

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



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Joint Application of Suburban Water Systems (U339W), SouthWest Water Company, SW Merger Acquisition Corp., IIF Subway Investment LP, and USA Water Services, LLC for Commission Authorization of a Transfer of Indirect Control of Suburban Water Systems.

A.10-04-009
(Filed April 6, 2010)

JOINT MOTION TO ADOPT SETTLEMENT AGREEMENT

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Dated: July 9, 2010

**BEFORE THE PUBLIC UTILITIES COMMISSION
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(Filed April 6, 2010)

JOINT MOTION TO ADOPT SETTLEMENT AGREEMENT

I. INTRODUCTION

Pursuant to Rule 12.1 of the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission”),¹ Suburban Water Systems (“Suburban”), SouthWest Water Company (“SouthWest”), SW Merger Acquisition Corp. (“SW Merger”), IIF Subway Investment LP, and USA Water Services, LLC (collectively, “Joint Applicants”) and the Division of Ratepayer Advocates (“DRA”) (collectively, the “Parties”) submit this joint motion to approve a settlement between the Joint Applicants and DRA, attached hereto as Exhibit 1 (the “Settlement”), recommending Commission approval of the *Joint Application of Suburban Water Systems (U339W), SouthWest Water Company, SW Merger Acquisition Corp., IIF Subway Investment LP, and USA Water Services, LLC for Commission Authorization of a Transfer of Indirect Control of Suburban Water Systems* (“Application”) on the terms and conditions set forth in the Settlement. As a part of the Settlement, the Joint Applicants and DRA agree to the attached *Conditions of Approval of the Proposed Transaction*, attached to the Settlement as Appendix A (the “Conditions”), and the *Interim Affiliate Transaction Rules*, attached to the Settlement as Appendix B (the “Interim Rules”). The Parties recommend that the Commission approve the Application, subject to the Conditions and the Interim Rules.

¹ Unless otherwise stated, all further reference to the Rules refers to the Commission’s Rules of Practice and Procedure.

The Settlement fulfills the criteria that the Commission requires for approval of such settlements. The Commission should grant this Motion to adopt the Settlement.

II. PROCEDURAL BACKGROUND

On March 2, 2010, SouthWest and SW Merger entered into a definitive merger agreement for SW Merger's acquisition of SouthWest for approximately \$275 million in cash, or \$11.00 per share. On March 16, 2010, SW Merger invested approximately \$16.2 million to purchase 2.7 million newly issued SouthWest shares under a private placement, priced at \$6.00 per share. SouthWest will use the proceeds to assist the financing of ongoing utility infrastructure investments.

On April 6, 2010, the Joint Applicants filed the Application to request Commission authorization of the transfer of indirect control of Suburban resulting from SW Merger's acquisition of SouthWest. On May 10, 2010, DRA filed a protest to the Application. DRA did not object to the requested relief in principal; however, DRA raised certain concerns regarding the proposed transaction. The Joint Applicants filed a reply to DRA's protest on May 20, 2010. No other parties protested the Application or otherwise joined in the proceeding.

Over a period of several weeks, beginning on May 28, 2010, the Joint Applicants and DRA met to discuss potential settlement of the issues raised in the proceeding. Following several meetings and cooperative discussions, the Parties agreed to the Conditions and the Interim Rules as set forth in this motion to adopt the settlement. The Joint Applicants agree to follow the Conditions and the Interim Rules, and DRA agrees to support the Application and recommend that the Commission authorize the transfer of indirect control of Suburban, subject to the Conditions and the Interim Rules.

III. DISCUSSION

A. Overview Of The Settlement

The Settlement includes two components: (1) the Conditions and (2) the Interim Rules. The Conditions set forth nineteen specific points that will govern certain aspects of the relationship between Suburban and its parent company SouthWest. The Joint Applicants agree

to follow all of these Conditions upon the Commission's approval of the Application and the completion of the proposed transaction.

The Interim Rules set forth sixteen affiliate transaction rules that will be applied specifically to Suburban upon the Commission's approval of the Application. The Parties understand and agree that the Interim Rules are temporary until the Commission adopts industry-wide affiliate transaction rules currently being developed in Rulemaking 09-04-012. The Parties understand and agree that the rules that the Commission adopts in Rulemaking 09-04-012 will supersede and wholly replace the Interim Rules attached hereto.

