

Decision **PROPOSED DECISION OF ALJ WALWYN** (Mailed 7/26/2005)**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

In the Matter of the Application of California-American Water Company for an order authorizing it to change its rates for water service in its Sacramento District to increase revenues by \$3,160.8 or 14.35% in the year 2005, by \$2,158.6 or 8.48% in the year 2006 and by \$1,202.2 or 4.35% in the year 2007.

Application 04-04-040
(Filed April 30, 2004)

In the Matter of the Application of California-American Water Company (U2100) for an order authorizing it to increase its rates for water service in its Larkfield District to increase revenues by \$494.1 or 26.16% in the year 2005, by \$183.4 or 7.63% in the year 2006 and by \$61.9 or 2.39% in the year 2007.

Application 04-04-041
(Filed April 30, 2004)

In the Matter of the Application of California-American Water Company for Authority Pursuant to PU Code Section 454 to Restructure and Consolidate its Rates for its Sacramento and Larkfield Districts.

Application 04-08-013
(Filed August 11, 2004)

See Appendix B for List of Appearances

OPINION**A. Summary**

This decision adopts a settlement for California-American Water Company's (Cal-Am) Sacramento and Larkfield districts general rate cases

(GRCs) that covers all issues except adoption of a low-income customer assistance program. For the Sacramento district, the settlement provides for revenue requirement increases of 9.99% in 2005, 3.60% in 2006, and 2.98% in 2007, with the increases spread over all rate schedules. For the Larkfield district, the revenue requirement increases 7.88% in 2005, 2.36% in 2006, and 1.56% in 2007, with increases spread over all rate schedules.

For low-income customer assistance programs, we find that the record here does not contain sufficient information to adopt a low-income assistance program for the Sacramento and Larkfield districts. We agree with Cal-Am and ORA that this is a technically complex issue with broad policy implications, and it should be decided in a generic proceeding.

If the Commission has not instituted a generic rulemaking on low-income assistance programs for residential water users within six months, Cal-Am is directed to file an application for the Sacramento and Larkfield districts that is similar to the program adopted for San Gabriel Water Company in Decision (D.) 05-05-015.

In this decision we also address Cal-Am's request for rate consolidation of its Sacramento and Larkfield districts. We find Cal-Am has not demonstrated that its proposal is in the public interest. Customers at both the Sacramento and Larkfield public participation hearings (PPHs) spoke against the proposal and all active interested parties in the proceeding, including the Larkfield citizens group LWWDAC, oppose Cal-Am's request. By its own acknowledgement, the proposal does not meet the Guidelines that we have used to assess rate

consolidations since 1992.¹ Further, Cal-Am's rate consolidation proposal is not consistent with the consolidation approved for another water utility in D.00-06-075.

In D.05-02-007, the Commission granted interim rate relief to Cal-Am for its Sacramento and Larkfield district customers effective February 10, 2005. This interim increase was based on the rate of inflation as compared to existing rates for these districts, and should be adjusted upward, back to the effective date, with the final rates adopted here. The methodology Cal-Am must use in calculating the surcharge is based on the actual loss or gain in each district's revenue, which is determined by applying the rate differential to the actual quantities of water sales and the actual number of customers. The surcharge will be fully recovered over the rest of 2005.

B. Procedural Background

Each of these concurrently filed GRC application requests authority to increase rates for water service in the years 2005, 2006, and 2007.

At the first prehearing conference (PHC) on July 13, 2004, Cal-Am stated that in response to Ordering Paragraph 12 of D.04-05-023, issued after its April filings, it would likely file an application to consolidate for ratemaking purposes its Sacramento and Larkfield districts. Further, Cal-Am stated it was still developing this proposal for rate consolidation and therefore could not state how the proposed would affect the two pending GRC applications. In response, the assigned Administrative Law Judge (ALJ) scheduled a second PHC for

¹ The Guidelines are attached to an August 20, 1992 letter entitled "Combining Water Utility Districts". (See Appendix H of Exhibit 19.)

August 16, 2004, after the deadline by which Cal-Am would decide whether to file an application to consolidate its Sacramento and Larkfield districts.² On August 11, 2004, Cal-Am filed Application (A.) 04-08-013, a rate consolidation application for its Larkfield and Sacramento districts.

