Decision **PROPOSED DECISION OF ALJ ROCHESTER** (Mailed 4/23/2012)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of California-American Water Company (U210W) for Authorization to Increase its Revenues for Water Service by $4,134,600 or 2.55% in the year 2011, by $33,105,800 or 19.68% in the 2012, by $9,897,200 or 4.92 % in 2013, and by $10,874,600 or 5.16% in the year 2014.	Application 10-07-007 (Filed July 1, 2010)
And Related Matter.	Application 11-09-016

(See Attachment A for a list of appearances)

DECISION ADOPTING THE 2011, 2012, 2013, AND 2014 REVENUE REQUIREMENT FOR CALIFORNIA-AMERICAN WATER COMPANY

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DECISION ADOPTING THE 2011, 2012, 2013, AND 2014 REVENUE REQUIREMENT FOR CALIFORNIA AMERICAN WATER COMPANY

1. Summary

This decision authorizes a revenue requirement for California-American Water Company's six districts for the years 2011, 2012, 2013 and 2014. The table below illustrates the revenue requirement for the 12 months beginning January 1, 2012, for each of California American Water Company's districts.

Test Year 2012	Adopted Revenue Requirement	Percentage Increase
Larkfield	$3,156,000	26.68%
Los Angeles	$27,283,000	19.81%
Monterey	$49,222,000	17.87%
Monterey Wastewater	$3,444,000	8.76%
Sacramento	$49,407,000	26.92%
San Diego	$19,671,500	1.47%
Toro	$728,400	76.6%
Ventura	$29,315,000	-4.91%

This decision grants in part and denies in part three separate joint motions for adoption of partial settlements between various parties to the proceeding on diverse issues. This decision also resolves the remaining issues not covered by the three separate settlement agreements. Only the Summary of Earnings tables are included in this decision as Attachment C, however, all tariff pages will be attached to the final decision.

This proceeding remains open for Phase 2.

2. Settled Issues Approved in this Decision

The majority of the issues in this proceeding were settled among various parties and are contained in three separate partial settlement agreements presented to the Commission for adoption. This decision grants in part and denies in part each of the three joint motions for adoption of the partial settlement agreements. The Division of Ratepayer Advocates (DRA) and Mark West Community Services Committee (Mark West) filed comments on the settlement between California American Water Company (Cal-Am) and the Natural Resources Defense Council (NRDC). Mark West also filed comments on the settlement between Cal-Am, DRA and The Utility Reform Network (TURN).

A more complete description of each of the settlements, a list of the signatories to each settlement and parties' comments on the settlements are contained in Attachment B to this decision.

The settled issues we approve in this decision include:

- Customers, Water Consumption and Revenues;
- Operations and Maintenance Expense;
- General Office Revenue Requirement;
- Most Administrative and General Expenses;
- Conservation Program Budgets;
- Ad Valorem, Payroll and Franchise Tax;
- Utility Plant in Service;
- Special Requests (29 of 36 were settled or withdrawn);
- Low-Income Ratepayer Assistance Program in the Monterey County District; and
- Water Action Plans

This decision adopts the majority of the settled issues, with the exceptions listed below. A more detailed discussion of the approved settlement issues is contained in section 6.

3. Settled Issues Not Approved in this Decision

The settled issues we do not approve include:

- Regulatory Expenses
- Special Request #8 – Ventura Main Break
- Special Request #31 - Walerga Special Facilities Fees;
- Non-revenue water reporting as volumes only;
- Non-revenue water reporting for the Monterey County District;
- Revisions to the Penalty/Reward Mechanism for the Monterey County District;
- Special Request #5 to establish a Water Revenue Adjustment Mechanism (WRAM) for the Sacramento District;
- Irrigation Rates for Larkfield, San Diego, Ventura, and Toro in the Monterey County District;
- Billing format changes;
- Advanced Metering Infrastructure;
- Low-income surcredit.

A more detailed discussion of the settlement issues not approved is contained in section 7.

4. Disputed Issues Resolved in this Decision

This decision also resolves the disputed issues not contained in the settlement agreements. Some of the disputed items are:

- Special Requests #4, #11, #14, #19, #24, #32, #34,

- Supervisory Control and Data Acquisition System Update Costs;
- Domestic Production Activities Deduction; and,
- General Office Expense Adjustments.

A more complete discussion and resolution of the disputed items is contained in section 8.

5. Standards of Review

5.1. General Standard of Review

Cal-Am, as the applicant, bears the burden of proof to show that the regulatory relief it requests is just and reasonable and the related ratemaking mechanisms are fair.

5.2. Commission Rules on Settlements

The Commission's Rules of Practice and Procedure (Rules) specifically address the requirements for adoption of proposed settlements in Rule 12.1 *Proposal of Settlements*, and subject to certain limitations in Rule 12.5 *Adoption Binding, Not Precedential*.[1]

Rule 12.1(a) states:

> Parties may, by written motion any time after the first prehearing conference and within 30 days after the last day of hearing, propose settlements on the resolution of any material issue of law or fact or on a mutually agreeable outcome to the proceeding. Settlements need not be joined by all parties; however, settlements in applications must be signed by the applicant….

[1] http://docs.cpuc.ca.gov/published/RULES_PRAC_PROC_/105138-11.htm#P623_143939.

> When a settlement pertains to a proceeding under a Rate Case Plan or other proceeding in which a comparison exhibit would ordinarily be filed, the motion must be supported by a comparison exhibit indicating the impact of the settlement in relation to the utility's application and, if the participating staff supports the settlement, in relation to the issues staff contested, or would have contested, in a hearing.

Rule 12.1(d) provides that:

> The Commission will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with the law, and in the public interest.

Rule 12.5 limits the future applicability of a settlement:

> Commission adoption of a settlement is binding on all parties to the proceeding in which the settlement is proposed. Unless the Commission expressly provides otherwise, such adoption does not constitute approval of, or precedent regarding, any principle or issue in the proceeding or in any future proceeding.

6. Discussion of the Settled Issues Approved by This Decision

All parties to the proceeding received notice of the settlement conference. Cal-Am, DRA, TURN, NRDC, the Monterey Peninsula Water Management District (Monterey Peninsula), Mark West and the City of Bradbury participated in the all-party settlement conferences. However, only Cal-Am, DRA, NRDC and TURN are signatories to the various partial settlement agreements.

6.1. Customers, Non-Revenue Water, and Operating Revenues

The table below represents the settlement between the parties for the total number of customers of all types, non-revenue water,[2] and operating revenue for all districts for test year 2012.

Table 1

Test Year 2012	Customers	Non-revenue Water (ccf)	Operating Revenues
Larkfield	2,428	28,717	$2,491,281
Los Angeles	27,900	598,083	$23,071,877
Monterey	43,389	580,219	$45,344,403
Sacramento	57,373	1,841,304	$38,926,558
San Diego	20,887	130,600	$16,658,521
Ventura	20,834	416,193	$25,874,642

Average consumption per customer is included in this portion of the settlement. However, because each district has various types of customers, the aggregate amounts for each district are not meaningful and therefore are not included in the table.

The settlements do not provide for any assumed level of improvement in non-revenue water for the duration of this rate case cycle and the totals are based on Cal-Am's 2009 actual non-revenue water. However, as discussed in section 6.7., the parties have agreed to develop water action plans to reduce non-revenue water in all Cal-Am's districts. Those plans will be presented in Cal-Am's next general rate case. For that reason we find the settlements' non-revenue water for the districts other than Monterey are in the public interest.

[2] Non-revenue water is the difference between the amount of water produced by Cal-Am and the amount of water billed to customers.

The non-revenue water amounts for the Monterey County District are discussed in more detail in section 7.6.

The settlement on the consumption figures requires that Cal-Am, NRDC, TURN, and DRA must agree to a rate design for each district. In the event no rate design agreement is reached, DRA reserves the right to withdraw from the forecasted consumption agreement and has agreed not to oppose the original forecast requested by Cal-Am in its application.

6.2. Operations and Maintenance

Of the 34 operations and maintenance accounts contained in the settlement, the parties found Cal-Am's initial estimates for 29 of the accounts reasonable. For the other five accounts (purchased water, purchased power, transmission and distribution maintenance, meter reading and uncollectible expense), the parties adopted a compromise.

In its comments on the settlement regarding operations and maintenance Account 711 (Source of Supply – Wells), Mark West recommends that more current data be used to evaluate the need for the Faught Road Well in the Larkfield District. Mark West suggests that any supply deficit be addressed by first seeking additional supply from the Sonoma County Water Agency and that Cal-Am seek a service connection moratorium in compliance with General Order 103-A.

In the settlement, Cal-Am agrees to actively pursue purchasing additional water from the Sonoma County Water Agency rather than constructing the Faught Road Well. Additionally, Cal-Am filed A.11-09-016 on September 23, 2011 seeking a service connection moratorium in the Larkfield district. The December 12, 2011, revised scoping memo established a Phase 2 in the proceeding and A.11-09-016 was consolidated with the proceeding. Cal-Am's

requested service connection moratorium in the Larkfield District will be addressed in Phase 2.

6.3. Adjustments to the General Office Revenue Requirement

DRA recommended 16 adjustments to Cal-Am's initial general office expense estimates, which in turn reduced the general office revenue requirement to be recovered from ratepayers. The table below summarizes the settlement on 12 of the recommended adjustments. The other four adjustments to the general office revenue requirement remain in dispute.

Table 2

Test Year 2012	Cal-Am	DRA	Settlement
Incentive Compensation Recovery	$1,333,640	$532,435	$666,820
Business Development Expense	$138,670	$0	$0
Charitable Contributions	$62,988	$0	$0
Legislative and Political Influence	$12,670	$0	$0
Administrative Expense	$84,624	$0	$22,066
Sales & Marketing	$81,232	$0	$0
Post-Retirement Benefits Other than Pensions	$1,194,988	$741,652	$800,327
Employee Savings Plan	$409,578	$366,088	$409,578
Employee Expense	$274,747	$167,952	$221,249
Insurance	$2,510,301	$1,755368	$1,755,368
Software & ITS Depreciation	$1,551,018	$1,384,761	$1,551,018

The parties settled on regulatory expenses, but we do not adopt the settlement on regulatory expenses. Regulatory expenses are resolved in section 7.3.

6.4. Conservation

The table below summarizes the settlement on a 3-year conservation budget for Cal-Am's Monterey County District and Monterey Peninsula.

Table 3

District	Cal-Am	DRA	Settlement
Monterey	$4,285,495	$3,020,627	$3,055,375
Monterey Peninsula Water Mgmt. District	$1,660,200	$1,112,200	$1,085,200

Parties also agreed to continue the Cal-Am -Monterey Peninsula joint conservation report and the water conservation program annual summary report for each district indicating water savings per year, per measure and lifetime measure of savings for each program. Parties also agree to include 10 random audits per year for each program in the annual report.

The table below summarizes the annual conservation budget for Cal-Am's districts other than Monterey.

Table 4

Test Year 2012	Cal-Am	DRA	Settlement
Larkfield	$53,321	$29,386	$29,386
Los Angeles	$374,922	$138,877	$173,877
Sacramento	$800,243	$318,310	$455,200
San Diego	$282,654	$139,277	$153,277
Ventura	$524,446	$215,122	$234,122

The conservation budgets for Larkfield, Los Angeles, Sacramento, San Diego and Ventura will be increased by a combined labor/non-labor weighted escalation rate for inflation of 1.0266 for years 2013 and 2014.

The parties agree to continue tracking conservation expenses in a capped, one-way balancing account and refund to ratepayers any unspent funds on December 31, 2014.

6.5. Utility Plant in Service

This section of the settlement resolves, among other issues, escalation rates, overhead, recurring projects, in-progress projects, new investment projects, advice letter projects, and memorandum accounts. The resolution of each issue was achieved by one party accepting the position of another or by a compromise between the two positions.

In its comments on the settlement, Mark West fundamentally agrees with the settlement on the issue of a special facilities fee or connection fee for the Larkfield District, but suggests that certain conditions be added. Mark West recommends that the Special Facilities Fee be implemented as soon as possible and that new customers pay for constructing the Faught Road Well since Mark West believes the Faught Road Well is unnecessary.

In the settlement, the parties agree that a connection fee should be implemented as soon as possible and that the monies collected would be directed at funding new capital projects.

6.6. Special Requests

The settlement resolves 29 of Cal-Am's 36 special requests; 24 were settled, three were withdrawn, one has been moved to Phase 2 of this proceeding and

one is no longer in dispute as the issue was settled in another proceeding.[3] Some examples of the settled special requests are described below.

6.6.1. Special Request #1 – Change to Monthly Meter Reading

The parties agree that the Los Angeles County, Sacramento and San Diego County Districts change from bi-monthly to monthly metering reading, adding five meter reader positions and including all payroll and benefit expenses. Cal-Am agrees not to include the cost for mailing service, bill forms and bank service charges in the revenue requirement for this proceeding.

In its comments on the settlement between Cal-Am and NRDC, DRA initially opposed the settlement on Special Request #1. However, during settlement talks Cal-Am provided sufficient analysis to satisfy DRA that the benefit was near or equal to the cost. DRA ultimately incorporated this provision into the later settlement it reached with Cal-Am and NRDC. DRA also ultimately incorporated the section regarding Water Action Plans into the settlement it reached with Cal-Am and NRDC.

This issue was included in the partial settlement agreement between Cal-Am and NRDC. DRA initially recommended rejection of the issue, but in the more comprehensive settlement between Cal-Am, DRA and NRDC, the issue was settled.

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[3] Special Request #31 – Walerga Special Facilities Fees was moved to Phase 2 and Special Request #18 – Contamination Proceeds, was resolved by Decision (D.)10-10-018 and D.10-12-058.

6.6.2. Special Request #6 – Continue WRAM/Modified Cost Balancing Account (MCBA)

The parties agree that Cal-Am shall continue all WRAMs and MCBAs under the terms of the previously authorized pilot programs. The parties agree to abide by any decision in Application (A.)10-09-017, the currently open proceeding to determine the amortization of WRAM-related accounts. The parties further agree that Cal-Am shall close the Incremental Cost Balancing Accounts in the San Diego County and Ventura County Districts and shall establish MCBAs in these districts to be netted with any WRAM balances prior to amortization in the same manner as the WRAM/MCBAs in the Los Angeles and Larkfield districts.

The settlement on this issue was developed prior to Cal-Am filing an application to withdraw from A.10-09-017. On December 12, 2011, a revised scoping memo was issued establishing Phase 2 of this proceeding that will include a review of Cal-Am's WRAM/MBCA mechanisms. Therefore, we approve the settlement on this issue with the proviso that a decision in Phase 2 of this proceeding may revise Cal-Am's WRAM/MCBA program.

In its comments on the settlement relating to Special Request #6, Mark West objects to the continuation of the Larkfield District WRAM/MCBA primarily claiming that the under-collections accruing to the balancing account are not all related to conservation rate design.

Although the settling parties agree that the WRAM and MCBA should continue in the Larkfield District, the settlement recognizes that the current WRAM/MCBA amortization issue is being dealt with in A.10-09-017 and the parties agree to abide by any decision in that proceeding. Additionally, Phase 2

of this proceeding will provide Mark West with an opportunity to present testimony addressing the concerns raised in its comments on the settlement.

6.6.3. Special Request #9 – Eliminate Distribution System Improvement Charge (DSIC) in the Los Angeles District

The parties agree to eliminate the DSIC in the Los Angeles District. DRA recommends that the Commission require Cal-Am to report and make available to the Commission the results of the American Water Works Company currently ongoing research project regarding predicting main failures. The parties also agree to support and advocate for methods to improve Cal-Am's data collection methods to utilize failure prediction models already commercially available.

6.6.4. Special Request #10 – Duarte Irrigation System Water Use Restriction

The parties agree that day and time of use restrictions will become effective upon Cal-Am filing a Tier 1 Advice letter and that for Test Year 2012, Cal-Am shall only issue warnings to customers who violate the day and time of use restrictions. In 2013 Cal-Am may impose penalties if peak use in 2012 continues to necessitate supplementation of the system with potable water.

6.6.5. Special Request #12 – Remove the Tariff in Toro

The parties agree to Cal-Am's request to eliminate the Public Fire Hydrant Tariff for the Toro service area as there are currently no customers on this tariff. Parties agree that the elimination of the Public Fire Hydrant tariff will become effective five days after Cal-Am files a Tier 1 Advice Letter following a final decision in this general rate case.

6.6.6. Special Request #13 – File Plans on All Items Required for General Order 103-A Compliance

Cal-Am states that it is generally in compliance with General Order 103-A except for the following areas:

- Some water supply is not coming from a permitted source in the Monterey County District;
- The Larkfield District and the Duarte subsystem in the Los Angeles District do not meet the Potable Water System Capacity;
- The required system maps do not include:
  - All mains;
  - Type of material for all mains;
  - Location and size of valves;
  - Location of hydrants; and
- Current records do not include:
  - Location, size and material of each service line;
  - A schematic drawing of all pumping stations, water or wastewater plants to show the size and location of all major equipment, pipelines, connections, valves and other equipment; and
  - Construction date of all plant.

Cal-Am states that it is in the process of developing an Operations and Maintenance plan that will address the areas in which it is out of compliance with General Order 103-A. The parties agree that Cal-Am shall provide one quarterly status update on the Operations and Maintenance plan development before September 30, 2011, and file plans on all areas in which it is out of compliance with General Order 103-A by December 31, 2011.

6.6.7. Special Request #14 – Recover all Balancing and Memorandum Accounts

The parties agree to global terms of recovery for the majority of Cal-Am's 37 memorandum and balancing accounts. Cal-Am's proposals for about half of the accounts are unopposed and 12 balancing or memorandum accounts are eliminated. Cal-Am's request for recovery of memorandum and balancing accounts for the Monterey County District is not part of the settlement. Interest on all settled accounts will accrue at the 90-day commercial paper rate.

6.6.8. Special Request #16 – Memorandum Account for Chromium 6

The parties agree that Cal-Am shall recover a total of $164,208 in base rates amortized over three years for well testing and data collection expenses and to study Chromium 6 treatment technologies. Based on this agreement to recover expenses, Cal-Am withdraws Special Request #16 from the general rate case.

6.6.9. Special Request #20 – Amortization of Depreciation Study

The parties agree that the amortization of depreciation study was reasonable and that Cal-Am shall recover $60,000 amortized over six years beginning in 2012.

6.6.10. Special Request #21 – Recover All American Water Service Company (Service Company)[4]Costs

If the Commission orders an audit of Cal-Am, the parties agree that Cal-Am will file a Tier 1 advice letter to establish a customer surcharge to recover the costs of the Division of Water and Audits Contract 10PS5881.

6.6.11. Special Request #23 – Retire the Bradbury Irrigation System

The parties agree that Cal-Am shall retire the Bradbury irrigation system and transfer the customers to the potable system during the years 2015 to 2017.

6.6.12. Special Request #25 – Fire Flow Test Fee

The parties agree to charge fire flow test fees to the parties causing the expense rather than distributing it among all customers. The parties agree that $500 is a reasonable fee covering all expenses and that it will not be increased for three years (2012-2014). The $500 fire flow test fee will become effective 5 days after Cal-Am files a tier 1 Advice Letter. The tariffs for this fee are attached to the revenue requirement settlement at Appendix 3-5.

6.6.13. Special Request #26 - Finalize Citizens Acquisition Premium

The parties agree on a revenue requirement schedule for the recovery of and return on the Citizens Acquisition Premium through 2041. The allocations will be 59% to the legacy Cal-Am water districts (San Diego, Ventura, Monterey and Los Angeles) and 41% to the legacy Citizen's districts (Sacramento and

[4] American Water Service Company provides services to all American Water Works Inc., subsidiaries and its costs are allocated among the various subsidiaries.

Larkfield). Among the two legacy groups, amounts will be allocated to the individual districts based on customer counts.

6.6.14. Special Request #27 - Annual Depreciation Updates

The parties agree to a specific calculation of the annual accruals to the depreciation reserve. Cal-Am shall review and submit the results to Division of Water and Audits annually with a request to implement the results for book depreciation purposes. Cal-Am is to submit the results annually on July 1 based on prior year December 31 balances.

6.6.15. Special Request #30 - Duarte Irrigation Rate Design

The parties agree not to implement inclining block rates for the Duarte irrigation system. Instead, the irrigation sector rates will be increased proportionately by the same percentage as that authorized by the Commission for the overall revenue requirement increase for the Duarte system. The irrigation system will be retired in the next general rate case and the customers shifted to the potable water tariff. Cal-Am will make any requests regarding tariffs and rate design during the next general rate case.

6.6.16. Special Request #33 – Allow Rate of Return on Advice Letter Projects

The parties agreed to conditions on interest accrual and a methodology for calculating the weighted average cost of debt for advice letter projects.

6.6.17. Special Request #36 – Low-Income Ratepayer Assistance Program (LIRAP)

The parties agree to establish a LIRAP memorandum account in the Monterey County District consistent with the LIRAP accounts currently established in Cal-Am's other districts. The memorandum account will become

effective upon Cal-Am's filing a Tier 2 advice letter. The draft tariff is attached to the revenue requirement settlement as Appendix 3-6.

6.7. Water Action Plans

The settlement requires Cal-Am to initiate studies and perform analysis to develop fully justified water loss reduction plans. The plans will be based on a cost/benefit analysis that will assist Cal-Am in ensuring that priorities are set for further water loss reduction projects in all of its districts. Some of the information to be collected and reported is a database of repair crew leak reports, a census of all customer service meters by customer class, size, type, year installed and manufacturers' warranted accuracy when new, and an engineering and financial evaluation of measures to reduce non-revenue water in each district.

In its comments on the settlement between Cal-Am and NRDC, DRA initially opposed the settlement on developing Water Action Plans. However, the Water Action Plans were ultimately incorporated into the settlement DRA reached with Cal-Am and NRDC.

The settlement originally included no costs associated with the development of the plans. The parties state that any expense related to the water action plan development, in excess of that included in the revenue requirement request for this rate case cycle, should be recovered in the next general rate case.

In response to a February 13, 2012, ruling by the Administrative Law Judge, the parties have clarified their position and recommend that Cal-Am be authorized to establish a memorandum account to track the costs of engineering and financial evaluations and studies of measures to reduce non-revenue water in each district. The parties assert that the memorandum account meets the four-prong test in that:

1. The expense is caused by an event of an exceptional nature;
2. The expense could not have been reasonably foreseen in the utility's last general rate case and will occur before the utility's next scheduled rate case;
3. The expense is of a substantial nature; and
4. Ratepayers will benefit from the memorandum account.

We agree that plans to reduce non-revenue water in all Cal-Am's districts are reasonable, especially in light of the record of high non-revenue water in the Monterey County District and the need to reduce non-revenue water in all of Cal-Am's districts. Developing plans to reduce non-revenue water is in the public interest as it may also reduce costs to ratepayers and it should not be put off until the next general rate case. We also find the proposal to develop and institute water loss reduction plans is consistent with the law.

Therefore, Cal-Am is authorized to file a Tier 1 advice letter with the Commission's Division of Water and Audits to establish a memorandum account. The memorandum account will track the costs of engineering and financial evaluations and studies of measures to reduce non-revenue water in each district. The amounts tracked in the memorandum account should be off the books and not reflected on Cal-Am's financial statement as regulatory assets.

Cal-Am will seek recovery of the costs in the memorandum account in its next general rate case. In addition to the expenses tracked in the memorandum account, Cal-Am's next general rate case application should identify the expenses that were covered by the revenue requirement adopted in this proceeding.

