Decision **PROPOSED DECISION OF ALJ THORSON** **(Mailed 8/9/2004)**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of California Water Service Company (U 60 W) for an Order Authorizing it to Increase Rates for Water Service in its South San Francisco District.	Application 03-10-017 (Filed October 1, 2003)
Application of California Water Service Company (U 60 W) for an Order Authorizing it to Increase Rates for Water Service in its Stockton District.	Application 03-10-018 (Filed October 1, 2003)
Application of California Water Service Company (U 60 W) for an Order Authorizing it to Increase Rates for Water Service in its Mid-Peninsula District.	Application 03-10-019 (Filed October 1, 2003)
Application of California Water Service Company (U 60 W) for an Order Authorizing it to Increase Rates for Water Service in its Salinas District.	Application 03-10-020 (Filed October 1, 2003)
Application of California Water Service Company (U 60 W) for an Order Authorizing it to Increase Rates for Water Service in its Bakersfield District.	Application 03-10-021 (Filed October 1, 2003)
Application of California Water Service Company (U 60 W) for an Order Authorizing it to Increase Rates for Water Service in its Salinas District (excluding the service areas of the County Meadows Mutual Water System and the Indian Springs Mutual Water System).	Application 03-10-031 (Filed October 1, 2003)

Greg Bowling, Todd Alexander Pickles, Bingham McCutchen, LLP, Attorneys at Law, and Thomas F. Smegal, Manager of Rates, for California Water Service Company, applicant.
Natalie Wales, Attorney at Law, for Office of Ratepayer Advocates, protestant.

OPINION APPROVING SETTLEMENT

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OPINION APPROVING SETTLEMENT

I. Summary

The Commission approves a comprehensive settlement agreement entered into by California Water Service Company (CWS), the Office of Ratepayer Advocates (ORA), and all other parties covering all issues in CWS's general rate increase application for two districts: South San Francisco and Bakersfield.

Pursuant to this decision, CWS is authorized a general rate increase for test year (TY) 2004, 2005, and attrition years (AYs) 2006 and 2007 for these two districts in the amounts and percentages shown in Table 1. This table also shows the bill increases (in one instance, a decrease) based on average consumption in each district.

Table 1
Summary of Bill Increases & Revenue Requirement Increases

District/Year	Bill Increase (Average consumption)		Settlement/Adopted (Thousands of $)	
	$	%	$	%
South San Francisco:				
2004	-3.58	-12.01	-1,155.0	-9.98
2005	0.57	2.17	210.4	1.99
2006 AY	n/c	n/c	209.0	1.9
2007 AY	n/c	n/c	209.0	1.9
Bakersfield :				
2004	1.13	2.81	1,543.4	3.61
2005	1.59	3.85	1,598.7	3.57
2006 AY	n/c	n/c	1,385.6	3.0
2007 AY	n/c	n/c	1,385.6	2.9
n/c=Not calculated				

The agreed-upon rate of return is 8.6% for all years 2004 through 2007.

II. Background

This proceeding addresses CWS's general ratesetting requests as set forth in two applications filed with the Commission on October 1, 2003: (a) Application (A.) 03-10-017, South San Francisco District; and (b) A.03-10-032, Bakersfield District. Four other applications for other CWS districts were filed at the same time and initially consolidated with the South San Francisco and Bakersfield applications. Due to an agreement between CWS and the ORA, in order to level the number of pending general rate case proceedings, these four applications were subsequently dismissed in our Interim Decision, (D.) 04-05-060 (May 27, 2004).

The South San Francisco District, with approximately 16,050 connections (2004 est.), is located immediately south of San Francisco. South San Francisco's last general rate increase was authorized by D.01-08-039 in 2001. Advice Letter (AL) 1611 (effective Jan. 14, 2004) governs existing rates. The Bakersfield District, with approximately 60,600 connections (2004 est.), is 115 miles north of Los Angeles at the lower end of California's Central Valley. Bakersfield's last general rate increase also was authorized by D.01-08-039 in 2001. Here, AL 1610 (effective Jan. 14, 2004) governs existing rates.

III. Procedural History

By Resolution ALJ 176-3121 (October 16, 2003), the Commission preliminarily determined the South San Francisco and Bakersfield applications to be ratesetting proceedings. The Commission expected the proceedings to go to hearing. Only ORA protested the applications during the protest period.

A. Prehearing Conferences (PHCs)

Administrative Law Judge (ALJ) John E. Thorson conducted the initial PHC on December 3, 2003, with CWS and ORA counsel and representatives in

attendance. With no objection, the ALJ consolidated all separate applications into one proceeding. During the PHC, the issues raised in the applications and protests were identified, a schedule was discussed, and other issues relating to the proceeding were addressed. Assigned Commissioner Susan Kennedy's December 5, 2003, Scoping Ruling confirmed the categorization and need for hearing, defined the issues, established a schedule, and designated ALJ Thorson as the principal hearing officer and thus the presiding officer.

During the PHC, water quality issues and interim rate increase were also discussed. CWS's applications indicated possible exceedances in some wells of the state Department of Health Services' action level for 1,2,3 Trichloropropane (TCPA). An expedited evidentiary hearing was scheduled on this issue so that the Commission received more information before the Salinas, Mid-Peninsula, and Stockton applications were dismissed. The expedited evidentiary hearing on TCPA levels was held on February 10, 2004. Subsequently, we adopted Interim D.04-05-060 (May 28, 2004) making certain water quality determinations and approving the dismissal of the Salinas, Mid-Peninsula, and Stockton applications. We directed the assigned ALJ to hold an additional hearing to determine whether our findings and determinations in Interim D.04-05-060 constitute a violation of General Order (GO) 103 and, if so, whether sanctions should be imposed against CWS. The assigned ALJ has conducted that hearing and will submit his proposed decision to us separately.

B. Intervenors

The Utility Workers Union of America, AFL-CIO, make a defective effort to intervene in this proceeding. When contacted to correct the filing, the union representative indicated on April 15, 2004, that the union no longer wished to intervene. No other persons have sought to intervene in the proceeding.

C. Interim Rate Relief

CWS, as part of this ratemaking proceeding, filed a motion on February 2, 2004, requesting an interim rate increase for the South San Francisco and Bakersfield districts effective July 1, 2004. The motion was unopposed by ORA.

Section 455.2 of the Public Utilities Code, enacted in 2002, provides for an inflation-indexed interim rate increase in the event a water general rate case is not completed in the time contemplated by the Commission's water rate case plan. On two recent occasions, the Commission has issued interim decisions resolving the basic implementation questions resulting from the enactment of Section 455.2. *See In re California Water Service*, D.03-10-072 (Oct. 30, 2003); *In re San Jose Water Co.*, D.03-12-007 (Dec. 4, 2003).

The Assigned ALJ ruled on March 2, 2004, that this general ratemaking proceeding would not be completed within the time specified by the general rate case plan and that CWS was entitled to interim rate relief. Normally, the effective date for CWS's rate adjustment for these districts would be January 1, 2004. Because CWS filed late ratesetting applications, the presiding officer is empowered under Section 455.2(b) to set an effective date for the interim rate relief. CWS proposed July 1, 2004, and that recommendation was adopted by the ALJ. The interim increased is based on the rate of inflation as compared to existing rates for each of the districts (the rate of inflation to be calculated using the most recent Consumer Price Index maintained by the U.S. Department of Labor). Pursuant to the ALJ Ruling, CWS filed interim rate increase advice letters for both districts on July 21, 2004. In the future, however, the Commission will approve by decision such interim rate increases.

D. Public Comment

Afternoon and evening public participation hearings (PPHs) were held in Bakersfield on March 11, 2004. Accompanied by CWS and ORA personnel, the ALJ visited the Bakersfield new water treatment facility between the afternoon and evening sessions. A total of 23 people spoke at the Bakersfield hearings. Most of the comments concerned the magnitude of the requested rate increase and recent rate-shock due to increases resulting from a series of advice letter filing previously approved by the Commission. Many speakers indicated they and other customers were on fixed incomes and would be detrimentally affected by the proposed increases.

Speakers also spoke about their concerns for water quality (*e.g.*, sulfur smells), the relationship between groundwater quality and the new water treatment plant, water pressure, leaks and hydrant flushing, differences between flat- and metered-rate service, rate impacts on senior and low-income citizens, system expansion costs paid by developers, and pipe repairs and replacement.

At the Bakersfield PPH, the ALJ directed CWS to file a report on certain water leaks and how customers, especially Spanish-speaking ratepayers, are counseled concerning the relative advantages of flat-rate and metered-rate service. CWS complied with this ruling.

A PPH was held for the South San Francisco District in a Commission hearing room on the afternoon of March 24, 2004. No one sought to be heard, and the PPH was adjourned.

Additionally, a total of 50 letters or e-mails were sent to the Commission's Public Advisor about these applications. All of these communications concerned Bakersfield, and all of them opposed the Bakersfield application.

E. Settlement Discussions

On February 23, 2004, ORA served its reports relating to the two districts and notified CWS that a settlement conference would be held beginning March 12, 2004. CWS served its rebuttal testimony on March 8, 2004.

