

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of California-American Water Company (U 210 W) and John W. Richardson & Associates, Court-Appointed Receiver for Toro Water Service, Inc., for an Order Authorizing the Sale and Conveyance of Certain Real Property and Utility Assets in Monterey County Pursuant to Public Utilities Code Section 851 and Authorizing an Increase in Revenues of \$105,332 or 31.7% on an Interim Basis in 2007, of \$208,467 or 63.5% (from Current Revenues) After Completion of Capital Improvements in 2007, and \$15,903 or 3.0% in 2008.

A.07-02-008
(Filed July 31, 2007)

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

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Dated: September 24, 2007

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

1. GENERAL

1.1 The Parties to this Settlement Agreement (Settlement) are the California-American Water Company (California American Water) and the Division of Ratepayer Advocates (DRA), hereafter collectively referred to as “the Parties”). The term “Commission” means the California Public Utilities Commission. The Parties desire to avoid the expense, inconvenience, and the uncertainty of an administrative hearing to address the issues in this proceeding and have negotiated this Settlement (Settlement) to resolve their disputes.

1.2 The Parties agree and understand that Commission approval and adoption of this Settlement may not be construed as an admission or waiver by any Party regarding any fact, matter of law, or issue thereof that pertains to this proceeding. In accordance with the Commission Rules of Practice and Procedure, Rule 12.5, the Parties intend that Commission adoption of this Settlement will be binding on all the Parties to this proceeding, including their legal successors, assigns, partners, members, agents, parent or subsidiary companies, affiliates, officers, directors, and/or employees. Unless the

Commission expressly provides otherwise, such adoption does not constitute approval of or precedent for any principle or issue in this or any future proceeding.

1.3 The Parties agree that no signatory to the Settlement or any employee thereof, assumes any personal liability as a result of this Settlement.

1.4 The Parties agree that the Commission has primary jurisdiction over any interpretation, enforcement, or remedies pertaining to this Settlement, as provided by the California Constitution, article XII, section 8. No Party may bring an action pertaining to this Settlement in any local, State or Federal court, or administrative agency without having first exhausted its administrative remedies at the Commission.

1.5 The Parties acknowledge that this Settlement is subject to approval by the Commission. As soon as practicable after all the Parties have signed the Settlement, the Parties will jointly file a Motion for Commission Approval and Adoption of the Settlement. The Parties will furnish such additional information, documents, and/or testimony as the Commission may require in granting the Motion and adopting this Settlement.

1.6 The provisions of this Settlement are not severable. If any Party fails to perform its respective obligations under this Settlement, the Settlement will be regarded as rescinded. Further, if the Commission or any court of competent jurisdiction overrules or modifies as legally invalid any material provision of this Settlement, this Settlement shall be deemed rescinded as of the date such ruling or modification becomes final.

1.7 The Parties acknowledge and stipulate that they are agreeing to this Settlement freely, voluntarily, and without any fraud, duress, or undue influence by any other Party. Each Party hereby states that it has read and fully understands its rights, privileges, and duties under this Settlement, including each Party's right to discuss this Settlement with its legal counsel, and has exercised those rights, privileges, and duties to the extent deemed necessary.

1.8 In executing this Settlement, each Party declares and mutually agrees that the terms and conditions herein are reasonable, consistent with the law, and in the public interest.

1.9 This Settlement constitutes the Parties' entire Settlement, which cannot be amended or modified without the express written and signed consent of all the Parties hereto.

1.10 No Party has relied or presently relies upon any statement, promise or representation by any other Party, whether oral or written, except as specifically set forth in this Settlement. Each Party expressly assumes the risk of any mistake of law or fact made by such Party or its authorized representative.

1.11 This Settlement may be executed in any number of separate counterparts by the different Parties hereto with the same effect as if all Parties had signed one and the same document. All such counterparts shall be deemed to be an original and shall together constitute one and the same Settlement.