At the August 16 PHC, Cal-Am and ORA both agreed it made good sense to consolidate the three cases for purposes of evidentiary hearings, and the ALJ so ruled. A preliminary schedule was set and PPH's scheduled for Larkfield and Sacramento. A discussion also begun on whether and how the new rate case plan (RCP) adopted in D.04-06-018 would apply here. A third PHC was set for September 23, 2004, after the protest period had ended for A.04-08-013.³

At the third PHC, the assigned ALJ granted County of Santa Cruz's request to intervene in the proceeding but denied its motion to consolidate the three cases here with Cal-Am's Felton-Monterey rate consolidation application, ruling that the County of Santa Cruz's interest in consolidating Felton with Sacramento rather than Monterey could be explored in both dockets without the need to further delay the schedule here.⁴ Additional parties granted intervention were the LWWDAC and the Mark West Area Chamber of Commerce.

In discussing the applicability of the new RCP, both Cal-Am and ORA stated that since the Sacramento and Larkfield GRCs were filed in April, the new

² By letter dated July 30, 2004 to the Commission's Executive Director, Cal-Am requested a one-week extension of the August 4, 2004 deadline to file its consolidation application. This request was granted.

³ On September 13, 2004, the County of Santa Cruz timely protested A.04-08-013.

⁴ Cal-Am's rate consolidation application for the Felton and Monterey districts, A.04-08-012, is assigned to Commissioner Kennedy and ALJ McVicar. At his

Footnote continued on next page

calculation methodologies should not apply here. In the matter of scheduling, the overall schedule agreed to by all parties follows Cal-Am's August filing and is generally consistent with the new RCP.

Responding to questions from the ALJ, Cal-Am stated that the table showing the benefits of rate consolidation for the Larkfield district (Table E of A.04-08-013) was incorrect and a revised table would be filed on September 24, 2004.

PPHs were held in Larkfield on September 29, 2004, and in Sacramento on September 30, 2004.

ORA and interested parties served testimony on November 10, 2004, and interested parties served rebuttal on November 17, 2004. On December 16, 2004, Cal-Am filed a settlement agreement between Cal-Am, ORA, and LWWDAC. LWWDAC later expressed concerns with the disposition of the Well No. 6 issue, and Cal-Am witnesses appeared on this issue at the evidentiary hearings held on January 24 and January 25, 2005. On the last day of hearings, the parties reached a revised settlement agreement and this was filed by joint motion on February 25, 2005. No party filed comments on the revised settlement.

Parties filed briefs on the remaining contested issues on February 25, 2005 and reply briefs on March 10, 2005.

September 20 PHC, ALJ McVicar also denied the County of Santa Cruz's motion to consolidate A.04-08-012 with A.04-08-013.

C. Terms of Settlement**1. Overview**

The parties to the settlement are Cal-Am, ORA, and LWWDAC.⁵ The settlement is comprehensive, covering all contested GRC issues in A.04-04-040 and A.04-04-041 for the two districts except the issue of rate assistance for low income customers; the settlement, including tariffs and GRC tables, Appendices 1-17 to the settlement, is attached as Appendix A to this decision. The settlement does not address the rate consolidation issues in A.04-08-013.

The settlement sets a separate revenue requirement and customer rates for the calendar years 2005, 2006, and 2007 for Sacramento and Larkfield districts based on agreements on the cost of capital, operating expenses, and plant in service. The parties to the settlement state that it represents a compromise and should be treated as an integrated agreement, so that if the Commission rejects any portion of this settlement, each party has the right to withdraw. Further, parties state that the settlement should not be construed as a precedent or statement of policy on any issue.