CWS and ORA held settlement conferences on March 12, 15, and 15, 2004. As a result of the extensive negotiations between the parties during four days of discussions, CWS and ORA reached a settlement as to all of the issues in this proceeding. On April 19, 2004, CWS and ORA filed the proposed settlement and a joint motion to approve the settlement. *See* Settlement (April 19, 2004), Attachment A.

On April 20, 2004, a hearing was held to present the settlement to the ALJ. The record was left open for the submission, by stipulation, of other exhibits. The record was closed and the matter was submitted on May 11, 2004.

IV. Settlement Criteria

With CWS and ORA in agreement, the settlement is properly characterized as an uncontested "all-party" settlement sponsored by all active parties. In such cases, the Commission applies two complementary standards to evaluate the proposed agreement. The first standard, set forth in Rule 51.1(e) and applicable to both contested and uncontested agreements, requires that the "settlement is reasonable in light of the whole record, consistent with law, and in the public interest." The second standard is articulated in *San Diego Gas & Electric*, 46 CPUC 2d 538 (1992), and applies to all-party settlements. As a precondition to approving such a settlement, the Commission must be satisfied that:

> The proposed all-party settlement commands the unanimous sponsorship of all active parties to the proceeding.

> The sponsoring parties are fairly representative of the affected interests.
>
> No settlement term contravenes statutory provisions or prior Commission decisions.
>
> Settlement documentation provides the Commission with sufficient information to permit it to discharge its future regulatory obligations with respect to the parties and their interests.

The applicant was represented by its officers and counsel in the proceeding. ORA, whose charge is to represent ratepayer interests, protested both applications. ORA prepared and served reports covering all aspects of CWS's results of operations, cost of capital, and general office for the various districts. ORA representatives attended several of the PPHs. ORA had counsel representing it through extensive negotiations and at the evidentiary hearing. ORA counsel and staff were also responsive to inquiries from individual ratepayers. The exhibits proffered by CWS and ORA all have been admitted into evidence. Thus, the sponsoring parties for the settlement are fairly representative of the affected interests, and they have been active advocates in this proceeding.

The proposed settlement sets forth the parties' initial positions and final agreement on major issues, supporting tables, and a joint comparison exhibit. Pub. Util. Code § 454 provides that no public utility shall change any rate except upon a showing before the Commission and a finding by the Commission that the new rate is justified. In their settlement documents and a joint comparison exhibit, the parties have explained their initial positions and what adjustments have been made to arrive at the summaries of earning and revenue requirements set forth in the settlement. The resulting rates will produce necessary and sufficient revenues for each of the test and attrition years. At the same time, the

settlement substantially tempers the large rate increases initially sought by CWS, which indicates that the settlement is responsive to public concerns stated at the PPHs. We find that the rates and the supporting revenue requirements are justified by the parties' showing and are in the interest of ratepayers and the public. Also, as indicated by the following discussion of major settlement provisions, the settlement documentation is sufficient for the Commission to discharge its future regulatory obligations with respect to the parties and their interest.

The proposed settlement satisfies the Commission's requirements for an all-party settlement under Rule 51 and the *San Diego Gas & Electric* decision. The settlement, as to each of the four districts, is reasonable in consideration of the whole record, consistent with the law, and in the public interest.

V. Settlement Overview

The parties' proposed settlement is set forth in Attachment A to this decision. This document, as well as the Joint Comparison Exhibit, Hearing Exhibit No. 66, sets forth the original areas of major disagreement and the resolution of these issues. In reviewing the settlement of these major issues, we organize our discussion according to the three major components of cost-based ratemaking: net operating income, rate base, and rate of return.

A. Net Operating Income

Net operating income is gross operating revenue less operating and maintenance expenses, depreciation, income taxes, and other operating taxes. For each of the districts, the parties agreed on the net operating income for TYs 2004 and 2005, as set forth in Table 2. More detailed information is provided in Attachment C: Appendix A (Summary of Earnings & Rates of Return). The following were the disputed major issues in calculating net operating income.

Table 2
Settlement Provisions for Net Operating Income
(Thousands of $)

District/TY	ORA	Settlement	CWS
South San Francisco:			
2004	1,341.4	1,404.5	1,655.8
2005	1,445.9	1,521.3	1,795.7
Bakersfield:			
2004	8,465.1	9,184.0	10,266.4
2005	8,932.3	9,684.2	10,676.8

1. Water Sales

CWS and ORA both used multiple regression methodology to forecast water sales. They differed on how to account for water sales during the drought years of the late 1980s to early 1990s. After referring to the "reality check" procedure set forth in the Commission's Standard Practice U-25, the parties reached agreement on residential and business water sales during their settlement discussions. *See* Attachment C: Appendices B & C (Adopted Quantities).

2. Operating, Maintenance, Administrative & General Expenses

The parties had relatively few disagreements about district expenses. After reviewing additional company information, ORA agreed to include payments under the Kern Delta water agreement as an allowable Bakersfield expense. This contract calls for CWS to reimburse the Kern Delta Water District for groundwater that is made available through seepage from the district's surface canals. The parties also agreed to allow sludge disposal expenses from the Bakersfield water treatment plant. The parties also resolved their disagreements about the cost-effectiveness of CWS' water conservation

programs. Toilet rebate programs are cost-beneficial and will be continued in both districts. Educational programs will be continued although their cost-effectiveness is difficult to ascertain. The South San Francisco District washing machine rebate program is not cost-beneficial and will be discontinued.

Finally, the parties agreed to use ORA's franchise tax calculation for Bakersfield. In the future, CWS will use ORA's methodology to conform to general industry practice.

3. General Office Expenses

The Commission's recent decision (D.03-09-021) addressed CWS's general office expenses and related issues. In this settlement, the parties agreed on how to determine and assign employee health care expenses, which are paid centrally by the general office. CWS desired to increase its estimate of health care expenses from 10.415% to 11.144% of projected payroll. The parties agreed to use a four-year average (2000-2003) of 10.81% for both test years, resulting in a company-wide health care estimates of $5,634,650 (2004) and $5,936,840 (2005). Under the previously determined allocation formula, 13.44% of the total health care expenses is assigned to Bakersfield and 3.33% to South San Francisco.

B. Rate Base

1. Plant Additions (2003)

The parties stipulated to end-of-year (2003) plant balances of $35,938,100 for South San Francisco and $175,645,400 for Bakersfield. The parties also stipulated to end-of-year (2003) balances of contributed and advanced plant of $9,708.000 for South San Francisco and $30,113,700 for Bakersfield.

2. Water Main Expenditures (2004 and 2005)

CWS had initially offered a generic projection of needed water main-related capital expenditures. After CWS provided ORA additional

information, the parties agreed on a more specific main-related capital budget for TYs 2004 and 2005. As a result, capital improvements of $72,954 (2004) and $74,121 (2005) have been agreed upon for South San Francisco. The amounts of $162,921 (2004) and $165,527 (2005) have been agreed upon for Bakersfield. This money will be used for mains with severe leaks and broken values, as well as main improvements related to street resurfacing projects.

3. Additional Plant Expenditures (2004 and 2005)

The parties stipulated that CWS had not spent its entire 2003 capital budget in either district. The amount of unspent capital funds was $957,101 in South San Francisco and $4,488,234 in Bakersfield. Because of important capital improvement needs for water supply and quality purposes, the parties agreed that CWS would be allowed an additional $887,500 in each TY 2004 and 2005 for critical capital projects in fast-growing Bakersfield. The parties also agreed that CWS would be allowed an additional $118,800 for 2004 for similar projects in South San Francisco.

4. Bakersfield North Garden Project

The North Garden area of the Bakersfield District, located in the northwestern part of the metropolitan area, has relatively poor and declining water quality; and future compliance with state water quality standards will be difficult. Some residents in this area receive their water from the City of Bakersfield. CWS has explored a range of capital improvement options, including the possibility of enlarging CWS's new water treatment facility in northeastern Bakersfield, construction of a new micro-filtration membrane plant, participating in the expansion of Kern County Water Agency's treatment facility, or the construction of new production wells.

While ORA agrees with the need for improvement measures, it argues that the comparative costs and benefits of these proposals are not yet known. The parties, therefore, agreed that CWS may open a memorandum account to record the costs associated with the resulting project. The recorded costs will be limited to the interest expense of CWS's anticipated $4.2 million investment. The interest booked during construction will be subject to a prudence review by the Commission during CWS's next general rate case for the Bakersfield District. By authorizing the establishment of a memorandum account for this purpose, the Commission does not waive any other construction-related obligations, including California Environmental Quality Act (CEQA) review, that may be required by law.

C. Rate of Return

In its applications, CWS asked for rates of return of 9.54% (2004), 9.52% (2005), 9.52% (2006), and 9.54% (2007) for both districts. After adjustment, ORA recommended rates of 8.60% for both TYs 2004 and 2005. The parties agreed on 8.60% for all years 2004 through 2007. The parties' agreed rate of return is reasonable based on recent Commission experience.

D. Revenue Requirement

Table 3 compares applicant's and ORA's initial positions on revenue requirement increases for TYs 2004 and 2005 and AYs 2006 and 2007 with what they propose in the settlements.