6.8. Conclusion

Based upon the record of this proceeding we find the parties complied with Rule 12.1(a) by making the appropriate filings and noticing settlement conferences. Based upon our review of the settlement documents we find that the settlement contains a statement of the factual and legal considerations adequate to advise the Commission of the scope of the settlement and of the grounds for its adoption; that the settlement, with the exceptions listed below, was limited to the issues in this proceeding; and that the settlement included comparisons indicating the impact of the settlement in relation to the utility's application and issues the other parties contested in their prepared testimony, or would have contested in a hearing. We conclude, pursuant to Rule 12.1(d) that the settlement, with the exceptions outlined below, is reasonable in light of the whole record, consistent with the law and in the public interest.

7. Discussion of the Settled Issues Not Approved by this Decision

7.1. Special Request #8 – Ventura Main Break

The settlement proposes that $223,000 in main fixtures and appurtenances costs be allowed for recovery in rate base in utility plant in service. The settlement states that 90% of the costs will be booked now with 10% booked once Cal-Am agrees to pursue a good faith effort to resolve the potential litigation to recover expenses from responsible third parties. The documentation of Cal-Am's good faith effort is to be included in a Tier 3 Advice Letter to recover the expenses for the hillside repair and clean-up. The expenses will be amortized over three years.

The expenses were incurred to repair a major main break and restore an affected hillside, in the last rate case cycle. However, Cal-Am did not record the

expenses in a memorandum account established to track the expenses and any offsetting insurance recovery. Cal-Am has a Catastrophic Event Memorandum Account, but the account currently has no balance in it and Cal-Am did not request a new memorandum account to track these costs. The settlement's terms allow Cal-Am to recover past expenses in future rates. This constitutes retroactive ratemaking and is prohibited. Therefore, we do not approve this portion of the settlement.

7.2. Special Request #15 – Reporting Non-Revenue Water as Volumes Rather Than Percentages

The settlement requests permission to report non-revenue water in a volumetric amount rather than as a percentage as has been the practice in the past. We have no objection to including volumetric representation so long as the traditional percentage is also reported. We find that both the volumetric and percentage measures provide meaningful information and context for the overall non-revenue water picture. We further require that both components of non-revenue water, apparent losses and real losses, be reported. Apparent losses include billing and metering errors, which are critical to improving overall non-revenue water performance.

Therefore, the provision of the settlement regarding a switch from presenting non-revenue water as a percentage to presenting it as a volume is not in the public interest. We require continued reporting of the non-revenue water as a percentage as well as the requested volumetric measure.

7.3. Regulatory Expenses

In its application, Cal-Am sought to defer the $4,180,177 projected costs of this rate case and cost of capital case and recover the costs over the three year

rate case cycle. Cal-Am also sought to recover the projected $4,215,000 for the next general rate case and cost of capital case during the effective period of this case.

In the settlement, the parties agree to defer $3,364,185 of regulatory expense related to this proceeding and amortize $1,121,395 annually over the 3-year period of this rate case cycle. Similarly, the parties agree to defer the rate case expenses of $4,215,000 for the 2015-2017 rate case and amortize the expense over the 3 year rate case cycle of 2015 -2017.

We do not adopt this portion of the settlement. Deferring the current rate case expense and recovering it in future rates constitutes retroactive ratemaking. Although Cal-Am has been allowed to defer rate case expense in the past, the Commission's longstanding practice is to set rates based on forecasted expenses and recover them during the rate case cycle in which they occur. Allowing Cal-Am to defer rate case expense is not consistent with the law Cal-Am.

Therefore, we adopt $3,364,185, the settled amount of regulatory expenses for this rate case cycle, which is 80% of Cal-Am's original request. We will use the settlement's calculation and adopt $3,372,000, 80% of Cal-Am's forecasted general rate case expense for 2015 to 2017. These reductions are supported by Cal-Am's hiring of in-house counsel, which reduces its legal fees for outside counsel. The reductions also take into account the $1,050,000 in regulatory expenses that Cal-Am received in D.08-01-027 for the Monterey County District for 2009, 2010 and 2011. The total regulatory expense of $6,736,185 will be amortized over the three year rate case cycle in this proceeding. This Cal-Am will move Cal-Am from recovering regulatory expenses on a deferred basis to a fully forecasted and recovery basis.

7.4. Special Request #31 – Walerga Special Facilities Fees

The settlement proposes to replace the current Walerga Special Facilities Fee of $750 per dwelling unit with a new $6000 per dwelling unit fee. On September 14, 2011, Towne Development of Sacramento, Inc. (Towne) filed a motion to become a party to the proceeding stating that it did not learn of the increase to the special facilities fees until August 23, 2011. On the same day Towne filed a separate motion seeking to reopen the comment period on the settlement.

In the December 12, 2011 revised scoping memo, Towne's motion for party status was granted and the motion to reopen the comment period was denied. Rather than reopen the comment period, the scoping memo has scheduled a review of the Walerga Special Facilities Fee in Phase 2 of this proceeding, providing Towne an opportunity to participate in the review and analysis of this issue. Therefore, the section of the settlement on the Walerga Special Facilities Fees is not approved, as it will be considered in Phase 2.

7.5. Background on the Unique Supply Challenges in the Monterey County District and the Commission's Treatment of Non-Revenue Water

In D.09-07-021, the Commission addressed Cal-Am's particularly acute need to reduce its non-revenue water[5] in the Monterey County District. The Commission noted that non-revenue water is a measure of operational efficiency used by this Commission and others to assess utility operations. The

[5] In the 2009 decision, the term "unaccounted for" rather than "non-revenue" water was used. The more modern term is used throughout this decision.

Commission rejected Cal-Am's first proposal to use a historical level of non-revenue water during the rate period, because Cal-Am was then and continues to suffer from dramatic supply limitations in its Monterey County District. The water supply situation in the district is desperate and requires continuous reductions in water waste on both the company and customer sides of the meter.

In D.09-07-021, the Commission concluded that supply constraints and conservation rate design in the Monterey District require the highest quality program to reduce non-revenue water and on that basis found that it was in the public interest to develop an appropriate financial incentive for Cal-Am to improve its non-revenue water performance. The Commission noted that Cal-Am's WRAM ensured that Cal-Am will recover all its fixed and variable costs regardless of the amount of water billed, which also fully insulated Cal-Am from any financial consequences of non-revenue water. The Commission created a non-revenue water penalty/reward program to be calculated based on a 9% non-revenue water target. If Cal-Am reduced its non-revenue water below the 9% mark, Cal-Am would earn a financial reward and should Cal-Am fail to achieve that standard, Cal-Am would incur a financial penalty. The per-acre-foot amount of $1,820.30 was adopted for use in calculating the financial penalty/reward.

7.6. Settlement on Non-Revenue Water Amounts for Ratemaking Purposes in the Monterey County District

The settlements on non-revenue water for ratemaking purposes in the Monterey County District provide inconsistent totals and are also inconsistent in the manner of calculating the totals. One settlement provides non-revenue water

volumes based on compromise between the parties.[6] The non-revenue water amounts are given in hundred cubic feet (ccf), but when converted to acre-feet, the totals do not agree with the acre-feet non-revenue totals adopted in the other settlement.[7]

One settlement is internally inconsistent. It provides the adopted non-revenue water volumes for the Monterey County District for years 2012 through 2014 in a table. The table shows that the adopted non-revenue water amount for the years 2012 through 2014 for each subsystem is based on Cal-Am's actual non-revenue water for 2009.[8] However, on the very next page, the settlement states:

> The parties agree that using the last recorded year of water production data as the forecast for ratemaking purposes in this General Rate Case ("GRC") for its Monterey County District is inappropriate, given the significance of water loss reduction programs in Monterey County. *Parties agree that it is appropriate for California American Water to use the results of the AWWA Water Loss Audit Report for each of its sub-systems in its Monterey County District, including trends in water loss efficiency metrics, volumetric quantities, and the known feasible cost-effective methods available to reduce non-revenue water*.[9] (Emphasis added.)

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[6] Cal-Am, DRA, and TURN Settlement on Revenue Requirement Issues, at 8 & 9.

[7] Cal-Am, DRA, and NRDC Settlement on Non-Revenue Issues, at 4, Table 2.

[8] The text on at 4 of the Cal-Am, DRA and NRDC settlement states that the 2009 non-revenue water for the Monterey Main System is 1241. However, the table shows 1261 acre-feet for 2009, 1252 acre-feet for 2012 and 1251 acre-feet for 2013 and 2014.

[9] Cal-Am, DRA and NRDC Settlement on Non-revenue Issues, Section 3.1.2 and Table 2 at 4, and Section 3.1.4 at 5.

Further complicating matters, the parties propose to use different non-revenue water targets for the penalty/reward mechanism discussed below.[10] The parties acknowledge that different methods and resulting amounts are used to calculate non-revenue water for ratemaking purposes and non-revenue water for the penalty/reward mechanism.[11]

The parties give no reason and we find no support in the record for having one non-revenue water amount for ratemaking purposes and another for the penalty/reward mechanism. The amount of non-revenue water impacts the calculations for purchased water, purchased power and chemicals and the results of those calculations affect the revenue requirement for ratepayers. It is not in the public interest to adopt a non-revenue water amount for ratemaking purposes that does not provide an incentive for Cal-Am to minimize non-revenue water and ensure its production estimates are as accurate as possible. Therefore, we do not approve this portion of the settlement.

7.7. Adopted Non-Revenue Water for Ratemaking Purposes and the Penalty/Reward Mechanism in the Monterey County District

The water supply situation in the Monterey County District is dire and requires continuous, vigilant efforts to reduce the amount of non-revenue water. We find no reason why one non-revenue water figure is used for ratemaking purposes and another is used for the penalty/reward mechanism. Most of the non-revenue water target percentages adopted in D.09-07-021, and converted to

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[10] For the penalty/reward mechanism, the settlement converts the percentage goals adopted in D.09-07-021 to volumetric amounts using 2009 actual water production.

[11] Cal-Am, DRA and NRDC settlement on non-revenue issues at 7.

volumetric measures as requested in this application, will be maintained. However, the total non-revenue water targets will be calculated using Cal-Am's 2012 water production estimates presented in this general rate case application rather than the 2009 adopted water production estimate proposed by the settlement.

In addition, D.09-07-021 adopted a mid-point percentage for the Ambler, Hidden Hills, and Ralph Lane subsystems, whose percentages varied from 16.16% to 21%, since a drop to the industry average of 10% would have been too steep.[12] The amounts adopted in D.09-07-021 for Ambler, Hidden Hills, and Ralph Lane were 13.5%, 13.8% and 15.5% respectively. In this decision we take the next step and adopt 10% non-revenue water targets for Hidden Hills and Ambler, and 11% for Ralph Lane.

Although the Ryan Ranch and Toro subsystems were not part of the non-revenue water penalty/reward program in the last rate case cycle, we adopt non-revenue water target amounts for those districts here.

The table below represents the non-revenue water percentages adopted by D.09-07-021, the 2009 and 2010 actual percentages, the settlement's 2012 proposed volumes, and our 2012 adopted percentages and volumes.

Table 5

	2009 Adopted %	**2009 Actual %**	**2010 Actual %**	**2012 Proposed Volume (Ac-Ft)**	**2012 Adopted %**	**2012 Adopted Volume (Ac-Ft)**
Ambler Park	13.5%	5.7%	9.1%	29.0	10%	19.0
Bishop	9%	1.5%	3.4%	29.0	9%	16.7

[12] D.09-07-021 at 53-54.

Chualar	9%	-30.5%	2.7%	19.0	9%	10.5
Hidden Hills	13.8%	13.3%	9.7%	12.0	10%	16.3
Monterey	9%	9.9%	12%	1,187	9%	1025.1
Ralph Lane	15.5%	11.6%	11.2%	1.4	10%	1.0
Ryan Ranch		13.3%	19.2%	8	14.6%	9.6
Toro		57.1%	8.1%	25%	10%	26.6

We believe the non-revenue water target should be based on the forward-looking production estimates contained in the application rather than historical amounts that do not anticipate or encourage a reduction in non-revenue water.

The settlement sets the non-revenue water target at 1,187 acre-feet for 2012 through 2014. We have calculated the non-revenue water target volumes for the Monterey Main system by applying the percentage targets to Cal-Am's estimated 2012 production.[13] These figures should be used for both ratemaking purposes and the non-revenue water penalty/reward program discussed below.

The settlement as proposed on the penalty/reward mechanism for non-revenue water is not in the public interest. Therefore we do not approve the settlement's proposed calculation of non-revenue water for use in the penalty/reward mechanism.

[13] (10,365 acre-feet/0.91) * 0.90 = 1,025 acre-feet where 10,365 represents the Monterey Main system water consumption from Section 2.1.3 and 2.3.3 of the Settlement.

7.8. Settlement on the Monterey District Penalty/Reward Program

According to the settlement, the parties propose that the amount used to calculate the penalty/reward be reduced from the current $1,820.30 per acre-foot, to $275 per acre-foot.[14] The parties intentionally selected a marginal cost of water production from a "higher production cost facility" such as the Ord Grove Plant because the resulting reward or penalty is more reasonable.[15] Parties state that they are intentionally not using the system average marginal cost of production and intentionally not using the marginal cost of the Regional Desalination Plant, which is not currently in use.

In A.10-04-019, Cal-Am seeks Commission authorization to include in Monterey County District's revenue requirement the costs of water produced at the Sand City Desalination Plant. Cal-Am's most recent ratemaking proposal would result in a cost to ratepayers of $2,599 per acre-foot. The current price of water reflected in the penalty/reward mechanism of $1,820.30 per acre-foot, is below Cal-Am's own proposed current marginal water production costs at the Sand City Plant. The current amounts reflected in the mechanism appear to be realistic and in line with other unrelated metrics. Therefore, we fail to see how reducing the penalty mechanism from $1,820.30 per acre foot to $275 per acre foot, would result in a greater reduction in non-revenue water. Consequently, we give no weight to Cal-Am's assertion that the marginal cost of water in the Monterey County District is $275 per acre-foot.

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[14] Cal-Am, DRA and NRDC non-revenue settlement at 8-10.

[15] *Id*. at 10.

The parties offer no rationale for Cal-Am's failure to reduce its non-revenue water in the Monterey County District during the three years since the mechanism was adopted. The parties merely state that the penalty incurred by Cal-Am is "unrealistic and resulting in excessively high penalties."[16]

Monterey Peninsula has set 7% as the non-revenue water target amount; the Commission adopted 9% as the non-revenue water target amount for the Monterey Main system, however, the actual non-revenue water continues to approach 12%.

Cal-Am incurred penalties because it did not meet the target reductions to non-revenue water that were established in D.09-07-021. Reducing the penalty to $275 per acre-foot will not have the desired result of reducing non-revenue water in the Monterey County District. We conclude that parties have not demonstrated that the proposed revision of the penalty/reward mechanism will reduce the amount of non-revenue water. Therefore this provision of the settlement is not in the public interest and is not approved.

7.9. Adopted Revision to the Monterey County District Penalty/Reward Program

Although we do not approve the revision to the penalty/reward program amount proposed by the settlement, we recognize that non-revenue water amounts can be affected by a variety of factors. Therefore, we revise the existing penalty/reward program here. The non-revenue water target amount will be based on the percentage of Cal-Am's 2012 estimated production discussed earlier rather than the 2009 targets, but a 5% one-way dead band will provide a cushion

[16] *Id.* at 9.

between the reduced non-revenue water targets and triggering the penalty/reward mechanism. For example, the Monterey system's non-revenue water target volume is 1,025 acre feet. However, no penalty would be imposed unless non-revenue water exceeds 1,076 acre feet, which is 1,025 acre feet plus the 5% dead band. If Cal-Am's non-revenue water amount is below 1,025 acre feet, the reward will accrue.

We believe this revision to the program more adequately promotes the Commission's goal of reducing non-revenue water, but allows for some leeway in triggering the penalty/reward mechanism. The Monterey County District non-revenue water penalty/reward mechanism will be changed as described above for this rate case cycle, but the issue will be further examined in the next rate case.

The table below illustrates the settlement's 2012 proposed non-revenue water targets by percentage and volume, our adopted non-revenue water targets by percentage and volume and the adopted amounts by volume that will trigger a penalty for each sub-system.

Table 6

	2012 Proposed %	2012 Proposed Volumes (Ac-Ft)	2012 Adopted %	2012 Adopted Volumes (Ac-Ft)	Adopted Penalty Triggers (Ac-Ft)
Ambler Park	13.5%	29.0	10%	19.0	20.0
Bishop	9%	29.0	9%	16.7	18.0
Chualar	9%	19.0	9%	10.5	11.0
Hidden Hills	13.8%	12.0	10%	16.3	17.0
Monterey	9%	1,187	9%	1025.1	1076.0
Ralph Lane	15.5%	1.4	10%	1.0	1.1
Ryan Ranch	n/a		14.6%	9.6	10.1
Toro	n/a		10%	26.6	28.0

7.10. Irrigation Rates, Billing Format, Advanced Metering Infrastructure and Volumetric Rate Structure for Wastewater

There is no evidentiary record to support the proposals in the settlement. Cal-Am's initial request for irrigation rates is very different. Similarly, no party filed testimony on the settlement's billing format, advanced metering infrastructure or wastewater volumetric rate proposals. In addition, and more importantly, the settlement does not include an estimate of costs associated with implementing these proposals, a cost benefit analysis or an explanation of how the costs will be recovered.

DRA responded to the settlement between Cal-Am and NRDC and is opposed to the settlement on these items. DRA argues that the record does not support sections of the settlement and that the settlement is silent on the cost and ratepayer impact of the settled issues.

We do not address the merits of these proposals here, but as submitted, these proposals are not consistent with the record. On that basis, we do not

approve the settlement's proposed irrigation rates, billing format, advanced metering infrastructure and volumetric rate structure for wastewater.

7.11. Special Request #5 – Establish a WRAM/MCBA for the Sacramento District

The settlement between Cal-Am and NRDC allows Cal-Am to establish a WRAM/MCBA in its Sacramento District. The parties state that a key action to increase water conservation is to remove the financial disincentive for water utilities to encourage customers to save water. The parties agree that the implementation of tiered rates is not the only means to influence customers' water consumption levels. The parties assert that metering also significantly reduces consumption and therefore, Cal-Am should be authorized to implement a WRAM/MCBA in the Sacramento District. The parties further assert that a WRAM/MCBA will provide water companies and customers with revenue neutrality regarding conservation and is consistent with the Commission's revenue decoupling mechanisms for gas and electric utilities.

In its testimony and comments on the settlement between Cal-Am and the NRDC, DRA opposes Cal-Am's special request and the settlement's terms for implementing a WRAM/MCBA in the Sacramento District. DRA states that the purpose of the WRAM/MCBA is not simply to make utilities whole in the event that water consumption goes down, but to remove disincentives to implementing conservation programs and rates, pass savings on to customers and reduce overall water consumption. DRA contends that converting from flat to metered rates is not the same as implementing tiered conservation rates.

DRA also opposes establishing a WRAM/MCBA account in Sacramento on the basis that WRAMs and MCBAs were first approved when the Commission had very little information about the impact of tiered rates. DRA

claims that the same cannot be said about flat-rate-to-meter conversions in which the Commission has a lot of experience. DRA goes on to describe instances where Cal-Am could double collect due to the lag time in billing after a meter is installed.

Mark West also commented on the Cal-Am and NRDC settlement on Special Request #5 to establish a WRAM/MCBA in the Sacramento District. Mark West's comment's echoed the comments of DRA opposing the proposal.

We find that establishing a WRAM/MCBA in the Sacramento District prior to full metering and implementation of tiered rates is not warranted. The conditions that merit a WRAM/MCBA are not present. More importantly, we are conducting a full review of the WRAM/MCBA mechanisms in Phase 2 of this proceeding and it would be premature to establish one in the Sacramento District prior to the full review. We find that the settlement on this issue is not reasonable in light of the record or in the public interest. Therefore, we do not approve the settlement on Special Request #5.

7.12. Conclusion

Should the parties decline to accept the modifications to the settlement set forth in this decision, then the assigned Commissioner shall issue a revised scoping memo to set the matters for hearing.

8. Disputed Issues

The Commission regulates water service provided by Class A water utilities pursuant to Article XII of the California Constitution and the

Public Utilities Code.[17] For Class A water utilities, Pub. Util. Code § 455.2, as implemented in D.04-06-018 and updated in D.07-05-062, provides for a general rate case proceeding every three years. Cal-Am is a Class A water company with six districts: Larkfield District, Los Angeles County District, Monterey County District, Sacramento District, San Diego County District and Ventura County District.

8.1. Monterey District Plant

8.1.1. Special Request #19 – Toro Arsenic Treatment Plant

Cal-Am seeks to include $1,955,400 in rate base for construction of the Toro arsenic treatment facility. The facility became operational in March 2010 and included the installation of the Pureflow coagulation/filtration system. DRA argues that only $685,000 should be included in rate base as it is the amount included in the settlement agreement adopted by D.09-07-021. The $685,000 settlement was based on the Siemens filtration system bid. That bid was ultimately rejected by Cal-Am in favor of the Pureflow system. DRA claims Cal-Am did not exercise sound engineering practices or business principles in installing the Pureflow system and rejecting the lower cost Siemens bid.

Cal-Am cites multiple reasons for not selecting the Siemens filtration system such as permitting difficulties which could have delayed the project and the incompatibility of the Siemens technology with the water quality at Toro. DRA counters that the project was not completed until March 2010, two years later than anticipated, providing Cal-Am sufficient time to deal with any

[17] A Class A utility is defined as an investor-owned water utility with over 10,000 service connections.

permitting delays. DRA also claims that unlike the Pureflow bid, the Siemens bid was based on a filtration system tailored to the Toro system water conditions.

Both the Pureflow and Siemens filtration systems bring the Toro water quality to acceptable levels. Thus, the crux of the issue here is which system's combined capital and ongoing operation and maintenance costs results in a lower annual revenue requirement for ratepayers.

Cal-Am claims that even though the initial capital cost for the Pureflow system is higher at $1,955,400, its overall annual operations and maintenance cost is lower. Cal-Am claims the Siemens filtration system needs to be changed out 4 times per year at a cost of $85,000 per change out. In addition, there is a back flush requirement every 1 to 3 months at a cost of $3,000 per back flush.

DRA and Cal-Am provide conflicting data supporting their respective positions on the frequency of the Siemens system filtration media change out. DRA relies on the Siemens' bid information stating that the filtration media lasts 395 days, essentially 13 months, before a change out is required. Cal-Am provides data based on higher levels of contamination than that present in the Toro system to support its position that the Siemens system is incompatible. The table below illustrates the cost difference between the Pureflow system installed by Cal-Am and the Siemens system recommended by DRA.

Table 7

	Siemens System	**Pureflow System**
Capital Cost	$685,000	$1,955,400
Annual Revenue Req.	$77,131	$220,178
Annual Operation and Maintenance Costs	$96,461[18]	$18,660[19]
TOTAL ANNUAL COSTS	**$173,592**	**$238,838**

Although not considered in the cost comparison above, all capital projects added to rate base receive a return on equity based on a company's approved rate of return. Here, Cal-Am sought to include a $1,955,400 capital project in rate base, an almost $1.3 million increase over the previously approved project cost of $685,000. If included in rate base, the $1.3 million would be subject to rate of return and the revenue requirement borne by Cal-Am ratepayers would be increased accordingly.

We do not find Cal-Am's installation of the Pureflow system reasonable given that its annual costs are higher to achieve the same result as the Siemens system. Therefore, only $685,000 should be included in rate base and the actual annual operation and maintenance costs for the Pureflow system, $18,660, should be included in the revenue requirement.

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[18] 12/13 of $85,000 = $78,461 in annual expense based on the 395 day life of the filtration media. $18,000 represents 6 back flushes per year, the mid range of every 1 to 3 months at $3000 per back flush. Therefore, 78,461 + 18,000 = $96,461 in annual operations and maintenance expense.

[19] D.10-11-006 modified D.09-07-021 and adopted $96,100 as the annual operation and maintenance cost of the Siemens system. In its cost comparison testimony, DRA uses $96,100 as the annual operation and maintenance costs for the Pureflow System, however, the Pureflow system's annual operation and maintenance costs are $18,660.