2. Issues Specific to the Sacramento District

Cost of capital, acquisition premium allowance, and attrition allowance are handled in the same manner for Sacramento and Larkfield. For Sacramento, the parties had no differences on water consumption, operating revenues, depreciation, and rate design other than a low income assistance program. For expenses and rate base not included in the settled plant issues, Cal-Am agrees

⁵ The County of Santa Cruz is not a signatory to the settlement but did not challenge any provisions of the settlement.

with all of ORA's recommendations. The parties reached agreement on the following disputed plant in service issues:

	Amount Requested By Cal-Am (000s)	Settlement (000s)
<u>2005</u>		
Recurring Projects	\$3,136.3	\$2,687.1
Well Rehabilitations	390.1	253.0
Wilbur Well	49.9	0.0
Pearl Heights Interconnection	149.6	0.0
Ethan Way Interconnection	947.7	0.0
Rosemont Tank	124.7	0.0
Water Trmt Facility - Arsenic	3,750.0	0.0
Water Trmt Facility – Parkway	478.8	478.8
Rehab of Wells – New Suburban	498.8	249.4
Rehab. of Wells – Blanket Project	349.3	349.3
Rehab. Of Wells – Two new	543.7	271.8
Storage Tanks – Roseville	467.9	467.9
Storage Tanks – Riolo	797.6	797.6
Pumps – Roseville Rd. Booster Sta.	499.0	499.0
Trans & Distrib. – Shenandoah	1,396.6	1,396.6
<u>2006</u>		
Recurring Projects	\$3,134.5	\$2,685.5
Well Rehabilitations	299.0	253.0
Ethan Way Interconnection	498.5	0.0
Rosemont Tank	797.6	0.0
Water Trmt Facility – Arsenic	450.0	4,200.0 ⁶

⁶ The settlement removes Cal-Am's request for \$3,750,000 in 2005. The parties agreed that the two projects in this category should only be recovered in rates upon their completion and placement into service, with the filing of an advice letter within the overall total construction dollar cap of \$4,200.00. Cal-Am has applied for Proposition 50 funding for these projects. Any grant funds actually received will be recorded as contribution and will reduce dollar for dollar the amount that Cal-Am can request in the advice letter.

Water Trmt Facility – Parkway	1,435.5	1,435.5
Rehab. of Wells – Blanket Project	324.3	324.3
Trans & Distrib. – Shenandoah	2,392.8	2,392.8

3. Issues Specific to the Larkfield District

For Larkfield, there were no disputed issues on depreciation, and there is a uniform treatment with the Sacramento district on cost of capital, attrition, and acquisition premium allowance. Cal-Am agrees with ORA’s position on water consumption and operating revenues; all parties made one modification to the estimated residential consumption estimate to reflect the residential fire service provision included at the request of LWWDAC. Cal-Am agrees with ORA’s position on expense estimates and all rate base items not included in the settled plant issues.

The major issue in the settlement is the regulatory treatment of Well No. 6. Following extended discussions, and an earlier settlement agreement that LWWDAC later ceased to support, the parties to the settlement reached a detailed agreement, reflected in Section 15.3 of the settlement, that allows preliminary work to begin on Well No. 6, subject to continued study and review. The agreement also commences a water conservation program funded at the rate of \$15,000 per year.

At the request of LWWDAC, the settlement also provides a lower monthly service charge for residential customers who have a fire sprinkler system connected to their domestic water system and who had to up-size their meter in order to do so. (*See* Section 20.1).

In addition, the parties reached agreement on the following disputed plant in service issues:

Amount Requested By Cal-Am (000s)	Settlement (000s)
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2004⁷

Operations Bldg.	\$ 12.0	\$ 0.0
Small Main Program	74.9	0.0
North Wikiup Tank	64.9	64.7

2005

Construct Well #7	249.8	0.0
Small Main Program	74.9	0.0
Distrib. Monitoring Equipment	249.8	0.0
Recurring Projects	433.0	400.0
North Wikiup Tank	434.6	234.6
Improvement in Water Treatment	349.7	149.7

2006

Operations Bldg.	129.9	0.0
Construct Well #7	749.3	0.0
Small Main Program	74.9	0.0
Distrib. Monitoring Equipment	249.8	0.0
Recurring Projects	433.0	400.0
Improvement in Water Treatment	99.0	0.0

2007

Recurring Projects	433.0	400.0
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D. Discussion of the Settlement**1. Standard of Review for Settlements**

We review this settlement pursuant to Rule 51.1(e), which provides that, prior to approval, the Commission must find a settlement “reasonable in light of the whole record, consistent with the law, and in the public interest.” The settlement is uncontested. We undertake our review by addressing each of these three criteria.

⁷ The settlement of 2004 rate base issues is for the purpose of calculating 2005 revenue requirements.