Table 3
Revenue Requirement Increases
($ thousands)

District/Year	Utility Requested		Settlement/ Adopted		ORA Recommended	
	$	%	$	%	$	%
South San Francisco:						
2004	1,084.7	10.83	-1,155.0	-9.98	-1,424.2	-12.23
2005	200.7	1.78	210.4	1.99	120.9	1.16
2006 AY	176.8	1.5	209.0	1.9	n/c	n/c
2007 AY	176.8	1.5	209.0	1.9	n/c	n/c
Bakersfield :						
2004	8,569.5	21.78	1,543.4	3.61	202.9	0.47
2005	1,176.6	2.43	1,598.7	3.57	1,415.1	3.24
2006 AY	1,279.9	2.6	1,385.6	3.0	n/c	n/c
2007 AY	1,279.9	2.5	1,385.6	2.9	n/c	n/c
AY=Attrition year; n/c=Not calculated						

Applicant and ORA propose that the Commission adopt their agreement on each of the district's revenue requirements based on the calculations set forth in their Joint Comparison Exhibit, Hearing Exhibit No. 66: Tables A-1 to A-5. *See also* Attachment C: Appendix A (Summary of Earnings & Rates of Return).

E. Attrition

The parties agreed that the Commission should authorize step and attrition increases for the four districts in this proceeding using a "recorded earnings" methodology set forth in paragraph 2.5 of their Settlement, Attachment A. The parties agreed that the Commission should make these attrition adjustments based on recorded earnings for the latest 12-month period ending September 30th of each year. The recorded earnings test will be adjusted

to exclude expenses subject to balancing or memorandum account recovery; and the sales and sales-related expenses in the recorded earnings test will be adjusted to exclude revenues credited to any balancing and memorandum accounts. A table of weather coefficients, used in the attrition calculations, is set forth as Attachment B: Table F.

The parties further agreed that, in accordance with Commission policy, should CWS's earnings, based on the "recorded earnings" methodology, exceed its authorized return, the requested step or attrition increase will be reduced to offset the earnings in excess of CWS's authorized return in this proceeding or in any other future CWS proceeding, whichever is lower.

VI. Comments on Proposed Decision

On August 9, 2004, the principal hearing officer's proposed decision addressing the proposed settlement was filed with the Commission and served on the parties in accordance with Section 311(d) of the Public Utilities Code and Rule 77.1 of the Rules of Practice and Procedure. No comments were filed on the proposed decision.

VII. Assignment of Proceeding

Susan P. Kennedy is the Assigned Commissioner. John E. Thorson is the assigned ALJ and principal hearing officer in this proceeding.

Findings of Fact

1. CWS has entered into a settlement with ORA for the company's applications for the South San Francisco and Bakersfield districts. The settlement resolves every issue between the applicant and ORA in this proceeding.

2. The proposed settlement is supported by all of the active parties eligible to participate in this proceeding.

3. The active parties are fairly reflective of the affected interests in this proceeding.

4. No term of the proposed settlement contravenes statutory provisions or prior Commission decisions.

5. The settlement conveys sufficient information to permit the Commission to discharge its future regulatory obligations with respect to the parties and their interests.

6. No party opposes approving the proposed settlement.

7. The summaries of earnings presented in Attachment C: Appendix A; the quantities and calculations presented in Attachment C: Appendices B & C, all based on the parties' settlement, are reasonable, justified, and sufficient for ratemaking purposes.

8. At the time of the evidence presented to the Commission, CWS's service in the South San Francisco and Bakersfield districts met all applicable federal and state water quality standards and the provisions of GO 103, except as indicated as follows. CWS's possible violation of the GO 103, based on a violation of the reporting requirements of state law, is still before the Commission as the result of D.04-05-060 (May 27, 2004).

Conclusions of Law

1. The proposed settlement is an uncontested agreement as defined in Rule 51(f) and an all-party settlement under *San Diego Gas & Electric*, 46 CPUC 2d 538 (1992). The proposed settlement satisfies the requirements of Rule 51(f) and *San Diego Gas & Electric*.

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

3. The proposed settlement should be adopted.

4. The revised rates, step increases, and tariff rule revisions set forth in Attachment C: Appendix D, based on the parties' settlement, are justified.

5. This decision should be made effective immediately to enable applicant to implement the settlement without delay.

6. CWS's service in South San Francisco and Bakersfield districts, at the time of the evidence presented to the Commission, complied with all applicable federal and state water quality standards. Except to the extent set forth in D.04-05-060 (May 27, 2004), CWS complied with the provisions of GO 103 as they pertain to these two districts.

O R D E R

IT IS ORDERED that:

1. The joint Motion for Adoption of Settlement between California Water Service Company (CWS) and the Office of Ratepayer Advocates (ORA) is granted. The settlement (set forth in Attachments A and B) is adopted.

2. CWS is authorized to file in accordance with General Order (GO) 96-A, and to make effective, on not less than five days' notice, tariffs containing the Test Year (TY) 2004 increases for its districts as provided in the attachments to this decision. The revised rates shall apply to service rendered on and after the tariff's effective date.

3. Subject to pro forma tests after the 2004 increases are effective, CWS also is authorized to file in accordance with GO 96-A, and to make effective, on not less than five days' notice, tariffs containing the TY 2005 increases for its districts as provided in this decision and the attachments to this decision. The revised rates shall apply to service rendered on and after the tariff's effective date.

4. Advice letters for authorized rate increases for 2006 and 2007 may be filed in accordance with GO 96-A no earlier than November 1st of the preceding year. The filing shall include appropriate work papers. The increase shall be the amount authorized herein, or a proportionate lesser increase if CWS's rate of return on rate base, adjusted to reflect rates then in effect, normal ratemaking adjustments, and the adopted change to this pro forma test, for the twelve months ending September 30th of the preceding year, exceeds 8.6%. The advice letters shall be reviewed by the Commission's Water Division for conformity with this decision including the applicable provisions of the settlement (Attachment A), and the Joint Comparison Exhibit (Hearing Exhibit No. 66), and shall go into effect upon the Water Division's determination of compliance, not earlier than January 1st of the year for which the increase is authorized, or 30 days after filing, whichever is later. The tariffs shall be applicable to service rendered on or after the effective date.

5. CWS is authorized to file advice letters to recover or refund the difference between the interim rates allowed by the Administrative Law Judge Ruling on California Water Service Company's Motion for Intern Rate Increase (March 2, 2004) and those authorized in this decision over no less than one year. The advice letter filings shall include all supporting data and calculations. The Water Division shall inform the Commission if it finds the proposed increase does not comply with this decision or other Commission requirements.

6. CWS is authorized to establish a memorandum account to track expenses associated with the North Garden Water Supply Enhancement Project as described in the settlement. CWS will have the opportunity to recover the amounts recorded in the memorandum account during the next general rate case filing for CWS's Bakersfield District.

7. This proceeding remains open.

This order is effective today.

Dated _____, at San Francisco, California.

LIST OF ATTACHMENTS

A—Settlement (April 19, 2004)
B—Revised Tables to Settlement (Ex. No. 66, May 11, 2004) (Selected Table)
Table F—Weather Adjustment Coefficients for Attritions Earnings Test
C—Ratesetting Appendices
Appendix A: Summary of Earnings and Rates of Return
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Bakersfield District
Appendix B: South San Francisco District
Adopted Quantities (Water Demand)
Adopted Rate Base
Income Tax Calculation
Adopted Quantities (Purchased Power & Water)
Appendix C: Bakersfield District
Adopted Quantities (Water Demand)
Adopted Rate Base
Income Tax Calculation
Adopted Quantities (Purchased Power & Water)
Appendix D: Tariffs
South San Francisco District
Bakersfield District
Appendix E: Bill Comparisons (Present v. Adopted)
South San Francisco District
Bakersfield District

ATTACHMENT A
SETTLEMENT
April 19, 2004

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of California Water Service Company (U 60 W) for an Order Authorizing it to increase Rates for Water Service in its Bakersfield District.	Application 03-10-017 (Filed October 1, 2003)
Application of California Water Service Company (U 60 W) for an Order Authorizing it to Increase Rates for Water Service in its South San Francisco District.	Application 03-10-021 (Filed October 1, 2003)

SETTLEMENT

1.00 GENERAL

1.01 The Parties to this Settlement before the California Public Utilities Commission ("Commission") are California Water Service Company ("Cal Water") and the Office of Ratepayer Advocates ("ORA") -- collectively, "the Parties." The Parties, desiring to avoid the expense and inconvenience attendant to the litigation before the Commission have agreed on this Settlement which they now submit for adoption.

1.02 Because this Settlement represents a compromise by them, the Parties have entered into the Settlement 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 or law in dispute in this proceeding. Furthermore, the Parties intend that the

approval of this Settlement by the Commission not be construed as a precedent or statement of policy of any kind except as it relates to the current and future proceedings addressed in the Settlement.

2.0 SETTLEMENT TERMS

2.1 Rate Base

2.11 2003 Plant Additions

Parties agree that using the most updated data for plant additions through the end of the last recorded year is appropriate. Therefore, Cal Water and ORA agree to use $175,645,400 for the ending balance of plant in 2003 in Bakersfield and to use $30,113,700 for the ending balance of contributed and advanced plant in 2003 in Bakersfield. In South San Francisco, the parties agree to the recorded end-of-year plant in service of $35,938,100 and the recorded end-of-year contributed and advanced plant of $9,708,000.

