

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



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06-28-10
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CALIFORNIA WATER SERVICE COMPANY, (U-60-W), a California corporation, for an order 1) authorizing it to increase rates for water service by \$70,592,000 or 16.75% in test year 2011, 2) authorizing it to increase rates on January 1, 2012 by \$24,777,000 or 5.04% and January 1, 2013 by \$24,777,000 or 4.79% in accordance with the Rate Case Plan, and 3) adopting other related rulings and relief necessary to implement the Commission's ratemaking policies

Application 09-07-001

(Filed July 2, 2009)

**JOINT MOTION OF CALIFORNIA WATER SERVICE COMPANY (U 60 W),
THE DIVISION OF RATEPAYER ADVOCATES, MR. JEFFREY YOUNG,
MR. JACK CHACANACA, AND THE LEONA VALLEY TOWN COUNCIL
TO APPROVE SETTLEMENT AGREEMENT**

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Dated: June 28, 2010

Pursuant to Rules 12.1 *et seq.* of the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission”), applicant California Water Service Company (U 60 W) (“Cal Water”), the Division of Ratepayer Advocates (“DRA”), Mr. Jeffrey Young (“Mr. Young”), and Mr. Jack Chacanaca, the Leona Valley Town Council (“Leona Valley”) (collectively “the Parties”) hereby move that the attached settlement agreement (“Settlement”) between the Parties be adopted by the Commission.¹ The proposed Settlement is attached to this Motion as Attachment A.

The Settlement addresses almost all of the issues related to the revenue requirement, rate design, and special requests for all 24 of Cal Water’s regulated districts in California, as well as Cal Water’s general office. DRA, Mr. Young, Mr. Chacanaca, and Leona Valley each continue to have one or two outstanding concerns that are not included in the Settlement. The issues that are not fully addressed in the Settlement consist of Cal Water’s proposed recovery for unanticipated “green” projects,² increases in the Rate Support Fund (“RSF”) for certain districts,³ State Revolving Fund financing and the appropriate General Office allocation for the Redwood Valley District,⁴ and a new well and unit costs of certain facilities in the Antelope Valley District.⁵ Consistent with the Assigned Commissioner’s October 2, 2009 Scoping Memo, the

¹ Mr. Young, Mr. Chacanaca, and Leona Valley each join the Settlement to the extent described in Section I.B below.

² Cal Water Special Request # 27.

³ Cal Water Special Request # 12.

⁴ See Settlement at Section 9.2.17.

⁵ See Settlement at Section 9.2.1.

Settlement does not include specific rates or tariffs.⁶ Finally, the Settlement does not address Cal Water's cost of capital, which the Commission resolved in D.09-11-019.

The Parties believe that the Settlement fulfills the criteria that the Commission requires for approval of such settlements. To better facilitate the understanding of the voluminous Settlement in its entirety, Section III of this Motion identifies some of the significant and/or capital-intensive issues addressed in each district. As demonstrated in this Motion and in the attached Settlement itself, the Settlement is reasonable in light of the whole record, consistent with the law, and in the public interest. For these reasons, the Commission should grant this Motion and adopt the Settlement.

I. INTRODUCTION

The Parties to the Settlement have worked closely to reach mutually agreeable positions on the numerous issues in dispute in this matter. Settlement negotiations commenced in April 2010 and continued up to the filing of this Motion, with Attachment A as the result of the Parties' efforts.

A. Background

Cal Water filed its rate application on July 2, 2009, pursuant to the Commission's Rate Case Plan ("RCP") for Class A water companies. Cal Water's Application requested an order authorizing rate increases in all 24 of Cal Water's California districts, and included a series of special requests for consideration by the Commission. DRA protested the Application on August

⁶ Assigned Commissioner's Scoping Memo and Ruling (Oct. 2, 2009) ("Scoping Memo") at 4, note 2. In comments on the proposed decision in this proceeding, the Parties will jointly submit rates and tariffs based upon the revenue requirement adopted in the proposed decision. *Id.*

5, 2009. Additional groups and individuals have intervened for limited purposes as described in Section B, below.