IV. THE SETTLEMENT IS REASONABLE IN LIGHT OF THE ENTIRE RECORD, CONSISTENT WITH LAW, AND IN THE PUBLIC INTEREST

Rule 12.1 requires that a settlement be "reasonable in light of the whole record, consistent with law, and in the public interest." The Settlement meets these requirements.

A. The Settlement is Reasonable in Light of the Whole Record

Pursuant to Rule 12.1(d), the Commission will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with law, and in the ratepayers' interest. In the *Southern California Gas Co.* decision, the Commission held that the parties' evaluation should carry material weight in the Commission's review of a settlement.²

As compared with a complete evidentiary hearing on all issues, the Settlement achieves significant savings in time, resources, and expense for all the Parties and the Commission. A full hearing would have taken several days, required additional witness testimonies from both sides, and necessitated significant additional travel. Moreover, the Application contains sufficient information on its own for the Commission to determine that the proposed transfer of indirect control will not negatively affect customers.

In this case, the Settlement is reasonable in light of the whole record because Commission approval of the Settlement will provide speedy resolution of contested issues, will

² *Southern California Gas Co.*, D.00-09-034, 2000 Cal. PUC LEXIS 694, **29, 31.

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.

B. The Settlement is Consistent with the Law

Public Utilities Code section 854(a) requires Commission approval of the merger, acquisition, or change in control of a Commission-regulated water utility.³ “The primary standard used by the Commission to determine if a transaction should be authorized under §854(a) is whether the transaction will adversely affect the public interest.”⁴ The Settlement is consistent with the law because the proposed transaction will not have an effect on Suburban’s operations, costs, assets, liabilities, or revenue requirement. Suburban will continue to provide the same high level of service to its customers under its own name and at the same rates. In addition, Suburban’s management team will remain in place after the transaction, which will ensure continuity of service. The Conditions and Interim Rules will further ensure that Suburban’s ratepayers are protected following the proposed transaction. In sum, the proposed transaction, subject to the Conditions and the Interim Rules, clearly meets the standard articulated by the Commission for approval of the transfer of indirect control of a Commission-regulated water utility.

C. The Settlement is in the Public Interest

The Settlement is in the public interest. In determining whether a change of indirect control at the holding company level where the holding company has little, if any, day-to-day involvement with the public utility is in the public interest, the Commission has stated that

³ Application, p.7.

⁴ D.10-02-015, *In the Matter of the Application of Newhall Holding Company, LLC, Newhall Intermediary Holding Company, LLC, LandSource Holding Company, LLC, and Valencia Water Company (U342W) for Authority for Newhall Holding Company, LLC, Newhall Intermediary Holding Company, LLC and LandSource Holding Company, LLC, to Acquire Indirect Control Over Valencia Water Company*, 2010 Cal. PUC LEXIS 52, *2 (“D.10-02-015, 2010 Cal. PUC LEXIS 52”) (citing, D.00-06-079, *In the Matter of Qwest Communications Corporation, LCI International Telecom Corp., USLD Communications, Inc., Phoenix Network, Inc. and U S West Long Distance, Inc., and U S West Interprise America, Inc.*, 2000 Cal. PUC LEXIS 645 *17).

its primary focus is the transaction's effects on ratepayers.⁵ In the instant case, the impacts on Suburban's customers will be minimal and largely positive.

The proposed transaction will result in a change in ownership of SouthWest, Suburban's parent company, but will have no practical effect on the day-to-day operations of Suburban, or the Commission's authority over Suburban. Suburban will continue to operate as it has in the past, using the same name, operating authority, and existing tariffs to provide public utility water service.

The acquisition of SouthWest by SW Merger will improve the financial condition of Suburban, benefiting both customers and shareholders. The improved access to long-term capital will enhance Suburban's ability to invest in systems to the benefit of the customers and communities it serves. This will, in turn, improve the quality of service to Suburban's customers.

