

ATTACHMENT A

SETTLEMENT AGREEMENTS

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

Application of California-American Water Company (U 210 W) to Decrease Revenues for Water Service in its Coronado District by (\$73,100) or (0.46%) in 2008 and Increase Revenues by \$266,200 or 1.67% in 2009 and \$260,900 or 1.61% in 2010	A.07-01-036
Application of California-American Water Company (U 210 W) to Increase Revenues for Water Service in its Larkfield District by \$1,272,000 or 61.91% in 2008, \$134,300 or 3.94% in 2009 and \$129,900 or 3.67% in 2010 Under the Current Rate Design or Decrease Revenues by (\$742,200) or (36.12%) in 2008 and Increase Revenues by \$50,000 or 3.72% in 2009 and \$63,500 or 4.55% in 2010 Under the Proposed Rate Design	A.07-01-037
Application of California-American Water Company (U 210 W) to Increase Revenues for Water Service in its Sacramento District by \$8,966,900 or 33.89% in 2008, \$1,905,700 or 5.36% in 2009, and \$1,860,700 or 4.97% in 2010 Under the Current Rate Design or by \$10,981,000 or 41.50% in 2008, \$1,925,900 or 5.11% in 2009, and \$1,845,600 or 4.66% in 2010 Under the Proposed Rate Design	A.07-01-038
Application of California-American Water Company (U 210 W) to Increase Revenues for Water Service in its Village District by \$1,537,300 or 7.43% in 2008, \$243,400 or 1.08% in 2009, and \$232,900 or 1.02% in 2010	A.07-01-039

SETTLEMENT AGREEMENT AS TO CERTAIN ISSUES BETWEEN THE DIVISION OF RATEPAYER ADVOCATES AND CALIFORNIA AMERICAN WATER COMPANY ON THE REVENUE REQUIREMENTS – CORONADO DISTRICT

MARCELO L. POIRIER

DIVISION OF RATEPAYER ADVOCATES
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Telephone: (415) 703-2913
mpo@cpuc.ca.gov

Attorney for
Division of Ratepayer Advocates

Date: July 5, 2007

LENARD G. WEISS
LORI ANNE DOLQUEIST
SARAH E. LEEPER

STEEFEL, LEVITT & WEISS, P.C.
One Embarcadero Center, 30th Floor
San Francisco, CA 94111-3719
Telephone: (415) 788-0900
LWeiss@steeffel.com
LDolqueist@steeffel.com
SLeeper@steeffel.com

Attorneys for Applicant
California-American Water Company

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ON THE REVENUE REQUIREMENTS – CORONADO DISTRICT**

1.0 GENERAL

1.1 The Parties to this Settlement Agreement before the California Public Utilities Commission (“Commission”) are California-American Water Company (“California American Water” or “CAW”) and the Commission’s Division of Ratepayer Advocates (“DRA”) – collectively, “the Parties” on the revenue requirement portion of the rate case. The Parties, desiring to avoid the expense, inconvenience and the uncertainty attendant to litigation of the matters in dispute between them have agreed on this Settlement Agreement which they now submit for approval.

1.2 Since this Settlement Agreement represents a compromise by them, the Parties have entered into each Stipulation contained in the Settlement Agreement on the basis that its approval by the Commission not be construed as an admission or concession by any Party regarding any fact or matter of law in dispute in this proceeding. Furthermore, the Parties intend that the approval of this Settlement Agreement by the Commission not be construed as a precedent or statement of policy of any kind for or against any Party in any current or future proceeding. (Rule 12.5, Commission's Rules of Practice and Procedure.)

1.3 The Parties agree that no signatory to the Settlement Agreement assumes any personal liability as a result of their agreement. All rights and remedies of the Parties are limited to those available before the Commission.

1.4 The Parties agree that this Settlement Agreement is an integrated agreement, so that if the Commission rejects any portion of this Settlement Agreement, each Party has the right to withdraw.

1.5 This Settlement Agreement may be executed in counterparts, each of which shall be deemed an original, and the counterparts together shall constitute one and the same instrument.

1.6 Issues Not Settled for Revenue Requirement Phase

- (a) Rate of Return
 - (i) The return on equity, without a leverage adjustment.
 - (ii) Whether or not a leverage adjustment should be used in the determination of the authorized return on equity.
- (b) Expenses
 - (i) Regulatory Expense
 - (ii) Employee Pensions and Benefits
- (c) Special Requests

(i) Special Request Number 1 – Infrastructure System Replacement Surcharge (“ISRS”)

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

2.0 COST OF CAPITAL/CAPITAL STRUCTURE

2.1 Summary

The Parties agree to use the California American Water projected capital structure for the test year and both escalation years. The Parties agree to a ratio of 58.16% debt to 41.84% equity for Test Year 2008, 58.32% debt to 41.68% equity in Escalation Year 2009 and 58.83% debt to 41.17% equity in Escalation Year 2010. The Parties agree to a cost of debt of 6.20%, 6.25%, and 6.29% for Test Year 2008, Escalation Year 2009, and Escalation Year 2010, respectively. (Application of California-American Water Company to Increase Rates for Water Service in its Coronado District (“Application”), Exh. B, Chap. 1, pp. 1 & 9; Exh. 13, Direct Testimony of David P. Stephenson (“Stephenson Direct”), pp. 44 & 45; Exh. 29, DRA Cost of Capital Report, p. 1-1)

2.2 Rationale For Settlement on Capital Structure and Cost of Debt

The Parties agreed that the use of a single capital structure for all three years is normal practice in the determination of a revenue requirement. The Parties also agree that since the projected capital structures of California American Water are basically equivalent in all three

years, that the use of the projected capital structure in 2007 is representative for all three years. (Exh. 13, Stephenson Direct, p. 6; Exh. 23, Rebuttal Testimony of David P. Stephenson (“Stephenson Rebuttal”), p. 4 & 5; Exh. 29, DRA Cost of Capital Report, pp. 1-1, 2-8, 3-1, 3-3, 3-4)

3.0 CORONADO DISTRICT

3.1 Summary

Under the various scenarios set forth below, the Parties demonstrate the percentage increase in rates over current rates based on settled amounts. As explained above, the parties have agreed to all of the components of the revenue requirement except for the Return on Equity, the Infrastructure System Replacement Surcharge (“ISRS”), Regulatory Expenses, and Employee Pensions and Benefits Expenses.