1.12 This Settlement shall become effective and binding on the Parties as of the date it is fully executed.

2. TERMS AND CONDITIONS

2.1 DRA will support California American Water's request in this proceeding for Commission approval and authorization of California American Water's purchase of the "water system" (as defined by California Public Utilities Code, section 240) that comprises the Toro Water Service, Inc. (Toro Water System). The Toro Water System is currently the subject of a receivership action before the United States District Court for the Northern District of California, San Jose Division, entitled United States of America v. Alisal Water Corporation; Toro Water Service, Inc.; North Monterey County Water Service, Inc.; Moss Landing Water Service, Inc.; Robert T. Adcock and Natholyn P. Adcock, Case No. C97-20099 JF (EAI).

2.2 The Parties agree that the purchase price of the Toro water system is \$408,000, which is the amount of the California American Water bid submitted to and accepted by the Federal District Court in the action stated above as the purchase price for the sale of the Toro Water System to the California American Water. This purchase price exceeds the recorded rate base for the Toro Water System in the amount of by \$105,403. The Parties agree that it would be reasonable, consistent with the law, and in the public interest for the California American Water to include the purchase price of \$408,000 described above in the rate base for the Toro Water System pending Commission approval and authorization of rate recovery for that amount in the California American Water 2008 general rate case application for the Monterey District.¹ The Parties agree that in the scheduled California American Water 2008 general rate case application for the Monterey District, California American Water will request the Commission to approve California American Water's purchase price of \$408,000 as the authorized rate base for the Toro Water System at the time of purchase, which request DRA will support.

3. PROPOSED NEW RATES

3.1 In accordance with the proposed new rates for the Toro customers set forth in Attachment 1, California American Water will apply via Advice Letter for Commission approval of these rates as soon as practicable after California American Water legally acquires legal title and possession of the Toro Water System.

3.2 The Parties agree and acknowledge that the new rates will not constitute interim rates and will not be subject to refund or credit, except as provided for in this

¹ According to *re Comm. Guidelines for Acq. and Mergers of Water Cos.*, D. 99-10-064, R. 97-10-048 (Oct. 21, 1999), implementing Cal. Pub. Utils. Code sec. 2720, the fair market value of an acquired water system should be used to establish the rate base of the system. According to the Section 2720, subsec. (b), the fair market value of Toro would be the California American Water bid purchase price accepted by the Federal District Court of \$408,000.

Settlement. The new rates will remain in effect until they are replaced by rates authorized by the Commission for the Toro Water System in the California American Water 2008 general rate case application for the Monterey District or thereafter.

4. REVENUE REQUIREMENT

4.1 Pursuant to this Settlement, the Parties agree that the revenue requirement for the Toro Water System will increase to the total amount of \$109,377 or 33.95% over the present revenue requirement. This increased revenue requirement will be subject to change on a forward-looking basis pending the outcome of the California American Water 2008 general rate case application for the Monterey District.

4.2 The increased revenue requirement stated above is based on the Toro Water System 2005 operating revenues of \$322,130 and reflects the costs of a proposed arsenic removal facility, which is based on a half-year estimate of the costs, the time anticipated to construct the facility. Details of the arsenic removal facility project and the cost calculations are presented in Attachment 2.

5. CAPITAL PROJECTS

5.1 Arsenic Removal Facility. California American Water will undertake capital improvements in the Toro Water System to address the arsenic affected well(s) currently owned by and located in the Toro Water System. This will involve the design and construction of an arsenic removal facility to maintain a reliable production capacity and comply with the Maximum Contaminant Level (“MCL”) for arsenic levels in water promulgated in regulations by the United States Environmental Protection Agency (EPA) (d, et. seq., effective January 2006). California American Water estimates the arsenic removal facility will cost \$738,000. For the purpose of this Settlement, California American Water agrees to reduce the contingency factor for this project from 15% to 10% and to escalate its 2005 installation cost estimate by 10% for 2007. Accordingly, the Parties agree to adopt a project estimate of \$685,000.

5.2 Wellhead Improvements. California American Water will improve the present wellhead system in the Toro Water System to meet California American Water standards; ensure system reliability and safety; and to comply with all pertinent State and Federal statutes, regulations, and orders. California American Water estimates the costs of these improvements will be \$40,000. In its 2008 general rate case application for the Monterey District, California American Water will request Commission authorization for recovery of these improvements.