2.12 Non-Specifics

ORA originally recommended against the Commission allowing non-specific mains budgets in Bakersfield and South San Francisco. Cal Water provided additional information in settlement discussion about the need for such a budget category, including projects related to street resurfacing projects, broken valves, and severely leaking mains. Further, ORA reviewed the expenditures in this category in 2003 and developed a revised ten-year average using the same methodology as Cal Water had proposed in its Application. The parties agree to the use of these new figures, which are projected capital improvements of

$162,921 in 2004 and $165, 527 in 2005 in Bakersfield, and proposed capital improvements of $72,954 in 2004 and $74,121 in South San Francisco.

Both parties agree to ORA's recommendation on the non-specific land category. Cal Water reviewed its recorded expenses in this category and agreed they were intermittent in Bakersfield and therefore inappropriate for averaging.

2.13 2004 and 2005 plant additions

After reviewing the data on 2003 capital investment described above, ORA and Cal Water agreed that the amount of remaining 2003 budget that was not spent in 2003 is $4,488,234 in Bakersfield and $957,101 in South San Francisco. Furthermore, after reviewing the deferred projects, ORA and Cal Water agree that some projects are critical for water quality and water supply and should be completed in addition to the approved 2004 and 2005 budgets. Therefore the parties agree that Cal Water should be allowed an additional $887,500 in each of TY 2004 and TY 2005 for critical projects in Bakersfield and an additional $118,800 in 2004 in South San Francisco.

2.14 Bakersfield North Garden Project

ORA reviewed the report provided with Cal Water's rebuttal testimony on the North Garden water supply project. ORA agreed with Cal Water's position that some water supply project needs to be constructed to provide continued reliable service to this currently isolated area. Cal Water's draft study indicated the possibility of expanding existing surface water treatment facilities owned by Cal Water, building a new surface water treatment facility in cooperation with the

City of Bakersfield, or purchasing water from an expanded treatment facility owned by Kern County Water Agency. However, due to the uncertainty over which alternative will provide the most benefit to North Garden customers at the lowest cost, ORA did not approve of adding this project to the approved capital budget for 2004 and 2005. Cal Water had requested $2.1 million in each year's capital budget. As an alternative, since there is agreement in principal that a project must be initiated within the rate case cycle, ORA proposes that the Commission allow Cal Water to open a memorandum account to track the costs associated with this project. Because Cal Water would be capitalizing the project, the entries in the memorandum account would be limited to interest during construction (IDC) on the capital investment entered. No recovery would be authorized for IDC on capital investment over $4.2 million, the amount proposed in the Application. Cal Water would file a detailed summary of the entries in the memorandum account and request recovery with its next Bakersfield rate case. Cal Water understands that both the capital investment booked in CWIP, which is limited to $4.2 million, and the IDC booked in this memorandum account are subject to prudence review in its next rate case. Cal Water agrees to this approach.

2.2 Expenses

2.21 Kern Delta water agreement

ORA reviewed the additional information provided with Cal Water's rebuttal and agreed this item was overlooked in its report. Cal Water and ORA agree to include $250,000 in 2004 and 2005 for this expense.

2.22 Sludge disposal

ORA reviewed the additional information provided with Cal Water's rebuttal, as well as the information provided in response to earlier data requests. ORA agrees to allow Cal Water's requested amount for sludge disposal, $60,000 in each test year.

2.23 Conservation

Cal Water and ORA originally disagreed about public information and school education programs, toilet rebates in Bakersfield, and high-efficiency washing machine rebates in South San Francisco. After reviewing Cal Water's rebuttal testimony, ORA agrees that public information and education should be allowed without a strict cost-benefit analysis. ORA reviewed the cost-effectiveness calculation for toilet rebates in Bakersfield and agreed that after correcting an error, the program is cost effective. Cal Water agrees that the washing machine rebate program in South San Francisco is not cost-effective even at the lower rebate threshold under ORA's cost effectiveness guidelines.

2.24 Postage

Cal Water agrees to ORA's position for postage.

2.25 General Office health care expenses

In its previous filings before the Commission, and in this filing, Cal Water estimated its employee health insurance costs as a percentage of recorded gross payroll for the recorded years, then estimated test year health care expenses using that data and a projected total company payroll. All health care expenses for the districts are paid centrally in the general office. In previous filings, Cal Water has estimated the test year health care expense/ payroll ratio using an average of the last five recorded years (That value would be 10.415% in this case).

However, in this filing, Cal Water expressed in its testimony that the prior estimating method was not accurately predicting test year health care expenses. Therefore, Cal Water proposed using the last recorded year ratio or 11.144%. In settlement, ORA and Cal Water reviewed the 2003 recorded figure and agreed to use a four year average from 2000-2003 of 10.81% of payroll for both test years. The resulting values applied to general office are $5,634,650 for 2004 and 5,936,840 for 2005. Bakersfield and South San Francisco allocations of these figures are 13.28% and 3.33%, respectively.

2.3 Taxes

2.31 Franchise tax calculations

Cal Water agrees to use ORA's franchise tax calculation in Bakersfield. There is an inconsistency in the methods Cal Water and ORA use to determine franchise tax rates. In future rate cases, Cal Water will use ORA's method to conform to general industry practice.

2.4 Water Sales

Cal Water and ORA used multiple regression modeling based upon the modified bean method to determine water sales in their respective reports. Differences arise in the treatment of data during the "drought period" in the late 1980's and early 1990's. ORA's approach used a dummy variable to correct for the drought effect. Cal Water's approach eliminated years in which a drought effect was noted. Both analyses had good statistical bases, and the parties agreed there was merit in both positions. Much of the discussion in the settlement conferences

centered on the "reality check" called for in step 7 of the Commission's standard practice U-25.

2.41 Residential use per customer in SSF

Both Cal Water and ORA had statistically significant model outputs for the South San Francisco residential class use per customer. The parties reviewed the results in comparison to recent recorded values, including 2003 data that was not available until settlement. The parties agreed to use Cal Water's 2005 estimate of 120.1 ccf per customer per year as the settled estimate for both 2004 and 2005.

2.42 Residential use per customer in BK

Both Cal Water and ORA had statistically significant model outputs for the Bakersfield residential class use per customer. The parties reviewed the recent sales data in this category and determined that a three-year average of recorded sales per customer, 336.3 ccf per year, would best predict future water sales in this category.

2.43 Business use per customer in BK

Both Cal Water and ORA had statistically significant model outputs for the Bakersfield business class use per customer. As a means of settling this issue, the parties agreed to use the average of the results of their two models, 900.7 ccf per year.

2.5 Attrition earnings test

2.51 ORA originally proposed an attrition earnings test mechanism using the existing 1985 procedure, but with a modification to use recorded water sales in all classes. The existing 1985 procedure, uses adopted sales with a weather adjustment. During settlement, the parties agreed to use the method adopted in

their joint recommendations in D.03-09-021 (Paragraph 5.06 of the joint recommendations). Thus, the parties agree the Commission should authorize step and attrition increases for Cal Water's districts in this proceeding based on recorded earnings for the latest 12 months ending September 30 each year. Additionally, the recorded earnings test should be adjusted to exclude expenses subject to balancing or memorandum account recovery. Moreover, the sales and sales related expenses in the recorded earnings test should be adjusted to exclude revenues credited to balancing and memorandum accounts. The table of weather coefficients is attached. In accordance with the Commission's policy for approving step and attrition increases, should Cal Water's earnings, based on the recorded test above, exceed its authorized return, the requested step or attrition increase should be reduced to offset the earnings in excess of its authorized return in this proceeding or in any other future Cal Water proceeding, whichever is lower.

3.0 EXECUTION OF THE AGREEMENT

3.1 The Parties agree, without further consideration, to execute and/or cause to be executed, any other documents and to take any other action as may be necessary, to effectively consummate this Settlement Agreement. The Parties shall take no action in opposition to this Settlement.

3.2 The Parties agree that no signatory to this Settlement or any member of ORA assumes any personal liability as a result of their agreement. The Parties agree that no legal action may be brought by any Party in any state or federal court, or any other forum, against any individual signatory representing the interests of ORA, attorneys representing ORA, or the ORA itself related to this

Settlement. All rights and remedies of the Parities are limited to those available before the Commission.

3.3 This Settlement Agreement may be executed in any number of counterparts and by different Parties in separate counterparts, with the same effect as if all the Parties had signed one and the same document. All such counterparts shall be deemed to be an original and shall together constitute one and the same Agreement.

3.4 The undersigned acknowledge that they have been duly authorized to execute this Agreement on behalf of their respective principals and that such execution is made within the course and scope of their respective agency and/or employment.

4.0 GOVERNING LAW

4.1 The Parties acknowledge that unless expressly and specifically stated otherwise herein, the California Public Utilities Code, Commission regulations, orders, rulings, and/or decisions shall govern the interpretation and enforcement of this Agreement.

5.0 VERIFICATION

5.1 The signatories to this Settlement personally and independently verify that all elements of it are true, correct, complete, and internally consistent.