The proposed transaction does not require or cause any change in the technical, managerial, and financial resources necessary to provide public utility water services to Suburban's customers. Immediately following the proposed transfer of indirect control, Suburban will continue to operate as it has in the past, using the same name, operating authority, and existing tariff. Suburban will continue to possess the technical, managerial, and financial resources necessary to provide its authorized services following the proposed transfer of indirect control.

Existing Suburban and SouthWest employees in California will benefit from a seamless transition and continuity in management. SW Merger intends to maintain Suburban's senior management, ensuring continued responsiveness to the needs of local customers and communities. The avoidance of large, impending lay-offs will support employee productivity and morale during the transition period while also buttressing community relations and shareholder value. SW Merger also supports investments that will enhance long-term human

⁵ D.02-12-068, *In the Matter of the Joint Application of California-American Water Company (U-210-W)*, 2002 Cal. PUC LEXIS 909.

capital management, ongoing employee development and career opportunities, thus fostering loyalty and a sense of personal empowerment, which also benefits ratepayers. Finally, the proposed transaction will not require or cause any immediate change in Suburban or SouthWest's employee policies.

The proposed transaction will not affect the Commission's continued regulatory jurisdiction and control over Suburban. Upon the Commission's approval of the transaction, it will retain complete authority over Suburban's public utility operations and rates, including the power to "do all things . . . which are necessary and convenient in the exercise of [its] jurisdiction."⁶ Finally, the Settlement includes the Conditions and the Interim Rules, which will further protect ratepayer interests by providing clarity and support for the Commission's ongoing regulation of the relationship between Suburban and SouthWest.

V. CONCLUSION

For the reasons discussed above, the Parties request that the Commission approve the Settlement.

⁶ Cal. Pub. Util. Code § 701.

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Dated: July 9 2010

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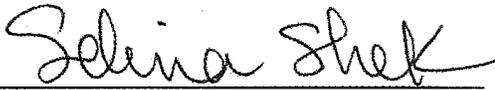
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By: 

Selina Shek

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Dated: July , 2010

Exhibit 1

**BEFORE THE PUBLIC UTILITIES COMMISSION
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A.10-04-009
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**SETTLEMENT AGREEMENT BETWEEN THE DIVISION OF RATEPAYER
ADVOCATES, SUBURBAN WATER SYSTEMS, SOUTHWEST WATER
COMPANY, SW MERGER ACQUISITION CORP., IIF SUBWAY INVESTMENT
LP, AND USA WATER SERVICES, LLC**

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ADVOCATES, SUBURBAN WATER SYSTEMS, SOUTHWEST WATER
COMPANY, SW MERGER ACQUISITION CORP., IIF SUBWAY INVESTMENT
LP, AND USA WATER SERVICES, LLC**

1. GENERAL

1.1 Pursuant to Article 12 of the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission”), Suburban Water Systems (“Suburban”), SouthWest Water Company (“SouthWest”), SW Merger Acquisition Corp. (“SW Merger”), IIF Subway Investment LP, and USA Water Services, LLC (collectively, “Joint Applicants”) and the Division of Ratepayer Advocates (“DRA”) (collectively, the “Parties”) have agreed on the terms of this Settlement Agreement which they now submit for approval. This Settlement Agreement addresses the *Joint Application of Suburban Water Systems (U339W), SouthWest Water Company, SW Merger Acquisition Corp., IIF Subway Investment LP, and USA Water Services, LLC for Commission Authorization of a Transfer of Indirect Control of Suburban Water Systems* (“Application”), and the Parties request that the Commission authorize the transfer of indirect control of Suburban, subject to the terms and conditions of this Settlement Agreement.

1.2 Since this Settlement Agreement represents a compromise by each of 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 of any kind for or against any Party in any current or future proceeding. (Rule 12.5, Commission's Rules on Practice and Procedure.)

1.3 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.

1.4 The Parties agree that this Settlement Agreement is an integrated agreement, so that if the Commission rejects any portion of this Settlement Agreement, each Party has the right to withdraw. Furthermore, the Settlement Agreement is being presented as an integrated package such that Parties are agreeing to the Settlement as a whole, as opposed to agreeing to specific elements of the Settlement.

1.5 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.