<u>SCENARIO</u>	<u>2008 INCREASE</u>
DRA change from 2008 present rates to 2008 proposed rates based on partial settlement	-1.44%
California American Water change from 2008 present rates to 2008 proposed rates based on partial settlement	-0.34%

The revenue requirement for 2009 and 2010 will be escalated according to the standards set forth in the Commission’s Rate Case Plan

3.2 Customer Sales and Revenues

(a) **Customers** – There was no difference in the customer counts between California American Water and DRA. (Exh. 28, Report on the Results of Operations for Coronado (“DRA Report”), pp. 3-5 & 3-6)

(b) **Average Water Use Per Customer** – There was no difference in the average water use per customer (except for rounding) between California American Water and DRA. (Application, Exh. A, Chap. 5, Sec. 2, pp. 2 – 4; Exh. 28, DRA Report, p. 2-1 – 2-2)

(c) **Unaccounted for Water Percentages** – There was no difference in projected unaccounted for water per service area between California American Water and DRA. (Application, Exh. A, Chap. 5, Sec. 2, p. 4; Application, Exh. A, Chap. 14, Sec. 1, p. 2; Application, Exh. D, pp. 11, 12, 13, 14, 20, 29; Exh. 12, Direct Testimony of Sherrene Chew (“Chew Direct”), p. 7; Exh. 16, Rebuttal of Sherrene Chew (“Chew Rebuttal”), pp. 13, 14, 17; Exh. 28, DRA Report, pp. 2-3, 2-6, 2-7, 2-11, 2-12)

3.3 Operations and Maintenance Expenses

(a) **Water Treatment – Misc.** – The parties agree to a number that is at the midpoint between their estimates. This settlement number addresses both DRA’s concern with including high years in estimates and California American Water’s view that 2002 contains legitimate costs. (Application, Exh. A, Chap. 6, Sec. 1, pp. 3 & 4; 3/8/07 Update to Application (“App. Update”), Exh. A, Chap. 6, Sec. 1, p. 3; Exh. 28, DRA Report, pp. 3-4, 3-8)

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
12.2	11.0	11.6

(b) **T&D – Misc.** – The parties agree to a number that is at the midpoint between their estimates. This settlement number addresses both DRA’s concern with including high years in estimates and California American Water’s view that 2002 contains legitimate costs. (Application, Exh. A, Chap. 6, Sec. 1, p. 3; App. Update, Exh. A, Chap. 6, Sec. 1, p. 3; Exh. 28, DRA Report, p. 3-8)

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
42.8	37.5	40.1

(c) **Storage Facilities Expense** – The difference between the parties was based on the use of different inflation factors. Because of the difference was nominal, California American Water agreed to accept DRA’s estimate. (Application, Exh. A, Chap. 6, Sec. 1, p. 6; Exh. 28, DRA Report, pp. 3-4, 3-8)

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
7.3	7.1	7.1

(d) **Customer Accounts – Misc.** – The difference between the parties was based on the use of different inflation factors. Because of the difference was nominal, California American Water agreed to accept DRA’s estimate. (Application, Exh. A, Chap. 6, Sec. 1, p. 3; App. Updated Exh. A, Chap., 6, Sec. 1, p. 3; Exh. 12, Direct Testimony of Stacey A. Fulter (“Fulter Direct”), p. 3; Exh. 28, DRA Report, p. 3-5)

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
62.3	61.6	61.6

(e) **T&D Mains** - The difference between the parties was based on the use of different inflation factors. Because of the difference was nominal, California American Water agreed to accept DRA’s estimate. (Application, Exh. A, Chap. 6, Sec. 1, p. 4; App. Update, Exh. A, Chap. 6, Sec. 1, p. 4; Exh. 28, DRA Report, pp. 3-6 & 3-8)

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
17.6	17.2	17.2

(f) T&D Services – The difference between the parties was based on the use of different inflation factors. Because of the difference was nominal, California American Water agreed to accept DRA’s estimate. (Application, Exh. A, Chap. 6, Sec. 1, p. 4; App. Update, Exh. A, Chap. 6, Sec. 1, p. 4; Exh. 28, DRA Report, pp. 3-6 & 3-8)

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
18.3	17.8	17.8

(g) T&D - Meters – The difference between the parties was based on the use of different inflation factors. Because of the difference was nominal, California American Water agreed to accept DRA’s estimate. (Application, Exh. A, Chap. 6, Sec. 1, p. 4; App. Update, Exh. A, Chap. 6, Sec. 1, p. 4; Exh. 28, DRA Report, pp. 3-6 & 3-8)

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
6.3	6.1	6.1

(h) Purchased Water – DRA accepted California American Water’s original proposal without considering the July 2006 purchased water rate increase that was approved in Advice Letter (AL) 649. California American Water did not include the July 2006 increase in its filing because the application showed 6 months of actual and 6 months of forecasted data for 2006. The parties agree that purchased water costs must be updated to reflect the increase in purchased water rates that were approved on July 3, 2006 via AL 649. (Application, Exh. A,

Chap. 4, Sec. 1, p. 1 – 3; Application, Exh. A, Chap. 4, Sec. 1, p. 1; Application, Exh. A, Chap. 6, Sec. 1, pp. 1 & 3 ; Application, Exh. A, Chap. 14, Sec. 1, p. 3; Application, Exh. A, Chap. 15, Sec. 1; Exh. 12, Fulter Direct, pp. 3, 4; App. Update, Exh. A, Chap. 6, Sec. 1, p. 1 & 3; Exh. 28, DRA Report, pp. 3-3, 3-8)

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
9,817.1	9,817.1	10,216.7

3.4 Administrative and General Expenses

(a) **Office Supplies & Other Expenses** – This settlement number addresses both DRA’s concern with including high years in estimates and California American Water’s view that its legitimate costs should not be excluded. (Application, Exh. A, Chap. 6, Sec. 1, p. 5; App. Update, Exh. A, Chap. 6, Sec. 1, p. 5; Exh. 28, DRA Report, pp. 4-1, 4-3, 4-9)

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
8.1	7.0	7.6

(b) **Property Insurance** – For the purpose of compromise, the parties have agreed to a number that is at the midpoint between the two estimates. This would address both DRA's concern with including high years in estimates and California American Water’s view that property insurance rates will continue to rise as they have in recent years. (Application, Exh. A, Chap. 6, Sec. 1, p. 5; Exh. 12, Fulter Direct, p. 5; App. Update, Exh. A, Chap. 6, Sec. 1, p. 5; Exh. 28, DRA Report, p. 4-3, 4-9)