At the Pre-Hearing Conference on September 28, 2009, Administrative Law Judge (“ALJ”) O’Donnell set the schedule for this proceeding and requested that Cal Water provide an exhibit detailing the methodologies underlying Cal Water’s analyses. Cal Water prepared the exhibit and served it on the official Service List on November 30, 2009. On October 2, 2009, ALJ O’Donnell issued the Scoping Memo and Ruling of Assigned Commissioner (“Scoping Memo”), setting dates for intervenor and rebuttal testimony, evidentiary hearings, and briefing, with the goal of having the evidentiary record of this proceeding submitted by June 18, 2010.⁷ In addition, the Scoping Memo stated that a proposed decision would address all of the issues in this proceeding, with the exception that specific rates and tariffs consistent with the proposed decision would be jointly submitted by the Parties in comments on the proposed decision.⁸ On October 19, 2009, Cal Water filed a “100-day update” to its Application in conformance with the Rate Case Plan. This update reflected data that was unavailable at the time the Application was filed, and included corrections of minor errors in the originally-filed data.

The Commission held Public Participation Hearings in Lancaster on February 4, 2010, Salinas on February 11, 2010, Kernville on February 18, 2010, Gueneville on February 25, 2010, and Lucerne on March 4, 2010. The Commission’s expert on Water Quality issued the Commission’s water quality finding on January 21, 2010, with a revision on March 4, 2010. The report indicated, among other things, that Cal Water’s systems meet the water quality

⁷ See Scoping Memo.

⁸ *Id.* at 4, note 2.

requirements of the Commission, and that there were no outstanding compliance issues in any of the 24 districts. DRA served its testimony on the Application on February 10, 2010, for 20 districts, and for portions of General Office. DRA served its remaining testimony on February 17, 2010.

All active parties engaged in extensive settlement discussions, properly noticed as provided in the Commission's Rules. During portions of the settlement meetings, the Parties took advantage of the Commission's Alternate Dispute Resolution program, with ALJ Victor Ryerson assigned as the neutral mediator.

On May 3, 2010, the Commission began evidentiary hearings on disputed and Intervenor issues, with ALJ O'Donnell presiding. On the first day of evidentiary hearings, Cal Water and DRA reported on the status of their settlement negotiations. They explained that, while they had reached agreement on a majority of the issues in the proceeding, some issues remained outstanding and might be resolved if granted additional time for discussion. The ALJ granted this request. Evidentiary hearings were continued on May 4 and 7, 2010, and addressed some aspects of Cal Water's special requests, some capital projects in geographical areas represented by Intervenors, and the appropriate treatment of State Revolving Fund financing in the Coast Springs Rate Area of the Redwood Valley District.

B. Intervenors

Intervenors Jeffrey Young, Jack Chacanaca, and the Leona Valley join in the Settlement as follows:

- Mr. Young supports the issues relating to the Coast Springs rate area in the Redwood Valley District in the Settlement, but does not support the Settlement with regard to the level of State Revolving Fund ("SRF") financing for that area. In addition, Mr. Young recommends changes to how costs are allocated from General Office to the Redwood Valley District (for example, use of a 2-factor

approach rather than a 4-factor approach, and/or combining the areas within the district to calculate the appropriate GO allocation).

- Leona Valley supports the issues relating to the Antelope Valley District in the Settlement, but does not support the Settlement with regard to the addition of a second well in Fremont, and does not agree with the unit costs of the hydrants, valves, and service connections in that district.
- Mr. Chacanaca supports the issues relating to the Antelope Valley District in the Settlement to the extent supported by Leona Valley.

The other Intervenors listed as parties to this proceeding, the City of Visalia⁹ and residents of Dillon Beach (located in Cal Water’s Redwood Valley District),¹⁰ were generally not active in either the formal proceedings or the settlement discussions of this case.

II. THE SETTLEMENT MEETS THE CRITERIA UNDER RULE 12.1(D)

The Settlement being submitted with this Motion addresses the revenue requirement, rate design, and other special requests for Cal Water’s 24 regulated districts in California. The only issues in this proceeding that the Settlement does not address are those described above in Section 1.B with regard to the Intervenors, Special Request # 27 relating to Cal Water’s request for an approval mechanism for unanticipated “green” projects, and Special Request # 12 relating to increases in the Rate Support Fund (“RSF”) for certain districts.

