BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

In the Matter of the Application of California-American Water Company (U 210 W) for an Order Authorizing the Collection and Remittance of the Monterey Peninsula Water Management District User Fee	Application 10-01-012 (Filed January 5, 2010)

SETTLEMENT AGREEMENT BETWEEN THE DIVISION OF RATEPAYER ADVOCATES, THE MONTEREY PENINSULA WATER MANAGEMENT DISTRICT AND CALIFORNIA AMERICAN WATER COMPANY REGARDING THE COLLECTION AND REMITTANCE OF THE MONTEREY PENINSULA WATER MANAGEMENT DISTRICT USER FEE

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SETTLEMENT AGREEMENT BETWEEN THE DIVISION OF RATEPAYER ADVOCATES, THE MONTEREY PENINSULA WATER MANAGEMENT DISTRICT AND CALIFORNIA AMERICAN WATER COMPANY

I. RECITALS

A. On January 30, 2008, California American Water filed Application ("A.") 08-01-027 ("2008 Monterey GRC") requesting an increase in rates for its Monterey district. Included in the Assigned Commissioners and Administrative Law Judge's Ruling and Scoping Memo dated June 27, 2008 was a requirement to address issues related to the Monterey Peninsula Water Management District ("Water Management District") funding from California American Water customers for activities other than conservation and rationing, with an emphasis on the "User Fee."[1]

B. In D.09-07-021, the Commission closely examined all of the Company's "costs in the context of . . . the significant financial burdens imposed on residential and business customers by these substantial rate increases."[2] The Commission noted the lack of an evidentiary record to assess the necessity or the cost-effectiveness of the District's expenditures on the Company's behalf and was concerned that the Company's customers may be paying user fees to the District for projects that may not be necessary or cost effective.[3] The Commission ordered California American Water to meet and confer with the Water Management District regarding these programs, and authorized the Company to file an application setting forth the method of collecting funds to support program costs.[4] This Commission also authorized the Company to file an advice letter establishing a memorandum account to record any interim costs.

C. On July 20, 2009, California American Water, as authorized in D.09-07-021, filed advice letter AL-785-A to establish the authorized memorandum account. The Division of Water and Audits approved AL-785-A on August 20, 2009 with an effective date of July 20, 2009.

D. On January 5, 2010, California American Water, as authorized in D.09-07-021 filed application A.10-01-012 seeking authorization to collect and remit the Water Management District's User Fee at the rate set by the Water Management District's Board of Directors as the program for carrying out the mitigation measures in the Water Management District's Water Allocation Program Mitigation Monitoring and Reporting Program (Mitigation Program) and the Aquifer Storage and Recovery Program (ASR). California American Water also requested authorization to collect the balance in the User Fee Memorandum Account via a surcharge and to earn on that balance at the Interest During Construction (IDC) rate.

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[1] In A.07-12-010, this Commission examined and approved the collection and expenditure of a surcharge for the MPWMD's conservation and rationing activities.
[2] D.09-07-021 at 96.
[3] *Id.*
[4] D.09-07-021, ordering paragraphs 24 and 25.

E. On January 18, 2010, DRA protested that application contesting California American Water's request to earn the Interest During Construction rate on the memorandum account balance contending that California American Water did not adequately support that request. In all other respects, DRA supported California American Water's application.

F. On February 18, 2010, the Water Management District filed a Response to California American Water's application, supporting the requests therein.

G. On February 19, 2010, the Hidden Hills Subunit Ratepayers' Association (Hidden Hills) filed a Motion for Party Status seeking to protest California American Water's application. On March 4, 2010, representatives from the Monterey Peninsula Water Management District, California American Water, and the Hidden Hills Subunit Ratepayers' Association met and conferred regarding the Hidden Hills Subunit Ratepayers' Association's protest. On March 5, 2010, the Monterey Peninsula Water Management District sent a letter clarifying that the User Fee is not assessed to customers within the Hidden Hills area. That letter is attached hereto as Attachment 1. On March 18, 2010, Hidden Hills filed a motion to withdraw its protest in reliance on the Water Management District's letter.[5]

H. On April 14, 2010, California American Water noticed a settlement conference in this proceeding for April 21, 2010. On April 21, 2010, all parties attended the noticed settlement conference. As a result of this settlement conference, the Parties agreed to certain modifications to the draft Settlement Agreement and motion. Those modifications are reflected herein.

II. GENERAL

A. Pursuant to Article 12 of the Rules of Practice and Procedure of the California Public Utilities Commission ("Commission"), the Division of Ratepayer Advocates ("DRA"), and California-American Water Company ("California American Water") (collectively, "the Parties"), desiring to avoid the expense, inconvenience and the uncertainty attendant to litigation of the matters in dispute between them, have agreed on the terms of this Settlement Agreement ("Settlement Agreement") which they now submit for approval.