5.3 California American Water requests in this proceeding that the Commission authorize California American Water to establish a memorandum account for the following purposes: to record the depreciation, carrying costs, and earned interests associated with or pertaining to an amount of wellhead improvements not to exceed \$40,000. The memorandum account will earn interest at the 90-day commercial paper rate. DRA supports establishing the memorandum account described above. California American Water may seek recovery of the balance in the memorandum account as described in this section 5.3, when it files its 2008 general rate case application for the Monterey District.

5.4 In its 2008 general rate case application for the Monterey District, California American Water will request Commission review and authorization of the capital projects described in the application filed in this proceeding but not mentioned specifically as included in the Settlement. California American Water withdraws the capital projects described above as part of its present application in this matter. At this time and until the general rate case stated above is begun, DRA neither supports nor opposes recovery for the capital projects described in this Section 5.4.

6. COMPLIANCE

6.1 California American Water commits to having the arsenic removal facility constructed and fully operational within ninety-days after it has acquired legal title and possession of the Toro Water System.

6.2 If California American Water fails to meet this deadline, it will track in a memorandum account the difference between the New Rates set forth in this Settlement and the current Toro Water System rates, until construction is complete and the arsenic removal facility is fully operational. California American Water will refund the difference stated above to the Toro Water System customers as part of the 2008 general rate case for the Monterey District.

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7. CONCLUSION

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

Respectfully submitted,

By: /s/ Dana Appling

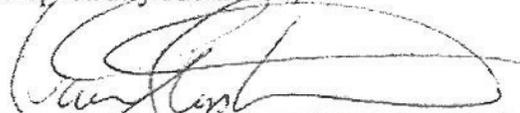


Dana Appling
Director

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September 18, 2007

Respectfully submitted,



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COMPANY
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September 26, 2007

**Attachment 1: Toro Acquisition
Rate Comparison for Year 1**

	Number of Customers By Meter Size	YEAR 1		
			Under CAW Ownership	
		Current Rates	With Arsenic 33.95%	% Change From Current Rates
Quantity Rates:				
All water used per 100 cu. ft..		\$ 2.2870	\$ 3.0600	33.8%
Monthly Service Charge:				
For 3/4-inch meter	5	\$ 8.02	\$ 10.7400	33.9%
For 1-inch meter	244	\$ 10.97	\$ 14.6900	33.9%
For 1-1/2-inch meter	140	\$ 14.68	\$ 19.6600	33.9%
For 2-inch meter	19	\$ 19.75	\$ 26.4600	34.0%

NOTES:

1. Current Owner's and CAW's projected rates for Year 1 used the same assumptions for: (i) number of customers by meter size; and (ii) annual water sales.
2. CAW's Interim Rates would be effective from close of acquisition to arsenic treatment equipment is installed and in service.
3. CAW's Final Rates would effective after the arsenic treatment equipment is installed and in service.

**Attachment 2: Toro Water Acquisition
Wellhead Arsenic Removal System
Cost Estimate**

	Filed 2007	Settlement
CAPITAL INVESTMENT		
Procurement		
Equipment	293,706	282,535
Media	164,619	158,358
Taxes @ 7.25% and shipping	33,229	31,965
Total	491,554	472,858
Installation		
Piloting	15,000	15,000
Mobilization	15,000	15,000
Canopy	20,000	20,000
Installation	30,000	30,000
Piping	20,000	20,000
Concrete	35,000	35,000
Start-Up & Testing	15,000	15,000
Total	150,000	150,000
Summary		
Total Project Cost (Procurement + Installation)	641,554	622,858
15% Contingency	96,233	62,286
Grand Total	737,787	685,144
Rounded	738,000	685,000

Notes:

(1) Capital cost estimate based on bid submitted by MPT for Ambler Park Well and Cal Am bid analysis and adjusted for specific conditions and requirements of Toro Wells.

O&M EXPENSES**Year 1**

Maintenance	748	Half Year Estimated Costs
Media Regeneration	37,125	Half Year Estimated Costs
Transportation	20,250	Half Year Estimated Costs
Total	58,123	

(END OF ATTACHMENT A)