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
52.0	43.2	47.6

(c) **Worker’s Compensation Injuries and Damages** – The difference between the parties was based on the use of different inflation factors. Because of the difference was nominal, the parties agreed to the settlement amount. (Application, Exh. A, Chap. 6, Sec. 1, p. 5, Exh. 12, Fulter Direct, p. 5; App. Update Exh. A, Chap. 6, Sec. 1, p. 5; Exh. 28, DRA Report, p. 4-3, 4-4, 4-9)

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
57.8	57.4	57.6

(d) **Miscellaneous General** – This settlement number is based on the removal of charitable contributions, conservation expenses (which will be addressed as separate expense items as discussed below), and community relations expenses. (Application, Exh. A, Chap. 6, Sec. 1, p. 5, Exh. 12, Fulter Direct, p. 6; App. Update Exh. A, Chap. 6, Sec. 1, p. 5; Exh. 28, DRA Report, p. 4-5, 4-6, 4-9)

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
223.9	151.4	191.0

(e) **Outside Services** - This settlement number addresses both DRA’s concern with including high years in estimates and California American Water’s view that its legitimate costs should not be excluded. (Application, Exh. A, Chap. 4, Sec. 1, p. 2; Application, Exh. A, Chap. 6, p. 3; Application, Exh. A, Chap. 6, Sec. 1, pp. 1, 5; App. Update Exh. A, Chap. 6, Sec. 1, p. 1, 5; Exh. 28, DRA Report, p. 4-5, 4-6, 4-9)

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
14.1	6.8	11.0

(f) **Rents** – The difference between the parties was based on the use of different inflation factors. Because of the difference was nominal, California American Water agreed to accept DRA’s estimate. (Application, Exh. A, Chap. 4, Sec. 1, p. 1 – 3; Application, Exh. A, Chap. 6, p. 4; Application, Exh. A, Chap. 6, Sec. 1, pp. 1, 5; Application, Exh. A, Chap. 15, Sec. 1; Exh. 12, Fulter Direct, p. 5; App. Update Exh. A, Chap. 6, Sec. 1, p. 1, 5; Exh. 28, DRA Report, p. 4-6, 4-9)

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
36.1	35.8	35.8

3.5 Utility Plant in Service

Following extensive exchanges of information and negotiations on the rationale for each requested plant item, California American Water and DRA have reached an agreement on each item, as set forth below. The original and revised positions of the Parties and the explanations for the settlement positions on each plant item are set out in Sections (a) to (h), below.

(a) **Services Replacement - 05300085**– This compromise amount addresses DRA’s concerns regarding lower level of expenditures in the past, as well as California American Water’s experience with increased level of spending in the most recent years. (Exh. 13, Direct Testimony of Mark Schubert, P. E. (“Schubert Direct”), Attachment D; Exh. 21, Rebuttal Testimony of Mark Schubert, P.E. (“Schubert Rebuttal”), pp. 2 & 3; Exh. 28, DRA Report, p. 7-3)

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
\$705.8	\$510.0	\$600.0 over 3 years

(b) **Meters Replacement- 05300087** – This compromise amount addresses DRA’s concerns regarding lower level of expenditures in the past, as well as California American Water’s experience with increased level of spending in the most recent years. (Exh. 13, Schubert Direct, Attachment F; Exh. 21, Schubert Rebuttal, pp. 2 – 5; Exh. 17, Rebuttal Testimony of Thomas Glover, P.E. (“Glover Rebuttal”), pp. 3 - 4; DRA Report, pp. 7-3 - 7-4)

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
\$291.1	\$195.0	\$279.0 over 3 years

(c) **Hollister Street Main - 05300504** – California American Water agrees to remove 15% factor for unlisted items and DRA agrees that no Advice Letter is required because the project’s schedule, estimate and scope are not uncertain. (Exh. 13, Schubert Direct, pp. 19, 22, Exh. 13, Schubert Direct, Attachment O; Exh. 21, Schubert Rebuttal, pp. 3, 5 - 8; Exh. 28, DRA Report, pp. 7-4 - 7-5)

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
\$1,580	\$1,459 (AL)	\$1,459 over 3 years

(d) **Small Main Program – 05300603** – DRA agrees that no Advice Letter is required the project’s schedule, estimate and scope are not uncertain. California American Water agrees to remove 15% factor for unlisted items and adjusts contingency factor from 20% to 18%. (Exh. 13, Schubert Direct, pp. 19, 24 - 25, Exh. 13, Schubert Direct, Attachment Q; Exh. 21, Schubert Rebuttal, pp. 3, 8 - 11; Exh. 28, DRA Report, pp. 7-5 - 7-6)

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
\$890.0	\$822.6 (AL)	\$809.0

(e) **Replace PRVs - 05300702** – California American Water agrees to DRA’s estimate. (Exh. 13, Schubert Direct, pp. 19, 25 - 26, Exh. 13, Schubert Direct, Attachment R; Exh. 21, Schubert Rebuttal, pp. 2; Exh. 28, DRA Report, pp. 7-6)

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
\$140	\$128.8	\$128.8

(f) **Distribution Map Automation – 05300601** -- Although California American Water completed the Distribution Map Automation project in 2006, it was not properly accounted for in the Coronado case. It was classified to Item 97 - Comprehensive Planning Study and carried into 2007 as beginning of year construction work in progress (CWIP). Unfortunately, a formula error led to its omission from plant in service. The project was, however, discussed in testimony and included California American Water’s workpapers. (Exh. 13, Schubert Direct (Coronado), pp. 19-21.)

The project involved automating the Coronado distribution maps using AutoCAD software and a land base tied to the State Plane Coordinate System. The completed maps conform to a consistent content and format that will be maintained in the Coronado office. In addition to providing a more efficient way of presenting and updating vital field data and system records, the maps create a platform for operations and planning functions, such as hydraulic modeling and facilities maintenance, through linkages with system databases and other software. DRA and California American Water agree that the error should be corrected and that the \$102,238 cost of the project should be included in ratebase.

