ATTACHMENT A

- Settlement Agreement as to Certain Issues Between the Division of Ratepayer Advocates and California American Water Company on the Revenue Requirements – LARKFIELD
- Settlement Agreement as to Certain Issues Between the Division of Ratepayer Advocates and California American Water Company on the Revenue Requirements – SACRAMENTO DISTRICT

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 - LARKFIELD

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Date: July 5, 2007

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
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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 – LARKFIELD 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 **<u>Issues Not Settled</u>**

(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")

(ii) Special Request Number 3 - Consolidation of the Sacramento and Larkfield Districts

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 Larkfield District ("Application"), Exh. B, Chap. 1, pp. 1 & 9; Exh. 9, Direct Testimony of David P. Stephenson ("Stephenson Direct"), pp. 60 & 61; 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.

3.0 LARKFIELD 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 cost of capital, whether or not rates should be based on the inclusion of replacement plant additions under ISRS, whether or not the Sacramento District rates should be consolidated with the Larkfield District's rates, and the level of Regulatory Expenses and Employee Pensions and Benefits Expenses.

SCENARIO	2008 INCREASE
DRA increase from present rates based on partial settlement, unconsolidated	37.54%
California American Water increase from 2007 present rates based on partial settlement, unconsolidated	43.40%

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 accounts between California American Water and DRA. (Exh. 26, Report on the Results of Operations for Larkfield ("DRA Report"), p. 3-5)

(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. 26, DRA Report, p. 2-1 – 2-3)

(c) Unaccounted for Water Percentages – There was no difference in projected unaccounted for water per service area between California American Water and DRA. (Stephenson Direct, Attachment 2; Exh. 26, DRA Report, pp. 2-3, 2-7, 2-8, 2-12, 2-13)

3.3 Operations and Maintenance Expenses

(a) Source of Supply – 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; /8/07 Update to Application ("App. Update"), Exh. A, Chap. 6, Sec. 1, p. 3; Exh. 26, DRA Report, pp. 3-4 & 3-8)

Original Positions (000s)		Settlement (000s)
CAW	DRA	
10.3	10.2	10.2

(b) Water Treatment – 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. Update, Exh. A, Chap. 6, Sec. 1, p. 3; Exh. 26, DRA Report, pp. 3-4, 3-8)

Original Positions (000s)		Settlement (000s)
CAW	DRA	
44.6	43.7	43.7

(c) T&D 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. Update, Exh. A, Chap. 6, Sec. 1, p. 3; Exh. 26, DRA Report, pp. 3-7, 3-8)

Original Positions (000s)		Settlement (000s)
CAW	DRA	
21.2	20.8	20.8

(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. 26, DRA Report, pp. 3-5, 3-8)

Original Positions (000s)		Settlement (000s)
CAW	DRA	
9.9	9.7	9.7

(e) Source of Supply - Wells – California American Water and DRA compromised on an amount that was at the mid-point between their two estimates that takes into account the actual historical expenses incurred as well as the variable nature of those expenses. (Application, Exh. A, Chap. 6, Sec. 1, p. 4; App. Update, Exh. A, Chap. 6, Sec. 1, p. 4; Exh. 26, DRA Report, pp. 3-6, 3-8)

Original Positions (000s)		Settlement (000s)
CAW	DRA	
1.3	0.5	0.9

(f) Pumping - Power Production – 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. 26, DRA Report, pp. 3-6, 3-8)

Original Positions (000s)		Settlement (000s)
CAW	DRA	
3.6	3.5	3.5

(g) T&D Hydrants – California American Water and DRA compromised on an amount that was at the mid-point between their two estimates that takes into account the actual historical expenses incurred as well as the variable nature of those expenses. (Application, Exh. A, Chap. 6, Sec. 1, p. 4; App. Update, Exh. A, Chap. 6, Sec. 1, p. 4; Exh. 26, DRA Report, pp. 3-7, 3-8)

Original Positions (000s)		Settlement (000s)
CAW	DRA	
1.6	1.0	1.3

3.4 Administrative and General Expenses

(a) Maintenance of General Plant – California American Water and DRA compromised on an amount that was at the mid-point between their two estimates that takes into account the actual historical expenses incurred as well as the variable nature of those expenses. (Application Exh. A, Chap. 6, Sec. 1, p. 5; Application, Exh. A, Chap. 9, Sec. 2, pp. 2 - 5; Application, Exh. A, Chap. 10, Sec. 1, pp. 2 – 7; Updated App., Exh. A, Chap. 9, Sec. 2, pp. 2-5; Updated App., Exh. A, Chap. 10, Sec. 1, pp. 2 – 7; Exh. 26, DRA Report, pp. 4-3, 4-7)