2. Reasonable in Light of the Whole Record

The settlement is reasonable in light of the whole record as it reflects compromises based on the fully developed and stated litigation positions of the signing parties. All parties participated in discovery, and Cal-Am and ORA served direct and rebuttal testimony prior to entering settlement discussions. The first proposed settlement was also examined through cross-examination at the hearings, and then modified by the parties after further settlement discussions. Each section of the settlement references the evidence submitted on the issue. The settlement clearly reflects compromise achieved among diverse interests vigorously represented at the bargaining table.

3. Consistent with the Law

Consistent with Commission case law, the settlement specifically states that the settlement should not be construed as a precedent or statement of policy of any kind. No term of the settlement contravenes statutory provisions or prior Commission decisions.⁸

4. In the Public Interest

The settlement is in the public interest as it represents a reasonable compromise of the settlement parties' respective positions on individual issues and taken as a whole is fair and reasonable. The parties have avoided

⁸ We note that Cal-Am did not renew its request in this proceeding to recover in rates an amount attributed to the contamination litigation memorandum account of Cal-Am's predecessor for these districts, namely, Citizens Utilities. In D.04-05-023, the Commission declined to adopt Cal-Am's special rate request #2, to recover \$559,462 in that account. In our denial, we required Cal-Am to make a specific showing if it decided to renew its request in its next GRC that the \$559,462 was part of the \$93.957 million net book value of Citizens' California assets and not part of the \$64.553 million acquisition premium already accounted for in rates.

considerable litigation costs and uncertainty by entering a settlement. The settlement is detailed regarding all of its provisions, so that we may carry out our future regulatory obligations with respect to the utility.

5. Conclusion

Based on the discussion above, we find the settlement to be reasonable in light of the whole record, consistent with the law, and in the public interest. Therefore, we should adopt the settlement.

E. Low-Income Customer Assistance

Both Cal-Am and ORA testified that rate assistance for low-income customers is a technically complex issue with broad policy implications, and it should be decided in a generic proceeding that the Commission is expected to open soon. Cal-Am withdrew its low-income proposal from this proceeding, ORA did not withdraw its specific proposal but indicated it should remain in the record as its second choice. Further, ORA stated that it had not prepared an estimate of program costs due to the fact that the establishment of low-income water programs is relatively new ground.

After the close of the record here, the Commission in D.05-05-015 adopted a new low-income program for customers of San Gabriel Water Company (San Gabriel). This program is different from those initially sponsored by Cal-Am and ORA here, particularly in that the San Gabriel program does not include indirect residential customers who use water provided by San Gabriel through a master meter. These indirect residential customers are generally residents of apartments and other multi-family buildings. In D.05-05-015, the Commission expressed concern with excluding indirect customers but stated that the record in the proceeding did not provide sufficient facts to assess whether

low-income residents of multi-family dwellings would be subsidizing other single-family low-income customers under the adopted program.

We recognize the complexity and importance of designing a low-income assistance program for residential water users of investor-owned utilities. We find that further information is needed before considering a program for Cal-Am's Sacramento and Larkfield districts, but that timeliness in addressing the issue is important. Therefore, if the Commission has not instituted a generic rulemaking on low-income assistance programs for residential water users within six months, Cal-Am is directed to file an application for the Sacramento and Larkfield districts that is similar to the program adopted for San Gabriel Water Company in D.05-05-015. In its application, Cal-Am must provide information on the number of low-income indirect customers in each district, and a comprehensive analysis of any subsidy these indirect customers are providing to Cal-Am's direct customers.

F. Consolidation of Rates

1. Cal-Am's Proposal and Justification

Cal-Am filed its rate consolidation proposal in response to the Commission's directive in D.04-05-023. In that decision, the Commission considered an earlier Cal-Am rate consolidation proposal and found the record was insufficient to make a finding that the advantages of district consolidation outweighed the disadvantages; the Commission further found that the public interest would be served by Cal-Am filing a more complete proposal within 90 days.⁹ On August 11, 2004, Cal-Am filed its new proposal in A.04-08-013 and

⁹ D.04-05-023, mailed May 11, 2004, *mimeo.*, at 42 and 73.

at the August 16, 2004 PHC in A.04-04-040/A.04-04-041, the assigned ALJ consolidated A.04-08-013 with Cal-Am's GRC applications.¹⁰

Cal-Am's new proposal would:

- combine the revenue requirement of its Sacramento district for ratemaking purposes with the revenue requirement of its Larkfield district;
- develop consolidated rates for metered service based on the combined revenue requirement of the districts;¹¹
- implement the rate consolidation over a six-year period to minimize the effects of rate consolidation; and
- exclude from the combined revenue requirement the cost of purchased water, purchased power, and chemical costs.