8.1.2. Supervisory Control and Data Acquisition (SCADA)

Cal-Am requests $1,953,000 for improvements to the SCADA system in its Monterey District. Cal-Am states the improvements include standardizing the software, updating remote site hardware and adding SCADA to sites that currently have no SCADA coverage. Cal-Am also states that the current SCADA software was installed in 1998 and since the life expectancy of SCADA software is five years, an upgrade is long overdue. Cal-Am supports its claim for the improvements with a record of 400-500 monthly SCADA alarms, many of which Cal-Am claims are caused by communication errors and transmitter failures. Cal-Am asserts that the amount of non-revenue water will be decreased since transmitters may currently fail open, causing overflows.

DRA recommends that the Commission deny Cal-Am's request as unmerited. DRA asserts that there is no documented system failure requiring a new system. DRA analyzed the 400-500 monthly SCADA alarms and states that at least half of the alarms required little or no action as they were confirmations or advisory messages that are the result of a properly functioning system. DRA also claims that the remaining five to ten alarms per day might require an operator action or field visit, but states that five to ten alarms per day does not seem excessive given the size and complexity of the system. DRA also notes that the software standardization has already occurred, so the entire SCADA system is currently using the same software. DRA points out that it has also recommended approval of $320,000 in recurring SCADA system improvement projects and upgrades through 2014.

Although Cal-Am claims the new SCADA system would reduce non-revenue water, its testimony provided no breakdown of how many alarms

relate to overflows due to transmitter failures. This information would have been useful in evaluating Cal-Am's request for this expenditure in a district with extremely high rates and high non-revenue water.

Cal-Am states that 57% of the budget proposed for this project is to address the current need for replacement and upgrades of existing equipment and adding SCADA capabilities to sites that currently do not have SCADA coverage.[20] We find Cal-Am's request to provide SCADA coverage for areas not currently covered is reasonable. Therefore, Cal-Am will receive 57% of its request, reduced by the $320,000 that DRA has already agreed to for SCADA improvements and upgrades for 2009 through 2014. Cal-Am will receive $793,210[21] for SCADA system improvements and upgrades.

8.1.3. Special Request #32 – Monterey Billing System Modification Costs

Cal-Am seeks authorization to include as plant in service $960,000 for modifications to its Monterey billing system to calculate and track usage allotments by account for residential, nonresidential and dedicated irrigation customers. Cal-Am claims that the amount includes $400,000 that it was authorized to track in a memorandum account and an additional $560,000 it incurred to make further billing system changes.

DRA opposes Cal-Am's request on several counts. DRA claims that Cal-Am did not track the costs in a memorandum account that would allow recovery in this proceeding. DRA also asserts that the costs are administrative and general, not project costs to be capitalized. Finally, DRA states that Cal-Am

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[20] Cal-Am Opening Brief at 8.

[21] 57% of $1,953,000 = $1,113,210; $1,113,210 – $320,000= $793,210.

already had its opportunity to forecast administrative and general expenses due to rate design changes in the last general rate case and the Commission already ruled on those matters, including billing system modifications, in D.09-07-021. DRA points out that Cal-Am's petition to modify D.09-07-021 seeking authorization to recover $945,720 in billing system modification expenses via advice letter was denied.

Cal-Am asserts that although D.10-11-006 denied its petition to modify D.09-07-021, the decision did not address the reasonableness of the billing system modification costs or the merits of the request. Rather, D.10-11-006 denied the petition to modify because "The Commission does not implicitly and unilaterally impose additional terms on settlement agreements."[22] Cal-Am claims that nothing in D.10-11-006 bars it from seeking recovery here.

We disagree. It is clear from Cal-Am's petition to modify D.09-07-021 that Cal-Am was seeking to add to its settlement with DRA to recover additional costs associated with the billing system modification in its settlement with DRA. Although Cal-Am's petition was denied because the Commission cannot unilaterally change the terms of a settlement, the fact remains that the costs and their recovery should have been requested in the last general rate case. Cal-Am's request that the Commission reclassify those costs and allow recovery in this proceeding constitutes retroactive ratemaking. For that reason, Cal-Am's Special Request #32 is denied.

[22] D.10-11-006 at 4.

8.2. Income Tax and Related Issues

Cal-Am filed A.10-07-007 on July 1, 2010 claiming taxable income and expenses for the test year including $2,698,590 in California Corporate Franchise Tax and $10,282,710 in Federal Income Tax. Cal-Am's application also originally reflected certain tax deductions that reduce its revenue requirement request.

The Small Business Jobs Act was signed into law on September 27, 2010. The Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 was also enacted on December 17, 2010. Both laws affect aspects of Cal-Am's tax calculations. Because Cal-Am filed its application prior to the enactment of the laws, Cal-Am's rebuttal testimony addresses the impacts of the new laws on its tax situation.

8.2.1. Domestic Production Activity Deduction

Cal-Am claims that it is ineligible for the Domestic Production Activities Deduction (DPAD) because it is in a net operating loss position.[23] Cal-Am relies on D.09-03-007, the Suburban Water Company (Suburban) general rate case, in which the Commission found that if a deduction is not used, it should not be considered for ratemaking purposes. Cal-Am also requests approximately $13 million in revenue requirement for California Corporate Franchise Tax and Federal Income Tax. Cal-Am's explanation for this apparent inconsistency is that the Commission requires Cal-Am to calculate income taxes for ratemaking purposes based on a "stand alone" basis and for tax reporting purposes on the American Water Works consolidated income tax return.[24]

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[23] Exhibit CAW-45 at 2.

[24] Cal-Am Reply Brief at 14.

DRA distinguishes the circumstances in this case from those in the Suburban case. Suburban showed an overall loss on its returns. Here, Cal-Am anticipates paying approximately $12 million in California Corporate Franchise Tax and Federal Income Tax in 2012.[25]

TURN also objects to Cal-Am's explanation. TURN asserts that Cal-Am is asking ratepayers to fund tax obligations in the revenue requirement while also claiming a net operating loss, thus making Cal-Am ineligible to take tax deductions which reduce the revenue requirement for ratepayers. TURN points out that Cal-Am's own witness said that the net operating loss position is directly attributable to Cal-Am's WRAM deferrals and that absent the large deferrals, Cal-Am would have positive taxable income in 2011 and 2012.[26]

TURN recommends that the Commission either remove the California Corporate Franchise Tax and Federal Income Tax request from the revenue requirement[27] or if the Commission relies on Cal-Am's original filing that assumes taxable income in 2012 for ratemaking purposes, then the taxable income must be reduced consistent with normal ratemaking adjustments such as the DPAD.[28]

We agree with DRA that the facts in Suburban are distinct from the facts here. Suburban did not include income taxes in its revenue requirement request for ratemaking purposes, and claimed a net operating loss for actual tax

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[25] Reporter's Transcript at 1145:22-27.

[26] Reporter's Transcript at 1120:10-19.

[27] TURN Opening Brief at 7.

[28] TURN Opening Brief at 14.

reporting purposes. Suburban's tax situation was the same for both ratemaking and actual tax purposes.

We dislike inconsistent treatment of tax positions when the disparate treatment adversely impacts ratepayers, as it does in this case. As noted by TURN, Cal-Am includes the WRAM balances in income for ratemaking purposes, which results in taxable income. However, Cal-Am's calculation of its income for tax reporting purposes excludes the WRAM balances from income, which results in a net operating loss.[29]

The issue here is which of Cal-Am's tax positions should be used to determine whether the DPAD is applicable. In this case, because Cal-Am's tax position for ratemaking purposes resulted in income tax, it is reasonable to apply the DPAD to reduce the income tax obligation for ratemaking purposes.

In D.10-11-034, the Great Oaks Water Company general rate case, the Commission approved DRA's calculation of the DPAD. DRA uses the same methodology here as in the Great Oaks general rate case. DRA's methodology is supported by TURN. Cal-Am proposed a methodology in its initial application, but its rebuttal testimony claims that it is ineligible for the DPAD. As explained above, we disagree. Therefore we find DRA's DPAD methodology reasonable and we adopt it here.[30]

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[29] TURN Opening Brief at 12.

[30] We note there is a pending application for rehearing of D.10-11-034. Today's decision does not and is not intended to prejudge the issues in the rehearing application, which will be addressed in a subsequent Commission Decision.

8.2.2. Cal-Am Repairs Deduction FIN 48[31]

This issue is no longer in dispute. In its reply brief, Cal-Am stated that it had inadvertently excluded the FIN 48 in its original application and it will accept its full repairs deduction which will increase deferred taxes.[32] On that basis, Cal-Am should remove from rate base the increased accumulated deferred income tax for 2010, 2011 and 2012 associated with its FIN 48 recorded deferred income tax.

8.2.3. Bonus Depreciation

Bonus depreciation is a result of the Economic Stimulus Act of 2008 (2008 Act) and the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (2010 Act). The Acts permit a company to take deductions for investment in certain property recently purchased or acquired and placed into service. The 2008 Act added section 168(k) to the Internal Revenue Code that allows a company to take a 50% deduction or bonus depreciation of the adjusted basis of qualified property. The 2010 Act extended the 2008 Act and increased the deduction amount to 100%.

According to Internal Revenue Code Section 168(k)(2)(D)(iii), "taxpayers" are entitled to "elect" whether or not to take bonus depreciation at the legal entity level. Additionally, pursuant to Cal. Rev. & Tax Code § 24349, California does not allow bonus depreciation to be claimed on a California State income tax return.

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[31] FIN stands for Federal Accounting Standards Board Interpretation Number.

[32] Cal-Am Opening Brief at 19.

Cal-Am has elected not to take the bonus depreciation for 2011, although it has elected to do so in 2010 and 2012. DRA asserts that there is nothing significantly different between 2011 and the years 2010 and 2012, when Cal-Am says it will take the bonus depreciation and therefore, the Commission should impute the maximum legally allowable amount of bonus depreciation for 2011.[33] TURN and DRA assert that Cal-Am's decision not to take the bonus depreciation in 2011 is unsupported.

Cal-Am normalizes its Federal Income Taxes and to continue to normalize, the taxpayer decides whether to elect bonus depreciation. For the Commission to impute bonus depreciation would be an interference with Cal-Am's normalization of its taxes, resulting in Cal-Am reverting to flow through taxes. If normalization is no longer allowed there will be no deferred taxes to offset rate base, resulting in a substantially higher rate base entitled to earn a rate of return. Therefore, we will not impute the bonus depreciation for 2011.

8.3. Special Requests

8.3.1. Special Request #4 Requesting Rate of Return on Deferred Balances on Memo and Balancing Accounts

Cal–Am seeks authority to earn its authorized weighted average cost of capital on all deferred balances in excess of its $33 million short-term debt limit. Cal-Am's deferred balances currently earn at the 90-day commercial paper rate. Cal-Am states that this request is supported by Commission precedent. In D.08-05-036 regarding the San Clemente Dam, the Commission looked at the "circumstances at hand and the type of financing being used to fund the

[33] DRA Opening Brief at 17.

project."[34] Cal-Am claims the request allows the company the opportunity to recover its actual carrying costs. Cal-Am states that the current carrying costs exceed recovery, currently based on the 90-day commercial paper rate, by millions of dollars each year.

Cal-Am asserts that the 90-day commercial paper rate is only intended to cover items of a short term nature, items that remain on the books for 12 months or less, not items that continue to grow and remain on the balance sheet for multiple years. Cal-Am's application placed its total deferred balances earning the 90-day commercial paper rate at $90 million and estimated the balances would reach $120 million by the end of 2011.[35] At the time Cal-Am filed its application, the 90-day commercial paper rate was 0.24%. Cal-Am's current deferred balances represent approximately 20% of its requested rate base of $421 million for 2012.[36] Cal-Am asserts that failure to allow recovery at just and reasonable rates is confiscatory.

Both DRA and TURN oppose Cal-Am's request for several reasons. TURN claims that Cal-Am appears to rely on the Commission's decision to authorize rate of return on the San Clemente Dam memorandum account, but fails to recognize the special nature of that situation. TURN asserts that the San Clemente Dam decision merely demonstrated the Commission's discretion to authorize a different rate of recovery. TURN points out that in the San Clemente Dam decision the Commission stated that "we did not intend to

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[34] D.08-10-019 at 8.

[35] Exhibit CAW-43 at 2, 4.

[36] A.10-07-007, Exhibit A, Chapter 2.

establish policy regarding AFUDC[37] for all long-term projects."[38] Cal-Am also points out that the Commission decided to leave the multi-million dollar Coastal Water Project account at the 90-day commercial paper rate.[39]

DRA claims that a blanket approval allowing Cal-Am to earn rate of return on all memorandum and balancing accounts denies the Commission the opportunity to evaluate the individual facts of each account, as it did with San Clemente. DRA also points out that after the fact reasonableness review incorrectly places the burden of proof on intervenors to prove that it is unreasonable for a particular account to earn rate of return, rather than placing the burden on Cal-Am to prove that for a particular account, recovery at the 90-day commercial paper rate is insufficient.

Given the number and variety of Cal-Am's deferred balances, we agree with DRA and TURN that a blanket approval for rate of return on all deferred balances is not reasonable. Also, neither Cal-Am's testimony nor it witness was able to say with certainty which accounts would be included in the rate of return treatment, how long the rate of return treatment would be in effect or how the fluctuating balances receiving rate of return treatment would be monitored.[40] Therefore, Special Request #4 is not reasonable and is denied.

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[37] AFUDC – Allowance for Funds Used During Construction.

[38] D.08-10-019 at 8.

[39] D.08-05-036 at 10.

[40] Reporter's Transcript, at 550-552.

8.3.2. Special Request #14 Requesting Recovery of Balances on Memorandum and Balancing Accounts

The only one of 37 accounts in Special Request #14 that was not part of the settlement agreement between the parties is the Monterey Style WRAM and Monterey Interim Rate True-Up (MIRTU).

Cal-Am filed Advice Letters 735 and 838 to recover the balances in its Monterey Count District WRAM. DRA protested Advice Letter 735 and DWA rejected both Advice Letter 735 and 838. The rejection letters included instructions for Cal-Am to follow prior instructions before submitting another advice letter.[41] This issue was included within the scope of this proceeding by an April 14, 2011 Administrative Law Judge Ruling.

Cal-Am seeks to have customer billing adjustments due to leaks, included in the WRAM balances for its Monterey County District. For billing adjustments in the Monterey County District, Cal-Am bills the customer for water usage above historical levels at the second tier of the conservation rate. For billing adjustments in its other districts, Cal-Am adjusts the billed usage to a more normal amount which results in lower revenues and higher non-revenue water.

Cal-Am asserts that this is a rate issue not a consumption issue, claiming that the lost revenue is due to steeply tiered conservation rates and therefore the lost revenue should be tracked and recovered in the WRAM balance. DRA objects to Cal-Am's request and states that any losses due to billing adjustments should be borne by shareholders.

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[41] Exhibit DRA-14, Appendices 10 & 11 contain DWA's rejections of Cal-Am's Advice Letters 735 and 838, with instructions for refilling.

Neither DRA's nor Cal-Am's recommended resolution of this issue reflects the realities of the situation. Cal-Am claims the losses are a direct result of the steeply tiered conservation rates and therefore capturing the lost revenue in the WRAM is appropriate. We disagree. The losses are not directly attributable to the tiered conservation rates, but to Cal-Am's treatment of billing adjustments. Cal-Am's method creates two distortions – one in the WRAM account which was not meant to include reduced revenue due to billing adjustments and a distortion of actual water loss in the Monterey County District.

DRA's recommended resolution of shareholders bearing the loss is counter to how billing adjustments are dealt with in Cal-Am's other districts and completely unsupported.

We agree with Cal-Am that billing adjustments benefit ratepayers and we agree that Cal-Am should be able to recover the revenue lost due to billing adjustments, but we disagree with Cal-Am's current recovery through the WRAM. Therefore, to recover its WRAM balances, Cal-Am should remove all billing adjustments from its computation of the Monterey County District WRAM and file a Tier 2 Advice letter for recovery. Additionally, Cal-Am's advice letter should also comply with any outstanding requests and/or instructions contained in DWA's rejection of Advice Letter 735 and 838.

We will not revisit DWA's approval of Cal-Am Advice Letter 826 regarding the MIRTU. DRA claims there was a mistake in the methodology, but DRA had an opportunity to protest that advice letter when it was filed and it did not.

8.3.3. Special Request #18 Contamination Proceeds

This special request is no longer in dispute as the Commission issued D.10-10-018 and D.10-12-058 in Order Instituting Rulemaking 09-03-014. Those decisions adopt rules for treatment of contamination proceeds arising from damage awards.

8.3.4. Special Request #24 to Recover Toro Goodwill

Cal-Am seeks authorization to recover an additional $155,000 related to the acquisition of Toro Water Service (Toro). According to Cal-Am, the $155,000 Cal-Am represents goodwill, or the cost of the acquisition above the book value of the asset.

DRA and Cal-Am entered into a settlement agreement for the purchase of Toro. The settlement agreement provided that Cal-Am would seek and DRA would support recovery of $408,000 in Cal-Am's 2008 general rate case. In D.07-11-034, the Commission approved Cal-Am's acquisition of Toro and the settlement between Cal-Am and DRA on the acquisition.

DRA disputes Cal-Am's claim for additional funds representing Toro acquisition goodwill. DRA maintains that the settlement agreement did not provide for any additional goodwill costs. DRA contends that Cal-Am assumed the risk of any misstatement from Cal-Am's failure to include other costs when it settled on the purchase price of $408,000, which therefore capped goodwill at $105,403.[42]

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[42] Exhibit DRA-13 at 4-5.

Cal-Am states that true-ups and adjustments are common and appropriate[43] and nothing in the settlement agreement, or the decision approving it, prohibits Cal-Am from seeking future recovery of other related costs. Cal-Am also states that the settlement does not refer to goodwill and accordingly, DRA cannot rely on the inferences drawn from the settlement agreement that Toro goodwill was capped at $105,403.

We disagree. Because the $408,000 purchase price included in rate base exceeded the book value of Toro by $105,403, we find it reasonable for DRA to have inferred that the additional amount was goodwill. If Cal-Am wanted to protect its ability to recover the true-ups, adjustments, or other related costs, it could have done so by including such language in the settlement or at least putting DRA on notice that the amounts included in the settlement were estimates. Cal-Am did not do so. To allow recovery of the additional costs now is unreasonable and undermines the settlement process. Therefore we deny Cal-Am's request to recover an additional $155,000 in good will related to the acquisition of Toro.

8.3.5. Special Request #34 to Amortize Balancing Accounts in Rates on an Annual Basis

A full review of the WRAM program will occur in Phase 2 of this proceeding, which includes an examination of amortization periods. Until a decision is issued in Phase 2 of this proceeding, the WRAM program, including amortization periods will continue as currently designed.

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[43] Exhibit CAW-40 at 5.

8.4. General Office Adjustments

8.4.1. Labor and Labor-Related Expense

Cal-Am's requested labor and labor-related expense of $127,771,286 for the Service Company and $6,883,653 for Cal-Am is based on budgeted positions and assumes no vacancies. DRA has recommended an adjustment to Cal-Am's request based on the number of actual employees on December 31, 2010. Cal-Am claims that its 2010 budgeted labor expenses were within 2% of its actual expenses and demonstrates the accuracy of its budgeting forecast.

Cal-Am argues that the DRA recommendation incorrectly focuses on the employee headcount as of December 31, 2010, a snapshot in time when 68 employees had been recently transferred to the business transformation project and those vacancies had not been back filled yet. Cal-Am also claims that using the December 31, 2010 headcount is beyond the Rate Case Plan's 100-day update period. Cal-Am is incorrect. The update deadline is for the utility to update its application. However, there is no prohibition against DRA seeking updated information through the data request process or for the Commission considering that updated information.

DRA counters Cal-Am's claim that the 2010 budgeted and actual expenses were within 2% of each other. DRA's calculation results in a 6% gap between the 2010 budgeted and actual expenses. We find that Cal-Am's budget-based expenses and DRA's one-day employee count are extreme positions and neither represents the best basis for determining labor expenses.

The budget-based method includes no allowance for vacancies and there will always be vacancies. Cal-Am provides inconsistent statements regarding vacancies in the company. In support of its budget-based labor expense Cal-Am states that "positions never remain vacant, therefore, there is no ongoing vacancy

rate."[44] Yet Cal-Am's witness Hobbs states, "…every business - particularly a complex business organization such as the Service Company - always has some level of vacancies in its employee ranks. For example, employees go on leave, get sick or disabled, quit, die or are transferred. So I can comfortably say that the Service Company will continue to have some level of vacancy, as any normal business would."[45] We find the latter statement more credible than the former.

While it may be true that most positions do not remain vacant, they are vacant for some period of time. It is impossible to fill 100% of the positions 100% of the time. Cal-Am's testimony on the 68 vacancies in December 2010 stated that as of March 2011, not all the positions had been filled, demonstrating that there continued to be vacancies over a period of time. Even if those vacancies are ultimately filled, other vacancies will occur in another area of the company. Cal-Am's budget-based labor expense calculations ignore this fact, although its witness confirmed it. Some level of turnover is inevitable and to ensure ratepayers are not funding empty positions, there has to be some acknowledgement of this in the labor expense.

Similarly, we do not find that DRA's one-day headcount provides for any fluctuations in vacancies throughout the year. DRA's one-day headcount occurred at a time when the company had just shifted a large number of staff to the business transformation project and therefore skewed the count. DRA's reliance on the adoption of a one-day headcount in D.09-07-021 is misplaced. In D.09-07-021 a one-day headcount was used because Cal-Am failed to support its

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[44] Exhibit CAW-55 at 6.

[45] Reporter's Transcript 795:3-12 and 796:3-9.

request. In this general rate case, Cal-Am provides the information that was lacking in the earlier general rate case, but overstates the expense by assuming there will be no vacancies. As the parties were unable to find a middle ground between these two extreme positions, we must fashion one based on other information in the record.

Cal-Am disputed DRA's claim that there is a declining trend of 57 employees per year. Cal-Am calculated the decline trend in employees as 22.[46] Therefore, we will adopt Cal-Am's figure and reduce Cal-Am's labor and labor related expense by 22 positions to account for vacancies.

8.4.2. Pension Expense

Cal-Am requests pension benefits expenses for Cal-Am employees, which include Cal-Corp employees and the various district employees, and the Cal-Am-allocated pension expense of the Service Company. Cal-Am requests the continuation of calculating the revenue requirement for pension expense based on actuarial projections of FAS 87 (Federal Accounting Standard) for the Service Company and of Employee Retirement Income Security Act (ERISA) for Cal-Am. Cal-Am also asks to track in its pension balancing account the difference between the ERISA expense authorized and actual amount incurred.[47]

DRA objects to Cal-Am's request because Cal-Am seeks one pension treatment, Generally Accepted Accounting Principles (GAAP), for the Service Company and a different one, ERISA, for Cal-Am. The GAAP treatment results

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[46] Cal-Am Reply Brief at 55.

[47] Cal-Am characterizes the balancing account authorized in the last decision as tracking the difference between the amounts authorized in the decision and the actual pension expense. Cal-Am's recovery is capped at actual ERISA minimums.

in lower pension contributions for the Service Company than ERISA treatment does for Cal-Am. DRA initially requests that GAAP, rather than ERISA be used to calculate the pension expense for Cal-Am.

Cal-Am responds that it has always based pension expense for the Service Company on FAS 87. For Cal-Am, pension expenses are based on the ERISA minimums authorized in D.10-06-038, the last general rate case that included general office expenses. Upon further reflection, DRA recommends that the Commission continue to authorize "capped" recovery at ERISA minimum funding levels for ratemaking purposes as established in D.10-06-038. DRA had overlooked or forgotten about the settlement achieved with Cal-Am in the last general rate case that allowed pension expenses to be capped at ERISA minimums.