Rule 12.1(d) requires that a settlement be “reasonable in light of the whole record, consistent with law, and in the public interest.” Taken as a whole, this Motion and the Settlement satisfy these standards for approving settlements for the reasons discussed below.

⁹ The official service list identifies Stephen M. Salomon, appearing on behalf of the City of Visalia, as an active party.

¹⁰ The official service list identifies Marcos Pareas, appearing on behalf of the Full-Time Residents of Dillon Beach Serviced by the Coast Springs Division of Cal Water Co., as an active party.

A. The Settlement Is Based On The Evidence

The Settlement is based, first and foremost, on facts in evidence in the proceeding. The reasonableness of the Settlement is fully supported by the reports and testimony of DRA, Cal Water, Leona Valley, and Jeffrey Young. Following extensive discovery and settlement negotiations, the Parties reached a reasonable compromise on the vast majority of issues that were in contention. The settlement negotiations were accomplished at arms' length over the course of several weeks and there was no collusion.

The Settlement itself contains a very detailed, issue-by-issue discussion of (1) the Parties' initial positions (and dollar amounts, if appropriate), (2) the relevant material data generated through data requests, rebuttal testimony, and/or settlement negotiations, and (3) the ultimate disposition of each issue. In many cases, Parties were able to illustrate in the Settlement the logical progression of facts, figures, and policy discussion that resulted in the resolution of an issue. In other cases, the Parties resolved issues in the give-and-take of a confidential negotiation process. In all cases, however, the disposition of each issue resulted from reasoned and thoughtful analysis of the law and the evidence.

B. The Settlement Does Not Contravene Any Rules Or Laws

The Parties are aware of no statutory provision or prior Commission decision that would be contravened or compromised by the Settlement. The issues resolved in the Settlement are within the scope of the proceeding. The Settlement, accompanied by a Commission determination on the open issues, will produce just and reasonable rates.

C. The Settlement Is In The Public Interest

The Settlement is in the public interest. First, the Commission has explained that a settlement which "commands broad support among participants fairly reflective of the affected

interests” and “does not contain terms which contravene statutory provisions or prior Commission decisions” well serves the public interest. *Re San Diego Gas & Elec.*, D.92-12-019, 46 CPUC 2d 538, 552. In this proceeding, the two principal active parties with an interest in the settled issues, Cal Water and DRA have agreed on all but one issue, after extensive negotiations. Similarly, Cal Water’s negotiations with Mr. Young and the Leona Valley Town Council resulted in the resolution of all but the few issues described in Section I.B, above. Together, the Parties fairly represent the affected interests: Cal Water provides water service to the customers in the relevant districts, DRA is statutorily mandated with representing all ratepayers in California, and Jeffrey Young, Jack Chacanaca, and the Leona Valley Town Council are customers of their respective districts.

Second, the primary public interest affected by this proceeding is the delivery of safe and reliable water service at reasonable rates. The Settlement advances this interest because it fairly balances Cal Water’s opportunity to earn a reasonable rate of return against the needs of consumers for reasonable rates and safe, reliable water service.

In addition, Commission approval of the Settlement will provide speedy resolution of contested issues, which will save unnecessary litigation expense, and will conserve Commission resources. The Commission has acknowledged that “[t]here is a strong public policy favoring the settlement of disputes to avoid costly and protracted litigation.” *Re PG&E*, D.88-12-083, 30 CPUC 2d 189, 221.

Finally, the comprehensive breadth of the Settlement, as illustrated by the overview provided in Section III below, coupled with the detailed analysis in the Settlement itself, demonstrate that the Settlement, taken as a whole, is in the public interest.

D. Conclusion

The Parties believe that the Settlement, the related documentation, and the pleadings in this case convey sufficient information for the Commission to discharge its future regulatory obligations with regard to this Application. Nevertheless, the Parties are prepared to offer further testimonies, exhibits, or written responses if additional support for the Settlement is needed.