2. BACKGROUND

2.1 On March 2, 2010, SouthWest and SW Merger entered into a definitive merger agreement for SW Merger's acquisition of SouthWest for approximately \$275 million in cash, or \$11.00 per share. On March 16, 2010, SW Merger invested approximately \$16.2 million to purchase 2.7 million newly issued SouthWest shares under a private placement, priced at \$6.00 per share. SouthWest will use the proceeds to assist the financing of ongoing utility infrastructure investments.

2.2 On April 6, 2010, the Joint Applicants filed the Application to request Commission authorization of the transfer of indirect control of Suburban resulting from SW Merger's acquisition of SouthWest.

3. CONDITIONS OF APPROVAL OF THE PROPOSED TRANSACTION

3.1 The Parties agree to nineteen specific conditions that will govern certain aspects of the relationship between Suburban and its parent company SouthWest. A copy of the conditions is attached hereto as Appendix A.

3.2 The Joint Applicants agree to follow all of these conditions upon the Commission's approval of the Application and the completion of the proposed transaction.

4. INTERIM AFFILIATE TRANSACTION RULES

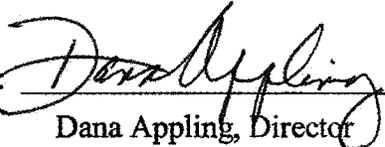
4.1 The Parties agree to a set of sixteen affiliate transaction rules that will be applied upon the Commission's approval of the Application. A copy of the interim affiliate transaction rules is attached hereto as Appendix B.

4.2 The Parties understand and agree that the interim affiliate transaction rules are temporary until the Commission adopts water industry-wide affiliate transaction rules currently being developed in Rulemaking 09-04-012.

4.3 The interim affiliate transaction rules are for settlement purposes only and do not indicate endorsement by Suburban or DRA for similar rules in Rulemaking 09-04-012.

4.4 The Parties understand and agree that the rules the Commission adopts in Rulemaking 09-04-012 will supersede and wholly replace the interim affiliate transaction rules attached hereto as Appendix B.

Respectfully submitted,

By: 
Dana Appling, Director
Division of Ratepayer Advocates

By: _____
Michael Quinn, President
Suburban Water Systems

By: _____
Mark Swatek, Chief Executive Officer
SouthWest Water Company

By: _____
Andrew F. Walters
SW Merger Acquisition Corp.

By: _____
Daniel J. Schuller
IIF Subway Investment LP

By: _____
Disque D. Deane, Jr., Member
USA Water Services, LLC

July __, 2010

Respectfully submitted,

By: _____
Dana Appling, Director
Division of Ratepayer Advocates

By: Michael Quinn
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Suburban Water Systems

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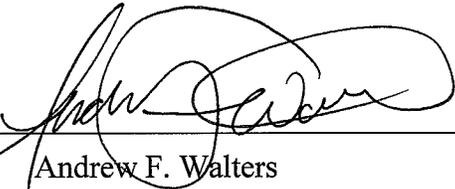
July 9, 2010

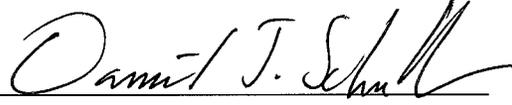
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By:  _____
Daniel J. Schuller
IIF Subway Investment LP

By:  _____
Disque D. Deane, Jr., Member
USA Water Services, LLC

July 9, 2010

APPENDIX A

Conditions of Approval of the Proposed Transaction

1. The proposed transaction shall have no effect on the Commission's authority over Suburban Water Systems' ("Suburban") provision of public utility service to the public.
2. Suburban shall comply with all applicable California and federal laws and administrative regulations.
3. SouthWest Water Company ("SouthWest") shall ensure that Suburban has adequate capital to fulfill all of its public utility service obligations. The term "capital" encompasses "money and property with which a company carries on its corporate business; a company's assets, regardless of source, utilized for the conduct of the corporate business and for the purpose of deriving gains and profits; and a company's working capital," and is not limited to mean only "equity capital, infrastructure investment, or any other term that does not include, simply, money or working cash." (Decision 02-01-039, Findings of Fact 5 and 6, 2002 Cal. PUC LEXIS 5 *57.) Southwest acknowledges Suburban's need for significant amounts of capital to invest in its water supply and delivery infrastructure and commits to meeting all of Suburban's financial requirements deemed necessary by the Commission.
4. For financial purposes, Suburban shall maintain an equity percentage of at least 45%, except to the extent the Commission adopts a lower equity percentage for ratemaking.
5. Suburban will notify the Commission of any dividends and distributions to SouthWest or other affiliates.
6. Rate recovery of direct charges from SouthWest or any other affiliates shall be prohibited without the Commission's authorization. All such direct charges should be specifically identified in general rate cases or advice letter filings.