Original Positions (000s)		Settlement (000s)
CAW	DRA	
.5	.3	.4

(b) Miscellaneous General – The amount agreed to by the parties reflects the removal of charitable contributions and an adjustment to community outreach. (Application,

Exh. A, Chap. 6, p. 3; Updated App., Exh. A, Chap. 6, Sec. 1, p. 5; Exh. 8, Direct Testimony of Stacey A. Fulter ("Fulter Direct"), p. 6; Exh. 26, DRA Report, pp. 4-3, 4-7)

Original Positions (000s)		Settlement (000s)
CAW	DRA	
88.7	84.1	84.2

(c) Office Supplies and Other Expenses - The nominal difference between the parties was based on the use of different inflation factors. The settlement amount represents a compromise between the two positions. (Application Exh. A, Chap. 6, Sec. 1, p. 5; Updated App., Exh. A, Chap. 6, Sec. 1, p. 5; Exh. 26, DRA Report, pp. 4-3, 4-7)

Original Positions (000s)		Settlement (000s)
CAW	DRA	
2.41	2.37	2.40

(d) Outside Services – For compromise purposes, California American Water agreed to DRA's estimate, rounded upwards. (Application Exh. A, Chap. 4, Sec. 1, pp. 1 - 3; Application, Exh. A, Chap. 6, p. 3; Application Exh. A, Chap. 6, Sec. 1, p. 1; Updated App., Exh. A, Chap. 6, Sec. 1, p. 1; Exh. 26, DRA Report, pp. 4-4, 4-7)

Original Positions (000s)		Settlement (000s)
CAW	DRA	
8.0	5.8	5.9

(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; Updated App., Exh. A, Chap. 6, Sec. 1, pp. 1 & 5; Exh. 26, DRA Report, pp. 4-5, 4-7)

Original Positions (000s)		Settlement (000s)
CAW	DRA	
21.14	21.00	21.00

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) Meters Replacement - 05610087 – California American Water and DRA agree on $247,000 for 2007; $5,000 for 2008; and $5,000 for 2009, for a total of $257,000. This agreement is based on California American Water's need to replace most meters in the Larkfield district in 2007 due to age and upgrades to radio read meters. It also reflects a downward adjustment for 2008 and 2009 to reflect the fact that the 2007 large scale meter replacement should result in fewer meter replacements in the following years. (Application, Exh. A, Chap. 12, Sec. 1, p. 2; Exh. 9, Direct Testimony of Andrew Soule, P.E., ("Soule Direct"), p. 11; Exh. 9, Soule Direct, Attachment H; Exh. 17, Rebuttal Testimony of Thomas Glover, P.E. ("Glover Rebuttal"), pp. 3 - 4; Exh. 26, DRA Report, pp. 7-2 - 7-3)

Original Positions (000s)		Settlement (000s)
CAW	DRA	
$310.0	$195.0	$257.0 over 3 years

(b) Treatment Replacement – 05610095 – DRA accepts California American Water's estimate for 2007 and 2008. While this is a recurring project, it recurs on an estimated 10-year cycle, not an annual or even 5-year cycle. (Application, Exh. A, Chap. 12,

Sec. 1, p. 2; Exh. 9, Soule Direct, p. 15 - 16; Exh. 9, Soule Direct, Attachment O; Exh. 17, Glover Rebuttal, pp. 3 – 5, 28 - 29; Exh. 26, DRA Report, pp. 7-2 - 7-3)

Original Positions (000s)		Settlement (000s)
CAW	DRA	
$150.0	$0.0	$150.0 over 2 years

(c) Faught Well – 05610702/ Larkfield Well Treatment Project 05610502 – The parties agree to on a total of $2,048,750 for both projects, to be submitted via a combined advice letter filing once the projects are completed.

The parties agree that the Faught Road Well is justified based on: (1) the operating constraints of the existing wells set forth in the 2004 Operations Plan, (2) the General Order 103 analysis, and (3) the reliability analysis based on the Recommended Standards for Works. Furthermore, the parties agree that the Faught Road Well is needed to address a current deficit and therefore should be funded by current customers. California American Water agreed to reduce the contingency factor for the Faught Road Well to 15%, which is more in keeping with industry practices.