The Parties note that they have entered into this Settlement on the basis that it shall not be construed as an admission or a concession by them regarding any fact or matter of law in dispute in this proceeding. Furthermore, as contemplated by Rule 12.5, the Parties do not intend that the Commission's adoption of this Settlement be construed as any statement of precedent or policy of any kind for or against either of them, in the current or in any future proceedings.

III. OVERVIEW OF THE SETTLEMENT

While the Settlement itself contains detailed explanations of each element in the Settlement, this Section briefly identifies the significant topics and capital-intensive projects that the Settlement addresses to facilitate understanding of the agreement as a whole.

A. General Office and "Global" Requests

- An extensive conservation program
- Increased employee benefits costs
- General Office Expansion program
- Financial software
- Additional employees in Human Resources, Finance, and other areas

With regard to general office issues and "global" requests that relate to Cal Water company-wide, the list above reflects the main topics or programs addressed by the Parties' agreed-upon adjustments in the Settlement.

B. Expenses

For most expenses, the Parties' initial proposals did not differ significantly. In the most disputed area, payroll, Cal Water proposed 75 additional employees in its districts, and 65

additional employees (over the rate case period) in its general office. Noting that several positions approved in Cal Water’s previous rate cases had not been filled, DRA proposed no additional personnel in the districts, and 11 employees in general office. The Parties reached a compromise position of 29 new district employees (11 of which are carried over from previous rate cases), and 34 new general office employees (8 of which are carried over from previous rate cases).

C. Antelope Valley District

- Second well in Fremont Valley
- Interconnection with the Antelope Valley-East Kern Water Agency (“AVEK”) in Lancaster
- Additional storage in Leona Valley

The Settlement will increase long-term reliability for the Antelope Valley District by providing an additional source of water supply and an additional water storage facility. The district will hire an additional part-time operator to help streamline operations, reduce overtime, and provide better customer support.

D. Bakersfield District

- Pipeline replacements to replace aging infrastructure
- Flat-to-meter conversions
- Additional employees to meet customer needs
- Pump efficiency upgrades

Cal Water is planning to aggressively pursue converting flat rate services to metered services in this district to comply with California requirements. While several capital projects in this district have been identified as necessary due to MtBE contamination, Cal Water received a civil MtBE settlement and Cal Water has removed these projects from rate base pending a final decision in the Commission’s Contamination Proceeds OIR and Cal Water’s Application 09-07-011.

E. Bear Gulch District

- Transmission pipeline upgrades to prepare for wholesale supplier upgrade work
- Storage upgrades to meet the recommendations of the Water Supply and Facilities Master Plans (“WS&FMP”)
- Reliability improvements to create synergies in new acquisitions
- Emergency response upgrades (mobile command center, large hose)
- Fish passage, screening, pumping, and pipeline to comply with needs of endangered California Steelhead Trout

- District-wide fire hydrant upgrades in conjunction with Menlo Park Fire Protection District.

In the Bear Gulch District, the Settlement targets large-diameter transmission pipeline upgrades to link the seven (7) existing wholesaler turnout connections, and to improve reliability in anticipation of the wholesaler taking these turnouts off-line to complete their upgrade work. Cal Water also continues to make environmental improvements for its diversion to accommodate the habitat stream of the threatened California Steelhead Trout. The Settlement provisions also focus on emergency preparedness, with the construction of a mobile command center, large-diameter emergency deployment hoses, and a program to add additional fire hydrants in the system.

F. Chico District

- Solar project at Customer Service Center
- Additional storage for operational reliability
- Flat-to-meter conversion program

In the Chico District, the Settlement focuses primarily on reliability issues. For example, the Settlement allows a 1-1/2-million gallon tank and booster facility at the Customer Center. The Settlement also funds a program to replace flat rate services with metered services, and a project to utilize solar power at the Customer Service Center. This innovative solar project will reduce customer expenses in the long term.

G. Dixon District

- Water quality improvement to remedy high nitrates including a deeper well and ion exchange system

The Dixon District has been struggling with elevated nitrate levels in many of its wells. As the level of nitrate in any well approaches the maximum contaminant level, the district either blends with other supplies, adds treatment, brings a new source on-line, or reduces the use of the well. Cal Water will be completing a new deeper well at its Station 9, and at its Station 3, it will be installing an ion-exchange treatment unit to remove nitrates.