3.6 Depreciation Expense and Reserves

(a) **Depreciation Annual Accrual** – DRA agrees with California American Water that the depreciation should be calculated by primary utility plant accounts. Rates

approved by the Commission in the prior rate cases should be used to calculate depreciation accruals for forecasted years 2007 through 2009. These individual depreciation percentages should be applied to forecasted utility plant to calculate the annual accruals and depreciation reserve. Both California American Water and DRA had errors in their depreciation calculations, which have been corrected for this settlement. (Application Exh. A, Chap. 4, Sec. 1, p. 1; Application Exh. A, Chap. 10; Application Exh. A, Chap. 14, Sec. 1, p. 6; Exh. 12, Direct Testimony of Patrick Pilz (“Pilz Direct”), p. 4; App. Update Exh. A, Chap. 10; Exh. 20, Rebuttal Testimony of Patrick Pilz (“Pilz Rebuttal”), pp. 2-5; Exh. 28, DRA Report, pp. 8-1 – 8-3)

Year	Original Positions (000s)		Settlement (000s)
	CAW	DRA	
2008	\$541.6	\$342.2	\$548,700
2009	\$580.5	\$119.8	\$587,000

3.7 Special Requests

(a) **Special Request #3 – Low Income Tariff**

(i) LIRA Eligibility – California American Water agrees to provide LIRA credit to qualified non-profit group living facilities, agricultural employee housing facilities and migrant farm worker housing centers. The eligibility criteria for these are the same as those of the California Alternative Rates for Energy (CARE) program for gas and electric service in the same areas.

(ii) LIRA Verification – California American Water has the option of conducting post-enrollment verification.

(Application, p. 7; Application, Exh. A, Chap. 13, Sec. 1, p. 3; Exh. 13, Stephenson Direct, p. 37; Exh. 13, Stephenson Direct, Attachment 3; Exh. 23, Stephenson Rebuttal, p. 37; Exh. 28, DRA Report, p. vi, Chapter 12)

(b) Special Request #4 – Conservation Programs

(i) **Conservation Funding** - The above annual conservation budget level amount will be in rates for the rate case period. This is the maximum level of funding authorized, beyond which California American Water cannot recover. Because parties have levelized a conservation budget that increased from the first year to the following year(s), California American Water and DRA agree these budget estimates will not be escalated in the attrition years.

(ii) **One-Way Balancing Account Subject to Refund** – The settled amount is subject to a one-way balancing account subject to refund to customers any under-expenditures to be amortized at the end of the rate case period.

(iii) **Flexibility** – California American Water and DRA agree that the company has the flexibility to move dollars between Best Management Practices (BMPs) as necessary, including into BMP 12 funding as needed to provide for additional personnel for program implementation.

(v) **Reporting Requirement** – California American Water shall provide DRA and the Commission all reports required by the California Urban Water Conservation Council (CUWCC) at the time required by the CUWCC.

(Application, p. 8; Application, Exh. A, Chap. 13, Sec. 1, p. 3; Application Exh. D, Chapter V; Exh. 13, Stephenson Direct, p. 38 - 39; Exh. 12, Direct Testimony of David Morse (“Morse Direct”); Exh. 13, Direct Testimony of Gary Valladao (“Valladao Direct”), p. 5 – 6; Exh. 23, Stephenson Rebuttal, p. 37 – 38; Exh. 19, Rebuttal Testimony of David Morse (“Morse Rebuttal”); Exh. 28, DRA Report, p. vi, Chapter 12)

(vi) BMP Expenses

BMP 1 – Water Audits

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
\$195	\$175	\$175 over three years

BMP 2 – Low Flow Fixtures

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
\$60.0	\$45.0	\$45.0 over three years

BMP 5 – Large Landscape Conservation

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
\$77.5	\$15.0	\$15.0 over three years

BMP 6 – Washing Machine Rebate

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
\$110	\$95	\$95 over three years

BMP 7 – Public Information Programs

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
\$95	\$60	\$60 over three years

BMP 8 – School Education Programs

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
\$105	\$60	\$60 over three years

BMP 9 – Commercial Large Landscape Conservation

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
\$68	\$15	\$15 over three years

BMP 14 – Ultra-Low Flow Toilet Program

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
\$90	\$75	\$75 over three years

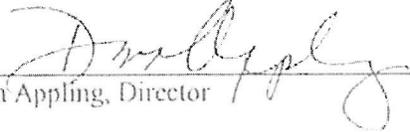
(c) Special Request #5 – American Jobs Creation Act – California

American Water must provide DRA with the actual deduction when it has been determined. (Application, p. 8; Application, Exh. A, Chap. 13, Sec. 1, p. 4; Exh. 12, Direct Testimony of Rodney L. Jordan (“Jordan Direct”), pp. 9 - 10; Exh. 13, Stephenson Direct, p. 40; Exh. 23, Stephenson Rebuttal, pp. 29 & 38; Exh. 28, DRA Report, pp. vi - vii, 12-20 – 12-22)

(d) Special Request #6 – Balancing and Memorandum Account Balances

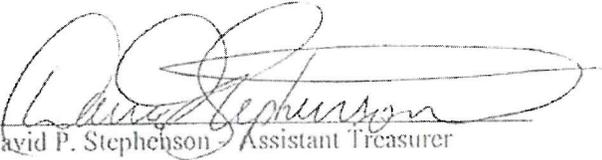
– will be recovered according to CPUC procedure. (Application, p. 8; Application, Exh. A, Chap. 13, Sec. 1, p. 4; Exh. 13, Stephenson Direct, p. 40; Exh. 23, Stephenson Rebuttal, pp. 2 & 30; Exh. 28, DRA Report, pp. vii, 12-22)

Dated: July 5, 2007

By: 
Dana Appling, Director

DIVISION OF RATEPAYER ADVOCATES
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Dated: July 5, 2007

By: 
David P. Stephenson - Assistant Treasurer

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

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

Application of California-American Water Company (U 210 W) to Decrease Revenues for Water Service in its Coronado District by (\$73,100) or (0.46%) in 2008 and Increase Revenues by \$266,200 or 1.67% in 2009 and \$260,900 or 1.61% in 2010	A.07-01-036
Application of California-American Water Company (U 210 W) to Increase Revenues for Water Service in its Larkfield District by \$1,272,000 or 61.91% in 2008, \$134,300 or 3.94% in 2009 and \$129,900 or 3.67% in 2010 Under the Current Rate Design or Decrease Revenues by (\$742,200) or (36.12%) in 2008 and Increase Revenues by \$50,000 or 3.72% in 2009 and \$63,500 or 4.55% in 2010 Under the Proposed Rate Design	A.07-01-037
Application of California-American Water Company (U 210 W) to Increase Revenues for Water Service in its Sacramento District by \$8,966,900 or 33.89% in 2008, \$1,905,700 or 5.36% in 2009, and \$1,860,700 or 4.97% in 2010 Under the Current Rate Design or by \$10,981,000 or 41.50% in 2008, \$1,925,900 or 5.11% in 2009, and \$1,845,600 or 4.66% in 2010 Under the Proposed Rate Design	A.07-01-038
Application of California-American Water Company (U 210 W) to Increase Revenues for Water Service in its Village District by \$1,537,300 or 7.43% in 2008, \$243,400 or 1.08% in 2009, and \$232,900 or 1.02% in 2010	A.07-01-039