OFFICE OF RATEPAYER ADVOCATES

CALIFORNIA WATER SERVICE COMPANY

By: _____

By: _____

Ting-Pong Yuen
California Public Utilities Commission
505 Van Ness Avenue
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April 19, 2004

(END OF ATTACHMENT A)

ATTACHMENT B
JOINT COMPARISON EXHIBIT (EX. No. 66)
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Table F – Weather Adjustment Coefficients for Attrition Earnings Test

	Normal Weather Values		**Coefficients**	
	Temperature	**Rainfall**	**Temperature**	**Rainfall**
Bakersfield	65.4 degrees	6.47 inches		
Residential			3.72	-4.26
Business			7.88	-5.36
Multi Family			23.07	-24.35
Public Authority			100.19	-52.74
South San Francisco	57.6 degrees	15.96 inches		
Residential			1.31	-0.61
Business			2.13	-0.94
Multi Family			none	-9.2
Public Authority			none	-0.98

(END OF ATTACHMENT B)

ATTACHMENT C
RATESETTING APPENDICES

APPENDIX A
Summary of Earnings and Rates of Return
Page 1 of 2

SOUTH SAN FRANCISCO

SUMMARY OF EARNINGS AND RATES OF RETURN

YEARS 2004 THROUGH 2005

	PRESENT RATES		AT AUTHORIZED RATE OF RETURN	
	2004	2005	2004	2005
OPERATING REVENUES	$11,568.6	$11,760.9	$10,389.0	$10,774.0
OPERATING EXPENSES				
PURCHASED WATER	4,605.9	4,709.1	4,605.9	4,709.1
REPLENISHMENT ASSESSMENT	0.0	0.0	0.0	0.0
GROUNDWATER EXTRACTION CHARGE	0.0	0.0	0.0	0.0
PURCHASED POWER	263.0	268.5	263.0	268.5
PURCHASED CHEMICALS	15.3	15.7	15.3	15.7
PAYROLL -- DISTRICT	736.2	750.9	736.2	750.9
OTHER OPERATION AND MAINTENANCE	560.7	573.0	559.7	572.1
OTHER ADMIN AND GEN. EXP.	8.9	9.7	8.9	9.7
TOTAL O. & M., A. & G., & MISC. EXP.	6,190.0	6,326.8	6,189.0	6,325.9
TAXES OTHER THAN INCOME				
AD VALOREM TAXES	124.0	129.9	124.0	129.9
LOCAL FRANCHISE TAXES & BUS. LICENSE	2.1	2.1	2.1	2.1
PAYROLL TAXES	54.0	55.1	54.0	55.1
TOTAL GENERAL TAXES	180.1	187.1	180.1	187.1
DEPRECIATION	835.1	814.1	835.1	814.1
G.O. PRORATED EXPENSES:				
PAYROLL AND BENEFITS	867.3	899.1	867.3	899.1
AD VALOREM TAXES	9.9	9.9	9.9	9.9
PAYROLL TAXES	32.8	32.8	32.8	32.8
OTHER PRORATED EXPENSES	353.3	356.9	353.3	356.9
TOTAL G.O. PRORATED EXPENSES	1,263.3	1,298.7	1,263.3	1,298.7
S U B -- T O T A L -- OPERATING EXPENSES	8,468.5	8,626.7	8,467.5	8,625.8
TOTAL INCOME TAXES:	1,033.7	1,022.6	517.1	626.7
TOTAL OPERATING EXPENSES	9,502.2	9,649.3	8,984.6	9,252.5
NET OPERATING REVENUE	2,066.4	2,111.6	1,404.4	1,521.5
DEPRECIATED RATE BASE	16,323.0	17,683.9	16,323.0	17,683.9
RATE OF RETURN	12.66%	11.94%	8.60%	8.60%

ATTACHMENT C
RATESETTING APPENDICES

APPENDIX A
Summary of Earnings and Rates of Return
Page 2 of 2

California Water Service Company

BAKERSFIELD DISTRICT

SUMMARY OF EARNINGS AND RATES OF RETURN

YEARS 2004 THROUGH 2005

	PRESENT RATES		AT AUTHORIZED RATE OF RETURN	
	2004	2005	2004	2005
OPERATING REVENUES	$42,753.5	$43,185.4	$44,244.2	$46,293.3
OPERATING EXPENSES				
PURCHASED WATER	3,853.3	3,974.0	3,853.3	3,974.0
GROUNDWATER EXTRACTION CHARGES	0.0	0.0	0.0	0.0
REPLENISHMENT ASSESSMENT	1,599.1	1,631.1	1,599.1	1,631.1
PURCHASED POWER	6,693.7	6,799.9	6,693.7	6,799.9
PURCHASED CHEMICALS	575.0	579.0	575.0	579.0
PAYROLL -- DISTRICT	4,057.5	4,299.2	4,057.5	4,299.2
OTHER OPERATION AND MAINTENANCE	2,740.8	2,804.0	2,747.9	2,818.9
OTHER ADMIN AND GEN. EXP.	93.3	96.5	93.3	96.5
TOTAL O. & M., A. & G., & MISC. EXP.	19,612.8	20,183.7	19,619.9	20,198.6
TAXES OTHER THAN INCOME				
AD VALOREM TAXES	1,173.7	1,319.9	1,173.7	1,319.9
LOCAL FRANCHISE TAXES & BUS. LICENSE	603.8	609.9	624.8	653.8
PAYROLL TAXES	416.1	440.9	416.1	440.9
TOTAL GENERAL TAXES	2,193.6	2,370.7	2,214.6	2,414.6
DEPRECIATION	4,350.2	4,773.1	4,350.2	4,773.1
G.O. PRORATED EXPENSES:				
PAYROLL AND BENEFITS	3,500.4	3,628.8	3,500.4	3,628.8
AD VALOREM TAXES	40.1	40.1	40.1	40.1
PAYROLL TAXES	132.3	132.3	132.3	132.3
OTHER PRORATED EXPENSES	1,426.3	1,440.8	1,426.3	1,440.8
TOTAL G.O. PRORATED EXPENSES	5,099.1	5,242.0	5,099.1	5,242.0
SUB -- TOTAL -- OPERATING EXPENSES	31,255.7	32,569.5	31,283.8	32,628.3
TOTAL INCOME TAXES:	3,135.1	2,689.9	3,776.2	3,981.4
TOTAL OPERATING EXPENSES	34,390.8	35,259.4	35,060.0	36,609.7
NET OPERATING REVENUE	8,362.7	7,926.0	9,184.2	9,683.6
DEPRECIATED RATE BASE	106,742.7	112,547.8	106,742.7	112,547.8
RATE OF RETURN				
YEAR	7.83%	7.04%	8.60%	8.60%

(END OF APPENDIX A)

ATTACHMENT C
RATESETTING APPENDICES

APPENDIX B
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California Water Service Company
South San Francisco District

Adopted Quantities

Number of Services by meter size:	2004	2005
5/8 x 3/4	13,738	13,805
3/4	-	-
1	1,290	1,299
1 1/2	363	365
2	516	519
3	96	97
4	45	46
6	9	9
8	1	1
10	-	-
TOTAL	16,059	16,142

Metered Sales, KCcf		
Potable	4,325.7	4,415.7

Number of Services and Use:

	Avg Services		Use, KCcf		Avg Use, Ccf/Sv/Mo	
	2004	2005	2004	2005	2004	2005
Residential	13,684	13,745	1,643.4	1,651.2	10.0	10.0
Business	1,911	1,934	1,861.2	1,925.1	81.2	83.0
Multi-family	151	151	209.8	212.1	115.8	117.1
Industrial	71	70	302.0	302.0	354.5	359.6
Public Authority	218	218	277.1	290.4	105.9	111.0
Other	24	24	32.2	34.9	111.8	121.1
Sub-Total	16,059	16,142	4,325.7	4,415.7		
Private Fire Prot.	539	552				
Public Fire Prot.	17	17				
TOTAL	16,615	16,711	4,325.7	4,415.7		
Losses, 4.13%			186.5	190.3		
Total Production			4,512.2	4,605.9		

ATTACHMENT C
RATESETTING APPENDICES

APPENDIX B
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CALIFORNIA WATER SERVICE CO.
SOUTH SAN FRANCISCO

ADOPTED RATE BASE
(DOLLARS IN THOUSANDS)

	2004	2005
RATE BASE		
WTD. AVG. PLANT IN SERVICE	36453.2	39027.5
MATERIALS AND SUPPLIES	169.1	169.1
WORKING CASH - LEAD - LAG	321.6	328.8
WORKING CASH - W / H EMPLOYEES	-2.1	-2.1
WTD. AVG. DEPRECIATION RESERVE	-10157.3	-11065.9
ADVANCES FOR CONSTRUCTION	-4691.8	-5043.1
CONTRIBUTIONS	-5097.9	-5038.7
AMORTIZATION OF INTANG.	-13.9	-18.8
DEFERRED TAXES	-2066.9	-2144.5
UNAMORT. I.T.C.	-81.6	-78.5
PRORATED G.O. RATE BASE	731.3	812.2
TAXES ON ADVANCES	405.5	409.6
TAXES ON C.I.A.C.	353.9	328.3
WTG. AVG. RATE BASE	16323.1	17683.9