H. Dominguez District

- Additional groundwater wells
- Additional employees to provide 24 hour operations

In the Dominguez District, the Settlement adjustments are focused on reliability and customer service. The Settlement allows Cal Water to add staff to meet 24-hour staffing of the operations. The Settlement also allows additional wells and well treatment with the goal of decreasing reliance on expensive imported wholesale water.

I. East Los Angeles District

- Improved groundwater facilities
- Reliability upgrades on storage reservoirs
- Reliability upgrades on booster stations
- Additional employees to maintain increasingly complex facilities

For the East Los Angeles District, Settlement focuses on major facility renewal to meet reliability goals. This includes replacement of an older storage tank, booster stations, wells, and pipelines.

J. Hermosa-Redondo District

- Routine pipeline replacement
- Power generators

In the Hermosa-Redondo District, the Settlement is focused on reliability, allowing the replacement of older mains that would be vulnerable during strong seismic events, as well as the replacement of an old generator and the purchase of a mobile generator.

K. Kern River Valley District

- Optimize operations of recent water treatment plants

The Kern River Valley District has recently completed several water treatment plant and other projects to allow the Company to meet all arsenic maximum contaminant levels. The Settlement allows minor work to optimize the treatment process.

L. King City District

- Transmission pipeline upgrades to move water to low quality groundwater areas

The King City District has been struggling with elevated nitrate levels in many of its wells. The district has had to reduce the use of wells on the east side of the city. The Settlement allows east-west transmission system pipeline upgrades to move water throughout the district.

M. Livermore District

- Seismic upgrades
- Additional groundwater supplies for drought reliability

In Livermore, there are increasing concerns about nitrates levels in Cal Water's groundwater wells. The district blends well water with imported wholesale supplies. However, it is important to note that the wholesaler for this district also relies on the same groundwater

basin as Cal Water. Therefore, if the surface water portion of the water supply blend is reduced, Cal Water's blend operations may become ineffective. The Settlement allows a new well in a deeper aquifer to reduce these concerns.

N. Los Altos District

- Additional groundwater supplies
- Additional chloramination boosting sites
- Rehabilitation of older stations

In the Los Altos District, Cal Water is pursuing the restoration of its capacity in the groundwater basin. This requires a multipronged approach and involves bringing older wells back on-line, running them over a longer period, and monitoring for reduced levels of contaminants. This strategy has been successful in other wells in this district and the Department of Public Health ("DPH") has endorsed this strategy. By re-establishing additional groundwater sources, other reliability issues must also be resolved. The Settlement this allows upgrading of certain booster stations and storage reservoirs, and increasing the number of chloramination stations in order to match chloramine levels in the distribution system.

O. Marysville District

- New Customer Service Center
- Flat-to-meter conversions
- Energy Monitoring pilot program

In Marysville, the Settlement allows Cal Water to move forward with a new Customer Service Center to better meet the needs of its customers. This also includes better utilization of office space for employees. In addition, the Settlement allows the addition of energy monitoring equipment to a replacement pump in order to develop data that can be used when considering a Company-wide energy monitoring program.

P. Mid-Peninsula District

- Storage improvements at several sites
- Many shorter pipeline project to eliminate old, leaking main
- Energy Monitoring pilot program

In the Mid-Peninsula District, Cal Water had sought an aggressive storage increase to meet the outline of a proposed Water Supply & Facilities Master Plan ("WS&FMP"). This included the replacement of a concrete reservoir and four (4) additional large storage reservoirs, some at existing locations. The Parties in the Settlement agreed to a less aggressive schedule of storage improvements. Cal Water will be working to construct two (2) new tanks in this GRC and will start the design of the concrete Crystal Springs Tank Replacement at this time as well. The district will also focus on many shorter pipelines replacements to achieve its goal of replacing insufficiently size mains and unlined steel mains for reliability purposes and to meet

customer demands. In addition, the Settlement allows the addition of energy monitoring equipment to a replacement pump in order to develop data that can be used when considering a Company-wide energy monitoring program.