DRA recommends that the Commission adopt the February 2011[48] updated estimates of pension expense for the Service Company and Cal-Am, which is lower than the April 2010 forecast amount initially sought by Cal-Am. DRA does not dispute the FAS 87 calculations, as those expenses are declining during the rate case period.

We find no reason to discontinue recovery as established in D.10-06-038. The February 2011 updated figures reflect the improvement in the financial markets. Therefore we find the pension expense based on the February 2011 ERISA forecast for the Cal-Am and Cal Corp employees reasonable. We also find the FAS 87 pension expense calculation for the Service Company reasonable. Those amounts are set forth below.

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[48] Calculated by Cal-Am's actuary.

Table 8

Cal-Am and Cal Corp ERISA Forecasts	American Water Service Company FAS 87 Pension Expenses
2011 - $93.5 million	2011 - $61.5 million
2012 - $93.9 million	2012 - $54.3 million
2013 - $84.5 million	2013 - $47.9 million
2014 - $50.2 million	2014 - $41.5 million

Cal-Am's total expenses are based on its allocation of the Service Company and American Water expenses shown in Table 8.

Cal-Am will continue the capped recovery of pension expense established in D.10-06-038. Therefore, Cal-Am is authorized to continue to track the difference between the level of expense authorized in rates and the actual costs. Cal-Am's recovery for ratemaking purposes shall be capped at the minimum level of Benefit Plan expense calculated according to the ERISA minimum funding levels.

8.4.3. Group Insurance

Cal-Am states that group insurance expense includes employee life insurance, medical, dental, prescription drug, vision, accidental death and dismemberment insurance, long-term disability insurance, and short-term managed disability insurance.

Cal-Am requests insurance expense of $4,010,255. This amount represents the cost for all Cal-Am employees as well as expense allocated from American Water Service Company. Cal-Am's increase in group insurance includes a

20.3%[49] increase for 2010 to 2011 actual rates plus an 8% escalation factor for 2011 to 2012. Cal-Am claims these increases are necessary in order to cover current and forecast increases in program expenses.

DRA recommends that Cal-Am's group insurance expense be based on 2010 actual costs, adjusted for inflation by applying the labor and labor-related expense escalation rates reflected in Commission D.04-06-018. In the alternative, DRA recommends that if the Commission allows increases above the labor escalation rates in D.04-06-018, that the increase be limited to the utility industry health insurance costs trend rate of 8.2% annually applied to 2010 actual insurance expense.

Cal-Am argues that nothing in D.04-06-018 restricts utilities from proposing alternative escalation factors for general office expenses. Cal-Am also argues that the methods in D.04-06-018 ignore the actual increases in insurance expense over time. Cal-Am points to measures it has taken to keep costs down such as conducting an employee dependent audit in 2007 and ensuring that non-covered expenses are not paid. Cal-Am states that it reduced the number of plan options and, increased employee co-payments, the cap on out of pocket expenses and payroll contributions.

DRA claims that from 2007 to 2010 Cal-Am's insurance expenses have been higher than the industry average except for a 0.1% drop below the industry average for non-Union employees in 2009. DRA points to the fact that Cal-Am employees still pay much less toward their health care costs than the water

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[49] Cal-Am's original request sought $4,388,096, a 30% increase from 2010 rates. Cal-Am stated that its original request was amended in response to changing circumstances and forecasts.

industry average despite the changes Cal-Am instituted. In 2009 Cal-Am employees were only paying 17% of the gross health care costs while the industry average was 32.2%. Although Cal-Am has since increased its employee contributions to 23%, they are still significantly lower than the 2009 industry average of 32.2%. There is nothing in the record regarding the current industry average, but relying on the 2009 data indicates that Cal-Am ratepayers have been and are being asked to continue subsidizing Cal-Am employee's contributions to health care costs.

Cal-Am admits that its employees contribute less than the industry average for medical benefits. This fact contradicts Cal-Am's claim that its insurance expense is a "cost over which the company has little control."[50] Cal-Am certainly has some control over the group insurance benefit package and the amount of insurance expense being passed on to ratepayers.

We find Cal-Am's requested 20.3% increase for 2010 to 2011 and the 8% escalation factor for 2011 to 2012 are not reasonable given that its expenses exceed the industry trend and its employees continue to contribute much less than the industry average toward health care costs.

Therefore we adopt the labor escalation factor as Cal-Am's increase for group insurance expense.

8.4.4. Special Request #11 - Business Transformation Memorandum Account

Cal-Am's business transformation project was implemented to automate, update and modernize all aspects of the information technology platforms and

[50] Exhibit CAW-27 at 106-107.

business processes used by American Water Works and all its operating companies, including Cal-Am.[51] The original estimate for the project was $280 million with Cal-Am's portion set at $14 million. An updated estimate is set at $317 million with Cal-Am's allocation increasing proportionately.

Cal-Am proposes that: 1) the revenue requirement on Cal-Am's allocated portion of the full $280 million originally requested for the business transformation project be included in rate base; 2) that Cal-Am be authorized to earn a return on and recovery of those business transformation project capital expenditures; and either that 3) Cal-Am track in a memorandum account the revenue requirement of all additional business transformation project costs as well as any cost savings generated by the project and that the memorandum account be the subject of review by all parties and the Commission pursuant to a Tier 3 advice letter filing in May 2015, or (in the alternative) 4) the revenue requirement on the updated $317 million budgeted for the business transformation project be included in rate base.[52]

Cal-Am's position regarding how the business transformation project costs should be recovered has evolved over the course of this proceeding. In Special Request #11, Cal-Am originally sought to include its estimated business transformation project costs in revenue requirement and requested a balancing account to track differences between the estimated and actual project costs. Special Request #11 also requested that the balancing account earn interest at Cal-Am's authorized rate of return.

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[51] Exhibit CAW-27 at 54.

[52] Cal-Am's Reply Brief at 70.

In its opening brief, Cal-Am requests a memorandum account rather than a balancing account to track project costs, but still seeks to earn rate of return. And, for the first time in its reply brief, Cal-Am seeks to track the savings generated by the business transformation project in the memorandum account.

DRA agrees that the business transformation project costs should be allowed in revenue requirement, but only under three conditions.[53] First, DRA recommends that the Commission adopt only Cal-Am's original estimated costs of the project. Second, DRA requests that the Commission impute a 5.3% reduction in the costs to Cal-Am in recognition of the benefits of the business transformation project that inure to the parent company's unregulated affiliates. Third, DRA proposes that the Commission reduce the revenue requirement by savings that have been identified in a confidential document prepared by American Water Works and presented to its board of directors in May 2010.

DRA points out that the Commission already rejected a Cal-Am request for a balancing account to track all costs of the business transformation project because it was determined that the program costs were within the control of Cal-Am's parent company, American Water Works, the costs were not exceptional in nature and were more like standard operating expenses that could be reasonably forecast.[54]

TURN objects to Cal-Am's request for memorandum account treatment since the costs are within the company's control. TURN, like DRA asks that the Commission recognize the cost savings identified in the document presented to

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[53] DRA does not comment on Cal-Am's requested rate base treatment of the business transformation project expenses.

[54] Exhibit DRA-13 at 2.2-2.3.

American Water Work's board of directors and reduce the revenue requirement accordingly.

Cal-Am claims that capitalizing rather than expensing the project costs is the proper regulatory treatment and the Commission should reject both DRA's and TURN's recommendation. Cal-Am justifies the need for memorandum account treatment stating that even if memorandum account treatment is approved, there will still be substantial under-recovery of costs because a return on the costs incurred prior to authorization will never be recovered. Cal-Am points out that ratepayer interests are protected because a Tier 3 advice letter is subject to review by all parties and the Commission prior to recovery.

Cal-Am states that the alleged savings identified in the confidential document are only estimates and that both DRA's and TURN's recommendations ask the Commission to recognize savings without recognizing the costs that are necessary to produce the savings. Although Cal-Am agrees that there will likely be savings in reduced personnel costs over time, the ability to measure those savings today is a matter of timing. Cal-Am states that attempts to estimate savings before system implementation would be very preliminary and of limited predictive value and therefore should not be imputed.

We agree with DRA and TURN that the estimated benefit or savings identified by Cal-Am should inure to ratepayers during this rate case cycle. Cal-Am states that the estimates are preliminary and of limited predictive value. We understand Cal-Am's concern regarding the accuracy of estimates, but general rate cases are fundamentally based on estimates of future expenses. Also, the estimates were provided to American Water Work's board of directors, the people who use the information to make decisions affecting the company.

We assume that the accuracy of a presentation for the board of directors is at least the same as that of a general rate case filing. And, as Cal-Am's witness stated, there have been no revisions to the estimates of savings since that information was presented to the American Water Work's board of directors in May 2010.[55]

Therefore, we will adopt Cal-Am's estimated savings for 2012, 2013 and 2014, as presented to the American Water Work's board of directors and entered into the record of this general rate case by DRA. The estimated savings are calculated using figures from the confidential document; however, the figures here do not compromise the confidentiality of that document.

As with most estimates in a general rate case, if Cal-Am realizes greater savings than those identified, Cal-Am retains the savings. If project costs exceed the amount authorized, Cal-Am absorbs them. This equilibrium provides the incentive for Cal-Am to estimate projects accurately, which benefits ratepayers, and reduces costs, which benefits Cal-Am.

We do not approve Cal-Am's request for a memorandum account to track the difference between the estimated costs of the business transformation project and the actual costs of the project. We have confidence in Cal-Am's estimates and assurances by its witness that the project will be brought in on-time and within the budget.

However, Cal-Am is authorized to file a Tier 2 advice letter to move project costs into rate base when each phase of the business transformation project is complete, used and useful. Total recovery for the business

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[55] Reporter's Transcript 890:3-13.

transformation project will be capped at $14 million, the Cal-Am allocated portion of the original estimate. Cal-Am's initial Tier 2 advice letter to move costs associated with the first live phase of Enterprise Resource Planning will include the savings of $111,066 as an expense offset to the rate base addition requested in the initial Tier 2 advice letter. The savings for 2013 of $998,037 and 2014 of $1,777,056 attributable to Enterprise Resource Planning will be included in the advice letter filing for the attrition years as expense offsets. Cal-Am's Tier 2 advice letter to move costs associated with the first live phase of Customer Information Systems, which is scheduled for 2014, will include the savings of $873,996, attributable to the Customer Information Systems as an expense offset. We will not impute the project savings until the project costs have been added to rate base.

Additional estimated savings from the business transformation project that Cal-Am projects to occur after this rate case cycle should be recovered in the next general rate case.

9. Background of Cal-Am's Service Territory

The Commission regulates water service provided by Class A water utilities pursuant to Article XII of the California Constitution and the Public Utilities Code.[56] For Class A water utilities, Pub. Util. Code § 455.2, as implemented in D.04-06-018 and updated in D.07-05-062, provides for a general rate case proceeding every three years. Cal-Am is a Class A water company with six districts: Larkfield District, Los Angeles County District, Monterey County

[56] A Class A utility is defined as an investor-owned water utility with over 10,000 service connections.

District, Sacramento District, San Diego County District and Ventura County District.

9.1. Larkfield District

The Larkfield Water Company was constructed and granted a certificate of public convenience and necessity in 1959. It was merged into Citizens Utilities Company of California (Citizens) in 1995, which was then acquired by American Water Works, Inc., Cal-Am's parent company, in 2002.[57] The Larkfield District provides water service to an unincorporated portion of Sonoma County about four miles north of the City of Santa Rosa, California. The service area includes the Larkfield and Wikiup subdivisions which lie along the eastern boundary of U.S. Highway 101 and the community of Fulton which is located west of U.S. Highway 101. An interconnected distribution system serves the three areas of the district which provides water to approximately 2,400 customers. The mix of water provided to Larkfield District customers consists of well water and water purchased from the Sonoma County Water Agency.

9.2. Los Angeles County District

There are approximately 28,000 customers in the Los Angeles District. The district has three physically separated subsystems; San Marino, Duarte and Baldwin Hills. The San Marino service area, which is the largest, is ten miles northeast of downtown Los Angeles in the San Gabriel Valley. The Duarte subsystem is adjacent to the San Marino subsystem. The Baldwin Hills service area is centrally located in an unincorporated area of Los Angeles County

[57] The transaction was authorized by the Commission in D.01-09-057.

southwest of downtown Los Angeles and just a few miles east of the Los Angeles International Airport.

The district is served by wells and irrigation water utilizing Cal-Am's groundwater rights and by purchases from municipal wholesalers. The San Marino and Duarte subsystems use primarily groundwater while the Baldwin Hills subsystem uses approximately 50% purchased water from the Metropolitan Water District and the West Basin Municipal Water District.

9.3. Monterey County District

In 1882 the Pacific Improvement Company supplied water to the Del Monte Hotel. In 1905 it was renamed the Monterey County Water Works. In 1915 it was purchased along with 7000 thousand acres of land by a group of investors. After another sale in 1930, it was purchased by California Water and Telephone Company in 1935. Cal-Am's parent company, American Water Works Company, Inc., acquired it in 1966.

The Monterey County District serves approximately 43,000 customers in Carmel-by-the-Sea, Pacific Grove, Monterey, Seaside, Sand City, Del Rey Oaks, and the county areas of the Carmel Valley and the Highway 68 corridor. Water supply in the area is affected by rainfall and various regulations and court orders that restrict Cal-Am's ability to withdraw water from the Carmel River and nearby shallow wells. Efforts to address the current and long-term water supply deficit in the Monterey County District are ongoing.

9.4. Sacramento District

In 1928 the North Sacramento Light and Water Company was purchased by Public Utilities California Corporation. The name was changed to Citizens Utilities Company of California (Citizens) in 1949. Over the years, through a

series of mergers and acquisitions, Citizens grew to encompass the ten distinct water systems that now comprise the Sacramento District.

In January 2002 Cal-Am's parent company, American Water Works, Inc., acquired Citizens. The Sacramento District provides water service to areas North, East and South of the City of Sacramento. It also includes an area West of the City of Roseville in Placer County and the smaller communities of Isleton and Walnut Grove located Southwest of the City of Sacramento. The ten water systems are now operated as one. The ten systems are Antelope, Arden, Isleton, Lincoln Oaks, Parkway, Rosemont, Security, Suburban, Walnut Grove and West Placer. The Sacramento District serves approximately 57,000 customers.

9.5. San Diego County District

In 1886 the San Diego County District was established for the purpose of supplying water to the residents of the area known today as the City of Coronado. American Water Works acquired the company in 1966. Cal-Am is a wholly owned subsidiary of American Water Works. The San Diego County District serves the Cities of Coronado and Imperial Beach, a portion of the City of San Diego lying south of San Diego Bay and a small area of South Chula Vista located in the County of San Diego. All of the water provided to the San Diego District's approximately 21,000 customers is purchased from the City of San Diego.

9.6. Ventura County District

The Ventura County District was established to serve land developers in the Conejo Valley. It was acquired by Cal-Am in 1967. Between 1970 and 2006 the number of customers in the Ventura County District grew from approximately 7,200 to slightly less than 21,000 with the completion of several new developments in the area. With the increase in customers, the amount and

quality of water the district was able to supply to its customers from local wells became inadequate. In 1974, the use of local well water was discontinued. Since then all water provided to the Ventura County District has been purchased from the State Water Project.

10. Procedural Background

On July 1, 2010, Cal-Am filed its general rate case A.10-07-007. Protests to the application were filed by Mark West on July 27, 2010, and Monterey Peninsula and DRA on August 9, 2010. Cal-Am timely replied to the protests on August 19, 2010.

A prehearing conference was held on August 26, 2010 and a scoping memorandum was issued on September 9, 2010. Public participation hearings were noticed and held as follows:

February 9, 2011 - Rancho Cordova (Sacramento District)

February 10, 2011 - Windsor (Larkfield District)

February 15, 2011 – Thousand Oaks (Ventura County District)

February 16, 2011 – Arcadia (Los Angeles County District)

February 17, 2011 – Coronado (San Diego County District)

February 23, 2011 – Seaside (Monterey County District)

February 24, 2011 – Chualar (Monterey County District)

The public participation hearings were generally well attended with many attendees taking the opportunity to speak. The prevalent theme at the public participation hearings was the size of the increases sought by Cal-Am and the impact on the ratepayers' already sizable water bills.

The City of San Marino, the Monterey County Hospitality Association and Independent Reclaimed Water Users Group filed to become parties to the

proceeding on March 14, 18 and 25, 2011, respectively. By Administrative Law Judge Ruling on April 14, 2011, the motions for party status were granted.

On April 29, 2011, the Central Coast Coalition of Concerned Communities for Wastewater Equity filed to become a party to the proceeding. The Administrative Law Judge granted the motion by e-mail ruling. We affirm this and all other rulings made by the Judge during this proceeding.

DRA provided notice of an all-party settlement conference to be held April 4, 2011. Parties engaged in settlement negotiations and alternative dispute resolution until May 6, 2011. The parties worked until the deadline of July 28, 2011 to finalize the settlement agreements.

Evidentiary hearings were held on May 20, 25, 26, 27, 31 and June 28, 2011. Opening briefs were filed by Cal-Am, DRA, TURN, and Mark West on June 30, 2011. Reply briefs were filed on July 15, 2011.

Three settlement agreements were filed in this proceeding. A prehearing conference was noticed and held on September 8, 2011 to discuss the settlement agreements. More information on the three settlement agreements, the signatories, issues, and comments is contained in Attachment B to this decision.

On December 12, 2011, a revised scoping memo was issued consolidating Cal-Am's A.11-09-016 with A.10-07-007, establishing a Phase 2 to the proceeding and assigning Administrative Law Judges Rochester and Long as co-presiding officers.

The record for the revenue requirement phase of this proceeding was submitted on April 16, 2012. The proceeding remains open for Phase 2.

11. Comments on Proposed Decision

The proposed decision of Administrative Law Judge Linda A. Rochester in this matter was mailed to the parties in accordance with § 311 of the Public

Utilities Code and comments are allowed pursuant to Rule 14.3 of the Commission's Rules of Practice and Procedure. Opening comments were filed by _____ on _____ 2012, and reply comments were filed by _____ on _____, 2012. All comments were considered and changes were made as appropriate.

12. Assignment of Proceeding

Michel Peter Florio is the assigned Commissioner and Linda Rochester and Douglas Long are the assigned Administrative Law Judges in this proceeding.

Findings of Fact

The Settlements

1. May 20, 2011, Cal-Am and NRDC filed a motion to adopt a partial settlement agreement on various issues.
2. DRA filed comments on the Cal-Am and NRDC partial settlement agreement.
3. Mark West filed comments on the Cal-Am and NRDC partial settlement agreement.
4. On July 28, 2011, Cal-Am, DRA, and TURN filed a motion to adopt a partial settlement agreement on revenue requirement issues.
5. On July 28, 2011, Cal-Am, DRA and TURN filed a motion to adopt a partial settlement agreement on non-revenue issues.
6. Mark West filed comments on the Cal-Am, DRA and TURN partial settlement agreement on non-revenue issues.

Settled Issues Not Adopted

Special Request #8 - Ventura Main Break

7. Cal-Am did not record the expenses associated with the Ventura Main break in an established memorandum account to track expenses and offsetting insurance recovery.

8. The settlement's terms for recovery of expenses associated with the Ventura Main Break would allow Cal-Am to recover in future rates, expenses incurred in the past.

Special Request #15 - Reporting Non-revenue Water as Volumes Rather than Percentages

9. The settlement proposes that non-revenue water be reported volumetrically rather than as a percentage.

Regulatory Expense

10. In the settlement, the parties agree to defer $3,364,185 of regulatory expense related to this proceeding and amortize $1,121,395 annually over the three-year period of this rate case cycle.

11. In the settlement, the parties agree to defer the rate case expenses of $4,215,000 for the 2015-2017 rate case and amortize the expense over the three-year rate case cycle of 2015 -2017.

12. Recovering total regulatory expense of $6,736,185, amortized over the three year rate case cycle of this proceeding will move Cal-Am from recovering regulatory expenses on a deferred basis to a fully forecasted and recovery basis.

Special Request #31 - Walerga Special Facilities Fees

13. The Walerga Special Facilities Fee issue has been moved to Phase 2 of this proceeding.

Background on Supply Challenges in the Monterey County District

14. The Monterey District County water supply situation is desperate and requires continuous reductions in water waste on both the company and customer sides of the meter.

15. The Commission created a non-revenue penalty/reward mechanism based on a 9% non-revenue water target. If Cal-Am reduced its non-revenue water below the 9% mark, it would receive a reward. If Cal-Am failed to achieve the 9% non-revenue water standard, it would incur a penalty.

16. The per-acre-foot amount of $1,820.30 was adopted for use in calculating the non-revenue water financial penalty/reward.

Settlement on Non-Revenue Water Amounts for Ratemaking Purposes in the Monterey County District

17. The settlement on non-revenue water for ratemaking purposes in the Monterey County District is inconsistent.

18. The settlement uses different methods to calculate non-revenue water for ratemaking purposes and non-revenue water for the penalty/reward mechanism in the Monterey County District.

Adopted Non-Revenue Water for the Monterey County District

19. D.09-07-021 adopted non-revenue water percentages for most of the Monterey County District systems for the penalty/reward mechanism.

20. Target non-revenue water amounts for Hidden Hills, Ambler and Ralph Lane for the penalty/reward mechanism have been reduced to the industry average of 10% for Hidden Hills and Ambler and 11% for Ralph Lane.

Settlement on the Monterey County District Penalty/Reward Mechanism

21. The settlement proposes that the amount used to calculate the non-revenue water penalty/reward amount be reduced from $1,820.30 per acre-foot to $275 per acre-foot based on the marginal cost of water production at the Ord Grove Plant.

22. The marginal water production cost at the Sand City Plant is $2,599 per acre-foot.

23. The parties state that the non-revenue water penalty incurred by Cal-Am is unrealistic and excessively high.

24. The Commission set 9% as the non-revenue water target amount in the Monterey Main system, but the actual non-revenue water continues to approach 12%.

Irrigation Rates, Billing Format, Advanced Metering Infrastructure and Volumetric Rate Structure for Wastewater

25. The settlement adopts irrigation rates, billing format changes, advanced metering infrastructure and a volumetric rate structure for wastewater.

Special Request #5 - Establish a WRAM/MCBA in the Sacramento District

26. The settlement establishes a WRAM/MCBA in the Sacramento District.

27. Parties state that metering, like tiered rates, can significantly reduce consumption.

28. Converting from flat to metered rates is not the same as implementing tiered conservation rates.

29. A WRAM/MCBA review will occur in Phase 2 of this proceeding.

Disputed Issues

Special Request #19 - Toro Arsenic Treatment Plant

30. Cal-Am seeks to include $1,955,300 in rate base for the cost of the Pureflow coagulation/filtration system in the Toro arsenic treatment facility.

31. A settlement agreement adopted by D.09-07-021 included $685,000 for the Siemens's filtration bid.

32. Both the Pureflow System and the Siemen's system bring the Toro water quality to acceptable levels.

33. The Siemens System's total annual costs are $173,592.

34. The Pureflow System's total annual costs are $238,838.

SCADA

35. Cal-Am requests $1,953,000 for improvements to the Monterey County District SCADA system to standardize the software, update hardware and provide SCADA to sites that currently do not have it.

36. Cal-Am states that 57% of the budget is to provide SCADA coverage for sites that currently do not have coverage.

Special Request #32 - Monterey Billing System Modification Costs

37. Cal-Am seeks to include as plant in service $960,000 for Monterey Billing System Modifications.

38. D.09-07-021 in Cal-Am's last general rate case for the Monterey County District included a settlement between Cal-Am and DRA on administrative and general expenses, including the billing system modification costs.

39. Cal-Am's petition to modify D.09-07-021 to recover the additional billing system modification costs via advice letter was denied.