7. The debt of Suburban's affiliate companies shall not be issued or guaranteed by Suburban without prior approval by the Commission.

8. Suburban shall continue to maintain its books and records in accordance with all Commission rules. Suburban's books and records shall be maintained and be available in California.

9. The transfer of control will not adversely affect Suburban policies with respect to service to customers, employees, operations, financing, accounting, capitalization, rates, depreciation, maintenance, or other matters relating to the public interest or utility operations.

10. There shall be no adverse impact on customer service as a result of the transaction. SouthWest shall maintain Suburban's commitment to high quality public utility water service and community involvement.

11. Suburban shall maintain its business headquarters in California together with fully operational local offices as appropriate to maintain the high quality of customer service and community involvement. Suburban shall not close any of its offices as a result of this transaction.

12. No additional layer of management overhead may be allocated to Suburban as a result of the transaction.

13. The proposed transaction shall not adversely affect any of the outstanding debt owed and recorded as liabilities on the regulated books of Suburban. There shall be no adverse changes, defined as an increase in Suburban's cost of service or reduction in quality of service, in the income statement, balance sheet or financial position of Suburban used for ratemaking purposes as a result of the proposed transaction.

14. The ratepayers of Suburban shall not incur, directly or indirectly, any transaction costs¹ or other liabilities or obligations arising from the proposed transaction.

15. As part of this proceeding, the ratepayers of Suburban shall not incur financial obligations due to any premium paid by the purchasing Applicants for the acquisition of SouthWest or Suburban.

16. Suburban shall not incur any additional indebtedness, issue any additional securities, or pledge any assets to finance any part of the proposed transaction.

17. Affiliated companies of Suburban shall take no actions that would impair Suburban's ability to fulfill its public utility obligation to serve or to operate in a prudent and efficient manner.

18. Suburban shall comply with the Affiliate Transaction Rules set out in Appendix B to this decision, subject to replacement by a final decision in Rulemaking 09-04-012, the Commission Rulemaking to develop standard rules for the use of regulated assets for non-tariff services of water utilities.

19. The Joint Applicants shall each file written notice with the Commission of their agreement, evidenced by a duly authenticated resolution of their respective Boards of Directors, Board of Managers or the equivalent authority, to the Conditions of Approval of the Proposed Transaction and the Interim Affiliate Transaction Rules set forth in Appendices A and B, respectively.

¹ For purposes of this Appendix A, "transaction costs" shall include but not be limited to external advisors, early termination costs, travel costs, retention bonuses, and change in control payments as a result of the transfer of control.

APPENDIX B

Interim Affiliate Transaction Rules

These Interim Affiliate Transaction Rules set forth the practices to be observed by Suburban Water Systems (“Suburban”) until a final decision in Rulemaking 09-04-012, the Commission’s rulemaking to develop standard rules for the use of regulated assets for non-tariff services of water utilities. These rules are for settlement purposes only and do not indicate endorsement by Suburban or the Division of Ratepayer Advocates (“DRA”) for similar rules in Rulemaking 09-04-012. The rules that the Commission adopts in Rulemaking 09-04-012 will supersede and wholly replace the rules set forth below.

Definitions:

Affiliated company or companies: all entities that are under direct or indirect ownership of the Joint Applicants.

Cost: all fully allocated expense amounts including all management, administration, overhead, and indirect allocations.

Property: any right or thing to which an entity has legal or equitable title.

Real Property: any interest in real estate including leases, easements, and water rights.