Q. Oroville District

- Flat-to-meter conversions
- Water treatment plant component replacement
- Mains

In the Oroville District, Cal Water is striving to keep its rate increase as low as possible for its customers while addressing the complexities of an aging infrastructure. The Settlement thus allows the replacement of water treatment plant components to keep the plant operating at peak performance, and also allows targeted main improvements to improve water quality for the customers. Cal Water will also be pursuing the limited number of flat-to-meter conversions needed in the district.

R. Palos Verdes District

- Pipeline reliability
- Large station reliability
- Energy recovery system

In the Palos Verdes District, approximately 90% of the water is pumped to the top of the District via two pumping lifts. There is an area where a single 33” pipeline has no backup. While the Parties agreed that Cal Water would submit a separate application for a project that would provide additional reliability by creating an alternate pipeline loop, the Settlement does allow some projects to improve the reliability of the stations that perform the critical lift, such as extensive panelboard and motor control center replacements.

S. Redwood Valley District

- Optimization of recent treatment plants
- Lucerne distribution system systematic upgrades
- Unified iron and manganese system

In Lucerne, Cal Water has recently installed a state-of-the-art water treatment plant to improve the source water issues. The Settlement now allows Cal Water to focus on distribution system improvements to maintain the good water quality through the distribution system and to the customers. This is a hard issue to balance because there are a large number of mains to replace that will help improve operations, but a main replacement plan that is too aggressive will lead to excessive rate increases.

In Coast Springs, Cal Water also recently installed a new water treatment plant. The Settlement now allows Cal Water to focus on optimizing this plant and looking to additional supply to enable it to lift the moratorium on new services.

In the Unified Area, the Settlement allows Cal Water to continue to pursue the iron and manganese removal plan in the Hawkins system and smaller reliability improvements in other systems.

T. Salinas District

- Water quality improvements to address high nitrates
- Additional ion-exchange costs and units
- New wells

Cal Water's Salinas District has been facing supply challenges, including elevated nitrates, sea-water intrusion, PCE and TCE contamination, and MtBE contamination. The Settlement provides for additional expenses related to ion-exchange treatment plant operations to remove nitrates. The Settlement also allows the installation of additional wells in deeper aquifers to improve supply. Cal Water is also pursuing projects funded by the MtBE settlement that are no longer included in this proceeding.

U. Selma District

- Auxiliary power improvements
- Warehouse improvements
- Flat-to-meter conversions

In the Selma District, Cal Water has recently completed two large tank projects and associated booster pumping facilities. The Settlement allows Cal Water to now focus on reliability projects, such as emergency generators on well pumps to maintain supply during emergencies, and replacement of unreliable mains.

V. South San Francisco District

- Mains
- Booster upgrades

In the South San Francisco District, the Settlement targets reliability, including the upgrade and modernization of a number of pumps. It also provides for numerous pipeline replacements that are targeted to areas where the district has experienced a large number of leaks.

W. Stockton District

- Auxiliary power improvements

- Tank circulation equipment
- Steel main replacements
- Additional arsenic blending and arsenic treatment

The focus of the Settlement with regard to the Stockton district is on water quality improvements. The agreed-upon projects range from iron and manganese removal, arsenic removal, arsenic blending, and additional new wells to improving the supply mix. There is also pump replacement for efficiency improvements.

Stockton has one of Cal Water's higher leaks per 100 miles of main. This is primarily due to the heavy expansion of the city during World War II and the post-war boom. The primary pipeline material during that time was unlined steel mains. These mains are now experiencing advanced stages of corrosion and the Settlement allows an aggressive plan for replacement of these lines.

X. Visalia District

- Additional wells and storage
- Flat-to-meter conversions

For the Visalia District, Cal Water has worked with the City of Visalia to accelerate the flat-to-meter conversion program and to increase the water conservation expense forecasts to aggressively promote conservation. The Settlement provisions for Visalia focus on supply and storage issues. For example, Cal Water will use the Advice Letter process to pursue the acquisition of additional properties in Visalia that meet the requirements for well and tank facilities. Additional employees in this district will assist with increased work load due to system growth and technical complexity.