In support, Cal-Am testifies that the proposal would provide significant rate relief to customers in the Larkfield district, while having a minimal impact on customers in the Sacramento district. In addition, this rate consolidation proposal is part of a larger, long-term Cal-Am goal of achieving rate equalization for all of its customers through statewide rate consolidation of all Cal-Am districts. Cal-Am testifies that the cost of treating and supplying water has increased dramatically in recent years due to stricter health and environmental regulations, and small operating entities must have rate consolidation to remain

¹⁰ On August 11, 2004, Cal-Am also filed, in response to the directive in D.04-05-023, a new rate consolidation proposal for its Felton and Monterey districts. This application, A.04-08-012, is assigned to Commissioner Kennedy and ALJ McVicar.

¹¹ Cal-Am's proposal would consolidate metered rates only, as the Sacramento district has both metered and unmetered rates whereas the Larkfield district has only metered rates.

economically viable. Further, water utilities across California face the need to replace and/or upgrade aging infrastructure, and customers in smaller districts suffer from these fixed costs being spread over a smaller customer base.

Cal-Am acknowledges that its proposal does not meet the “Guidelines for Combining Water Utility Districts for Ratemaking and Public Utilities Commission Reporting Purposes” developed by representatives of Class A water utilities and Commission staff in 1992. While these guidelines have been used to assess all water rate consolidation proposals since 1992, Cal-Am argues that the guidelines are not Commission precedent and should not be strictly applied.

The Commission precedent that Cal-Am cites in support of its proposal is D.00-06-075. There, we granted rate consolidation for eight Southern California Water Company (SCWC) districts that were not interconnected, had varied water sources, and ranged from 5 to 163 miles from each other. Nonetheless, the Commission found that given the need for rate relief in some SCWC districts and the demonstrated minimal impact of consolidated rates in the other districts, the public interest would be served by consolidated rates. Cal-Am also cites to several other cases where we approved consolidated rates for water companies, but Cal-Am acknowledges that these cases cannot be used as precedent because in those cases the consolidation was presented to us as part of a settlement.

2. Discussion

Cal-Am has not demonstrated that its proposal for rate consolidation of the Sacramento and Larkfield districts is in the public interest. Customers at both the Sacramento and Larkfield PPHs spoke against the proposal, and all active interested parties in the proceeding, including the Larkfield citizens group LWWDAC, oppose Cal-Am’s request. Further, Cal-Am’s rate consolidation proposal is not comparable with the SCWC consolidation approved in

D.00-06-075. By its own acknowledgement, the proposal does not meet the guidelines that we have used to assess rate consolidations since 1992. Even apart from the guidelines, the record here tilts heavily against Cal-Am's proposal.

Cal-Am's reliance on the SCWC consolidation is misplaced. In D.00-06-075, the Commission approved single tariff pricing, to include water supply and treatment, based on a finding that there was a compelling need for rate relief for some of the smaller, more impoverished districts, and that providing relief constituted substantial benefits in the public interest. The Commission said that a consolidation proposal not consistent with the guidelines could be considered but would require a full record to be developed in support of the proposal. ORA is correct in stating that if an applicant does not meet the guidelines, the burden of proof is on the applicant to prove the advantages outweigh the disadvantages, and to make this showing based on clear and convincing evidence.

Cal-Am has not met its burden of proof. The primary justification Cal-Am provides for its proposal is that customers in the Larkfield district pay higher rates than customers in the Sacramento district for the same distribution service. It does not make a showing that Larkfield is an impoverished district or that customers cannot afford to pay stand-alone rates.