**SETTLEMENT AGREEMENT AS TO CERTAIN ISSUES BETWEEN THE DIVISION OF
RATEPAYER ADVOCATES AND CALIFORNIA AMERICAN WATER COMPANY ON
THE REVENUE REQUIREMENTS – VILLAGE DISTRICT**

MARCELO L. POIRIER

DIVISION OF RATEPAYER ADVOCATES
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Telephone: (415) 703-2913
mpo@cpuc.ca.gov

Attorney for
Division of Ratepayer Advocates

Date: July 5, 2007

LENARD G. WEISS
LORI ANNE DOLQUEIST
SARAH E. LEEPER

STEEFEL, LEVITT & WEISS, P.C.
One Embarcadero Center, 30th Floor
San Francisco, CA 94111-3719
Telephone: (415) 788-0900
LWeiss@steeffel.com
LDolqueist@steeffel.com
SLeeper@steeffel.com

Attorneys for Applicant
California-American Water Company

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

Application of California-American Water Company (U 210 W) to Decrease Revenues for Water Service in its Coronado District by (\$73,100) or (0.46%) in 2008 and Increase Revenues by \$266,200 or 1.67% in 2009 and \$260,900 or 1.61% in 2010	A.07-01-036
Application of California-American Water Company (U 210 W) to Increase Revenues for Water Service in its Larkfield District by \$1,272,000 or 61.91% in 2008, \$134,300 or 3.94% in 2009 and \$129,900 or 3.67% in 2010 Under the Current Rate Design or Decrease Revenues by (\$742,200) or (36.12%) in 2008 and Increase Revenues by \$50,000 or 3.72% in 2009 and \$63,500 or 4.55% in 2010 Under the Proposed Rate Design	A.07-01-037
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**SETTLEMENT AGREEMENT AS TO CERTAIN ISSUES BETWEEN THE DIVISION
OF RATEPAYER ADVOCATES AND CALIFORNIA AMERICAN WATER COMPANY
ON THE REVENUE REQUIREMENTS – VILLAGE DISTRICT**

1.0 GENERAL

1.1 The Parties to this Settlement Agreement before the California Public Utilities Commission (“Commission”) are California-American Water Company (“California American Water” or “CAW”) and the Commission’s Division of Ratepayer Advocates (“DRA”) – collectively, “the Parties” on the revenue requirement portion of the rate case. The Parties, desiring to avoid the expense, inconvenience and the uncertainty attendant to litigation of the matters in dispute between them have agreed on this Settlement Agreement which they now submit for approval.

1.2 Since this Settlement Agreement represents a compromise by them, the Parties have entered into each Stipulation contained in the Settlement Agreement on the basis that its approval by the Commission not be construed as an admission or concession by any Party regarding any fact or matter of law in dispute in this proceeding. Furthermore, the Parties intend that the approval of this Settlement Agreement by the Commission not be construed as a precedent or statement of policy of any kind for or against any Party in any current or future proceeding. (Rule 12.5, Commission's Rules of Practice and Procedure.)

1.3 The Parties agree that no signatory to the Settlement Agreement assumes any personal liability as a result of their agreement. All rights and remedies of the Parties are limited to those available before the Commission.

1.4 The Parties agree that this Settlement Agreement is an integrated agreement, so that if the Commission rejects any portion of this Settlement Agreement, each Party has the right to withdraw.

1.5 This Settlement Agreement may be executed in counterparts, each of which shall be deemed an original, and the counterparts together shall constitute one and the same instrument.

1.6 **Issues Not Settled for Revenue Requirement Phase**

(a) **Rate of Return**

- (i) The return on equity, without a leverage adjustment.
- (ii) Whether or not a leverage adjustment should be used in the determination of the authorized return on equity.

(b) **Expenses**

- (i) Regulatory Expense
- (ii) Employee Pensions and Benefits

(c) **Special Requests**

- (i) Special Request Number 1 – Infrastructure System Replacement Surcharge (“ISRS”)

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

2.0 COST OF CAPITAL/CAPITAL STRUCTURE

2.1 Summary

The Parties agree to use the California American Water projected capital structure for the test year and both escalation years. The Parties agree to a ratio of 58.16% debt to 41.84% equity for Test Year 2008, 58.32% debt to 41.68% equity in Escalation Year 2009 and 58.83% debt to 41.17% equity in Escalation Year 2010. The Parties agree to a cost of debt of 6.20%, 6.25%, and 6.29% for Test Year 2008, Escalation Year 2009, and Escalation Year 2010, respectively. (Application of California-American Water Company to Increase Rates for Water Service in its Village District ("Application"), Exh. B, Chap. 1, pp. 1, 7, 9; Exh. 11, Direct Testimony of David P. Stephenson ("Stephenson Direct"), p. 43; Exh. 29, DRA Cost of Capital Report, p. 1-1)

2.2 Rationale For Settlement on Capital Structure and Cost of Debt

The Parties agreed that the use of a single capital structure for all three years is normal practice in the determination of a revenue requirement. The Parties also agree that since the projected capital structures of California American Water are basically equivalent in all three years, that the use of the projected capital structure in 2007 is representative for all three years. (Exh. 11, Stephenson Direct, p. 6; Exh. 23, Rebuttal Testimony of David P. Stephenson ("Stephenson Rebuttal"), pp. 4, 5; Exh. 29, DRA Cost of Capital Report, pp. 1-1, 2-8, 3-1, 3-3, 3-

4)

3.0 VILLAGE DISTRICT

3.1 Summary

Under the various scenarios set forth below, the Parties demonstrate the percentage increase in rates over current rates based on settled amounts. As explained above, the parties have agreed to all of the components of the revenue requirement except for the Return on Equity, the Infrastructure System Replacement Surcharge (“ISRS”), Regulatory Expenses, and Employee Pensions and Benefits Expenses.