Domestic Production Activities Deduction

40. Cal-Am claims it is in a net operating loss position and therefore ineligible for the DPAD.

41. Cal-Am is seeking approximately $13 million in California Corporation Franchise Tax and Federal Income Tax.

42. Cal-Am uses one tax position for ratemaking purposes and one tax position for tax reporting purposes.

Repairs Deduction FIN 48

43. Cal-Am inadvertently excluded the FIN 48 in its application, but will accept the full repairs deduction which will increase deferred taxes.

Bonus Depreciation

44. Cal-Am has elected not to take the bonus depreciation for 2011.

45. The bonus deduction was taken in 2010 and is anticipated for 2012.

46. To impute the bonus depreciation would be an interference with Cal-Am's normalization of its taxes and result in a substantially higher rate base.

Special Requests

Special Request #4 - Requesting Rate of Return on Deferred Balances on Memorandum and Balancing Accounts

47. Cal-Am seeks authority to earn its rate of return rather than the 90-day commercial paper rate on its deferred balances in excess of its $33 million short-term debt limit.

48. Cal-Am's deferred balances currently represent 20% of its requested rate base of $421 million for 2012.

49. Granting a blanket approval to earn rate of return on all memorandum and balancing accounts denies the Commission the opportunity to evaluate the individual facts of each account.

Special Request #14 Requesting Recovery of Balances on Memorandum and Balancing Accounts

50. Cal-Am includes billing adjustments in its Monterey County District WRAM balances claiming the losses are a result of the steeply tiered conservation rates.

51. DWA rejected Cal-Am's advice letters 735 and 838 to recover the WRAM balances. DWA rejection letters included instructions for Cal-Am to follow prior resubmitting.

52. The losses are due to Cal-Am's billing adjustment practices rather than the conservation rates.

Special Request #24 Recover Toro Goodwill

53. Cal-Am and DRA entered into a settlement agreement for the purchase of the Toro system for the price of $408,000. The purchase price exceeded the book value by $105,403.

54. Cal-Am seeks $155,000 for goodwill in addition to the settlement agreement of $408,000, stating that nothing in the settlement agreement mentioned goodwill.

Special Request #34 Amortize Balancing Accounts in Rates on Annual Basis

55. Phase 2 of this proceeding includes a full review of the WRAM.

General Office Adjustments

Labor and Labor-Related Expense

56. Cal-Am's budget-based labor and labor related expenses assume that positions never remain vacant and the vacancy rate is zero.

57. DRA's position imputes a one-day headcount as the basis for Cal-Am's labor expense.

Pension Expense

58. Cal-Am's pension expense is based on ERISA forecasts for the Cal-Am and Cal Corp employees.

59. The Cal-Am and Cal Corp allocated portion of American Water Service Company's pension expense is based on FAS 87.

60. Cal-Am's request continues the pension expense calculation based on ERISA adopted in D.10-06-038.

Group Insurance

61. Cal-Am provides employee life insurance, medical, dental, prescription drug, vision, accidental death and dismemberment insurance, long-term disability insurance, and short-term managed disability insurance.

62. Cal-Am requests group insurance expense of $4,010,255 to cover current and forecast program expense increases.

63. From 2007 to 2010, Cal-Am's insurance expenses exceeded the industry trend except for 2009 when non-Union employee's costs were below the industry average by 0.1%.

64. Cal-Am employees contribute 23% toward health care coverage, less than the 2009 industry average of 32.2%.

Special Request #11 - Business Transformation Memorandum Account

65. Cal-Am requests a memorandum account to track the difference between the business transformation project's original costs and actual costs.

66. Cal-Am requests to earn its rate of return on the memorandum account tracking business transformation project costs.

67. Cal-Am seeks to have the memorandum account track savings generated by the business transformation project.

68. Cal-Am's projected savings generated by the business transformation project were presented to the American Water Works board of directors.

69. Cal-Am states the savings presented to the board of directors are preliminary estimates and of limited predictive value.

70. DRA and TURN object to Cal-Am's request for memorandum account treatment since the costs are within Cal-Am's control.

71. DRA and TURN request that the estimated savings be recognized as a reduction to revenue requirement for each year of this rate case cycle.

Conclusions of Law

The Settlements

1. Rule 12.1(d) provides that the Commission will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with law, and in the public interest.

2. The settlements, with the exceptions noted below, are reasonable in light of the whole record.

3. The settlements, with the exceptions noted below, are consistent with law.

4. The settlements, with the exceptions noted below, are in the public interest.

5. The settlements, with the exceptions noted below, should be adopted.

Settled Issues Not Adopted

Special Request #8 - Ventura Main Break

6. The settlement's terms on recovery of the Ventura Main Break expenses constitute retroactive ratemaking.

7. The settlement's terms on the Ventura Main Break are not consistent with the law and therefore are not reasonable.

8. The settlement on the Ventura Main Break should not be adopted.

Special Request #15 - Reporting Non-revenue Water as Volumes Rather than Percentages

9. Both volumetric and percentage measures provide meaningful information.

10. The settlement's request to present non-revenue water in a volumetric measure only, is not in the public interest and therefore is not reasonable.

11. The settlement on reporting non-revenue water as volumes only should not be adopted.

12. Non-revenue water should be reported as percentages as well as volumes.

Regulatory Expense

13. The settlement defers recovery of rate case expense to future rates, which constitutes retroactive ratemaking.

14. Allowing Cal-Am to defer rate case expense is not consistent with Commission practice.

15. The settlement’s treatment of regulatory expense should not be adopted.

16. Cal-Am should recover regulatory expense on a fully forecasted and recovery basis.

17. Cal-Am’s regulatory expense of $6,736,185, amortized over the three year rate case cycle in this proceeding, should be adopted.

Special Request #31 - Walerga Special Facilities Fees

18. The settlement on the Walerga Special Facilities Fee should not be adopted.

Settlement on Non-Revenue Water Amounts for Ratemaking Purposes in the Monterey County District

19. The record does not support one non-revenue water calculation for ratemaking purposes and one non-revenue water calculation for the penalty/reward mechanism in the Monterey County District.

20. The settlement on non-revenue water amounts for ratemaking purposes in the Monterey County District is not in the public interest and therefore is not reasonable.

21. The settlement on non-revenue water amounts for ratemaking purposes in the Monterey County District should not be adopted.

Adopted Non-Revenue Water for the Monterey County District

22. The settlement's proposal to calculate non-revenue water targets for the penalty/reward mechanism using the 2009 actual non-revenue water amounts is not in the public interest and therefore is not reasonable.

23. The settlement on non-revenue water amounts for the penalty/reward mechanism should not be adopted.

24. Calculating the non-revenue water targets for the penalty/reward mechanism using Cal-Am's estimated 2012 production, is in the public interest and therefore reasonable.

25. Calculating the non-revenue water targets for the penalty/reward mechanism using Cal-Am's estimated 2012 production should be adopted.

Settlement on the Monterey County District Penalty/Reward Mechanism

26. Reducing the non-revenue water penalty mechanism from $1,820.30 per acre-foot to $275 per acre-foot will not result in a greater reduction of non-revenue water.

27. The proposed reduction of the non-revenue water penalty from $1,820.30 to $275 is not reasonable in light of the whole record, consistent with the prior Commission decision or in the public interest.

28. The settlement reducing the non-revenue water penalty from $1,820.30 to $275 should not be adopted.

29. The non-revenue water target amount based on the percentage of Cal-Am's 2012 estimated production, with a 5% dead band added before the penalty is triggered, promotes the Commission's goal of reducing non-revenue water and is therefore in the public interest.

30. The non-revenue water target amount based on the percentage of Cal-Am's 2012 estimated production, with a 5% dead band added before the penalty is triggered, is reasonable and should be adopted.

Irrigation Rates, Billing Format, Advanced Metering Infrastructure and Volumetric Rate Structure for Wastewater

31. The settlement on these issues is not supported by the record and is silent on the cost and ratepayer impact.

32. The settlement's proposals on irrigation rates, billing format, advanced metering infrastructure and volumetric rate structure for wastewater should not be adopted.

Special Request #5 - Establish a WRAM/MCBA in the Sacramento District

33. Implementing a WRAM/MCBA in the Sacramento District prior to the full review would be premature.

34. The settlement establishing a WRAM/MCBA in the Sacramento District should not be adopted.

Disputed Issues

Special Request #19 - Toro Arsenic Treatment Plant

35. Cal-Am's installation of the Pureflow System is not reasonable.

36. The $1,955,300 cost of the Pureflow System should not be included in rate base.

37. The $685,000 cost of the Siemens System is reasonable.

38. The $685,000 cost of the Siemens System should be included in rate base.

39. The $18,660 annual operation and maintenance cost of the Siemens System is reasonable.

40. The $18,660 annual operation and maintenance cost of the Siemens System should be included in revenue requirement.

SCADA

41. Cal-Am's request for $1,953,000 for improvements to the Monterey County District SCADA system is not reasonable.

42. Cal-Am's request to provide SCADA coverage to areas not currently covered is reasonable.

43. The $793, 210 to provide SCADA to sites not currently covered should be included in revenue requirement.

Special Request #32 - Monterey Billing System Modification Costs

44. Cal-Am's request to reclassify the additional billing system modification costs and recover them in this proceeding is retroactive ratemaking and therefore is not reasonable.

45. Cal-Am's request to include $960,000 for Monterey Billing System Modifications as plant in service should be denied.

DPAD

46. Cal-Am's tax position for ratemaking purposes resulted in income tax, therefore it is reasonable to apply the DPAD for ratemaking purposes.

47. DRA's calculation of the DPAD is reasonable and should be applied to Cal-Am's taxable income.

Repairs Deduction FIN 48

48. Cal-Am should take the repairs deduction FIN 48 and remove from rate base the increased accumulated deferred income tax for 2010, 2011 and 2012 associated with its FIN 48 recorded deferred income tax.

Bonus Depreciation

49. Cal-Am's election not to take the bonus depreciation is reasonable.

50. Bonus depreciation should not be imputed on Cal-Am.

Special Requests

Special Request #4 - Requesting Rate of Return on Deferred Balances on Memorandum and Balancing Accounts

51. Cal-Am's request to earn rate of return on all deferred balances is not reasonable.

52. Cal-Am's request to earn rate of return on all deferred balances should be denied.

Special Request #14 - Requesting Recovery of Balances on Memorandum and Balancing Accounts

53. Including billing adjustments in WRAM is not reasonable.

54. Cal-Am should remove all billing adjustments from its WRAM account in the Monterey County District and file a Tier 2 advice letter for recovery complying with DWA instructions or requests related to advice letters 735 and 838.

Special Request #24 - Toro Goodwill

55. It is reasonable for DRA to infer that the purchase price in excess of the book value represented goodwill.

56. Cal-Am's claim for an additional $155,000 for goodwill is not reasonable.

57. Cal-Am should not recover an additional $155,000 for Toro goodwill.

Special Request #34 - Amortize Balancing Accounts in Rates on Annual Basis

58. Cal-Am's request to amortize balancing accounts in rates on an annual basis should be denied.

General Office Adjustments

Labor and Labor-Related Expense

59. For determining labor and labor-related expenses, neither Cal-Am's budget-based labor expense nor DRA's one-day headcount is reasonable.

60. Imputing some reduction to the budget-based labor expense for ongoing vacancies is reasonable.

61. Labor and labor-related expenses should be reduced by 22 positions, the decline calculated by Cal-Am, to account for ongoing vacancies.

Pension Expense

62. Cal-Am's pension expense based on the February 2011 ERISA forecast for the Cal-Am and Cal Corp employees is reasonable.

63. Cal-Am's pension expense for American Water Service Company based on FAS 87 is reasonable.

64. Continuing Cal-Am's pension expense balancing account to track the difference between the authorized pension expense and the actual expense, with recovery capped at ERISA minimums, is reasonable.

65. Cal-Am's pension expense balancing account to track the difference between the authorized pension expense and the actual expense, with recovery capped at ERISA minimums, should be continued.

Group Insurance

66. Cal-Am's request for $4,010,255 in group insurance expense is not reasonable.

67. Cal-Am's request for $4,010,255 in group insurance expense should not be granted.

68. Group insurance expense based on the labor escalation rate pursuant to D.04-06-08 is reasonable.

69. Cal-Am should recover group insurance expense based on the labor escalation rate pursuant D.04-06-018.

Special Request #11 - Business Transformation Memorandum Account

70. Cal-Am's request for a memorandum account to track the difference between the business transformation project's original costs and actual costs is not reasonable.

71. Cal-Am's original estimate of the business transformation costs is reasonable.

72. Cal- original estimate of business transformation project costs should be moved into rate base via a Tier 2 advice letter filing once each phase is complete, used, and useful.

73. Cal-Am's projected savings from the business transformation project are reasonable.

74. Cal-Am's projected savings for 2012 from each phase of the business transformation project should be included in its initial Tier 2 advice letter filings as offsets to the costs associated with the rate base additions. The projected savings for 2013 and 2014 should be reflected as expense offsets in the 2013 and 2014 attrition advice letter filings.

75. The next general rate case should include a review of the business transformation project for savings that are projected by Cal-Am to occur after this rate case cycle.

O R D E R

IT IS ORDERED that:

1. The joint motion of California American Water Company and the Natural Resources Defense Council to adopt the May 20, 2011 settlement is granted to the extent set forth in this order and denied to the extent set forth in this order.

2. The joint motion of California American Water Company, the Division of Ratepayer Advocates and The Utility Reform Network to adopt the July 28, 2011 settlement on revenue requirement issues is granted to the extent set forth in this order and denied to the extent set forth in this order.

3. The joint motion of California American Water Company, the Division of Ratepayer Advocates and the Natural Resources Defense Council to adopt the July 28, 2011 settlement on non-revenue issues is granted to the extent set forth in this order and denied to the extent set forth in this order.

4. California American Water Company is authorized to file by Tier 1 advice letter the revised tariff schedules attached to this order as Attachment C, and to concurrently cancel its present schedules for such service. This filing shall be subject to approval by the Commission's Division of Water and Audits. The effective date of the revised schedule shall be no earlier than five days after the effective date of this decision, and shall apply only to service rendered on or after the effective date for all districts.

5. California American Water Company is authorized to file a Tier I advice letter to recover the difference between the interim and final rates from its customers in all districts. The difference between the interim and final rates based on the revenue requirement adopted here, shall be recovered over the balance of the rate case cycle.

6. For escalation years 2013 and 2014, California American Water Company shall file Tier 2 advice letters in conformance with General Order 96-B proposing new revenue requirements and corresponding revised tariff schedules for each district. The filing shall include rate procedures set forth in the Commission's Rate Case Plan (Decision 07-05-062) for Class A Water Utilities and shall include appropriate supporting workpapers. The revised tariff schedules shall take effect no earlier than January 1, 2013 and January 1, 2014, respectively and shall apply to service rendered on and after their effective dates. The proposed revisions to revenue requirements and rates shall be reviewed by the Commission's Division of Water and Audits. The Division of Water and Audits

shall inform the Commission if it finds that the revised rates do not conform to the Rate Case Plan, this order, or other Commission decisions, and if so, reject the filing.

7. California American Water Company shall report non-revenue water as percentages as well as volumes.

8. California American Water Company's revenue requirement will include $6, 736,185 in regulatory expense.

9. California American Water Company is authorized to file a Tier 1 advice letter to establish a memorandum account to track engineering costs and financial evaluation and studies of measures to reduce non-revenue water in each district. Recovery of expenses tracked in the memorandum account shall be sought in California American Water Company's next general rate case.

10. California American Water Company's estimated 2012 production shall be used as the basis for calculating the Monterey County District non-revenue water targets for the penalty/reward program.

11. The Monterey County District's non-revenue water target amounts will be increased by a five percent dead band. California American Water will only be subject to the penalty if the non-revenue water amount exceeds the five percent dead band.

12. The $685,000 annual cost of the Siemens System is included in California American Water Company's rate base and the $18,660 annual operation and maintenance cost of the Pureflow System is included in California American Water Company's revenue requirement.

13. California American Water Company's revenue requirement will include $793, 210 to provide Supervisory Control and Data Acquisition to sites not currently covered.

14. California American Water Company's taxable income shall be reduced by the Domestic Production Activities Deduction calculated using the Division of Ratepayer Advocates' methodology.

15. California American Water Company will take the repairs deduction Federal Accounting Standards Board Interpretation Number (FIN) 48 and remove from rate base the increased accumulated deferred income tax for 2010, 2011 and 2012 associated with its FIN 48 recorded deferred income tax.

16. California American Water Company may file a Tier 2 advice letter seeking amortization of its Water Revenue Adjustment Mechanism balance in the Monterey County District once it has removed billing adjustments from the Water Revenue Adjustment Mechanism account and complies with the Division of Water and Audits instructions contained in the letters rejecting Advice Letters 735 and 838.

17. California American Water Company's labor and labor-related expenses are reduced by 22 positions to account for ongoing vacancies.

18. California American Water Company shall continue its pension expense balancing account to track and recover the difference between the level of pension expenses authorized in rates and the actual costs. California American Water Company's recovery for ratemaking purposes shall be capped at the minimum level of expenses calculated according to the minimum funding levels in the Employee Retirement Income Security Act, updated by the Pension Protection Act.

19. California American Water Company's group insurance expense shall be increased according to the labor escalation rates pursuant to Decision 04-06-018.

20. California American Water Company is authorized to file a Tier 2 advice letter to move project costs into rate base when each phase of the business

transformation project is complete, used and useful. Total recovery for the business transformation project will be capped at $14 million.

21. California American Water Company's initial Tier 2 advice letter to move costs associated with the first live phase of Enterprise Resource Planning will include the savings of $111,066 as an expense offset to the rate base.

22. California American Water Company's projected savings for 2013 of $998,037 and 2014 of $1,777,056, attributable to Enterprise Resource Planning, will be included in the advice letter filing for the attrition years as expense offsets.

23. California American Water Company's Tier 2 advice letter to move costs associated with the first phase of Customer Information Systems will include the savings of $873,996, as an expense offset.

24. Applications 10-07-007 and 11-09-016 remain open for Phase 2.

This order is effective today.

Dated _____, at San Francisco, California.

ATTACHMENT A

LIST OF APPEARANCES

Applicants:

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(END OF ATTACHMENT A)

ATTACHMENT B

THE SETTLEMENTS

Cal-Am and NRDC Settlement

On May 20, 2011, Cal-Am and NRDC filed a settlement on nine items resolved by the parties.[58] The items are:

- Special Request #1 requesting monthly meter reading;
- Establishing Irrigation rates for all districts except Toro, and the Sacramento and Monterey Districts;
- Billing format modifications;
- Advanced Metering Infrastructure;
- Low-Income tariff consolidation;
- Increase low-income customer surcredit;
- Special Request #5 - Establish a WRAM/MCBA in the Sacramento District; and
- Establish a volumetric rate structure for waste water customers; and
- Water loss reporting.

DRA Comments on the Cal-Am /NRDC Settlement

On June 20, 2011, DRA responded to the Cal-Am /NRDC settlement opposing the settlement in its entirety because of the lack of facts, data or analysis in the record and the lack of cost or customer impact analysis supporting each of the proposals.

[58] http://docs.cpuc.ca.gov/efile/MOTION/135724.pdf

Mark West Comments on the Cal-Am /NRDC Settlement

On June 20, 2011, Mark West filed comments on the settlement between Cal-Am and NRDC objecting to the settlement on Special Request #5.

Cal-Am, DRA and TURN Settlement on Revenue Requirement Issues

On July 28, 2011, DRA, Cal-Am and TURN filed a motion for adoption of a partial settlement agreement on revenue requirement issues.[59] The settlement on revenue requirement issues encompasses most of the issues in the proceeding, resulting in a 363 page document and 4 appendices.

The issues settled between Cal-Am, DRA and TURN include:

- Water consumption and revenue;
- Customer Service;
- Operations and Maintenance;
- Administrative and General Expenses;
- Adjustments to General Office expenses;
- Conservation Program Budgets;
- Depreciation Reserves;
- Taxes;
- Utility Plant in Service; and
- Special Requests.

Mark West Comments on Cal-Am, DRA and TURN Settlement on Revenue Requirement Issues

Cal-Am Mark West's comments on the settlement focus on three issues related to the Larkfield District; the continuation of the Water Revenue Adjustment Mechanism and the associated Modified Cost Balancing Account,

[59] http://docs.cpuc.ca.gov/efile/MOTION/141195.pdf

the necessity of the Faught Road Well and the special facilities fee or connection fee proposal.

Cal-Am, DRA and NRDC Settlement on Non-Revenue Issues

On July 28, 2011, DRA, Cal-Am and NRDC filed a partial settlement agreement on non-revenue issues.[60] The issues settled between Cal-Am, DRA and NRDC include:

- Establishing non-revenue water target amounts;
- Special Request #15 – converting non-revenue water from percentages to volumetric measures;
- Establishing annual report of non-revenue water program accomplishments;
- Revising the non-revenue water penalty/reward mechanism amount; and
- Supporting Cal-Am /NRDC settlement on developing Water Action Plans.