In the evidentiary hearings, Cal-Am testified that the highest costs for a water district are purchased water, purchased power and chemical costs. (Tr. at 183.) These are the costs that Cal-Am does not propose to consolidate for Sacramento and Larkfield.¹² To allow the Commission to assess the impacts of

¹² Cal-Am's proposal here differs from the proposal it made to consolidate rates for the Sacramento and Larkfield districts in its last GRC. In that proceeding, Cal-Am

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rate consolidation, Cal-Am was required in D.04-05-023 to prepare a 15 year rate forecast. However, LWWDAC, on cross-examination, elicited from Cal-Am that in its 15 year forecast it did not forecast any cost increases for purchased water, purchased power, and chemicals because these costs would be rate offsets; further, Cal-Am made no commitments on future rates based on its 15 year forecast. (Tr. at 187.)

The County of Santa Cruz references Cal-Am's other rate consolidation application, A.04-08-012, and draws from that record to show that the Commission should not make a major policy change here by adopting Cal-Am's goal of a statewide infrastructure rate based on the limited record in this proceeding. We agree.

We note, finally, that Cal-Am's proposal does not even remotely comport with the rate consolidation guidelines. It fails the proximity standard as the districts are 120 miles apart. It fails the rate comparability standard as the difference in rates between the two districts is 93%, based on revenue per customer. It fails the water supply standard as Larkfield purchases approximately 33% of its supply whereas Sacramento purchases only 3%.

In short, Cal-Am's consolidation proposal is poorly supported, generally opposed, and inconsistent with both our guidelines and our rationale underpinning approval of consolidation in the SCWC case.

proposed to establish a quantity rate differential in Larkfield to compensate for its higher per-unit purchased water cost. (*Id.* at 41.)

**G. True-up of Interim Rates Adopted in
D.05-02-007**

In D.05-02-007, the Commission granted interim rate relief to Cal-Am for its Sacramento and Larkfield district customers effective February 10, 2005. This interim increase was based on the rate of inflation as compared to existing rates for the districts, and should be adjusted upward, back to the effective date, with the final rates adopted here.

Pursuant to Ordering Paragraph 3 of D.05-02-007, on March 11, 2005, Cal-Am proposed a methodology true-up the interim rates. Cal-Am proposes to calculate the refund or surcharge amount by applying the rate differential to the final decision's adopted water sales and number of customers. After reviewing this proposal, we find the use of actual rather than adopted sales and number of customers is preferable. Therefore, the methodology Cal-Am should use in calculating the surcharge should be based on the actual loss or gain in each district's revenue, which is determined by applying the rate differential to the actual quantities of water sales and the actual number of customers. The surcharge will be fully recovered over the remaining period of 2005.

H. Assignment of Proceeding

Geoffrey F. Brown is the Assigned Commissioner and Christine M. Walwyn is the assigned Administrative Law Judge in this proceeding.

I. Comments on Proposed Decision

The proposed decision of the ALJ in this matter was mailed to the parties in accordance with § 311(d) of the Pub. Util. Code and Rule 77.1 of the Rules of Practice and Procedure.

Findings of Fact

1. On February 25, 2005, California-American Water Company, on behalf of itself, the Office of Ratepayer Advocates, and the Larkfield/Wikiup Water District Advisory Committee, filed a Joint Motion for Adoption of Revised Settlement Agreement.
2. The Joint Motion contains the settlement, tariffs, general rate case tables, and workpapers.
3. The proposed settlement resolves all general rate case issues except a low-income assistance customer program for the Sacramento and Larkfield districts.
4. The testimony and hearing record provide a comprehensive record for consideration of the settlement.
5. The settlement parties represent the interests of the water utility, ratepayers, and the Larkfield community.
6. Rate assistance for low-income customers is a technically complex issue with broad policy implications, and it should be decided in a generic proceeding.
7. The record here does not contain sufficient information to adopt a low-income assistance program for the Sacramento and Larkfield districts.
8. After the close of the record in this proceeding, the Commission adopted a low-income program for customers of San Gabriel Water Company in Decision D.05-05-015.
9. Timeliness in addressing the issue of low-income customer assistance is important.
10. If the Commission has not instituted a generic rulemaking on low-income assistance programs for residential water users within six months, Cal-Am should file an application for the Sacramento and Larkfield districts that is

similar to the program adopted for San Gabriel Water Company in D.05-05-015. In its application, Cal-Am should provide specific information on the number of low-income indirect customers in each district, and a comprehensive analysis of any subsidy these indirect customers are providing to Cal-Am's direct customers.