<u>SCENARIO</u>	<u>2008 INCREASE</u>
DRA increase from 2008 present rates to 2008 proposed rates based on partial settlement	1.86%
California American Water increase from 2008 present rates to 2008 proposed rates based on partial settlement	3.40%

The revenue requirement for 2009 and 2010 will be escalated according to the standards set forth in the Commission’s Rate Case Plan with the additional revenues shown above related to the advice letter projects.

3.2 Customer Sales and Revenues

(a) **Customers** – There was no difference in the customer counts between California American Water and DRA. (Application Exh. A, Chap. 2, Sec. 3, p. 2; Application Exh. A, Chap. 6, Sec. 1, p. 3; Exh. 27, Report on the Results of Operations for Village (“DRA Report”), pp. 3-5, 3-6)

(b) **Average Water Use Per Customer** – There was no difference in the average water use per customer (except for rounding) between California American Water and DRA. (Application, Exh. A, Chap. 5, Sec. 2, pp. 2 – 4; Exh. 27, DRA Report, p. 2-2 – 2-3)

(c) **Unaccounted for Water Percentages** – DRA corrected an error in the unaccounted for water calculation. The resulting change to unaccounted for water and total production is as follows:

	CAW (ccf)	DRA (ccf)	Settlement
UAW	450,200	477,900	477,900
Production	8,225,900	8,253,600	8,253,600

(Application Exh. A, Chap. 5, Sec. 2, p. 4; Application Exh. A, Chap. 14, Sec. 1, p. 2; Application Exh. D, pp. 14, 21, 22, 32, 38, 39; Exh. 10, Direct Testimony of Sherrene Chew (“Chew Direct”), p. 8; Exh. 16, Rebuttal Testimony of Sherrene Chew (“Chew Rebuttal”), pp. 13, 14, 17; Exh. 27, DRA Report, pp. 2-3, 2-6, 2-7, 2-11, 2-12)

3.3 Operations and Maintenance Expenses

(a) **Pumping Expense – Misc.** – The parties have agreed to a compromise amount that addresses both DRA’s concern with including high years in estimates and California America Water’s view that 2002 contains legitimate costs. (Application Exh. A, Chap. 6, Sec. 1, p. 3; Exh. 27, DRA Report, pp. 3-4, 3-8)

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
3.9	1.1	2.2

(b) **Water Treatment – Misc.** –Department of Health Services (DHS) fees were incurred in 2005, but classified to the wrong account. DRA agreed with California American water that the application of a five-year average in both areas mitigated the misclassification. (Application Exh. A, Chap. 6, Sec. 1, pp. 3, 4; 3/8/04 Update to Application (“App. Update”), Exh. A, Chap. 6, Sec. 1, p. 3; Exh. 27, DRA Report, pp. 3-5, 3-8)

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

7.4	3.0	7.4
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(c) **T&D – Misc.** – For the purpose of the settlement, California American Water agreed to DRA’s estimate, which reflects a decreasing trend. (Application Exh. A, Chap. 6, Sec. 1, p. 3; App. Update Exh. A, Chap. 6, Sec. 1, p. 3; Exh. 27, DRA Report, p. 3-8)

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
57.1	54.3	54.3

(d) **Customer Accounts – Collection and Misc.** – The difference between the parties was based on the use of different inflation factors. Because of the difference was nominal, California American Water agreed to accept DRA’s estimate. (Application Exh. A, Chap. 6, Sec. 1, p. 3; Exh. 10, Direct Testimony of Stacey A. Fulter (“Fulter Direct”), p. 3; Exh. 27, DRA Report, p. 3-5)

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
5.7	5.6	5.6

(e) **Customer Accounts – Misc.** – The difference between the parties was based on the use of different inflation factors. Because of the difference was nominal, California American Water agreed to accept DRA’s estimate. (Application Exh. A, Chap. 6, Sec. 1, p. 3; Exh. 10, Fulter Direct, p. 3; App. Update Exh. A, Chap. 6, Sec. 1, p. 3; Exh. 27, DRA Report, p. 3-6)

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
62.3	53.8	53.8

(f) **Water Treatment - Equipment** – The difference between the parties was based on the use of different inflation factors. Because of the difference was nominal, California American Water agreed to accept DRA’s estimate. (Application Exh. A, Chap. 6, Sec. 1, p. 4; Application Exh. A, Chap. 9, Sec. 1, p. 2-5; Application Exh. A, Chap. 10, Sec. 1, p. 2-7; App. Update Exh. A, Chap. 10, Sec. 1, p. 2-7; Exh. 27, DRA Report, pp. 3-6, 3-8)

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
66.1	50.5	50.5

(g) **T&D Misc. Plant** – The Parties agree to a number that is a compromise between their estimates. This would address both DRA’s concern with including high years in estimates and California American Water’s view that 2002 contains legitimate costs. (Application Exh. A, Chap. 6, Sec. 1, p. 4; App. Update Exh. A, Chap. 6, Sec. 1, p. 4; Exh. 27, DRA Report, pp. 3-6 – 3-7, 3-8)

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
92.1	81.3	87.1

(h) **Purchased Water** – The parties agree that purchased water costs had to be updated to reflect the production numbers that resulted from the correction to unaccounted for water. (Application Exh. A, Chap. 4, Sec. 1. p. 2; Application Exh. A, Chap 4, Sec. 2, p. 1; Application Exh. A, Chap. 6, Sec. 1, pp. 1, 3; Application Exh. A, Chap. 14, Sec. 1, p. 3; Application Exh. A, Chap. 15, Sec 1; Exh. 10, Fulter Direct, pp. 3, 4; App. Update Exh. A, Chap. 6, Sec. 1, pp. 1, 3; Exh. 27, DRA Report, pp. 3-4, 3-8)

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
12,646.2	12,646.2	12,651.6

(i) **Purchased Power** – The parties agree that purchased power costs had to be updated to reflect the production numbers that resulted from the correction to unaccounted for water. (Application Exh. A, Chap. 4, Sec. 1, p. 2; Application Exh. A, Chap. 4, Sec. 2, p. 1; Application Exh. A, Chap. 6, p. 2; Application Exh. A, Chap. 6, Sec. 1, pp. 1, 3; Application Exh. A, Chap. 15, Sec. 1; Exh. 10, Fulter Direct, p. 4; App. Update Exh. A, Chap. 6, Sec. 1, pp. 1, 3; Exh. 27, DRA Report, pp. 3-4, 3-8)