(END OF ATTACHMENT B)

[60] http://docs.cpuc.ca.gov/efile/MOTION/140665.pdf

ATTACHMENT C

SUMMARY OF EARNINGS

TABLE A1

CALIFORNIA AMERICAN WATER
CALIFORNIA TOTAL
2012 GENERAL RATE CASE
COMPARATIVE SUMMARY OF EARNINGS FOR TEST YEAR AT PRESENT RATES

"2012 @ ESTIMATED PRESENT RATES"

	STAFF		UTILITY	UTILITY		
	ORIGINAL	REVISED	EXCEEDS BRANCH DIFFERENCE	REVISED	UPDATED FILING	**ADOPTED**
Operating Revenues						
Water	172,680.1	159,711.7	0.0	159,711.7	168,372.4	159,743.2
Operating Expenses						
Payroll	14,269.9	14,534.6	0.0	14,534.6	14,904.6	14,534.6
Purchased Water	40,344.5	34,289.0	0.0	34,289.0	40,728.4	34,289.0
Purchased Power	7,684.8	6,637.1	0.0	6,637.1	7,533.9	6,637.1
Chemicals	1,815.1	1,934.3	0.0	1,934.3	2,088.3	1,934.3
Uncollectibles	819.6	898.4	0.0	898.4	1,104.6	898.6
Other Operating Exp	4,073.0	4,135.7	18.6	4,154.3	4,134.1	4,208.6
T & D - Reservoirs & Tanks	1,152.7	1,170.7	0.0	1,170.8	1,180.4	1,170.8
Other Maintenance Exp	3,049.1	3,286.9	(0.0)	3,286.9	3,308.9	3,286.9
Insurance	33.9	33.9	0.0	33.9	33.9	33.9
Pension & Benefits	919.6	944.4	0.0	944.4	920.7	944.4
Regulatory Expense	0.0	1.5	0.0	1.5	6.6	1.5
Outside Services	1,588.8	1,605.0	0.0	1,605.0	1,647.7	1,605.0
Rents	956.3	955.7	0.0	955.7	956.4	955.7
Misc General Expense	5,098.0	5,098.3	0.0	5,098.3	6,372.2	5,098.3
Other Admin & General	265.0	277.5	0.0	277.5	285.5	277.5
Subtotal	82,070.2	75,803.0	18.6	75,821.5	85,206.1	75,876.0
Allocated General Office	27,889.6	29,465.1	6,049.7	35,514.8	39,836.1	35,514.8
Acquisition Premium	4,081.0	4,081.0	(0.0)	4,081.0	4,080.9	4,081.0
Total Operating Expense	114,040.7	109,349.1	6,068.2	115,417.3	129,123.2	115,471.8
Depreciation	18,978.2	19,107.7	113.1	19,220.8	20,080.2	19,153.9
Ad Valorem Taxes	4,735.5	4,851.2	5.6	4,856.9	4,951.6	4,866.6
Franchise Taxes	124.4	112.0	0.0	112.0	126.7	112.0
Payroll Taxes	995.9	1,002.8	2.0	1,004.8	1,010.0	1,004.8
Total Exp. Before Inc. Taxes	138,874.8	134,422.8	6,189.0	140,611.7	155,291.6	140,609.2
Net Revenue Before Inc. Taxes	33,805.3	25,288.9	(6,189.0)	19,100.0	13,080.9	19,134.0
State Income Taxes	1,789.2	1,020.8	(587.2)	433.6	(212.3)	440.9
Federal Income Taxes	6,553.5	3,454.3	(1,990.1)	1,464.2	(1,087.2)	1,469.3
Total Expenses	147,217.5	138,897.9	3,611.7	142,509.6	153,992.1	142,519.4
Net Operating Revenue	25,462.5	20,813.8	(3,611.7)	17,202.1	14,380.3	17,223.7
Rate Base	358,516.0	363,270.2	12,403.4	375,673.6	409,917.3	374,404.1
Rate of Return	7.10%	5.73%		4.58%	3.51%	4.60%

TABLE A2

CALIFORNIA AMERICAN WATER
CALIFORNIA TOTAL
2012 GENERAL RATE CASE
COMPARATIVE SUMMARY OF EARNINGS FOR TEST YEAR AT PROPOSED RATES

"2012 @ PROPOSED RATES"

	STAFF		UTILITY	UTILITY		
	ORIGINAL	REVISED	EXCEEDS BRANCH DIFFERENCE	REVISED	UPDATED FILING	**ADOPTED**
Operating Revenues						
Water	177,505.4	174,482.2	8,217.3	182,699.5	201,385.5	182,226.9
Operating Expenses						
Payroll	14,269.9	14,534.6	0.0	14,534.6	14,904.6	14,534.6
Purchased Water	40,344.5	34,289.0	0.0	34,289.0	40,728.4	34,289.0
Purchased Power	7,684.8	6,637.1	0.0	6,637.1	7,533.9	6,637.1
Chemicals	1,815.1	1,934.3	0.0	1,934.3	2,088.3	1,934.3
Uncollectibles	842.6	977.6	45.9	1,023.6	1,318.4	1,020.9
Other Operating Exp	4,073.0	4,135.7	18.6	4,154.3	4,134.1	4,208.6
T & D - Reservoirs & Tanks	1,152.7	1,170.7	0.0	1,170.8	1,180.4	1,170.8
Other Maintenance Exp	3,049.1	3,286.9	(0.0)	3,286.9	3,308.9	3,286.9
Insurance	33.9	33.9	0.0	33.9	33.9	33.9
Pension & Benefits	919.6	944.4	0.0	944.4	920.7	944.4
Regulatory Expense	0.0	1.5	0.0	1.5	6.6	1.5
Outside Services	1,588.8	1,605.0	0.0	1,605.0	1,647.7	1,605.0
Rents	956.3	955.7	0.0	955.7	956.4	955.7
Misc General Expense	5,098.0	5,098.3	0.0	5,098.3	6,372.2	5,098.3
Other Admin & General	265.0	277.5	0.0	277.5	285.5	277.5
Subtotal	82,093.1	75,882.2	64.5	75,946.7	85,419.9	75,998.4
Allocated General Office	27,889.6	29,465.1	6,049.7	35,514.8	39,836.1	35,514.8
Acquisition Premium	4,081.0	4,081.0	(0.0)	4,081.0	4,080.9	4,081.0
Total Operating Expense	114,063.7	109,428.4	6,114.1	115,542.5	129,336.9	115,594.2
Depreciation	18,978.2	19,107.7	113.1	19,220.8	20,080.2	19,153.9
Ad Valorem Taxes	4,735.5	4,851.2	5.6	4,856.9	4,951.6	4,866.6
Franchise Taxes	130.5	131.0	(17.8)	113.2	126.5	113.3
Payroll Taxes	995.9	1,004.8	0.0	1,004.8	1,010.0	1,004.8
Total Exp. Before Inc. Taxes	138,903.9	134,523.1	6,215.1	140,738.2	155,505.1	140,732.8
Net Revenue Before Inc. Taxes	38,601.5	39,959.1	2,002.1	41,961.3	45,880.4	41,494.1
State Income Taxes	2,203.0	2,317.4	137.1	2,454.5	2,687.2	2,417.5
Federal Income Taxes	7,889.0	8,437.3	874.5	9,311.8	10,239.3	8,974.0
Total Expenses	148,996.0	145,277.8	7,226.7	152,504.6	168,431.7	152,124.4
Net Operating Revenue	28,509.4	29,204.4	990.5	30,194.9	32,953.8	30,102.5
Rate Base	358,516.0	363,270.2	12,403.4	375,673.6	409,917.3	374,404.1
Rate of Return	7.95%	8.04%		8.04%	8.04%	8.04%

TABLE A1

CALIFORNIA AMERICAN WATER
SAN DIEGO DISTRICT
2012 GENERAL RATE CASE
COMPARATIVE SUMMARY OF EARNINGS FOR TEST YEAR AT PRESENT RATES

2011 @ PRESENT RATES

	STAFF		UTILITY	UTILITY		
	ORIGINAL	REVISED	EXCEEDS BRANCH DIFFERENCE	REVISED	UPDATED FILING	**ADOPTED**
Operating Revenues						
Water	18,440.7	16,658.5	0.0	16,658.5	17,452.7	16,658.5
Operating Expenses						
Payroll	1,076.7	1,143.2	0.0	1,143.2	1,156.7	1,143.2
Purchased Water	11,742.7	10,452.5	0.0	10,452.5	11,258.7	10,452.5
Purchased Power	0.0	0.0	0.0	0.0	0.0	0.0
Chemicals	0.0	0.0	0.0	0.0	0.0	0.0
Uncollectibles	87.7	93.7	0.0	93.7	114.6	93.7
Other Operating Exp	73.0	72.9	0.0	72.9	73.1	72.9
T & D - Reservoirs & Tanks	27.4	27.4	0.0	27.4	27.4	27.4
Other Maintenance Exp	57.0	56.7	0.0	56.7	57.0	56.7
Insurance	0.4	0.4	0.0	0.4	0.4	0.4
Pension & Benefits	63.1	64.9	0.0	64.9	65.1	64.9
Regulatory Expense	0.0	0.0	0.0	0.0	0.0	0.0
Outside Services	38.5	38.3	0.0	38.3	38.5	38.3
Rents	46.6	46.5	0.0	46.5	46.6	46.5
Misc General Expense	334.6	334.4	0.0	334.4	335.5	334.4
Other Admin & General	9.7	10.5	0.0	10.5	11.1	10.5
Subtotal	13,557.4	12,341.5	0.0	12,341.5	13,184.7	12,341.5
Allocated General Office	2,496.7	2,512.4	285.5	2,797.9	2,928.6	2,797.9
Acquisition Premium	474.1	474.1	0.0	474.1	474.1	474.1
Total Operating Expense	16,528.3	15,328.0	285.5	15,613.5	16,587.4	15,613.5
Depreciation	859.4	859.5	0.0	859.5	872.0	859.5
Ad Valorem Taxes	145.8	145.8	0.0	145.8	145.6	145.8
Franchise Taxes	0.0	0.0	0.0	0.0	0.0	0.0
Payroll Taxes	56.9	84.2	0.0	84.2	84.7	84.2
Total Exp. Before Inc. Taxes	17,590.4	16,417.5	285.5	16,703.0	17,689.6	16,703.0
Net Revenue Before Inc. Taxes	850.3	241.1	(285.5)	(44.4)	(236.8)	(44.4)
State Income Taxes	33.6	(22.7)	(26.2)	(48.9)	(68.7)	(48.5)
Federal Income Taxes	133.4	(89.7)	(62.4)	(152.1)	(230.4)	(150.2)
Total Expenses	17,757.4	16,305.1	196.9	16,502.0	17,390.5	16,504.3
Net Operating Revenue	683.3	353.5	(196.9)	156.6	62.3	154.3
Rate Base	12,263.0	13,013.4	295.0	13,308.4	14,144.2	13,168.6
Rate of Return	5.57%	2.72%		1.18%	0.44%	1.17%

TABLE A2

CALIFORNIA AMERICAN WATER
SAN DIEGO DISTRICT
2012 GENERAL RATE CASE
COMPARATIVE SUMMARY OF EARNINGS FOR TEST YEAR AT PROPOSED RATES

2011 @ PROPOSED RATES

	STAFF		UTILITY	UTILITY		
	ORIGINAL	REVISED	EXCEEDS BRANCH DIFFERENCE	REVISED	UPDATED FILING	**ADOPTED**
Operating Revenues						
Water	19,370.4	17,848.5	469.2	18,317.7	19,379.4	18,278.1
Operating Expenses						
Payroll	1,076.7	1,143.2	0.0	1,143.2	1,156.7	1,143.2
Purchased Water	11,742.7	10,452.5	0.0	10,452.5	11,258.7	10,452.5
Purchased Power	0.0	0.0	0.0	0.0	0.0	0.0
Chemicals	0.0	0.0	0.0	0.0	0.0	0.0
Uncollectibles	93.8	102.0	1.0	103.0	127.3	102.8
Other Operating Exp	73.0	72.9	0.0	72.9	73.1	72.9
T & D - Reservoirs & Tanks	27.4	27.4	0.0	27.4	27.4	27.4
Other Maintenance Exp	57.0	56.7	0.0	56.7	57.0	56.7
Insurance	0.4	0.4	0.0	0.4	0.4	0.4
Pension & Benefits	63.1	64.9	0.0	64.9	65.1	64.9
Regulatory Expense	0.0	0.0	0.0	0.0	0.0	0.0
Outside Services	38.5	38.3	0.0	38.3	38.5	38.3
Rents	46.6	46.5	0.0	46.5	46.6	46.5
Misc General Expense	334.6	334.4	0.0	334.4	335.5	334.4
Other Admin & General	9.7	10.5	0.0	10.5	11.1	10.5
Subtotal	13,563.5	12,349.8	1.0	12,350.8	13,197.3	12,350.6
Allocated General Office	2,496.7	2,512.4	285.5	2,797.9	2,928.6	2,797.9
Acquisition Premium	474.1	474.1	0.0	474.1	474.1	474.1
Total Operating Expense	16,534.3	15,336.3	286.5	15,622.8	16,600.0	15,622.6
Depreciation	859.4	859.5	0.0	859.5	872.0	859.5
Ad Valorem Taxes	145.8	145.8	0.0	145.8	145.6	145.8
Franchise Taxes	0.0	0.0	0.0	0.0	0.0	0.0
Payroll Taxes	56.9	84.2	0.0	84.2	84.7	84.2
Total Exp. Before Inc. Taxes	17,596.4	16,425.8	286.5	16,712.3	17,702.2	16,712.1
Net Revenue Before Inc. Taxes	1,774.0	1,422.7	182.7	1,605.4	1,677.2	1,566.0
State Income Taxes	115.2	81.6	15.3	96.9	100.5	93.9
Federal Income Taxes	427.6	294.8	130.6	425.4	439.5	413.4
Total Expenses	18,139.2	16,802.2	432.4	17,234.6	18,242.2	17,219.4
Net Operating Revenue	1,231.2	1,046.3	36.8	1,083.1	1,137.2	1,058.7
Rate Base	12,263.0	13,013.4	295.0	13,308.4	14,144.2	13,168.6
Rate of Return	10.04%	8.04%		8.14%	8.04%	8.04%

TABLE A1

CALIFORNIA AMERICAN WATER
SAN DIEGO DISTRICT
2012 GENERAL RATE CASE
COMPARATIVE SUMMARY OF EARNINGS FOR TEST YEAR AT PRESENT RATES

2012 @ PRESENT RATES

	STAFF		UTILITY	UTILITY		
	ORIGINAL	REVISED	EXCEEDS BRANCH DIFFERENCE	REVISED	UPDATED FILING	**ADOPTED**
Operating Revenues						
Water	20,180.6	19,386.4	0.0	19,386.4	19,389.5	19,386.4
Operating Expenses						
Payroll	1,089.2	1,255.2	0.0	1,255.2	1,286.4	1,255.2
Purchased Water	11,584.0	10,454.6	0.0	10,454.6	11,260.8	10,454.6
Purchased Power	0.0	0.0	0.0	0.0	0.0	0.0
Chemicals	0.0	0.0	0.0	0.0	0.0	0.0
Uncollectibles	96.0	109.0	0.0	109.0	127.3	109.0
Other Operating Exp	238.4	239.1	0.0	239.1	239.5	245.7
T & D - Reservoirs & Tanks	10.5	10.5	0.0	10.5	10.5	10.5
Other Maintenance Exp	58.7	58.4	0.0	58.4	58.8	58.4
Insurance	0.5	0.5	0.0	0.5	0.5	0.5
Pension & Benefits	65.0	75.4	0.0	75.4	75.6	75.4
Regulatory Expense	0.0	0.0	0.0	0.0	0.0	0.0
Outside Services	39.7	39.5	0.0	39.5	39.7	39.5
Rents	48.0	47.9	0.0	47.9	48.0	47.9
Misc General Expense	356.3	342.4	0.0	342.4	357.2	342.4
Other Admin & General	10.0	10.8	0.0	10.8	11.4	10.8
Subtotal	13,596.3	12,643.3	0.0	12,643.3	13,515.8	12,650.0
Allocated General Office	3,127.4	3,215.2	808.6	4,023.8	4,517.6	4,023.8
Acquisition Premium	458.9	458.9	0.0	458.9	458.9	458.9
Total Operating Expense	17,182.5	16,317.4	808.6	17,126.0	18,492.4	17,132.7
Depreciation	720.4	710.5	0.0	710.5	980.0	710.5
Ad Valorem Taxes	149.2	150.1	0.0	150.1	149.1	150.1
Franchise Taxes	0.0	0.0	0.0	0.0	0.0	0.0
Payroll Taxes	81.2	92.9	0.0	92.9	93.4	92.9
Total Exp. Before Inc. Taxes	18,133.3	17,270.9	808.6	18,079.5	19,714.9	18,086.2
Net Revenue Before Inc. Taxes	2,047.3	2,115.5	(808.6)	1,306.9	(325.5)	1,300.2
State Income Taxes	133.3	139.0	(73.2)	65.8	(81.1)	65.9
Federal Income Taxes	549.8	572.2	(346.6)	225.6	(355.8)	226.2
Total Expenses	18,816.4	17,982.1	388.8	18,370.9	19,278.0	18,378.3
Net Operating Revenue	1,364.2	1,404.3	(388.8)	1,015.5	111.4	1,008.1
Rate Base	14,102.8	14,215.6	525.1	14,740.6	15,512.5	14,518.8
Rate of Return	9.67%	9.88%		6.89%	0.72%	6.94%

TABLE A2

CALIFORNIA AMERICAN WATER
SAN DIEGO DISTRICT
2012 GENERAL RATE CASE
COMPARATIVE SUMMARY OF EARNINGS FOR TEST YEAR AT PROPOSED RATES

2012 @ PROPOSED RATES

	STAFF		UTILITY	UTILITY		
	ORIGINAL	REVISED	EXCEEDS BRANCH DIFFERENCE	REVISED	UPDATED FILING	**ADOPTED**
Operating Revenues						
Water	19,950.4	18,931.0	747.0	19,678.0	21,425.2	19,671.5
Operating Expenses						
Payroll	1,089.2	1,255.2	0.0	1,255.2	1,286.4	1,255.2
Purchased Water	11,584.0	10,454.6	0.0	10,454.6	11,260.8	10,454.6
Purchased Power	0.0	0.0	0.0	0.0	0.0	0.0
Chemicals	0.0	0.0	0.0	0.0	0.0	0.0
Uncollectibles	94.9	106.5	4.2	110.7	140.7	110.7
Other Operating Exp	238.4	239.1	0.0	239.1	239.5	245.7
T & D - Reservoirs & Tanks	10.5	10.5	0.0	10.5	10.5	10.5
Other Maintenance Exp	58.7	58.4	0.0	58.4	58.8	58.4
Insurance	0.5	0.5	0.0	0.5	0.5	0.5
Pension & Benefits	65.0	75.4	0.0	75.4	75.6	75.4
Regulatory Expense	0.0	0.0	0.0	0.0	0.0	0.0
Outside Services	39.7	39.5	0.0	39.5	39.7	39.5
Rents	48.0	47.9	0.0	47.9	48.0	47.9
Misc General Expense	356.3	342.4	0.0	342.4	357.2	342.4
Other Admin & General	10.0	10.8	0.0	10.8	11.4	10.8
Subtotal	13,595.2	12,640.8	4.2	12,645.0	13,529.2	12,651.6
Allocated General Office	3,127.4	3,215.2	808.6	4,023.8	4,517.6	4,023.8
Acquisition Premium	458.9	458.9	0.0	458.9	458.9	458.9
Total Operating Expense	17,181.5	16,314.9	812.8	17,127.7	18,505.7	17,134.3
Depreciation	720.4	710.5	0.0	710.5	980.0	710.5
Ad Valorem Taxes	149.2	150.1	0.0	150.1	149.1	150.1
Franchise Taxes	0.0	0.0	0.0	0.0	0.0	0.0
Payroll Taxes	81.2	92.9	0.0	92.9	93.4	92.9
Total Exp. Before Inc. Taxes	18,132.2	17,268.4	812.8	18,081.2	19,728.3	18,087.8
Net Revenue Before Inc. Taxes	1,818.2	1,662.6	(65.8)	1,596.8	1,696.9	1,583.7
State Income Taxes	113.1	98.9	(7.5)	91.4	97.7	91.0
Federal Income Taxes	476.7	420.8	(93.7)	327.1	352.0	325.4
Total Expenses	18,722.0	17,788.1	711.6	18,499.7	20,178.0	18,504.2
Net Operating Revenue	1,228.4	1,142.9	35.4	1,178.3	1,247.2	1,167.3
Rate Base	14,102.8	14,215.6	525.1	14,740.6	15,512.5	14,518.8
Rate of Return	8.71%	8.04%		7.99%	8.04%	8.04%

TABLE A1

CALIFORNIA AMERICAN WATER
LOS ANGELES DISTRICT
2012 GENERAL RATE CASE
COMPARATIVE SUMMARY OF EARNINGS FOR TEST YEAR AT PRESENT RATES

2012 @ PRESENT RATES

	STAFF		UTILITY	UTILITY		
	ORIGINAL	REVISED	EXCEEDS BRANCH DIFFERENCE	REVISED	UPDATED FILING	**ADOPTED**
Operating Revenues						
Water	25,114.9	22,772.4	0.0	22,772.4	24,511.9	22,772.4
Operating Expenses						
Payroll	1,932.2	1,846.8	0.0	1,846.8	1,891.4	1,846.8
Purchased Water	6,631.9	5,313.3	0.0	5,313.3	6,602.6	5,313.3
Purchased Power	1,887.2	1,670.0	0.0	1,670.0	1,862.6	1,670.0
Chemicals	93.7	89.4	0.0	89.4	83.9	89.4
Uncollectibles	119.5	128.1	0.0	128.1	158.3	128.1
Other Operating Exp	475.7	475.8	0.0	475.8	476.8	484.8
T & D - Reservoirs & Tanks	201.2	201.2	0.0	201.2	201.2	201.2
Other Maintenance Exp	571.9	569.5	0.0	569.5	571.8	569.5
Insurance	0.7	0.7	0.0	0.7	0.7	0.7
Pension & Benefits	118.1	119.4	0.0	119.4	119.6	119.4
Regulatory Expense	0.0	0.0	0.0	0.0	0.0	0.0
Outside Services	101.8	101.3	0.0	101.3	101.8	101.3
Rents	45.8	45.7	0.0	45.7	45.8	45.7
Misc General Expense	652.2	638.8	0.0	638.8	661.6	638.8
Other Admin & General	10.8	10.8	0.0	10.8	10.9	10.8
Subtotal	12,842.7	11,210.8	0.0	11,210.8	12,788.8	11,219.8
Allocated General Office	4,303.6	4,423.8	1,056.3	5,480.1	6,176.2	5,480.1
Acquisition Premium	613.2	613.2	(0.0)	613.2	613.2	613.2
Total Operating Expense	17,759.5	16,247.8	1,056.3	17,304.1	19,578.2	17,313.1
Depreciation	2,400.0	2,407.4	0.0	2,407.4	2,418.3	2,452.7
Ad Valorem Taxes	736.9	743.0	0.0	743.0	740.4	757.9
Franchise Taxes	0.0	0.0	0.0	0.0	0.0	0.0
Payroll Taxes	140.3	135.5	0.0	135.5	136.3	135.5
Total Exp. Before Inc. Taxes	21,036.7	19,533.8	1,056.3	20,590.0	22,873.1	20,659.3
Net Revenue Before Inc. Taxes	4,078.2	3,238.6	(1,056.3)	2,182.3	1,638.7	2,113.1
State Income Taxes	175.1	101.0	(102.1)	(1.1)	(54.3)	(10.2)
Federal Income Taxes	657.1	392.2	(389.5)	2.7	(208.1)	(33.5)
Total Expenses	21,868.9	20,027.0	564.7	20,591.6	22,610.7	20,615.6
Net Operating Revenue	3,246.0	2,745.4	(564.7)	2,180.7	1,901.1	2,156.8
Rate Base	55,356.9	55,328.4		57,999.1	59,566.2	58,909.8
Rate of Return	5.86%	4.96%		3.76%	3.19%	3.66%

TABLE A2

CALIFORNIA AMERICAN WATER
LOS ANGELES DISTRICT
2012 GENERAL RATE CASE
COMPARATIVE SUMMARY OF EARNINGS FOR TEST YEAR AT PROPOSED RATES

2012 @ PROPOSED RATES

	STAFF		UTILITY	UTILITY		
	ORIGINAL	REVISED	EXCEEDS BRANCH DIFFERENCE	REVISED	UPDATED FILING	**ADOPTED**
Operating Revenues						
Water	27,171.6	25,854.0	1,329.0	27,183.0	29,668.4	27,283.0
Operating Expenses						
Payroll	1,932.2	1,846.8	0.0	1,846.8	1,891.4	1,846.8
Purchased Water	6,631.9	5,313.3	0.0	5,313.3	6,602.6	5,313.3
Purchased Power	1,887.2	1,670.0	0.0	1,670.0	1,862.6	1,670.0
Chemicals	93.7	89.4	0.0	89.4	83.9	89.4
Uncollectibles	129.3	145.4	7.5	152.9	195.1	153.5
Other Operating Exp	475.7	475.8	0.0	475.8	476.8	484.8
T & D - Reservoirs & Tanks	201.2	201.2	0.0	201.2	201.2	201.2
Other Maintenance Exp	571.9	569.5	0.0	569.5	571.8	569.5
Insurance	0.7	0.7	0.0	0.7	0.7	0.7
Pension & Benefits	118.1	119.4	0.0	119.4	119.6	119.4
Regulatory Expense	0.0	0.0	0.0	0.0	0.0	0.0
Outside Services	101.8	101.3	0.0	101.3	101.8	101.3
Rents	45.8	45.7	0.0	45.7	45.8	45.7
Misc General Expense	652.2	638.8	0.0	638.8	661.6	638.8
Other Admin & General	10.8	10.8	0.0	10.8	10.9	10.8
Subtotal	12,852.5	11,228.1	7.5	11,235.6	12,825.7	11,245.1
Allocated General Office	4,303.6	4,423.8	1,056.3	5,480.1	6,176.2	5,480.1
Acquisition Premium	613.2	613.2	(0.0)	613.2	613.2	613.2
Total Operating Expense	17,769.3	16,265.2	1,063.7	17,328.9	19,615.0	17,338.4
Depreciation	2,400.0	2,407.4	0.0	2,407.4	2,418.3	2,452.7
Ad Valorem Taxes	736.9	743.0	0.0	743.0	740.4	757.9
Franchise Taxes	0.0	0.0	0.0	0.0	0.0	0.0
Payroll Taxes	140.3	135.5	0.0	135.5	136.3	135.5
Total Exp. Before Inc. Taxes	21,046.5	19,551.1	1,063.7	20,614.8	22,910.0	20,684.6
Net Revenue Before Inc. Taxes	6,125.1	6,302.9	265.3	6,568.2	6,758.4	6,598.4
State Income Taxes	356.1	371.9	14.7	386.6	398.2	386.3
Federal Income Taxes	1,260.3	1,482.8	42.2	1,525.0	1,570.9	1,475.9
Total Expenses	22,662.9	21,405.8	1,120.6	22,526.4	24,879.1	22,546.8
Net Operating Revenue	4,508.7	4,448.2	208.4	4,656.6	4,789.3	4,736.2
Rate Base	55,356.9	55,328.4	2,670.7	57,999.1	59,566.2	58,909.8
Rate of Return	8.14%	8.04%		8.03%	8.04%	8.04%