11. The 1992 "Guidelines for Combining Water Utility Districts for Ratemaking and Public Utilities Commission Reporting Purposes" were intended to establish prima facie reasonableness of a proposed consolidation.

12. Cal-Am's rate consolidation application meets only one of the Guidelines criteria, the operations standard. It fails the proximity standard as the districts are 120 miles apart. It fails the rate comparability standard as the difference in rates between the two districts is 93%, based on revenue per customer. It fails the water supply standard as Larkfield purchases approximately 33% of its supply whereas Sacramento purchases only 3%.

13. Cal-Am did not make a showing that Larkfield is an impoverished district or that Larkfield customers cannot afford to pay stand-alone rates.

14. Cal-Am should true-up the interim rate increase granted in D.05-02-007 with the final rates adopted here by calculating the surcharge based on the actual loss or gain in each district's revenue, determined by applying the rate differential to the actual quantities of water sales and the actual number of customers. The surcharge should be fully recovered over the remaining period of 2005.

Conclusions of Law

1. The proposed settlement is reasonable in light of the whole record, consistent with the law, and in the public interest.

2. Pursuant to Rule 51.1(e) of the Commission's Rules of Practice and Procedure, we should adopt the settlement and its accompanying tariffs and general rate case tables.

3. Cal-Am's proposal to consolidate rates for the Sacramento and Larkfield districts does not meet the guidelines we have relied on generally in ruling on rate consolidation proposals.

4. Cal-Am's proposal for rate consolidation does not meet the standards used in D.00-06-075 to grant rate consolidation for Southern California Water Company.

5. Cal-Am has not demonstrated that its proposal for rate consolidation is in the public interest.

6. Cal-Am's rate consolidation application, A.04-08-013, should be denied.

7. This decision should be effective immediately.

8. This proceeding should be closed.

O R D E R

IT IS ORDERED that:

1. The Revised Settlement Agreement with its attached tariffs and general rate case tables, Appendices 1-17, as filed on February 25, 2005 in the Joint Motion of Settlement Parties, is approved and adopted.

2. If the Commission has not instituted a generic rulemaking on low-income assistance programs for residential water users within six months, California-American Water Company (Cal-Am) shall file an application for the Sacramento and Larkfield districts that is similar to the program adopted for San Gabriel Water Company in Decision 05-05-015. In its application, Cal-Am shall provide specific information on the number of low-income indirect

customers in each district, and a comprehensive analysis of any subsidy these indirect customers are providing to Cal-Am's direct customers.

3. Cal-Am's request to restructure and consolidate its rates for its Sacramento and Larkfield districts is denied.

4. Cal-Am shall file within 15 days of the effective date of this decision a compliance filing containing the tariffs necessary to implement the surcharge methodology approved here to true-up the interim rates adopted in D.05-02-007.

5. This proceeding is closed.

This order is effective today.

Dated _____, at San Francisco, California.

**APPENDIX B
LIST OF APPEARANCES**

David P. Stephenson
CALIFORNIA AMERICAN WATER
4701 BELOIT DRIVE
SACRAMENTO CA 95831
(619) 409-7712
dstephens@amwater.com
For: California American Water

Miriam L. Stombler
Attorney At Law
COUNTY OF SANTA CRUZ
701 OCEAN STREET, ROOM 505
SANTA CRUZ CA 95060
(831) 454-2040
miriam.stombler@co.santa-cruz.ca.us
For: County of Santa Cruz

Nicholas Sher
Attorney At Law
CALIFORNIA PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO CA 94102
(415) 703-4232
nms@cpuc.ca.gov
For: ORA

LARKFIELD/WIKIUP WATER DISTRICT ADVISORY
C/O LESCURE ENGINEERS, INC.
4635 OLD REDWOOD HIGHWAY
SANTA ROSA CA 95403

Paul Angelopulo
Attorney At Law
CALIFORNIA PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO CA 94102
(415) 703-4742
pfa@cpuc.ca.gov
For: ORA

James M. Bouler
LARKFIELD/WIKIUP WATER DISTRICT ADVISORY
133 ETON COURT
SANTA ROSA CA 95403
(707) 546-3097
reluob@att.net

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