance, by Cal Water's rates in other districts.

SETTLEMENT TERMS

This agreement was reached taking into account Parties original positions, the affordability of the rates and public comment at a meeting in Tehachapi on June 22, 2006 and in letters to the CPUC and DRA.

Parties agree to Cal Water's acquisition of Grand Oaks subject to the following conditions:

1. **Operation:** Cal Water will operate Grand Oaks as a stand alone Class D water system and rates will not be subsidized, except for low income ratepayer assistance, by Cal Water's rates in other districts.
2. **Ratemaking:** Class C & D water system ratemaking mechanisms and procedures should be applicable to the Grand Oaks water system after the acquisition as long as Cal Water operates Grand Oaks as a Class C or D on a stand alone basis.
3. **Accountability:** Cal Water shall treat such up-front, lump sum customer payments as Contributions-in-Aid-of-Construction in accordance with D.85-04-076, Uniform System of Accounts for Class B, C, and D Water Utilities and Section 118 of the Internal Revenue Code.
4. **Timing of Major Capital Improvements:** Cal Water will defer major capital improvements until in Cal Water's best judgment it determines an improvement is needed for health, safety or reliability. Cal Water will consult the Grand Oaks customers prior to making any final decisions on capital improvements.
5. **System Reliability:** Cal Water will rehabilitate Well #3 at an estimated cost of \$15,000 within 12 months of acquiring Grand Oaks.
6. **Customer Payment Options:** Cal Water will provide customers the option of paying for capital improvement projects in excess of \$10,000 either in an up-front, lump sum payment or through monthly/bimonthly rates.
 - a) Up-front, lump sum payments
 - Up-front, customer lump sum payments will be treated as Contributions-in-Aid-of-Construction in accordance with D.85-04-076, Uniform System of Accounts for Class B, C, and D Water Utilities and Section 118 of the Internal Revenue Code; Consistent with standard ratemaking practice, Cal Water will not earn a rate of return on these contributions.
 - Cal Water will record any customer contribution with the customer address. That address will be exempt from surcharges or higher rates used to pay for the given capital improvement project.
 - Up-front, lump sum customer contributions will remain associated with the customer address in the event of sale, and the new homeowner will continue to be exempt from surcharges or higher rates used to pay for the given capital improvement project.
 - Cal Water will report in its annual report to the Commission, the up-front fees collected in the Contributions-in-Aid-of-Construction account and list the payments that have been paid by address.
 - b) Increased rates.
 - Cal Water will include in rate base the portion of the approved cost of capital improvement projects not funded by customer contribution.
 - Cal Water will file a surcharge, including the expiration date, for each capital improvement project that exceeds \$10,000.
 - Cal Water will earn a 12.75% after tax rate of return on rate base consistent with Class C & D ratemaking treatment. This rate is

subject to change based on the authorized return for Class C & D water companies.

7. **Advice Letter Treatment:** Cal Water will file an advice letter that requests an optional customer specific capital improvement payment and a surcharge, which increases rates for customers that chose not to pay the capital improvement, for each capital improvement project in excess of \$10,000.
8. **Customer Notification Requirements:** Cal Water agrees that it will inform customers of any proposed capital improvement projects in excess of \$10,000 and seek customer input prior to filing any advice letter for a capital improvement project. In addition, Cal Water will provide customer notice of the advice letter, including information on the nature of the upgrades sought, the total cost, customer payment options and ways to obtain a copy of the advice letter, and the time period for protests. Alternatively, Cal Water may serve the advice letter on each customer.
9. **Effective Dates:** The Parties agree that upon acquiring Grand Oaks, Cal Water will operate it as a stand alone Class D water company and should be allowed corresponding ratemaking treatment as long as Cal Water continues to operate Grand Oaks as a stand alone Class C or D.