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
270.6	270.6	271.5

3.4 Administrative and General Expenses

(a) **Property Insurance** – For the purpose of compromise, the parties have agreed to a number that is at the midpoint between the two estimates. This would address both DRA's concern with including high years in estimates and California American Water's view that property insurance rates will continue to rise as they have in recent years. (Application Exh. A, Chap. 6, Sec. 1, p. 5; Exh. 10, Fulter Direct, pp. 5; App. Update Exh. A, Chap. 6, Sec. 1, p. 5; Exh. 27, DRA Report, pp. 4-3, 4-9)

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
165.8	133.3	149.6

(b) **Worker's Compensation Injuries and Damages** – For the purpose of compromise, the parties have agreed to a number that is at the midpoint between the two estimates. (Application Exh. A, Chap. 6, Sec. 1, p. 5; Exh. 10, Fulter Direct, pp. 5; App. Update Exh. A, Chap. 6, Sec. 1, p. 5; Exh. 27, DRA Report, pp. 4-3, 4-4, 4-9)

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
49.6	44.9	47.2

(c) **Miscellaneous General** – This settlement number is based on the removal of charitable contributions, conservation expenses (which will be addressed as separate expense items as discussed below, and community relations expenses. (Application Exh. A, Chap. 6, Sec. 1, p. 5; Exh. 10, Fulter Direct, pp. 6; App. Update Exh. A, Chap. 6, Sec. 1, p. 5; Exh. 27, DRA Report, pp. 4-5, 4-6, 4-9)

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
244.2	215.7	228.7

(d) **Outside Services** - The difference between the parties was based on the use of different inflation factors. Because of the difference was nominal, California American Water agreed to accept DRA’s estimate. (Application Exh. A, Chap. 4, Sec. 1, p. 2; Application Exh. A, Sec. 6, p. 3; Application Exh. A, Chap. 6, Sec. 1, p. 1; App. Update Exh. A, Chap. 6, Sec. 1, pp. 1, 5; Exh. 27, DRA Report, pp. 4-5, 4-6, 4-9)

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
16.4	16.3	16.3

(e) **Rents** – The difference between the parties was based on the use of different inflation factors. Because of the difference was nominal, California American Water agreed to accept DRA’s estimate. (Application Exh. A, Chap. 4, Sec. 1, pp. 1-3, Application Exh. A, Chap. 6, p. 4; Application Exh. A, Chap. 6, Sec. 1, pp. 1, 5; Application Exh. A, Chap.

15, Sec. 1; Exh. 10, Fulter Direct, p. 5; App. Update Exh. A, Chap. 6, Sec. 1, pp. 1, 5; Exh. 27, DRA Report, pp. 4-6, 4-9)

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
277.3	275.4	275.4

3.5 Utility Plant in Service

Following extensive exchanges of information and negotiations on the rationale for each requested plant item, California American Water and DRA have reached an agreement on each item, as set forth below. The original and revised positions of the Parties and the explanations for the settlement positions on each plant item are set out in Sections (a) to (h), below.

(a) Services Replacement – 05510085 – This compromise amount addresses DRA’s concerns regarding lower level of expenditures in the past, as well as California American Water’s experience with increased level of spending in the most recent years. (Exh. 11, Direct Testimony of Mark Schubert, P.E. (“Schubert Direct”), attachment F; Exh. 27, DRA Report, pp. 7-2, 7-3)

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
\$2,400	\$1,591.5	\$1,995.8 over 3 years

(b) Process Plant Replacements- 05510093 –California American Water agrees to accept DRA’s estimate. (Exh. 11, Schubert Direct, attachment M; Exh. 21, Schubert Rebuttal, p. 39; Exh. 27, DRA Report, pp. 7-2, 7-3, 7-4)

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
\$360.0	\$210.0	\$120.0 over 3 years

(c) **Process Plant Additions** – This compromise amount addresses DRA’s concerns regarding low level of expenditures in the past, as well as California American Water’s expectation of increased level of spending in the next three years. (Exh. 11, Schubert Direct, attachment N; Exh. 21, Schubert Rebuttal, p.40; Exh. 27, DRA Report, pp. 7-2, 7-4, 7-5)

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
\$190	\$0	\$90.0 over 3 years

(d) **Lawrence Drive Facility Relocation – 05510507** – DRA agrees to California American Water’s estimate and that no Advice Letter is required because the project is expected to be completed in 2007. (Exh. 11, Schubert Direct, pp. 20, 29, attachment U; Exh. 21, Schubert Rebuttal, pp. 37, 41, 42; Exh. 27, DRA Report, pp. 7-2, 7-10)

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
\$817.0	\$817.0 (AL)	\$817.0

(e) **Shopping Center Res. Rehab.** – DRA agrees to California American Water’s estimate and that no Advice Letter is required because the project’s scope of work, time schedule and cost estimates are not uncertain. (Exh. 11, Schubert Direct, pp. 20, 31-33, attachment W; Exh. 21, Schubert Rebuttal, pp. 37, 42, 43, Exhibit O; Exh. 27, DRA Report, pp. 7-2, 7-11, 7-12)

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
\$1,617	\$1,617 (AL)	\$1,617

(f) **Reservoir Improvements - 005510503** – The parties agree to recognize a total of \$2,827.0 for all 15 reservoirs over three years. This settlement amount addresses the need to improvement multiple reservoirs in the Village District, as well as DRA’s concerns that California American Water’s initial mobilization and demobilization estimates were too high. (Exh. 11, Schubert Direct, pp. 19, 24, 25, attachment Q; Exh. 21, Schubert Rebuttal, pp. 34, 43, 44, Exhibit O; Exh. 27, DRA Report, pp. 7-2, 7-5, 7-6)

<u>Item</u>	<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
	<u>CAW</u>	<u>DRA</u>	
TOTAL	\$4,036.0	\$2,222.0	\$2,827.0
Moorpark Reservoir	\$258	\$107	
Industrial Tank I	\$255	\$117	
Industrial Tank II	\$255	\$117	
Los Posas Tank I	\$284	\$138	
Wildwood Tank	\$262	\$138	
Potrero Reservoir I	\$265	\$158	
Los Robles Reservoir I	\$245	\$138	
Los Robles Reservoir II	\$245	\$138	
Green Ridge Reservoir	\$291	\$138	
Las Posas Reservoir II	\$284	\$138	
Orbis Reservoir	\$256	\$138	
Janss Reservoir	\$298	\$191	
Deer Ridge Reservoir	\$303	\$191	
White Stallion Reservoir	\$256	\$138	
Pace Reservoir	\$279	\$151	