Y. Westlake District

- 4 MG concrete reservoir replacement

In the Westlake District, Cal Water has been preparing over the last few years to take the 4 million-gallon concrete Harris Reservoir out of service because of structural issues. Cal Water has increased its pumping capacity at a number of pump stations to facilitate this work. The Settlement allows Cal Water to pursue this replacement project using the Advice Letter process.

Z. Willows District

- Flat-to-meter conversions
- New storage tank

In the Willows District, the Settlement enables Cal Water to focus its efforts on a tank and booster station to increase emergency storage.

AA. Special Requests

Cal Water made several special requests not directly tied to test year revenue requirements. Many of these were non-controversial or procedural requests. In response to the Scoping Memo and DRA's testimony, Cal Water modified or withdrew several requests. However, the Settlement does resolve some significant issues in the following areas:

- Revenue requirements for transitional interim rate periods, and surcharges to recover the difference between existing interim rates and those calculated in the Settlement;
- Increased fees for restoration of service and fire flow testing;
- Continuation of the WRAM/MCBA trial program with small modifications to address recycled water, information gathering and reporting, and interactions with the Rate Support Fund;
- No changes to the residential or non-residential rate design principles adopted in D.08-02-036;
- Deferring the issue of expanding eligibility for residential fire sprinkler rates until the next general rate case
- Allowing certain advice letter rate base offsets filed in 2010 to survive the adoption of rates in this proceeding because the costs are not included in 2011 revenue requirements;
- Requiring Cal Water to amortize its water conservation memorandum accounts, conservation one-way balancing accounts, and legacy water supply cost balancing accounts within 90 days of a decision in this case;
- Allowing the merger of the South San Francisco and Mid-Peninsula ratemaking areas;
- Continuing the Rate Support Fund in its adopted districts with a change in support proportional to revenue requirement increases in those districts;
- Adopting three-year budgets, excluded from escalation, for conservation expenses, employee medical costs and retiree medical costs;
- Proposing a limited memorandum account for health care expense changes due to the federal health care bill;
- Proposing a pension balancing account; and
- Allowing a triggered memorandum account in the event the Financial Accounting Standards Board moves forward with adoption of International Financial Reporting Standards.

IV. CONCLUSION

For the reasons stated above, the Commission should grant the Joint Motion of California Water Service Company, the Division of Ratepayer Advocates, Jeffrey Young, Jack Chacanaca, and the Leona Valley Town Council, and adopt the Settlement attached hereto.

Respectfully Submitted,

/s/ THOMAS F. SMEGAL

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Dated: June 28, 2010

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CERTIFICATE OF SERVICE

I hereby certify that on this date I served the foregoing JOINT MOTION OF CALIFORNIA WATER SERVICE COMPANY (U 60 W), THE DIVISION OF RATEPAYER ADVOCATES, MR. JEFFREY YOUNG, MR. JACK CHACANACA, AND THE LEONA VALLEY TOWN COUNCIL TO APPROVE SETTLEMENT AGREEMENT by electronic mail or U.S. Mail delivery on the Service List for A.09-07-001 below:

By Electronic Mail:

ssalomon@ci.visalia.ca.us; doviedc@yahoo.com; tccprez@roadrunner.com; sel@cpuc.ca.gov; mpareas@gmail.com; dduncan@calwater.com; jffyng@gmail.com; jonathan.reeder@wachovia.com; chris@ci.salinas.ca.us; olivia.para@bingham.com; terry.houlihan@bingham.com; tsmegal@calwater.com; jensen.sophie@gmail.com; demorse@omsoft.com; aly@cpuc.ca.gov; md7@cpuc.ca.gov; hcv@cpuc.ca.gov; jjs@cpuc.ca.gov; jpo@cpuc.ca.gov; lfr@cpuc.ca.gov; lwa@cpuc.ca.gov; phh@cpuc.ca.gov; ywc@cpuc.ca.gov

By U.S. Mail Delivery:

Jeffrey P. O'Donnell
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Division of Administrative Law Judges, Room 5111
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Executed this 16th day of July, 2010, at San Jose, California.

/s/ TU RASH

Tu Rash