Other settlement terms:

10. **Incorporation of Complete Agreement:** This Agreement is to be treated as a complete package and not as a collection of separate agreements on discrete issues. To accommodate the interests related to diverse issues, the Parties acknowledge that changes, concessions, or compromises by a Party or Parties in one section of this Agreement resulted in changes, concessions, or compromises by the Parties in other sections. Consequently, the Parties agree to oppose any modification of this Agreement not agreed to by all Parties.
11. **Signature Date and Term of Agreement:** This Agreement shall become binding on the signature date.
12. **Regulatory Approval:** The Parties shall use their best efforts to obtain Commission approval of the Agreement. The Parties shall jointly request that the Commission: (1) approve the Agreement without change; and (2) find the Agreement to be reasonable, consistent with law and in the public interest.
13. **Compromise of Disputed Claims:** This Agreement represents a compromise of disputed claims between the Parties. The Parties have reached this Agreement after taking into account the possibility that each Party may or may not prevail on any given issue. The Parties assert that this Agreement is reasonable, consistent with law and in the public interest.
14. **Non Precedent:** Consistent with Rule 12.5 of the Commission's Rules of Practice and Procedure, this Agreement is not precedential in any other proceeding before this Commission, except as expressly provided in this Agreement.

15. **Previous Communications:** The Agreement contains the entire agreement and understanding between the Parties as to the subject matter of this Agreement, and supersedes all prior agreements, commitments, representation, and discussions between the Parties. In the event there is any conflict between the terms and scope of the Agreement and the terms and scope of the accompanying joint motion, the Agreement shall govern.
16. **Non Waiver:** None of the provisions of this Agreement shall be considered waived by any Party unless such waiver is given in writing. The failure of a Party to insist in any one or more instances upon strict performance of any of the provisions of this Agreement or to take advantage of any of their rights hereunder shall not be construed as a waiver of any such provisions or the relinquishment of any such rights for the future, but the same shall continue and remain in full force and effect.
17. **Effect of Subject Headings:** Subject headings in this Agreement are inserted for convenience only, and shall not be construed as interpretations of the text.
18. **Governing Law:** This Agreement shall be interpreted, governed and construed under the laws of the State of California, including Commission decisions, orders and rulings, as if executed and to be performed wholly within the State of California.

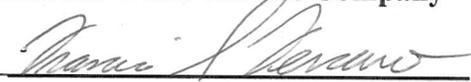
Division of Ratepayer Advocates

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California Water Service Company

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Attachment A

Cal Water Cost Estimates distributed to Grand Oaks customers via mail prior to June 22, 2006 public meeting.

California Water Service Company

Grand Oaks

Estimated Capital Improvement Costs

						<u>Total Cost</u>	<u>Replacement Schedule (Years)</u>	<u>Comments</u>
MAINS								
<u>Current</u>			<u>New</u>		<u>Cost/ft.</u>			
<u>Size</u>	<u>Material</u>	<u>Length</u>	<u>Size</u>	<u>Material</u>				
2	Plastic	4170	6	PVC	\$75.00	\$312,750	1	Distribution main: located between the 6-inch and 3-inch
2	Plastic	380	6	PVC	\$75.00	\$28,500	5	Distribution main: dead-end after the 3-inch
6	Steel	3660	6	PVC	\$75.00	\$274,500	5	Distribution main: located between the tank and the top of the hill.
6	Steel	550	6	PVC	\$75.00	\$41,250	5	I/O for the storage tank

<u>Well</u>			
	Repairs and equipment for Well # 3	\$15,000	1

Estimated Revenue Requirement

Phase I	Capital Costs	\$327,750	\$7,622 /customer
	Revenue Requirement Year 1	\$76,565	\$148.38 /customer/month
	Revenue Requirement Year 6	\$70,063	\$135.78 /customer/month
	Revenue Requirement Year 25	\$44,056	\$85.38 /customer/month
	Revenue Requirement Year 55	\$-	\$- /customer/month
Phase II	Capital Costs	\$344,250	\$8,006 /customer
	Revenue Requirement Year 6	\$80,331	\$155.68 /customer/month
	Revenue Requirement Year 25	\$53,396	\$103.48 /customer/month
	Revenue Requirement Year 55	\$-	\$- /customer/month

Total Revenue Requirement

Year	
1	\$148.38 /customer/month
6	\$291.46 /customer/month
25	\$188.86 /customer/month
55	\$-

Assumptions

PVC Pipe 55 year depreciation life
 Well improvements 42 year depreciation life
 Customers 43
 Return on equity @ 100% equity 12.75%
 Net-to-gross multiplier 1.6876