B. Because this Settlement Agreement represents a compromise by them, the Parties have entered into each stipulation contained in the Settlement Agreement on the basis that its approval by the Commission not be construed as an admission or concession by any Party regarding any fact or matter of law in dispute in this proceeding. Furthermore, the Parties intend that the approval of this Settlement Agreement by the Commission not be construed as a precedent or statement of policy

[5] On March 30, 2010, the docket office rejected Hidden Hills' motion to withdraw because Hidden Hills' motion for party status had not been ruled upon. The docket office nevertheless gave effect to the motion to withdraw by deeming the motion for party status as moot.

of any kind for or against any Party in any current or future proceeding. (Rule 12.5, Commission's Rules on Practice and Procedure.)

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

D. The Parties agree that the Settlement Agreement is an integrated agreement such that if the Commission rejects or modifies any portion of this Settlement Agreement, each party must consent to the Settlement Agreement as modified, or either party may withdraw from the Settlement Agreement.

E. The Parties agree to use their best efforts to obtain Commission approval of the Settlement Agreement. The Parties shall request that the Commission approve the Settlement Agreement without change and find the Settlement Agreement to be reasonable, consistent with the law, and in the public interest.

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

III. COLLECTION AND REMITTANCE OF THE MONTEREY PENINSULA WATER MANAGEMENT DISTRICT'S USER FEE

A. The Parties agree that the program for mitigating the impacts of California American Water's water pumping on the Carmel River, which is undertaken by the Water Management District as described in California American Water's application for this proceeding, is reasonable and prudent and is not duplicative of activities undertaken by California American Water.

B. The Parties agree that the Aquifer Storage and Recovery program undertaken jointly by California American Water and the Water Management District to obtain and utilize fully permitted water rights to the Carmel River, as described in California American Water's application for this proceeding, is reasonable and prudent and is not duplicative of activities undertaken by California American Water.

C. The Parties agree that the Commission should authorize California American Water to collect and remit to the Water Management District's User Fee at a prudently set rate determined by the Water Management District Board from time to time.

IV. COLLECTION OF SURCHARGE FOR BALANCE OF THE USER FEE MEMORANDUM ACCOUNT AND INTEREST THEREON

A. The Parties agree that, because the Mitigation Program and ASR Program are reasonable and prudent, as further described in paragraphs III.A and III.B, above,

the costs incurred by California American Water to fund these programs from July 2009 until the effective date of this decision are reasonable and prudent. Accordingly, California American Water should be allowed to collect the balance in the Monterey Peninsula Water Management District User Fee Memorandum Account.

B. The Parties agree that, based on the recovery period that ends on January 1, 2011, California American Water will likely fund that balance with a mix of short-term and long-term debt. The Parties further agree that a five percent interest rate on that balance is a fair and reasonable cost of funds based on the expected mix of short-term and long-term debt. The parties acknowledge that this is a deviation from the Standard Practice U-27 in the application of the 90-day Commercial Paper rate to the memorandum account balance. The parties agree this does not create a Commission precedent for future Commission decisions or DRA's position on future settlements. DRA supports this deviation only because of the artificially low interest rates due to the U.S. Federal Reserve Bank maintaining the Federal Funds rate between zero and 0.25 percent.

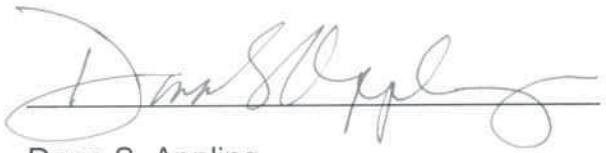
C. The Parties agree on the following procedure for implementing an decision approving this settlement:

1. Within five days of the effective date of decision approving this settlement, California American Water will file an advice letter to modify the applicable tariffs to collect and remit the User Fee, and to collect a surcharge in accordance with Paragraph IV.C.2.

2. On the effective date of a decision approving this settlement, California American Water will transfer the balance in the MPWMD User Fee Memorandum Account to a MPWMD User Fee Balancing Account, which will accrue interest at the rate specified in Paragraph IV.B. California American Water will collect a surcharge that will amortize the balance in the balancing account and the allowed interest between January 1, 2011 and December 31, 2011.

2. The Parties agree that the schedule attached hereto as Exhibit 2 represents a reasonable estimate of the surcharge based on the current balance in the User Fee Memorandum Account, the agreed interest rate, the potential date for a final decision, and the period for collecting the surcharge. The Parties further agree that the actual schedule submitted to the Commission with the advice letter required by paragraph IV.C.1 may vary based on the actual date of a final decision.