ATTACHMENT C
RATESETTING APPENDICES

APPENDIX B
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CALIFORNIA WATER SERVICE CO.
SOUTH SAN FRANCISCO

INCOME TAX CALCULATION
(DOLLARS IN THOUSANDS)

	2004	2005
OPERATING REVENUE (PRESENT RATES)	11,568.6	11,760.9
EXPENSES		
PURCHASED WATER	4,605.9	4,709.1
PURCHASED POWER	263.0	268.5
PUMP TAXES	0.0	0.0
CHEMICALS	15.3	15.7
PAYROLL	736.2	750.9
OTHER O & M	550.8	562.9
OTHER A & G	8.9	9.7
G.O. PRORATIONS	1,263.3	1,298.7
PAYROLL TAXES	54.0	55.1
AD VALOREM TAXES	124.0	129.9
UNCOLLECTIBLES	9.9	10.1
FRANCHISE TAX & BUS LIC. FEES	2.1	2.1
TRANSPORTATION DEPRECIATION ADJUSTMENT	-26.7	-23.8
INTEREST EXPENSE	551.1	606.3
TOTAL DEDUCTIONS	8,157.8	8,395.1
STATE INCOME TAX		
STATE TAX DEPRECIATION	1,210.0	1,243.7
NET STATE TAXIBLE INCOME	2,200.8	2,122.1
STATE CORP. FRANCHISE TAX @ 8.84%	194.5	187.6
FEDERAL INCOME TAX		
FEDERAL TAX DEPRECIATION	816.3	783.4
STATE INCOME TAX	194.5	194.5
LESS PREFERRED STOCK DIVIDEND	2.3	2.3
NET FEDERAL TAXIBLE INCOME	2,397.7	2,385.6
FEDERAL INCOME TAX @ 35.00%	839.2	835.0
INVESTMENT TAX CREDIT	0.0	0.0
TOTAL FEDERAL INCOME TAX	839.2	835.0
TOTAL INCOME TAXES	**1,033.7**	**1,022.6**

ATTACHMENT C
RATESETTING APPENDICES

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CALIFORNIA WATER SERVICE CO.
SOUTH SAN FRANCISCO

INCOME TAX CALCULATION
(DOLLARS IN THOUSANDS)

	2004	2005
OPERATING REVENUE (PROPOSED RATES)	10,389.0	10,774.0
EXPENSES		
PURCHASED WATER	4,605.9	4,709.1
PURCHASED POWER	263.0	268.5
PUMP TAXES	0.0	0.0
CHEMICALS	15.3	15.7
PAYROLL	736.2	750.9
OTHER O & M	550.8	562.9
OTHER A & G	8.9	9.7
G.O. PRORATIONS	1,263.3	1,298.7
PAYROLL TAXES	54.0	55.1
AD VALOREM TAXES	124.0	129.9
UNCOLLECTIBLES	8.9	9.2
FRANCHISE TAX & BUS LIC. FEES	2.1	2.1
TRANSPORTATION DEPRECIATION ADJUSTMENT	-26.7	-23.8
INTEREST EXPENSE	551.1	606.3
TOTAL DEDUCTIONS	8,156.8	8,394.2
STATE INCOME TAX		
STATE TAX DEPRECIATION	1,210.0	1,243.7
NET STATE TAXIBLE INCOME	1,022.2	1,136.1
STATE CORP. FRANCHISE TAX @ 8.84%	90.4	100.4
FEDERAL INCOME TAX		
FEDERAL TAX DEPRECIATION	816.3	783.4
STATE INCOME TAX	194.5	90.4
LESS PREFERRED STOCK DIVIDEND	2.3	2.3
NET FEDERAL TAXIBLE INCOME	1,219.1	1,503.7
FEDERAL INCOME TAX @ 35.00%	426.7	526.3
INVESTMENT TAX CREDIT	0.0	0.0
TOTAL FEDERAL INCOME TAX	426.7	526.3
TOTAL INCOME TAXES	**517.1**	**626.7**

ATTACHMENT C
RATESETTING APPENDICES

APPENDIX B
Page 5 of 5

CALIFORNIA WATER SERVICE COMPANY
SOUTH SAN FRANCISCO

ADOPTED QUANTITIES

	2004	2005
	(DOLLARS IN THOUSANDS)	
PURCHASED POWER		
SUPPLIER - PG&E (6/1/01)		
Total Production (kccf)	4,512.2	4,606.0
Kwh / ccf	380.5	380.5
Total calculated KWH	1,716,703	1,752,382
Unit Cost	$0.15320	$0.15320
Power Cost	$263,001	$268,467
TOTAL PURCHASED POWER	**$263.0**	**$268.5**
PURCHASED WATER		
SUPPLIER - SAN FRACISCO WATER DEPT.		
PURCHASED WATER PRODUCTION - KCCF	3,985.1	4,078.9
UNIT COST OF S.F.W.D. RATES - CCF	$1.10	$1.10
S.F.W.D. FIXED ANNUAL SERVICE CHARGES	222.3	222.3
QUANTITY CHARGES	$4,383.6	$4,486.8
TOTAL PURCHASED WATER	**$4,605.9**	**$4,709.1**
CHEMICALS		
Total Production (kccf)	4,512.2	4,606.0
ADOPTED CHEMICAL DOLLARS	15.3	15.7
ADOPTED $ per KCCF	**$3.390817**	**$3.408624**
UNCOLLECTABLES RATE		0.08557%
FRANCHISE TAX RATE		0.00000%
BUSINESS LICENSE FEE RATE		0.000000
FEDERAL TAX RATE		35.00%
STATE CORP. FRANCHISE TAX		8.84%
NET TO GROSS MULTIPLIER		1.78215

(END OF APPENDIX B)

ATTACHMENT C
RATESETTING APPENDICES

APPENDIX C
Page 1 of 5

California Water Service Company
Bakersfield District

Adopted Quantities

Number of Services by meter size:	2004	2005
5/8 x 3/4	14,156	14,852
3/4	-	-
1	8,061	8,396
1 1/2	629	636
2	1,501	1,520
3	241	242
4	105	106
6	41	42
8	4	4
10	-	-
TOTAL	24,737	25,799

Metered Sales, KCcf		
Potable	15,041.9	15,470.0

Number of Services and Use:

	Avg Services		Use, KCcf		Avg Use, Ccf/Sv/Mo	
	2004	2005	2004	2005	2004	2005
Residential	17,064	18,046	5,738.6	6,068.9	28.0	28.0
Business	6,722	6,802	6,054.5	6,126.6	75.1	75.1
Multi-family	449	449	1,343.8	1,354.2	249.4	251.3
Industrial	36	35	25.5	25.5	59.0	60.7
Public Authority	403	404	1,773.2	1,788.6	366.7	368.9
Other	63	63	106.3	106.3	140.7	140.7
Sub-Total	24,737	25,799	15,041.9	15,470.0		
Residential Flat	34,869	34,560	16,796.5	16,796.5		
Private Fire Prot.	662	664				
Public Fire Prot.	22	22				
TOTAL	60,290	61,045	31,838.4	32,266.5		
Losses, 8.00%			2,768.6	2,805.8		
Total Production			34,607.0	35,072.3		

ATTACHMENT C
RATESETTING APPENDICES

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CALIFORNIA WATER SERVICE CO.
BAKERSFIELD DISTRICT

ADOPTED RATE BASE
(DOLLARS IN THOUSANDS)

	2004	2005
RATE BASE		
WTD. AVG. PLANT IN SERVICE	183074.6	195652.7
MATERIALS AND SUPPLIES	331.6	331.6
WORKING CASH - LEAD - LAG	-734.4	-736
WORKING CASH - W / H EMPLOYEES	-8.3	-8.3
WTD. AVG. DEPRECIATION RESERVE	-41390.7	-46026.8
ADVANCES FOR CONSTRUCTION	-22655.0	-24433.5
CONTRIBUTIONS	-8084.6	-8028.2
AMORTIZATION OF INTANG.	-22.5	-25.6
DEFERRED TAXES	-8005.1	-8663.4
UNAMORT. I.T.C.	-387.3	-372.7
PRORATED G.O. RATE BASE	2951.7	3278.4
TAXES ON ADVANCES	1120.4	1069
TAXES ON C.I.A.C.	552.3	510.6
WTG. AVG. RATE BASE	106742.7	112547.8

ATTACHMENT C
RATESETTING APPENDICES

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CALIFORNIA WATER SERVICE CO.
B A K E R S F I E L D D I S T R I C T

INCOME TAX CALCULATION
(DOLLARS IN THOUSANDS)