1. *Access to Officers and Employees.* The officers and employees of Suburban and its affiliated companies shall be available to appear and testify on relevant matters in any proceeding before the Commission involving Suburban. In any such proceeding, the DRA staff shall first request the appearance and testimony of the officers and employees of Suburban. If in the proper exercise of the duties of Commission staff or its agents, Suburban cannot supply appropriate personnel to address the reasonable concerns of Commission staff or its agents, then

the appropriate staff of the relevant Suburban affiliate companies shall be available to Commission staff or its agents. This does not limit the ability of the Parties to bring the issue of availability of staff of Suburban affiliates to the assigned administrative law judge for resolution if necessary.

2. *Access to Books and Records.* Suburban and its affiliated companies will provide the Commission, its staff, and its agents with access to the relevant books and records of such entities in connection with the exercise by the Commission of its regulatory responsibilities.

3. *Annual Report.* Suburban shall file with the Commission each year, and include in all general rate case filings, a report that includes a summary of all transactions between Suburban and its affiliated companies for the previous calendar year. Suburban shall maintain such information on a monthly basis and make such information available to the Commission's staff upon request. To the extent not covered by an existing affiliated transaction agreement, the summary shall include a complete description of each transaction and an accounting of all costs associated with each transaction although each transaction need not be separately identified where multiple transactions occur in the same account. These transactions shall include (a) services provided by Suburban to any affiliated company; (b) services provided by any affiliated company to Suburban; (c) assets transferred from Suburban to any affiliated company; (d) assets transferred from any affiliated company to Suburban; (e) employees transferred from Suburban to any affiliated company; (f) employees transferred from any affiliated company to Suburban and the costs of replacing transferred employees; (g) financing arrangements and transactions between Suburban and any affiliated company; and (h) Suburban's operational and administrative costs associated with or caused by transactions between Suburban's affiliates.

4. *Issuance of Debt for Affiliated Companies.* Debt of Suburban's affiliated companies shall not be issued or guaranteed by Suburban without prior approval by the Commission.

5. *Accounting.* Suburban shall maintain its accounting records in accordance with Generally Accepted Accounting Principles and, where appropriate, the Commission's Uniform System of Accounts.

6. *Allocation of Common Costs.* Suburban and each of its affiliated companies shall allocate costs between them based on the cost causation principle and on a full cost allocation basis in such a manner that ratepayers of Suburban will not subsidize any affiliate of Suburban. Suburban shall include and explain its methodology in its general rate case filings and provide all pertinent document support.

7. *Unregulated Affiliated Companies and Transfer of Employees.*

a. Suburban shall not use its employees or officers to provide services to unregulated affiliated companies if such use would adversely affect Suburban or its ratepayers.

b. To the extent Suburban chooses to use its employees or officers to provide services to unregulated affiliated companies, Suburban shall carefully account for all such employee and officer time. In each general rate case application, Suburban shall submit a report showing all such employee and officer time on an annual basis for each year since its last general rate case.

c. Suburban shall not use its regulatory assets to sell goods or provide services for unregulated affiliated companies if such use would adversely affect Suburban or its ratepayers.

d. To the extent Suburban chooses to use its regulatory assets to sell goods or provide services for unregulated affiliated companies, Suburban shall carefully account for all such property use and tabulate the fully allocated cost. In each general rate case application,

Suburban shall submit a report showing all such use on an annual basis for each year since the last general rate case.

8. *Transfer Of Property Other Than Real Property From Suburban.* All transfers of property, (other than real property) or payment of dividends from Suburban to any affiliated company, shall be in writing and priced at the higher of cost or fair market value. Suburban shall record any revenue resulting from the transfer of any such property in a memorandum account for further disposition by the Commission.

9. Suburban shall develop a verifiable and independent appraisal of fair market value for any property that is transferred to any affiliate under Paragraph 8 above. The Commission's staff will be provided access to all supporting documents used in the development of the fair market value.

10. *Transfers Of Property Other than Real Property to Suburban.* All transfers of any property other than real property to Suburban from any affiliated company shall be in writing and priced at the lower of cost or fair market value. Suburban shall obtain and retain sufficient cost data from the affiliate to support the price charged. Suburban shall obtain explicit Commission authorization prior to including the costs or expenses of any such property in its revenue requirement or rate base.