THE DIVISION OF RATEPAYER ADVOCATES



5/18, 2010

Dana S. Appling

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT

Darby W. Fuerst — May 13, 2010

Darby W. Fuerst

CALIFORNIA AMERICAN WATER COMPANY

_____ _____, 2010

David P. Stephenson

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT

Darby W. Fuerst — May 13, 2010

Darby W. Fuerst

CALIFORNIA AMERICAN WATER COMPANY

Robert G. MacLean — May 17, 2010

Robert G. MacLean

Attachment 1

MONTEREY PENINSULA
WATER MANAGEMENT DISTRICT

5 HARRIS COURT, BLDG. G
POST OFFICE BOX 85
MONTEREY, CA 93942-0085 • (831) 658-5600
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March 5, 2010

Timothy Miller Esq.
California-American Water Company
Suite 200
1045 B Street
Coronado, CA 92116

Glen Stransky
Hidden Hills Subunit Ratepayers Association
92 Saddle Road
Carmel Valley, CA 93924

Subject: Withdrawal of Hidden Hills Subunit Ratepayers Association's Motion to Intervene in California-American Water Company's Application before the California Public Utilities Commission (A.10-01-012)

Gentlemen:

This letter shall confirm the discussions and understanding reached during our telephone meeting held on March 4, 2010, by and among Tim Miller, Glen Stransky, David Laredo, and Darby Fuerst relative to the Hidden Hills Subunit Ratepayers Association's (HHSRA) motion to intervene in California-American Water Company's (Cal-Am) application to the California Public Utility Commission (CPUC) for an order authorizing the collection and remittance of the Monterey Peninsula Water Management District (MPWMD) user fee (A.10-01-012).

The participants agreed that Cal-Am's application does not modify the contract by which Cal-Am purchased the Hidden Hills Subunit from the Carmel Valley Mutual Water Company. The participants are in full agreement that the MPWMD user fee that is the subject of Cal-Am's application does not have any force of effect upon the HHSRA ratepayers.

The participants also agree that the MPWMD Board can only modify the user fee by first complying with the legal requirements set by Proposition 218. This process shall require the development of nexus data to support the assessment of a fee, notice to proposed fee payers, and a public hearing.

In reliance on these principles, HHSRA has agreed to withdraw its motion to intervene as a party to A.10-01-012. HHSRA shall not protest that application

Sincerely,

Darby Fuerst
General Manager

Cc: David Laredo, MPWMD General Counsel

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Attachment 2

CALIFORNIA AMERICAN WATER COMPANY
MONTEREY DISTRICT - MPWMD USER FEE MEMO ACCT RECOVERY
PROPOSED AMORTIZATION SCHEDULE

Proposed Interest Rate effective upon date decision is rendered	5.00%
Proposed Annual Recovery	2,333,397
Current Authorized Annual Revenue (1)	$42,731,888
Proposed % Surcharge	**5.46%**

chk
2011 Expected Recovery $2,333,397

[a]	[b]	[c]	[d]	[e]	[f]	[g]
Month	Monthly MPWMD User Fee Entry ($)	Surcharge Collection ($)	Cumulative Surcharge Collection ($) [b] + [c]	Interest Rate	This Month's Interest ($) ([c+b]/2 + [g]) x [e]/12	Cumulative Over/(Under) Collection ($) [b] + [c] + [f] + [g]
Jan-10						
February						
March						
April						
May						
June						
July						
August						
September						
October						
November						
December						(2,276,143) (2)
Jan-11		194,450	194,450	5.00%	(9,079)	(2,090,772)
February		194,450	388,900	5.00%	(8,306)	(1,904,629)
March		194,450	583,350	5.00%	(7,531)	(1,717,709)
April		194,450	777,800	5.00%	(6,752)	(1,530,011)
May		194,450	972,250	5.00%	(5,970)	(1,341,531)
June		194,450	1,166,700	5.00%	(5,185)	(1,152,266)
July		194,450	1,361,150	5.00%	(4,396)	(962,212)
August		194,450	1,555,600	5.00%	(3,604)	(771,366)
September		194,450	1,750,050	5.00%	(2,809)	(579,725)
October		194,450	1,944,500	5.00%	(2,010)	(387,285)
November		194,450	2,138,950	5.00%	(1,209)	(194,044)
December		194,447	2,333,397	5.00%	(403)	(0)
TOTAL	0	2,333,397	2,333,397		(57,254)	

(1) To be updated with the most current authorized annual revenue at the time the surcharge is implemented.
(2) To be updated to reflect final actual balance at the time the surcharge is implemented.