	2004	2005
OPERATING REVENUE (PRESENT RATES)	42,753.5	43,185.4
EXPENSES		
PURCHASED WATER	3,853.3	3,974.0
PURCHASED POWER	6,693.7	6,799.9
PUMP TAXES	1,599.1	1,631.1
CHEMICALS	575.0	579.0
PAYROLL	4,057.5	4,299.2
OTHER O & M	2,536.6	2,597.8
OTHER A & G	93.3	96.5
G.O. PRORATIONS	5,099.1	5,242.0
PAYROLL TAXES	416.1	440.9
AD VALOREM TAXES	1,173.7	1,319.9
UNCOLLECTIBLES	204.2	206.2
FRANCHISE TAX & BUS LIC. FEES	603.8	609.9
TRANSPORTATION DEPRECIATION ADJUSTMENT	-291.6	-298.6
INTEREST EXPENSE	3,752.7	4,026.9
TOTAL DEDUCTIONS	30,366.6	31,524.7
STATE INCOME TAX		
STATE TAX DEPRECIATION	7,265.3	7,625.6
NET STATE TAXIBLE INCOME	5,121.6	4,035.1
STATE CORP. FRANCHISE TAX @ 8.84%	452.8	356.7
FEDERAL INCOME TAX		
FEDERAL TAX DEPRECIATION	4,259.7	4,530.8
STATE INCOME TAX	452.8	452.8
LESS PREFERRED STOCK DIVIDEND	10.8	10.8
NET FEDERAL TAXIBLE INCOME	7,663.6	6,666.3
FEDERAL INCOME TAX @ 35.00%	2,682.3	2,333.2
INVESTMENT TAX CREDIT	0.0	0.0
TOTAL FEDERAL INCOME TAX	2,682.3	2,333.2
TOTAL INCOME TAXES	**3,135.1**	**2,689.9**

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RATESETTING APPENDICES

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CALIFORNIA WATER SERVICE CO.
BAKERSFIELD DISTRICT

INCOME TAX CALCULATION
(DOLLARS IN THOUSANDS)

	2004	2005
OPERATING REVENUE (PROPOSED RATES)	44,244.2	46,293.3
EXPENSES		
PURCHASED WATER	3,853.3	3,974.0
PURCHASED POWER	6,693.7	6,799.9
PUMP TAXES	1,599.1	1,631.1
CHEMICALS	575.0	579.0
PAYROLL	4,057.5	4,299.2
OTHER O & M	2,536.6	2,597.8
OTHER A & G	93.3	96.5
G.O. PRORATIONS	5,099.1	5,242.0
PAYROLL TAXES	416.1	440.9
AD VALOREM TAXES	1,173.7	1,319.9
UNCOLLECTIBLES	211.3	221.1
FRANCHISE TAX & BUS LIC. FEES	624.8	653.8
TRANSPORTATION DEPRECIATION ADJUSTMENT	-291.6	-298.6
INTEREST EXPENSE	3,752.7	4,026.9
TOTAL DEDUCTIONS	30,394.7	31,583.5
STATE INCOME TAX		
STATE TAX DEPRECIATION	7,265.3	7,625.6
NET STATE TAXIBLE INCOME	6,584.2	7,084.2
STATE CORP. FRANCHISE TAX @ 8.84%	582.0	626.2
FEDERAL INCOME TAX		
FEDERAL TAX DEPRECIATION	4,259.7	4,530.8
STATE INCOME TAX	452.8	582.0
LESS PREFERRED STOCK DIVIDEND	10.8	10.8
NET FEDERAL TAXIBLE INCOME	9,126.2	9,586.2
FEDERAL INCOME TAX @ 35.00%	3,194.2	3,355.2
INVESTMENT TAX CREDIT	0.0	0.0
TOTAL FEDERAL INCOME TAX	3,194.2	3,355.2
TOTAL INCOME TAXES	**3,776.2**	**3,981.4**

ATTACHMENT C
RATESETTING APPENDICES

APPENDIX C
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CALIFORNIA WATER SERVICE COMPANY
BAKERSFIELD DISTRICT

ADOPTED QUANTITIES

		2004	2005
		(DOLLARS IN THOUSANDS)	
PURCHASED POWER			
SUPPLIER - PG&E (6/1/01 Rates)			
Total Production (kccf)		29,347.3	29,812.6
Kwh / ccf		1,635.7	1,635.7
Total calculated KWH		48,003,307	48,764,441
Unit Cost		$0.1394	$0.1394
Power Cost		$6,693,744	$6,799,880
TOTAL PURCHASED POWER		**$6,693.7**	**$6,799.9**
PURCHASED WATER (KERN COUNTY WATER DIST.)			
PURCHASED WATER PRODUCTION - KCCF		5,009.4	5,009.4
ANNUAL CONTRACT - ACRE FEET		11,500.0	11,500.0
ANNUAL CONTRACT - RATE $ per ACRE FOOT		$125.50	$136.00
ANNUAL CONTRACT QUANTITY CHARGES		$1,443.3	$1,564.0
OPERATING COST ANNUAL CHARGE		$133.7	$133.7
DISTRICT PUMPING COST ALLOCATION			
ACRE FEET		11,500	11,500
MIL GALS.	(A.F. x .325851)	3,747	3,747
KWH'S per MIL GALS.		1,790	1,790
COMPUTED KWH'S		6,708,416	6,708,416
AVERAGE COST per kWh		$0.1373	$0.1373
PUMPING COST $ - THOUSANDS		$920.9	$920.9
TOTAL KERN COUNTY WD		$2,497.9	$2,618.6
PURCHASED WATER (CITY OF BAKERSFIELD)			
RIVER WATER TO SUPPLY TREATMENT PLANT -- ACRE FEET		22,402.8	22,402.8
COST PER ACRE FOOT		$60.50	$60.50
TOTAL CITY OF BAKERSFIELD		$1,355.4	$1,355.4
TOTAL PURCHASED WATER COST- $ THOUSANDS		**$3,853.2**	**$3,974.0**
CHEMICALS			
Total Production (kccf)		29,347.3	29,812.6
ADOPTED CHEMICAL DOLLARS		575,000	579,000
ADOPTED $ per KCCF		**$19.592973**	**$19.421330**
PUMP TAXES (KERN COUNTY WATER AGENCY)			
TOT. WELL PROD.-KCCF (TBL 4D)		19,588.6	20,053.9
-A.F.		44,969.4	46,037.7
UNIT COST PER ACRE FOOT (WP5-B12a ,PG 4 of 4)		$30.00	$30.00
7/1/98 RATES			
KERN DELTA WATER DISTRICT		$250.0	$250.0
WATER RECHARGE PROGRAM FROM CANAL LOSSES			
GROUND WATER CHARGES - $ in THOUSANDS		**$1,599.1**	**$1,631.1**
UNCOLLECTABLES RATE			0.47753%
FRANCHISE TAX RATE			1.41900%
BUSINESS LICENSE FEE RATE			0.000000
FEDERAL TAX RATE			35.00%
STATE CORP. FRANCHISE TAX			8.84%
NET TO GROSS MULTIPLIER			1.81492

(END OF APPENDIX C)

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RATESETTING APPENDICES

APPENDIX D
Page 1 of 6

Schedule No. SS-1

South San Francisco Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

South San Francisco and vicinity, San Mateo County.

RATES

Quantity Rates:

Per 100 cu. ft.	$ 1.7266	(R)

Service Charge:	Per Meter Per Month	
For 5/8 x 3/4-inch meter	$ 8.95	(R)
For ¾-inch meter	13.43	(N)
For 1-inch meter	22.40	(R)
For 1-1/2-inch meter	44.75	|
For 2-inch meter	55.00	|
For 3-inch meter	106.00	|
For 4-inch meter	132.00	|
For 6-inch meter	218.00	|
For 8-inch meter	320.00	(R)
For 10-inch meter	417.88	
For 12-inch meter	1,476.75	(R)
For 14-inch meter	2,013.75	(R)

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the charge for water used computed at the Quantity Rate.

SPECIAL CONDITIONS

1. To recover $46,063 or 0.7% for the General Office capital budget carryover amortization, a surcharge of $0.05 per service connection is to be applied to each bill for 60 months from August 16, 1999, the effective date of Advice Letter No. 1472-A.

2. Due to an under-collection in the balancing account, a surcharge of $0.0718 per 100 cu. ft. of water used is to be applied to the quantity rates for 24 months from the effective date of Advice Letter No. 1636.

3. All bills are subject to the reimbursement fees set forth on Schedule Nos. UF and DHS-1.

ATTACHMENT C
RATESETTING APPENDICES

APPENDIX D
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South San Francisco District
Step Rate Increase Schedule
Metered Service

	2005	2006	2007
Quantity Rates:			
Per 100 Cu. Ft.	$0.02782	$0.03802	$0.03527
Service Charge:			
For 5/8 x 3/4 -inch meter	$ 0.30	$ 0.10	$ 0.15
For 3/4 -inch meter	$ 0.45	$ 0.15	$ 0.23
For 1 -inch meter	$ 0.73	$ 0.25	$ 0.38
For 1.5 -inch meter	$ 1.50	$ 0.50	$ 0.75
For 2 -inch meter	$ 2.04	$ 2.11	$ 2.19
For 3 -inch meter	$ 3.93	$ 4.07	$ 4.22
For 4 -inch meter	$ 4.89	$ 5.07	$ 5.26
For 6 -inch meter	$ 8.00	$ 8.38	$ 8.69
For 8 -inch meter	$ 12.00	$ 12.30	$ 12.76
For 10 -inch meter	$ 32.12	$ 16.68	$ 17.29
For 12 -inch meter	$ 49.50	$ 16.50	$ 24.75
For 14 -inch meter	$ 67.50	$ 22.50	$ 33.75

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RATESETTING APPENDICES

APPENDIX D
Page 3 of 6

Schedule No. BK-1

Bakersfield Tariff Area

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Bakersfield and vicinity, Kern County.