11. *Pricing Of Services from Suburban to Affiliated Companies.* All services provided by Suburban to an affiliated company shall either be pursuant to a Commission-approved tariff or be in writing and priced to recover all costs associated with such service that have been included in Suburban's revenue requirement for its last general rate case.

12. *Pricing Of Services From Affiliated Companies To Suburban.* Except for common costs allocated in the manner described in Paragraph 6, all services provided by an affiliate to

Suburban shall be pursuant to a written services agreement. All such services provided by the affiliate shall be priced at the lower of the affiliate's incremental cost to provide the service or the fair market value of the service. Copies of all such service agreements shall be included in all general rate case filings and shall also include a full accounting of all services forecasted for the test year, including the affiliated company's cost analysis and supporting documentation.

13. *Transfers of Real Property from Suburban to an Affiliate.* Other than pursuant to the process set forth in Public Utilities Code section 851, Suburban shall not transfer to an affiliate any real property necessary or useful in its provision of public utility service to the public or that was at any time included in Suburban's rate base.

14. *Transfers of Real Property from an Affiliate to Suburban.* Suburban shall not include in its rate base or revenue requirement the costs or expenses associated with any real property obtained from an affiliate, except for fees and costs paid to third parties incidental to obtaining and recording title to real property, absent a Commission decision specifically approving the transfer and adopting specific ratemaking treatment.

15. *Confidentiality.* Any records or other information of a confidential nature furnished to the Commission pursuant to these Rules that are individually marked confidential are not to be treated as public records and shall be treated in accordance with Public Utilities Code Section 583 and the Commission's General Order 66-C.

16. *Physical Location of Suburban and Affiliated Companies.* Suburban shall create and implement management and accounting policies to ensure that Suburban's public utility functions are not affected by the proximity of the affiliated companies, and that all costs benefiting the affiliates are paid by the affiliates.

PROOF OF SERVICE

I, Cinthia A. Velez, declare as follows:

I am employed in the City and County of San Francisco, California. I am over the age of eighteen years and not a party to this action. My business address is MANATT, PHELPS & PHILLIPS, LLP, One Embarcadero Center, 30th Floor, San Francisco, California 94111-3719. On July 9, 2010, I served the within:

Joint Motion to Adopt Settlement Agreement

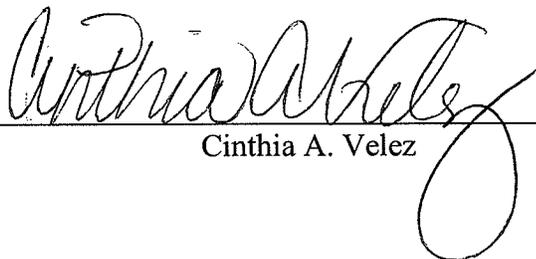
on the interested parties in this action addressed as follows:

See attached service list

- (BY CPUC E-MAIL SERVICE)** By transmitting such document electronically from Manatt, Phelps & Phillips, LLP, San Francisco, California, to the electronic mail addresses listed above. I am readily familiar with the practice of Manatt, Phelps & Phillips, LLP for transmitting documents by electronic mail, said practice being that in the ordinary course of business, such electronic mail is transmitted immediately after such document has been tendered for filing. Said practice also complies with Rule 2.3(b) of the Public Utilities Commission of the State of California and all protocols described therein.

- (BY MAIL)** By placing such document(s) in a sealed envelope, with postage thereon fully prepaid for first class mail, for collection and mailing at Manatt, Phelps & Phillips, LLP, San Francisco, California following ordinary business practice. I am readily familiar with the practice at Manatt, Phelps & Phillips, LLP for collection and processing of correspondence for mailing with the United States Postal Service, said practice being that in the ordinary course of business, correspondence is deposited in the United States Postal Service the same day as it is placed for collection.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct and that this declaration was executed on July 9, 2010, at San Francisco, California.



Cinthia A. Velez

CPUC E-Mail Service List
A.10-04-009
(Updated June 7, 2010)

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U.S. Mail Service List
A.10-04-009
(Updated June 7, 2010)

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