TABLE A1

CALIFORNIA AMERICAN WATER
VENTURA DISTRICT
2010 GENERAL RATE CASE
COMPARATIVE SUMMARY OF EARNINGS FOR TEST YEAR AT PRESENT RATES

2011 @ PRESENT RATES

	STAFF		UTILITY	UTILITY		
	ORIGINAL	REVISED	EXCEEDS BRANCH DIFFERENCE	REVISED	UPDATED FILING	**ADOPTED**
Operating Revenues						
Water	29,957.8	25,874.6	0.0	25,874.6	28,311.6	25,874.6
Operating Expenses						
Payroll	1,060.5	1,140.1	0.0	1,140.1	1,148.9	1,140.1
Purchased Water	18,856.7	15,961.2	0.0	15,961.2	18,002.3	15,961.2
Purchased Power	305.6	290.6	0.0	290.6	290.6	290.6
Chemicals	0.1	0.1	0.0	0.1	0.1	0.1
Uncollectibles	142.6	145.5	0.0	145.5	185.9	145.5
Other Operating Exp	199.8	199.5	0.0	199.5	200.0	199.5
T & D - Reservoirs & Tanks	284.2	284.2	0.0	284.2	284.2	284.2
Other Maintenance Exp	81.3	81.1	0.0	81.1	81.3	81.1
Insurance	5.3	5.3	0.0	5.3	5.3	5.3
Pension & Benefits	70.3	70.9	0.0	70.9	44.5	70.9
Regulatory Expense	0.0	0.0	0.0	0.0	0.0	0.0
Outside Services	34.1	34.0	0.0	34.0	34.1	34.0
Rents	303.8	303.8	0.0	303.8	303.8	303.8
Misc General Expense	365.2	369.3	0.0	369.3	371.5	369.3
Other Admin & General	23.1	32.6	0.0	32.6	38.7	32.6
Subtotal	21,732.6	18,918.3	0.0	18,918.3	20,991.1	18,918.3
Allocated General Office	2,557.4	2,570.6	236.8	2,807.4	2,929.7	2,807.4
Acquisition Premium	472.9	472.9	0.0	472.9	472.9	472.9
Total Operating Expense	24,762.9	21,961.8	236.8	22,198.6	24,393.8	22,198.6
Depreciation	2,116.5	2,114.9	0.0	2,114.9	2,066.5	2,114.9
Ad Valorem Taxes	332.2	333.7	0.0	333.7	333.7	333.7
Franchise Taxes	0.0	0.0	0.0	0.0	0.0	0.0
Payroll Taxes	55.8	81.0	0.0	81.0	81.2	81.0
Total Exp. Before Inc. Taxes	27,267.3	24,491.4	236.8	24,728.2	26,875.2	24,728.2
Net Revenue Before Inc. Taxes	2,690.5	1,383.2	(236.8)	1,146.4	1,436.5	1,146.4
State Income Taxes	133.1	16.4	(22.8)	(6.4)	16.0	(5.7)
Federal Income Taxes	527.3	65.1	(82.7)	(17.6)	71.2	(14.8)
Total Expenses	27,927.7	24,572.9	131.3	24,704.2	26,962.4	24,707.7
Net Operating Revenue	2,030.1	1,301.7	(131.3)	1,170.4	1,349.3	1,166.9
Rate Base	31,175.6	31,531.7	577.3	32,109.0	33,077.0	31,901.3
Rate of Return	6.51%	4.13%		3.65%	4.08%	3.66%

TABLE A2

CALIFORNIA AMERICAN WATER
VENTURA DISTRICT
2010 GENERAL RATE CASE
COMPARATIVE SUMMARY OF EARNINGS FOR TEST YEAR AT PROPOSED RATES

2011 @ PROPOSED RATES

	STAFF		UTILITY EXCEEDS BRANCH DIFFERENCE	UTILITY		
	ORIGINAL	REVISED		REVISED	UPDATED FILING	**ADOPTED**
Operating Revenues						
Water	31,124.8	28,019.6	398.9	28,418.5	30,660.4	28,378.0
Operating Expenses						
Payroll	1,060.5	1,140.1	0.0	1,140.1	1,148.9	1,140.1
Purchased Water	18,856.7	15,961.2	0.0	15,961.2	18,002.3	15,961.2
Purchased Power	305.6	290.6	0.0	290.6	290.6	290.6
Chemicals	0.1	0.1	0.0	0.1	0.1	0.1
Uncollectibles	148.1	157.6	2.2	159.9	201.3	159.6
Other Operating Exp	199.8	199.5	0.0	199.5	200.0	199.5
T & D - Reservoirs & Tanks	284.2	284.2	0.0	284.2	284.2	284.2
Other Maintenance Exp	81.3	81.1	0.0	81.1	81.3	81.1
Insurance	5.3	5.3	0.0	5.3	5.3	5.3
Pension & Benefits	70.3	70.9	0.0	70.9	44.5	70.9
Regulatory Expense	0.0	0.0	0.0	0.0	0.0	0.0
Outside Services	34.1	34.0	0.0	34.0	34.1	34.0
Rents	303.8	303.8	0.0	303.8	303.8	303.8
Misc General Expense	365.2	369.3	0.0	369.3	371.5	369.3
Other Admin & General	23.1	32.6	0.0	32.6	38.7	32.6
Subtotal	21,738.1	18,930.4	2.2	18,932.6	21,006.5	18,932.4
Allocated General Office	2,557.4	2,570.6	236.8	2,807.4	2,929.7	2,807.4
Acquisition Premium	472.9	472.9	0.0	472.9	472.9	472.9
Total Operating Expense	24,768.4	21,973.9	239.1	22,212.9	24,409.2	22,212.7
Depreciation	2,116.5	2,114.9	0.0	2,114.9	2,066.5	2,114.9
Ad Valorem Taxes	332.2	333.7	0.0	333.7	333.7	333.7
Franchise Taxes	0.0	0.0	0.0	0.0	0.0	0.0
Payroll Taxes	55.8	81.0	0.0	81.0	81.2	81.0
Total Exp. Before Inc. Tax	27,272.9	24,503.5	239.1	24,742.5	26,890.6	24,742.3
Net Revenue Before Inc. Tax	3,851.9	3,516.1	159.9	3,676.0	3,769.8	3,635.7
State Income Taxes	235.8	204.9	12.3	217.2	222.3	214.4
Federal Income Taxes	898.4	776.2	91.6	867.8	887.9	856.4
Total Expenses	28,407.1	25,484.6	343.0	25,827.5	28,000.8	25,813.1
Net Operating Revenue	2,717.7	2,535.0	56.0	2,591.0	2,659.6	2,564.9
Rate Base	31,175.6	31,531.7	577.3	32,109.0	33,077.0	31,901.3
Rate of Return	8.72%	8.04%		8.07%	8.04%	8.04%

TABLE A1

CALIFORNIA AMERICAN WATER
VENTURA DISTRICT
2010 GENERAL RATE CASE
COMPARATIVE SUMMARY OF EARNINGS FOR TEST YEAR AT PRESENT RATES

2012 @ PRESENT RATES

	STAFF		UTILITY EXCEEDS BRANCH DIFFERENCE	UTILITY		
	ORIGINAL	REVISED		REVISED	UPDATED FILING	**ADOPTED**
Operating Revenues						
Water	32,466.5	30,827.1	0.0	30,827.1	30,807.9	30,827.1
Operating Expenses						
Payroll	1,073.9	1,169.7	0.0	1,169.7	1,195.9	1,169.7
Purchased Water	18,959.4	15,933.0	0.0	15,933.0	17,994.7	15,933.0
Purchased Power	306.4	291.3	0.0	291.3	291.3	291.3
Chemicals	0.1	0.1	0.0	0.1	0.1	0.1
Uncollectibles	154.5	173.4	0.0	173.4	202.3	173.4
Other Operating Exp	369.4	368.6	0.0	368.6	369.3	375.3
T & D - Reservoirs & Tanks	299.9	299.9	0.0	299.9	299.9	299.9
Other Maintenance Exp	83.9	83.5	0.0	83.5	83.9	83.5
Insurance	5.5	5.5	0.0	5.5	5.5	5.5
Pension & Benefits	71.7	72.8	0.0	72.8	46.9	72.8
Regulatory Expense	0.0	0.0	0.0	0.0	0.0	0.0
Outside Services	35.2	35.0	0.0	35.0	35.2	35.0
Rents	313.5	313.5	0.0	313.5	313.5	313.5
Misc General Expense	379.5	377.6	0.0	377.6	400.6	377.6
Other Admin & General	23.9	33.8	0.0	33.8	40.0	33.8
Subtotal	22,076.6	19,157.6	0.0	19,157.6	21,279.0	19,164.3
Allocated General Office	3,122.1	3,208.9	743.5	3,952.4	4,437.9	3,952.4
Acquisition Premium	457.8	457.8	0.0	457.8	457.8	457.8
Total Operating Expense	25,656.5	22,824.2	743.5	23,567.8	26,174.6	23,574.4
Depreciation	1,635.8	1,627.3	0.0	1,627.3	1,912.1	1,627.3
Ad Valorem Taxes	355.1	369.0	0.0	369.0	369.7	369.0
Franchise Taxes	0.0	0.0	0.0	0.0	0.0	0.0
Payroll Taxes	76.7	81.0	2.0	83.0	83.2	83.0
Total Exp. Before Inc. Tax	27,724.2	24,901.6	745.5	25,647.1	28,539.6	25,653.8
Net Revenue Before Inc. Taxe	4,742.3	5,925.5	(745.5)	5,180.0	2,268.3	5,173.3
State Income Taxes	310.3	413.7	(69.4)	344.3	75.0	344.9
Federal Income Taxes	1,221.3	1,630.5	(344.7)	1,285.8	219.6	1,287.9
Total Expenses	29,255.8	26,945.8	331.4	27,277.2	28,834.2	27,286.6
Net Operating Revenue	3,210.7	3,881.3	(331.4)	3,549.9	1,973.7	3,540.5
Rate Base	32,438.6	32,811.7	1,059.5	33,871.2	37,453.4	33,534.0
Rate of Return	9.90%	11.83%		10.48%	5.27%	10.56%

TABLE A2

CALIFORNIA AMERICAN WATER
VENTURA DISTRICT
2010 GENERAL RATE CASE
COMPARATIVE SUMMARY OF EARNINGS FOR TEST YEAR AT PROPOSED RATES

2012 @ PROPOSED RATES

	STAFF		UTILITY	UTILITY		
	ORIGINAL	REVISED	EXCEEDS BRANCH DIFFERENCE	REVISED	UPDATED FILING	**ADOPTED**
Operating Revenues						
Water	31,600.9	28,651.5	678.5	29,330.0	32,667.9	29,315.0
Operating Expenses						
Payroll	1,073.9	1,169.7	0.0	1,169.7	1,195.9	1,169.7
Purchased Water	18,959.4	15,933.0	0.0	15,933.0	17,994.7	15,933.0
Purchased Power	306.4	291.3	0.0	291.3	291.3	291.3
Chemicals	0.1	0.1	0.0	0.1	0.1	0.1
Uncollectibles	150.4	161.2	3.8	165.0	214.5	164.9
Other Operating Exp	369.4	368.6	0.0	368.6	369.3	375.3
T & D - Reservoirs &	299.9	299.9	0.0	299.9	299.9	299.9
Other Maintenance I	83.9	83.5	0.0	83.5	83.9	83.5
Insurance	5.5	5.5	0.0	5.5	5.5	5.5
Pension & Benefits	71.7	72.8	0.0	72.8	46.9	72.8
Regulatory Expense	0.0	0.0	0.0	0.0	0.0	0.0
Outside Services	35.2	35.0	0.0	35.0	35.2	35.0
Rents	313.5	313.5	0.0	313.5	313.5	313.5
Misc General Expen	379.5	377.6	0.0	377.6	400.6	377.6
Other Admin & Gene	23.9	33.8	0.0	33.8	40.0	33.8
Subtotal	22,072.5	19,145.4	3.8	19,149.2	21,291.2	19,155.8
Allocated General O	3,122.1	3,208.9	743.5	3,952.4	4,437.9	3,952.4
Acquisition Premium	457.8	457.8	0.0	457.8	457.8	457.8
Total Operating Ex	25,652.4	22,812.0	747.3	23,559.3	26,186.8	23,565.9
Depreciation	1,635.8	1,627.3	0.0	1,627.3	1,912.1	1,627.3
Ad Valorem Taxes	355.1	369.0	0.0	369.0	369.7	369.0
Franchise Taxes	0.0	0.0	0.0	0.0	0.0	0.0
Payroll Taxes	76.7	83.0	0.0	83.0	83.2	83.0
Total Exp. Before I	27,720.0	24,891.3	747.3	25,638.7	28,551.8	25,645.3
Net Revenue Before In	3,880.9	3,760.2	(68.8)	3,691.3	4,116.1	3,669.7
State Income Taxes	234.1	222.2	(9.5)	212.7	238.4	211.9
Federal Income Taxes	946.9	899.8	(135.1)	764.7	866.3	761.6
Total Expenses	28,901.0	26,013.3	602.7	26,616.1	29,656.5	26,618.8
Net Operating Revenue	2,699.9	2,638.2	75.8	2,713.9	3,011.4	2,696.2
Rate Base	32,438.6	32,811.7	1,059.5	33,871.2	37,453.4	33,534.0
Rate of Return	8.32%	8.04%		8.01%	8.04%	8.04%

TABLE A1

CALIFORNIA AMERICAN WATER
MONTEREY DISTRICT
2010 GENERAL RATE CASE
COMPARATIVE SUMMARY OF EARNINGS FOR TEST YEAR AT PRESENT RATES

2012 @ PRESENT RATES

	STAFF		UTILITY	UTILITY		
	ORIGINAL	REVISED	EXCEEDS BRANCH DIFFERENCE	REVISED	UPDATED FILING	**ADOPTED**
Operating Revenues						
Water	44,326.6	41,759.3	0.0	41,759.3	43,294.1	41,759.3
Operating Expenses						
Payroll	5,807.8	5,836.4	0.0	5,836.4	5,975.3	5,836.4
Purchased Water	512.1	514.5	0.0	514.5	2,019.4	514.5
Purchased Power	2,681.1	2,306.7	0.0	2,306.7	2,590.4	2,306.7
Chemicals	934.3	930.9	0.0	930.9	926.5	930.9
Uncollectibles	210.9	234.9	0.0	234.9	284.7	234.9
Other Operating Exp	1,651.7	1,699.5	0.0	1,699.5	1,737.6	1,712.2
T & D - Reservoirs & Tanks	415.9	431.7	0.0	431.7	438.5	431.7
Other Maintenance Exp	1,417.8	1,664.8	0.0	1,664.8	1,674.4	1,664.8
Insurance	19.3	19.3	0.0	19.3	19.3	19.3
Pension & Benefits	297.9	298.6	0.0	298.6	299.4	298.6
Regulatory Expense	0.0	0.0	0.0	0.0	0.0	0.0
Outside Services	568.4	564.4	0.0	564.4	568.4	564.4
Rents	471.2	470.9	0.0	470.9	471.2	470.9
Misc General Expense	2,102.4	2,105.2	0.0	2,105.2	3,229.8	2,105.2
Other Admin & General	121.9	121.2	0.0	121.2	122.0	121.2
Subtotal	17,212.7	17,198.8	0.0	17,198.8	20,356.9	17,211.6
Allocated General Office	7,124.6	7,308.3	1,978.5	9,286.8	10,466.4	9,286.8
Acquisition Premium	877.9	877.9	0.0	877.9	877.9	877.9
Total Operating Expense	25,215.2	25,385.1	1,978.5	27,363.6	31,701.1	27,376.4
Depreciation	5,672.7	5,843.2	112.2	5,955.4	6,041.8	5,843.2
Ad Valorem Taxes	1,606.4	1,697.9	5.3	1,703.2	1,722.8	1,698.0
Franchise Taxes	0.0	0.0	0.0	0.0	0.0	0.0
Payroll Taxes	385.6	379.5	0.0	379.5	382.0	379.5
Total Exp. Before Inc. Taxes	32,879.9	33,305.7	2,096.1	35,401.7	39,847.7	35,297.1
Net Revenue Before Inc. Taxes	11,446.7	8,453.6	(2,096.1)	6,357.6	3,446.4	6,462.2
State Income Taxes	612.7	326.2	(190.2)	136.0	(152.5)	149.6
Federal Income Taxes	2,143.4	1,116.3	(654.1)	462.2	(680.1)	487.8
Total Expenses	35,636.1	34,748.3	1,251.8	36,000.0	39,015.2	35,934.6
Net Operating Revenue	8,690.5	7,011.1	(1,251.8)	5,759.3	4,278.9	5,824.7
Rate Base	118,837.4	125,437.5	1,646.5	127,084.1	136,465.9	125,772.4
Rate of Return	7.31%	5.59%		4.53%	3.14%	4.63%

TABLE A2

CALIFORNIA AMERICAN WATER
MONTEREY DISTRICT
2010 GENERAL RATE CASE
COMPARATIVE SUMMARY OF EARNINGS FOR TEST YEAR AT PROPOSED RATES

2012 @ PROPOSED RATES

	STAFF		UTILITY	UTILITY		
	ORIGINAL	REVISED	EXCEEDS BRANCH DIFFERENCE	REVISED	UPDATED FILING	**ADOPTED**
Operating Revenues						
Water	45,000.1	47,109.0	2,500.0	49,609.0	55,159.4	49,222.0
Operating Expenses						
Payroll	5,807.8	5,836.4	0.0	5,836.4	5,975.3	5,836.4
Purchased Water	512.1	514.5	0.0	514.5	2,019.4	514.5
Purchased Power	2,681.1	2,306.7	0.0	2,306.7	2,590.4	2,306.7
Chemicals	934.3	930.9	0.0	930.9	926.5	930.9
Uncollectibles	214.1	265.0	14.1	279.1	362.7	276.9
Other Operating Exp	1,651.7	1,699.5	0.0	1,699.5	1,737.6	1,712.2
T & D - Reservoirs & Tanks	415.9	431.7	0.0	431.7	438.5	431.7
Other Maintenance Exp	1,417.8	1,664.8	0.0	1,664.8	1,674.4	1,664.8
Insurance	19.3	19.3	0.0	19.3	19.3	19.3
Pension & Benefits	297.9	298.6	0.0	298.6	299.4	298.6
Regulatory Expense	0.0	0.0	0.0	0.0	0.0	0.0
Outside Services	568.4	564.4	0.0	564.4	568.4	564.4
Rents	471.2	470.9	0.0	470.9	471.2	470.9
Misc General Expense	2,102.4	2,105.2	0.0	2,105.2	3,229.8	2,105.2
Other Admin & General	121.9	121.2	0.0	121.2	122.0	121.2
Subtotal	17,215.9	17,228.9	14.1	17,243.0	20,434.9	17,253.6
Allocated General Office	7,124.6	7,308.3	1,978.5	9,286.8	10,466.4	9,286.8
Acquisition Premium	877.9	877.9	0.0	877.9	877.9	877.9
Total Operating Expense	25,218.4	25,415.2	1,992.6	27,407.8	31,779.2	27,418.4
Depreciation	5,672.7	5,843.2	112.2	5,955.4	6,041.8	5,843.2
Ad Valorem Taxes	1,606.4	1,697.9	5.3	1,703.2	1,722.8	1,698.0
Franchise Taxes	0.0	0.0	0.0	0.0	0.0	0.0
Payroll Taxes	385.6	379.5	0.0	379.5	382.0	379.5
Total Exp. Before Inc. Taxes	32,883.1	33,335.8	2,110.1	35,445.9	39,925.8	35,339.1
Net Revenue Before Inc. Taxes	12,117.0	13,773.2	389.9	14,163.1	15,233.7	13,882.9
State Income Taxes	671.9	796.4	29.6	826.0	889.5	805.6
Federal Income Taxes	2,338.8	2,891.0	220.1	3,111.1	3,362.4	2,964.7
Total Expenses	35,893.9	37,023.3	2,359.8	39,383.1	44,177.7	39,109.5
Net Operating Revenue	9,106.2	10,085.7	140.2	10,225.9	10,981.7	10,112.5
Rate Base	118,837.4	125,437.5	1,646.5	127,084.1	136,465.9	125,772.4
Rate of Return	7.66%	8.04%		8.05%	8.05%	8.04%

TABLE A1

CALIFORNIA AMERICAN WATER
MONTEREY WASTEWATER DISTRICT
2010 GENERAL RATE CASE
COMPARATIVE SUMMARY OF EARNINGS FOR TEST YEAR AT PRESENT RATES

2012 @ PRESENT RATES

	STAFF		UTILITY	UTILITY		
	ORIGINAL	REVISED	EXCEEDS BRANCH DIFFERENCE	REVISED	UPDATED FILING	**ADOPTED**
Operating Revenues						
Water	3,166.6	3,166.6	0.0	3,166.6	3,166.6	3,166.6
Operating Expenses						
Payroll	920.5	930.6	0.0	930.6	948.0	930.6
Purchased Water	0.0	0.0	0.0	0.0	0.0	0.0
Purchased Power	89.8	89.8	0.0	89.8	89.8	89.8
Chemicals	261.0	327.5	0.0	327.5	413.5	327.5
Uncollectibles	15.1	17.8	0.0	17.8	24.4	17.8
Other Operating Exp	325.5	326.0	0.0	326.0	327.1	326.0
T & D - Reservoirs & Tanks	0.0	0.0	0.0	0.0	0.0	0.0
Other Maintenance Exp	56.6	56.2	0.0	56.2	59.6	56.2
Insurance	0.0	0.0	0.0	0.0	0.0	0.0
Pension & Benefits	61.5	62.7	0.0	62.7	62.7	62.7
Regulatory Expense	0.0	1.5	0.0	1.5	1.5	1.5
Outside Services	288.1	309.5	0.0	309.5	327.9	309.5
Rents	30.2	30.2	0.0	30.2	30.2	30.2
Misc General Expense	74.0	75.2	0.0	75.2	78.8	75.2
Other Admin & General	1.7	1.6	0.0	1.6	1.7	1.6
Subtotal	2,124.0	2,228.5	0.0	2,228.5	2,365.0	2,228.5
Allocated General Office	597.8	610.6	186.5	797.2	893.8	797.2
Acquisition Premium	0.0	0.0	0.0	0.0	0.0	0.0
Total Operating Expense	2,721.8	2,839.2	186.5	3,025.7	3,258.9	3,025.7
Depreciation	133.3	147.2	0.0	147.2	155.0	147.2
Ad Valorem Taxes	12.4	14.2	0.0	14.2	15.2	14.2
Franchise Taxes	14.3	14.2	0.0	14.2	16.8	14.2
Payroll Taxes	61.4	61.8	0.0	61.8	62.2	61.8
Total Exp. Before Inc. Taxes	2,943.1	3,076.6	186.5	3,263.1	3,508.1	3,263.1
Net Revenue Before Inc. Taxes	223.5	90.0	(186.5)	(96.5)	(341.5)	(96.5)
State Income Taxes	15.5	3.3	(16.6)	(13.3)	(35.2)	(13.3)
Federal Income Taxes	61.4	12.9	(56.8)	(43.9)	(130.6)	(43.9)
Total Expenses	3,020.0	3,092.8	113.1	3,205.9	3,342.3	3,205.9
Net Operating Revenue	146.6	73.8	(113.1)	(39.3)	(175.7)	(39.3)
Rate Base	1,275.2	1,414.2	12.0	1,426.3	1,498.5	1,424.8
Rate of Return	11.50%	5.22%		-2.75%	-11.73%	-2.76%