3.6 Depreciation Expense and Reserves

(a) **Depreciation Annual Accrual** – DRA agrees with California American Water that the depreciation should be calculated by primary utility plant accounts. Rates approved by the Commission in the prior rate cases should be used to calculate depreciation accruals for forecasted years 2007 through 2009. These individual depreciation percentages should be applied to forecasted utility plant to calculate the annual accruals and depreciation reserve. Both California American Water and DRA had errors in their depreciation calculations, which have been corrected for this settlement. (Application Exh. A, Chap. 4, Sec. 1, p. 1; Application Exh. A, Chap. 10; Application Exh. A, Chap. 14, Sec. 1, p. 6; Exh. 10, Direct Testimony of Patrick Pilz (“Pilz Direct”), p. 4; App. Update Exh. A, Chap. 10; Exh. 20, Rebuttal Testimony of Patrick Pilz (“Pilz Rebuttal”), pp. 2-5; Exh. 27, DRA Report, pp. 8-1 – 8-4)

Year	Original Positions (000s)		Settlement (000s)
	CAW	DRA	
2008	\$1,411.3	\$835.9	\$1,430.6
2009	\$1,533.8	\$740.5	\$1,528.6

3.7 Special Requests

(a) **Special Request #4 Low Income Ratepayer Assistance (LIRA)**

(i) **LIRA Eligibility** – California American Water agrees to provide LIRA credit to qualified non-profit group living facilities, agricultural employee housing facilities and migrant farm worker housing centers. The eligibility criteria for these is the same as those of the California Alternative Rates for Energy (CARE) program for gas and electric service in the same areas.

(ii) **LIRA Verification** – California American Water has the option of conducting post-enrollment verification.

(Application p. 7; Application Chap. 13, Sec. 1, p. 3 ; Exh. 11, Stephenson Direct, pp. 3, 4, 9, 10, 36, 37, 40, Exhibit 3; Exh. 23, Stephenson Rebuttal, pp. 2, 23, 24, 26; Exh. 27, DRA Report, pp. vi, 12-1 – 12-7)

(b) Special Request #6 – Conservation Programs

(i) **Conservation Funding** - The above annual conservation budget level amount will be in rates for the rate case period. This is the maximum level of funding authorized, beyond which California American Water cannot recover. Because parties have levelized a conservation budget that increased from the first year to the following year(s), California American Water and DRA agree these budget estimates will not be escalated in the attrition years.

(ii) **One-Way Balancing Account Subject to Refund** – The settled amount is subject to a one-way balancing account subject to refund to customers of any under expenditures to be amortized at the end of the rate case period.

(iii) **Flexibility** – California American Water and DRA agree that the company has the flexibility to move dollars between Best Management Practices (BMPs) as necessary, including into BMP 12 funding as needed to provide for additional personnel for program implementation.

(v) **Reporting Requirement** – California American Water shall provide DRA and the Commission all reports required by the California Urban Water Conservation Council (CUWCC) at the time required by the CUWCC.

(Application p. 8; Application Exh. A, Chap. 13, Sec. 1, p. 2; Application Exh. D, Urban Water Management Plan, Chapter 6, p. 30; Exh. 10, Direct Testimony of David Morse (“Morse Direct”); Exh. 11, Stephenson Direct, pp. 9, 10, 37, 38, Exh. 11, Direct Testimony of Gary Valladao (“Valladao Direct”), pp. 3, 5, 6; Exh. 19, Rebuttal Testimony of David Morse (“Morse Rebuttal”); Exh. 23 Stephenson Rebuttal, pp. 37, 38; Exh. 27, DRA Report, pp. vii, Chap. 12)

(vi) BMP Expenses

BMP 1 – Water Audits

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
\$201	\$150	\$175 over three years

BMP 2 – Low Flow Fixtures

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
\$90.0	\$60.0	\$60.0 over three years

BMP 5 – Large Landscape Conservation

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
\$77.5	\$15.0	\$15.0 over three years

BMP 6 – Washing Machine Rebate

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
\$60	\$45	\$80 over three years

BMP 7 – Public Information Programs

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
<u>CAW</u>	<u>DRA</u>	
\$105	\$60	\$60 over three years

BMP 8 – School Education Programs

<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
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<u>CAW</u>	<u>DRA</u>	
\$120	\$60	\$60 over three years

BMP 9 – Commercial Large Landscape Conservation

<u>Original Positions (000s)</u>	<u>Settlement (000s)</u>	
<u>CAW</u>	<u>DRA</u>	
\$68	\$15	\$15 over three years

BMP 14 – Ultra-Low Flow Toilet Program

<u>Original Positions (000s)</u>	<u>Settlement (000s)</u>	
<u>CAW</u>	<u>DRA</u>	
\$60	\$50	\$75 over three years

(c) Special Request #5 – American Jobs Creation Act – California

American Water must provide DRA with the actual deduction amount when it has been determined. (Application p. 8; Application Exh. A, Chap. 13, Sec. 1, p. 4; Exh. 10, Direct Testimony of Rodney L. Jordan (“Jordan Direct”), pp. 9, 10; Exh. 11, Stephenson Direct, pp. 38, 39; Exh. 23, Stephenson Rebuttal, pp. 29, 38; Exh. 27, DRA Report, pp. vii-viii, 12-19 – 12-21)

(d) Special Request #6 – Balancing and Memorandum Account Balances

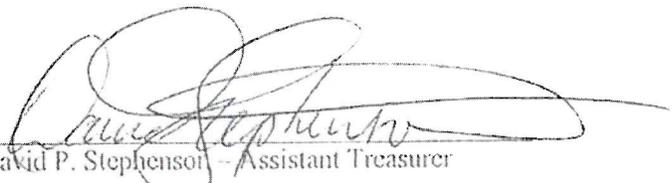
– recovered according to CPUC rules. (Application p. 8, Application Exh. A, Chap. 13, Sec. 1, p. 4; Exh. 11, Stephenson Direct, p. 39; Exh. 23, Stephenson Rebuttal, pp. 2, 30; Exh. 27, DRA Report, pp. viii, 12-21)

Dated: July 5, 2007

By: 
Dana Appling, Director, Division of Ratepayer
Advocates

DIVISION OF RATEPAYER ADVOCATES
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Dated: July 5, 2007

By: 
David P. Stephenson - Assistant Treasurer

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