The parties agree that the Larkfield well treatment plant improvements are necessary to maintain reliability of the treatment plant, particularly once the Faught Road well is constructed. California American Water agrees to a reduced contingency factor of 10% for Larkfield well treatment plant improvements. (Exh. 9, Soule Direct, p. 32; Exh. 9, Soule Direct, Attachments V & W; Exh. 17, Glover Rebuttal, pp. 3, 6, 26 – 27, 33 – 34; Exh. 26, DRA Report, pp. 7-2, 7-5 - 7-7)

Item	Original Positions (000s)		Settlement (000s)
	CAW	DRA	
Faught Well	$1,550.0	$0.0	$2,048.75 (combined)
Larkfield WTP	$600.0	$0.0	

(d) Lower Wikiup Main - 05610706 – California American Water accepts DRA's estimate, which reduced the contingency fee from 20% to 10%. (Exh. 9, Soule Direct, p. 30 - 31; Exh. 9, Soule Direct, Attachment Y; Exh. 17, Glover Rebuttal, pp. 3 & 28; Exh. 26, DRA Report, p. 7-7)

Original Positions (000s)		Settlement (000s)
CAW	DRA	
$311.0	$286.0	$286.0

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. 10; Exh. 3, Direct Testimony of Patrick Pilz ("Pilz Direct"), p. 4-5; App. Update Exh. A, Chap. 10; Exh. 20, Rebuttal Testimony of Patrick Pilz ("Pilz Rebuttal"), pp. 2-5; Exh. 25, DRA Report, pp. 8-1 – 8-4)

Original Positions (000s)			Settlement (000s)
	CAW	DRA	
2008	$517.0	$38.7	$490.6
2009	$552.3	$583.9	$499.9

3.7 Special Requests

(a) Special Request #4 – 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 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. 9; Application, Exh. A, Chap. 13, Sec. 1, p. 4; Exh. 9, Stephenson Direct, p. 46; Exh. 23, Stephenson Rebuttal, p. 37; Exh. 26, DRA Report, p. vii, Chapter 12)

(b) Special Request #6 – Request for a Conservation Balancing Account and surcharge -

(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 for 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. 9; Application, Exh. A, Chap. 13, Sec. 1, p. 5; Exh. 9, Stephenson Direct, p. 54 - 56; Exh. 8, Direct Testimony of David Morse ("Morse Direct"); Exh. 23, Stephenson Rebuttal, p. 37 – 38; Exh. 19, Rebuttal Testimony of David Morse ("Morse Rebuttal"); Exh. 26, DRA Report, p. vii, Chapter 12)

(vi) BMP Expenses

BMP 1 – Water Audits

Original Positions (000s)		Settlement (000s)
CAW	DRA	
$55	$45	$45 over three years

BMP 2 – Low Flow Fixtures

Original Positions (000s)		Settlement (000s)
CAW	DRA	
$10.5	$7.5	$7.5 over three years

BMP 5 – Large Landscape Conservation

Original Positions (000s)		Settlement (000s)
CAW	DRA	
$22.5	$0	$0 over three years

BMP 6 – Washing Machine Rebate

Original Positions (000s)		Settlement (000s)
CAW	DRA	
$22.5	$17.5	$17.5 over three years

BMP 7 – Public Information Programs

Original Positions (000s)		Settlement (000s)
CAW	DRA	
$15	$11	$11 over three years

BMP 8 – School Education Programs

Original Positions (000s)		Settlement (000s)
CAW	DRA	
$19.8	$12.6	$12.6 over three years

BMP 9 – Commercial Large Landscape Conservation

Original Positions (000s)		Settlement (000s)
CAW	DRA	
$22.5	$0.0	$0.0 over three years

BMP 14 – Ultra-Low Flow Toilet Program

Original Positions (000s)		Settlement (000s)
CAW	DRA	
$22.5	$17.5	$17.5 over three years

(c) Special Request #7 – American Jobs Creation Act – California American Water must provide DRA with the actual deduction amount before the close of the proceeding. (Application, p. 8; Application, Exh. A, Chap. 8, Sec. 1, p. 1; Application, Exh. A, Chap. 13, Sec. 1, pp. 1 & 5; Exh. 8, Direct Testimony of Rodney L. Jordan ("Jordan Direct"), pp. 15 - 16; Exh. 9, Stephenson Direct, p. 56; Exh. 23, Stephenson Rebuttal, pp. 29 & 38; Exh. 26, DRA Report, pp. vii, 12-28 – 12-30)

(d) **Special Request #8 – Balancing and Memorandum Account Balances** -- to be recovered according to CPUC rules. (Application, p. 9; Application, Exh. A, Chap. 13, Sec. 1, p. 6; Exh. 9, Stephenson Direct, p. 57; Exh. 23, Stephenson Rebuttal, pp. 2 & 30; Exh. 26, DRA Report, pp. vii, 12-30)

Dated: July 5, 2007

By: _____
Dana Appling, Director

DIVISION OF RATEPAYER ADVOCATES
California Public Utilities Commission
505 Van Ness Avenue
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Dated: July 5, 2007

By: _____
David P. Stephenson / Assistant Treasurer

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