RATES

Quantity Rates:

Per 100 cu. ft.	$ 0.9992	(I)

Service Charge:	Per Meter Per Month	
For 5/8 x 3/4-inch meter	$ 13.30	(I)
For ¾- inch meter	19.95	(N)
For 1-inch meter	21.50	(I)
For 1-1/2-inch meter	47.00	|
For 2-inch meter	62.50	|
For 3-inch meter	115.00	|
For 4-inch meter	163.00	|
For 6-inch meter	275.00	|
For 8-inch meter	405.00	|
For 10-inch meter	1,529.50	|
For 12-inch meter	2,194.50	|
For 14-inch meter	2,992.50	(I)

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the charge for water used computed at the Quantity Rate.

SPECIAL CONDITIONS

1. To recover $163,045 or 0.7% for the General Office capital budget carryover amortization, a surcharge of $0.05 per service connection is to be applied to each bill for 60 months from August 16, 1999, the effective date of Advice Letter 1472-A. (D)
2. Due to an under-collection in the balancing account, a surcharge of $0.0376 per 100 cu. ft. of water used is to be applied to the quantity rates for 12 months from the effective date of Advice Letter No. 1618-A.
3. All bills are subject to the reimbursement fees set forth on Schedule Nos. UF and DHS-1.

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Schedule No. BK-2R

Bakersfield Tariff Area

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service.

TERRITORY

Bakersfield and vicinity, Kern County.

RATES

For a single-family residential unit, including premises having the following areas:	Per Service Connection per Month	
6,000 sq. ft., or less	$ 44.38	(I)
6,001 to 10,000 sq. ft.	51.11	|
10,001 to 16,000 sq. ft.	63.75	|
16,001 to 25,000 sq. ft.	80.81	|
For each additional single-family residential unit on the same premises and served from the same service connection	31.23	(I)

SPECIAL CONDITIONS

1. **To recover $163,045 or 0.7% for the General Office capital budget carryover amortization, a surcharge of $0.05 per service connection is to be applied to each bill for 60 months from August 16, 1999, the effective date of Advice Letter 1472-A.**
2. The above flat rates apply to service connections not larger than one inch in diameter.
3. All service not covered by the above classifications shall be furnished only on a metered basis.
4. For service covered by the above classifications, if the utility or the customer so elects, a meter shall be installed and service provided under Schedule No. BK-1, General Metered Service.
5. This Schedule is closed to all new connections as of May 8, 1991, the effective date of Tariff Sheet No. 4133-W.

(D)

6. Due to an under-collection in the balancing account, the following surcharges are to be applied to each bill for 12 months from the effective date of Advice Letter No. 1618-A.

6,000 sq. ft., or less	$ 1.20
6,001 to 10,000 sq. ft.	1.38
10,001 to 16,000 sq. ft.	1.72
16,001 to 25,000 sq. ft.	2.18
Additional Unit	0.84

7. All bills are subject to the reimbursement fees set forth on Schedule Nos. UF and DHS-1.

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Schedule No. BK-4

Bakersfield Tariff Area

SERVICE TO PRIVATELY OWNED FIRE PROTECTION SYSTEMS

APPLICABILITY

Applicable to all water service furnished for privately owned fire protection systems.

TERRITORY

Bakersfield and vicinity, Kern County.

RATES

		Per Month	
For each	1-1/2-inch connection	$ 9.00	(I)
For each	2-inch connection	12.00	|
For each	3-inch connection	18.00	|
For each	4-inch connection	24.00	|
For each	6-inch connection	36.00	|
For each	8-inch connection	48.00	|
For each	10-inch connection	60.00	(I)

SPECIAL CONDITIONS

1. The facilities for service to a privately owned fire protection system will be installed by the Utility at the cost of the applicant. Such cost shall not be subject to refund.
2. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity will be installed by the Utility atthe cost of the applicant. Such cost shall not be subject to refund
3. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the utility, and are maintained to the satisfaction of the Utility. The Utility may require the installation of a detector check valve with meter for protection against theft, leakage, or waste of water.
4. For water delivered for other than service to privately owned fire protection systems, charges will be made therefor under Schedule No. BK-1, General Metered Service.
5. The Utility will supply only such water at such pressure as may be available from time to time as a result of normal operation of Uitlity's system.
6. All bills are subject to the reimbursement fee set forth on Schedule No. UF.

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Bakersfield District
Step Rate Increase Schedule
Metered Service

	2005	2006	2007
Quantity Rates:			
Per 100 Cu. Ft.	$0.01383	$0.00859	$0.00695
Service Charge:			
For 5/8 x 3/4 -inch meter	$1.20	$0.75	$0.75
For 3/4 -inch meter	$1.80	$1.13	$1.13
For 1 -inch meter	$2.35	$2.13	$2.26
For 1.5 -inch meter	$5.50	$4.70	$4.97
For 2 -inch meter	$7.50	$6.26	$6.63
For 3 -inch meter	$15.00	$11.63	$12.30
For 4 -inch meter	$22.00	$16.55	$17.51
For 6 -inch meter	$45.00	$28.63	$30.29
For 8 -inch meter	$70.00	$42.50	$44.96
For 10 -inch meter	$138.00	$86.25	$86.25
For 12 -inch meter	$198.00	$123.75	$123.75
For 14 -inch meter	$270.00	$168.75	$168.75

Bakersfield District
Residential Flat Rate Schedules
Step Rate Increases

	2005	2006	2007
6,000 sq. ft. or less	$1.35	$1.36	1.36
6,001 to 10,000 sq. ft.	$1.53	$1.57	1.57
10,001 to 16,000 sq. ft.	$1.89	$1.96	1.96
16,001 to 25,000 sq. ft.	$2.44	$2.48	2.48
Additional Single-Family Dwelling	$0.95	$0.96	0.96

(END OF APPENDIX D)

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RATESETTING APPENDICES

APPENDIX E
Bill Comparisons (Present v. Adopted)
Page 1 of 2

California Water Service Company
South San Francisco District Bill Comparison *

2004 Rates

Usage Ccf		Present Rates	Adopted Rates	Increase Amount	Percent Increase
0		$ 10.62	$ 8.95	$ -1.67	-15.73%
4		$ 18.29	$ 15.86	$ -2.43	-13.29%
8		$ 25.96	$ 22.76	$ -3.20	-12.33%
10	Avg	$ 29.80	$ 26.22	$ -3.58	-12.01%
15		$ 39.38	$ 34.85	$ -4.53	-11.50%
20		$ 48.97	$ 43.48	$ -5.49	-11.21%

2005 Rates

Usage Ccf		2004 Rates	2005 Rates	Increase Amount	Percent Increase
0		$ 8.95	$ 9.25	$ 0.30	3.35%
4		$ 15.86	$ 16.27	$ 0.41	2.59%
8		$ 22.76	$ 23.28	$ 0.52	2.28%
10	Avg	$ 26.22	$ 26.79	$ 0.57	2.17%
15		$ 34.85	$ 35.57	$ 0.72	2.07%
20		$ 43.48	$ 44.34	$ 0.86	1.98%

*Metered comparison based on 5/8 x 3/4 inch service
Note: Rates do not include CPUC fees or other surcharges that may appear on customers bills.

ATTACHMENT C
RATESETTING APPENDICES

APPENDIX E
Bill Comparisons (Present v. Adopted)
Page 2 of 2

California Water Service Company
Bakersfield District Bill Comparison *

2004 Rates

Usage Ccf		Present Rates	Adopted Rates	Increase Amount	Percent Increase
0		$ 12.75	$ 13.30	$ 0.55	4.31%
10		$ 22.53	$ 23.29	$ 0.76	3.37%
20		$ 32.32	$ 33.28	$ 0.96	2.97%
28	Avg	$ 40.15	$ 41.28	$ 1.13	2.81%
30		$ 42.10	$ 43.28	$ 1.18	2.80%
50		$ 61.67	$ 63.26	$ 1.59	2.58%
Flat Rates					
6,000 sq. ft. or less		$ 42.88	$ 44.38	$ 1.50	3.50%

2005 Rates

Usage Ccf		2004 Rates	2005 Rates	Increase Amount	Percent Increase
0		$ 13.30	$ 14.50	$ 1.20	9.02%
10		$ 23.29	$ 24.63	$ 1.34	5.75%
20		$ 33.28	$ 34.76	$ 1.48	4.45%
28	Avg	$ 41.28	$ 42.87	$ 1.59	3.85%
30		$ 43.28	$ 44.89	$ 1.61	3.72%
50		$ 63.26	$ 65.15	$ 1.89	2.99%
Flat Rates					
6,000 sq. ft. or less		$ 44.38	$ 45.73	$ 1.35	3.04%

*Metered comparison based on 5/8 x 3/4 inch service
Note: Rates do not include CPUC fees or other surcharges that may appear on customers bills.

(END OF APPENDIX E)

(END OF ATTACHMENT C)