TABLE A2

CALIFORNIA AMERICAN WATER
MONTEREY WASTEWATER DISTRICT
2010 GENERAL RATE CASE
COMPARATIVE SUMMARY OF EARNINGS FOR TEST YEAR AT PROPOSED RATES

2012 @ PROPOSED RATES

	STAFF		UTILITY	UTILITY		
	ORIGINAL	REVISED	EXCEEDS BRANCH DIFFERENCE	REVISED	UPDATED FILING	**ADOPTED**
Operating Revenues						
Water	2,913.3	3,251.5	196.8	3,448.4	3,691.9	3,444.0
Operating Expenses						
Payroll	920.5	930.6	0.0	930.6	948.0	930.6
Purchased Water	0.0	0.0	0.0	0.0	0.0	0.0
Purchased Power	89.8	89.8	0.0	89.8	89.8	89.8
Chemicals	261.0	327.5	0.0	327.5	413.5	327.5
Uncollectibles	13.9	18.3	1.1	19.4	24.3	19.4
Other Operating Exp	325.5	326.0	0.0	326.0	327.1	326.0
T & D - Reservoirs & Tanks	0.0	0.0	0.0	0.0	0.0	0.0
Other Maintenance Exp	56.6	56.2	0.0	56.2	59.6	56.2
Insurance	0.0	0.0	0.0	0.0	0.0	0.0
Pension & Benefits	61.5	62.7	0.0	62.7	62.7	62.7
Regulatory Expense	0.0	1.5	0.0	1.5	1.5	1.5
Outside Services	288.1	309.5	0.0	309.5	327.9	309.5
Rents	30.2	30.2	0.0	30.2	30.2	30.2
Misc General Expense	74.0	75.2	0.0	75.2	78.8	75.2
Other Admin & General	1.7	1.6	0.0	1.6	1.7	1.6
Subtotal	2,122.8	2,229.0	1.1	2,230.1	2,364.9	2,230.1
Allocated General Office	597.8	610.6	186.5	797.2	893.8	797.2
Acquisition Premium	0.0	0.0	0.0	0.0	0.0	0.0
Total Operating Expense	2,720.6	2,839.6	187.6	3,027.3	3,258.8	3,027.2
Depreciation	133.3	147.2	0.0	147.2	155.0	147.2
Ad Valorem Taxes	12.4	14.2	0.0	14.2	15.2	14.2
Franchise Taxes	13.1	14.6	0.9	15.5	16.6	15.5
Payroll Taxes	61.4	61.8	0.0	61.8	62.2	61.8
Total Exp. Before Inc. Taxes	2,940.8	3,077.4	188.5	3,265.9	3,507.8	3,265.9
Net Revenue Before Inc. Taxes	(27.4)	174.1	8.3	182.4	184.1	178.1
State Income Taxes	(6.7)	10.7	0.7	11.4	11.3	11.0
Federal Income Taxes	(19.0)	49.7	3.2	52.9	52.3	52.6
Total Expenses	2,915.1	3,137.8	192.4	3,330.2	3,571.4	3,329.5
Net Operating Revenue	(1.7)	113.7	4.4	118.1	120.5	114.5
Rate Base	1,275.2	1,414.2	12.0	1,426.3	1,498.5	1,424.8
Rate of Return	-0.14%	8.04%		8.28%	8.04%	8.04%

TABLE A1

CALIFORNIA AMERICAN WATER
SACRAMENTO DISTRICT
2010 GENERAL RATE CASE
COMPARATIVE SUMMARY OF EARNINGS FOR TEST YEAR AT PRESENT RATES

2012 @ PRESENT RATES

	STAFF		UTILITY	UTILITY		
	ORIGINAL	REVISED	EXCEEDS BRANCH DIFFERENCE	REVISED	UPDATED FILING	**ADOPTED**
Operating Revenues						
Water	44,261.6	38,888.5	0.0	38,888.5	44,150.7	38,926.6
Operating Expenses						
Payroll	3,058.9	3,103.5	0.0	3,103.5	3,206.6	3,103.5
Purchased Water	2,236.0	1,690.2	0.0	1,690.2	2,429.8	1,690.2
Purchased Power	2,567.9	2,136.4	0.0	2,136.4	2,552.3	2,136.4
Chemicals	478.7	539.3	0.0	539.3	617.5	539.3
Uncollectibles	210.6	218.7	0.0	218.7	290.3	219.0
Other Operating Exp	753.4	769.9	0.0	769.9	791.0	788.4
T & D - Reservoirs & Tanks	199.6	201.9	0.0	201.9	201.9	201.9
Other Maintenance Exp	806.7	801.2	0.0	801.2	806.8	801.2
Insurance	7.8	7.8	0.0	7.8	7.8	7.8
Pension & Benefits	281.7	291.8	0.0	291.8	292.5	291.8
Regulatory Expense	0.0	0.0	0.0	0.0	5.1	0.0
Outside Services	539.4	537.2	0.0	537.2	554.5	537.2
Rents	15.1	15.0	0.0	15.0	15.1	15.0
Misc General Expense	1,387.4	1,414.0	0.0	1,414.0	1,494.9	1,414.0
Other Admin & General	63.5	63.3	0.0	63.3	63.6	63.3
Subtotal	12,606.7	11,790.4	0.0	11,790.4	13,329.7	11,809.0
Allocated General Office	9,206.9	10,180.3	1,130.7	11,311.0	12,698.5	11,311.0
Acquisition Premium	1,605.3	1,605.3	0.0	1,605.3	1,605.3	1,605.3
Total Operating Expense	23,418.9	23,576.0	1,130.7	24,706.7	27,633.5	24,725.3
Depreciation	7,901.0	7,843.1	0.0	7,843.1	7,959.2	7,843.1
Ad Valorem Taxes	1,760.0	1,755.7	0.0	1,755.7	1,787.3	1,755.7
Franchise Taxes	101.8	89.5	0.0	89.5	101.5	89.6
Payroll Taxes	222.4	223.7	0.0	223.7	224.3	223.7
Total Exp. Before Inc. Taxes	33,404.0	33,487.9	1,130.7	34,618.7	37,705.8	34,637.4
Net Revenue Before Inc. Taxes	10,857.6	5,400.5	(1,130.7)	4,269.8	6,444.9	4,289.2
State Income Taxes	531.0	56.3	(120.3)	(64.0)	79.4	(61.3)
Federal Income Taxes	1,872.0	(199.5)	(140.7)	(340.2)	227.5	(325.0)
Total Expenses	35,807.0	33,344.7	869.7	34,214.5	38,012.7	34,251.1
Net Operating Revenue	8,454.6	5,543.7	(869.7)	4,674.0	6,138.0	4,675.5
Rate Base	129,011.5	126,678.9	6,247.4	132,926.3	147,645.7	132,644.3
Rate of Return	6.55%	4.38%		3.52%	4.16%	3.52%

TABLE A2

CALIFORNIA AMERICAN WATER
SACRAMENTO DISTRICT
2012 GENERAL RATE CASE
COMPARATIVE SUMMARY OF EARNINGS FOR TEST YEAR AT PROPOSED RATES

2012 @ PROPOSED RATES

	STAFF		UTILITY	UTILITY		
	ORIGINAL	REVISED	EXCEEDS BRANCH DIFFERENCE	REVISED	UPDATED FILING	**ADOPTED**
Operating Revenues						
Water	47,437.4	46,994.0	2,569.0	49,563.0	54,330.4	49,407.0
Operating Expenses						
Payroll	3,058.9	3,103.5	0.0	3,103.5	3,206.6	3,103.5
Purchased Water	2,236.0	1,690.2	0.0	1,690.2	2,429.8	1,690.2
Purchased Power	2,567.9	2,136.4	0.0	2,136.4	2,552.3	2,136.4
Chemicals	478.7	539.3	0.0	539.3	617.5	539.3
Uncollectibles	225.7	264.3	14.5	278.8	357.3	277.9
Other Operating Exp	753.4	769.9	0.0	769.9	791.0	788.4
T & D - Reservoirs & Tanks	199.6	201.9	0.0	201.9	201.9	201.9
Other Maintenance Exp	806.7	801.2	0.0	801.2	806.8	801.2
Insurance	7.8	7.8	0.0	7.8	7.8	7.8
Pension & Benefits	281.7	291.8	0.0	291.8	292.5	291.8
Regulatory Expense	0.0	0.0	0.0	0.0	5.1	0.0
Outside Services	539.4	537.2	0.0	537.2	554.5	537.2
Rents	15.1	15.0	0.0	15.0	15.1	15.0
Misc General Expense	1,387.4	1,414.0	0.0	1,414.0	1,494.9	1,414.0
Other Admin & General	63.5	63.3	0.0	63.3	63.6	63.3
Subtotal	12,621.8	11,836.0	14.5	11,850.4	13,396.7	11,868.0
Allocated General Office	9,206.9	10,180.3	1,130.7	11,311.0	12,698.5	11,311.0
Acquisition Premium	1,605.3	1,605.3	0.0	1,605.3	1,605.3	1,605.3
Total Operating Expense	23,434.0	23,621.6	1,145.2	24,766.7	27,700.4	24,784.3
Depreciation	7,901.0	7,843.1	0.0	7,843.1	7,959.2	7,843.1
Ad Valorem Taxes	1,760.0	1,755.7	0.0	1,755.7	1,787.3	1,755.7
Franchise Taxes	109.1	108.1	(18.7)	89.5	101.5	89.6
Payroll Taxes	222.4	223.7	0.0	223.7	224.3	223.7
Total Exp. Before Inc. Taxes	33,426.4	33,552.2	1,126.5	34,678.7	37,772.7	34,696.3
Net Revenue Before Inc. Taxes	14,011.0	13,441.8	1,442.5	14,884.3	16,557.7	14,710.7
State Income Taxes	809.8	767.2	107.2	874.4	973.4	860.0
Federal Income Taxes	2,796.7	2,489.5	831.9	3,321.4	3,713.5	3,185.9
Total Expenses	37,032.9	36,808.9	2,065.6	38,874.5	42,459.6	38,742.2
Net Operating Revenue	10,404.5	10,185.1	503.4	10,688.5	11,870.8	10,664.8
Rate Base	129,011.5	126,678.9	6,247.4	132,926.3	147,645.7	132,644.3
Rate of Return	8.06%	8.04%		8.04%	8.04%	8.04%

TABLE A1

CALIFORNIA AMERICAN WATER
LARKFIELD DISTRICT
GENERAL RATE CASE
COMPARATIVE SUMMARY OF EARNINGS FOR TEST YEAR AT PRESENT RATES

2012 @ PRESENT RATES

	STAFF		UTILITY	UTILITY		
	ORIGINAL	REVISED	EXCEEDS BRANCH DIFFERENCE	REVISED	UPDATED FILING	**ADOPTED**
Operating Revenues						
Water	2,744.8	2,497.9	0.0	2,497.9	2,633.3	2,491.3
Operating Expenses						
Payroll	328.4	334.3	0.0	334.3	342.2	334.3
Purchased Water	421.1	383.2	0.0	383.2	421.1	383.2
Purchased Power	77.9	68.5	0.0	68.5	73.1	68.5
Chemicals	20.2	23.1	0.0	23.1	26.8	23.1
Uncollectibles	13.1	14.1	0.0	14.1	17.3	14.0
Other Operating Exp	87.7	85.8	0.0	85.8	87.7	86.6
T & D - Reservoirs & Tanks	25.6	25.6	0.0	25.6	28.4	25.6
Other Maintenance Exp	21.4	21.3	(0.0)	21.3	21.4	21.3
Insurance	0.1	0.1	0.0	0.1	0.1	0.1
Pension & Benefits	21.8	21.9	0.0	21.9	22.0	21.9
Regulatory Expense	0.0	0.0	0.0	0.0	0.0	0.0
Outside Services	16.2	18.1	0.0	18.1	20.3	18.1
Rents	28.2	28.2	0.0	28.2	28.3	28.2
Misc General Expense	112.2	111.3	0.0	111.3	115.2	111.3
Other Admin & General	33.2	36.0	0.0	36.0	36.0	36.0
Subtotal	1,207.1	1,171.5	0.0	1,171.5	1,239.9	1,172.2
Allocated General Office	345.3	441.3	124.9	566.2	631.2	566.2
Acquisition Premium	67.9	67.9	0.0	67.9	67.9	67.9
Total Operating Expense	1,620.3	1,680.7	124.9	1,805.6	1,939.0	1,806.3
Depreciation	415.7	417.3	0.0	417.3	460.0	417.3
Ad Valorem Taxes	109.8	111.3	0.0	111.3	139.3	111.3
Franchise Taxes	0.0	0.0	0.0	0.0	0.0	0.0
Payroll Taxes	24.3	24.5	0.0	24.5	24.7	24.5
Total Exp. Before Inc. Taxes	2,170.1	2,233.9	124.9	2,358.8	2,563.1	2,359.5
Net Revenue Before Inc. Taxes	574.8	264.0	(124.9)	139.1	70.2	131.8
State Income Taxes	26.7	1.0	(11.7)	(10.7)	(24.2)	(11.3)
Federal Income Taxes	108.4	7.9	(43.1)	(35.2)	(88.3)	(37.4)
Total Expenses	2,305.2	2,242.8	70.1	2,312.9	2,450.6	2,310.8
Net Operating Revenue	439.7	255.1	(70.1)	185.0	182.7	180.5
Rate Base	7,260.0	6,734.5		6,941.5	9,144.5	6,915.4
Rate of Return	6.06%	3.79%		2.67%	2.00%	2.61%

TABLE A2

CALIFORNIA AMERICAN WATER
LARKFIELD DISTRICT
GENERAL RATE CASE
COMPARATIVE SUMMARY OF EARNINGS FOR TEST YEAR AT PROPOSED RATES

2012 @ PROPOSED RATES

	STAFF		UTILITY	UTILITY		
	ORIGINAL	REVISED	EXCEEDS BRANCH DIFFERENCE	REVISED	UPDATED FILING	**ADOPTED**
Operating Revenues						
Water	3,018.2	3,012.8	146.9	3,159.7	3,615.9	3,156.0
Operating Expenses						
Payroll	328.4	334.3	0.0	334.3	342.2	334.3
Purchased Water	421.1	383.2	0.0	383.2	421.1	383.2
Purchased Power	77.9	68.5	0.0	68.5	73.1	68.5
Chemicals	20.2	23.1	0.0	23.1	26.8	23.1
Uncollectibles	14.4	16.9	0.8	17.8	23.7	17.8
Other Operating Exp	87.7	85.8	0.0	85.8	87.7	86.6
T & D - Reservoirs & Tanks	25.6	25.6	0.0	25.6	28.4	25.6
Other Maintenance Exp	21.4	21.3	(0.0)	21.3	21.4	21.3
Insurance	0.1	0.1	0.0	0.1	0.1	0.1
Pension & Benefits	21.8	21.9	0.0	21.9	22.0	21.9
Regulatory Expense	0.0	0.0	0.0	0.0	0.0	0.0
Outside Services	16.2	18.1	0.0	18.1	20.3	18.1
Rents	28.2	28.2	0.0	28.2	28.3	28.2
Misc General Expense	112.2	111.3	0.0	111.3	115.2	111.3
Other Admin & General	33.2	36.0	0.0	36.0	36.0	36.0
Subtotal	1,208.4	1,174.4	0.8	1,175.2	1,246.3	1,176.0
Allocated General Office	345.3	441.3	124.9	566.2	631.2	566.2
Acquisition Premium	67.9	67.9	0.0	67.9	67.9	67.9
Total Operating Expense	1,621.6	1,683.6	125.7	1,809.3	1,945.5	1,810.1
Depreciation	415.7	417.3	0.0	417.3	460.0	417.3
Ad Valorem Taxes	109.8	111.3	0.0	111.3	139.3	111.3
Franchise Taxes	0.0	0.0	0.0	0.0	0.0	0.0
Payroll Taxes	24.3	24.5	0.0	24.5	24.7	24.5
Total Exp. Before Inc. Taxes	2,171.4	2,236.8	125.7	2,362.5	2,569.6	2,363.2
Net Revenue Before Inc. Taxes	846.8	776.0	21.3	797.2	1,046.3	792.7
State Income Taxes	50.7	46.2	1.2	47.4	62.1	47.1
Federal Income Taxes	191.7	188.3	3.0	191.3	249.5	189.6
Total Expenses	2,413.8	2,471.3	129.9	2,601.2	2,881.2	2,599.9
Net Operating Revenue	604.4	541.5	17.1	558.5	734.7	556.0
Rate Base	7,260.0	6,734.5	207.0	6,941.5	9,144.5	6,915.4
Rate of Return	8.33%	8.04%		8.05%	8.03%	8.04%

TABLE A1

CALIFORNIA AMERICAN WATER
TORO DISTRICT
GENERAL RATE CASE
COMPARATIVE SUMMARY OF EARNINGS FOR TEST YEAR AT PRESENT RATES

2012 @ PRESENT RATES

	STAFF		UTILITY EXCEEDS BRANCH DIFFERENCE	UTILITY		
	ORIGINAL	REVISED		REVISED	UPDATED FILING	**ADOPTED**
Operating Revenues						
Water	418.5	413.5	0.0	413.5	418.5	413.5
Operating Expenses						
Payroll	59.0	58.1	0.0	58.1	59.0	58.1
Purchased Water	0.0	0.0	0.0	0.0	0.0	0.0
Purchased Power	74.5	74.5	0.0	74.5	74.5	74.5
Chemicals	27.1	24.0	0.0	24.0	20.0	24.0
Uncollectibles	0.0	2.3	0.0	2.3	0.0	2.3
Other Operating Exp (incl Arsenic Toro)	171.2	171.1	18.6	189.7	105.2	189.7
T & D - Reservoirs & Tanks	0.0	0.0	0.0	0.0	0.0	0.0
Other Maintenance Exp	32.1	31.9	0.0	31.9	32.1	31.9
Insurance	0.0	0.0	0.0	0.0	0.0	0.0
Pension & Benefits	1.9	1.9	0.0	1.9	1.9	1.9
Regulatory Expense	0.0	0.0	0.0	0.0	0.0	0.0
Outside Services	0.0	0.0	0.0	0.0	0.0	0.0
Rents	4.3	4.3	0.0	4.3	4.3	4.3
Misc General Expense	34.0	33.8	0.0	33.8	34.0	33.8
Other Admin & General	(0.0)	(0.0)	0.0	(0.0)	(0.0)	(0.0)
Subtotal	404.1	402.0	18.6	420.5	331.0	0.0
Allocated General Office	61.9	76.7	0.0	97.3	14.5	97.3
Acquisition Premium	0.0	0.0	0.0	0.0	0.0	0.0
Total Operating Expense	466.0	478.7	18.6	517.8	345.5	0.0
Depreciation	99.3	111.5	0.0	112.4	153.7	112.4
Ad Valorem Taxes	5.9	10.1	0.0	10.5	27.6	10.5
Franchise Taxes	8.4	8.2	0.0	8.2	8.4	8.2
Payroll Taxes	4.0	3.9	0.0	3.9	4.0	3.9
Total Exp. Before Inc. Taxes	583.6	612.4	18.6	652.8	539.2	652.8
						0.0
Net Revenue Before Inc. Taxes	(165.1)	(198.9)	(18.6)	(239.3)	(120.7)	(239.3)
State Income Taxes	(15.4)	(19.7)	0.0	(23.4)	(19.4)	(23.4)
Federal Income Taxes	(59.9)	(78.2)	0.0	(92.8)	(71.4)	(92.8)
Total Expenses	508.3	514.5	18.6	536.6	448.4	536.6
						0.0
Net Operating Revenue	(89.8)	(101.0)	(18.6)	(123.1)	(29.9)	(123.1)
Rate Base	233.7	649.3	0.0	684.5	2,630.6	684.5
Rate of Return	-38.41%	-15.55%	0.00%	-17.98%	-1.14%	-17.98%

TABLE A2

CALIFORNIA AMERICAN WATER
TORO DISTRICT
GENERAL RATE CASE
COMPARATIVE SUMMARY OF EARNINGS FOR TEST YEAR AT PROPOSED RATES

2012 @ PROPOSED RATES

	STAFF		UTILITY EXCEEDS BRANCH DIFFERENCE	UTILITY		
	ORIGINAL	REVISED		REVISED	UPDATED FILING	**ADOPTED**
Operating Revenues						
Water	413.5	678.4	50.0	728.4	826.4	728.4
Operating Expenses						
Payroll	59.0	58.1	0.0	58.1	59.0	58.1
Purchased Water	0.0	0.0	0.0	0.0	0.0	0.0
Purchased Power	74.5	74.5	0.0	74.5	74.5	74.5
Chemicals	27.1	24.0	0.0	24.0	20.0	24.0
Uncollectibles	0.0	0.0	0.0	0.0	0.0	0.0
Other Operating Exp (incl Arsenic Toro)	171.2	171.1	18.6	189.7	105.2	189.7
T & D - Reservoirs & Tanks	0.0	0.0	0.0	0.0	0.0	0.0
Other Maintenance Exp	32.1	31.9	0.0	31.9	32.1	31.9
Insurance	0.0	0.0	0.0	0.0	0.0	0.0
Pension & Benefits	1.9	1.9	0.0	1.9	1.9	1.9
Regulatory Expense	0.0	0.0	0.0	0.0	0.0	0.0
Outside Services	0.0	0.0	0.0	0.0	0.0	0.0
Rents	4.3	4.3	0.0	4.3	4.3	4.3
Misc General Expense	34.0	33.8	0.0	33.8	34.0	33.8
Other Admin & General	(0.0)	(0.0)	0.0	(0.0)	(0.0)	(0.0)
Subtotal	404.1	399.6	18.6	418.2	331.0	418.2
Allocated General Office	61.9	76.7	20.6	97.3	14.5	97.3
Acquisition Premium	0.0	0.0	0.0	0.0	0.0	0.0
Total Operating Expense	466.0	476.3	39.2	515.5	345.5	515.5
Depreciation	99.3	111.5	0.9	112.4	153.7	112.4
Ad Valorem Taxes	5.9	10.1	0.3	10.5	27.6	10.5
Franchise Taxes	8.4	8.2	0.0	8.2	8.4	8.2
Payroll Taxes	4.0	3.9	0.0	3.9	4.0	3.9
Total Exp. Before Inc. Taxes	583.6	610.1	40.4	650.5	539.2	650.5
Net Revenue Before Inc. Taxes	(170.1)	68.4	9.6	77.9	287.2	77.9
State Income Taxes	(26.0)	3.9	0.7	4.6	16.6	4.6
Federal Income Taxes	(103.1)	15.4	2.9	18.3	72.4	18.3
Total Expenses	454.5	629.4	44.0	673.4	628.2	673.4
Net Operating Revenue	(41.0)	49.1	6.0	55.0	198.2	55.0
Rate Base	233.7	649.3	35.2	684.5	2,630.6	684.5
Rate of Return	-17.53%	7.56%	0.00%	8.04%	7.54%	8.04%

(END OF ATTACHMENT C)