

**PUBLIC UTILITIES COMMISSION**505 VAN NESS AVENUE
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Ratesetting

TO PARTIES OF RECORD IN APPLICATION 11-01-019.

This is the proposed decision of Administrative Law Judge (ALJ) Douglas M. Long. It will not appear on the Commission's agenda sooner than 30 days from the date it is mailed. The Commission may act then, or it may postpone action until later.

When the Commission acts on the proposed decision, it may adopt all or part of it as written, amend or modify it, or set it aside and prepare its own decision. Only when the Commission acts does the decision become binding on the parties.

Parties to the proceeding may file comments on the proposed decision as provided in Article 14 of the Commission's Rules of Practice and Procedure (Rules), accessible on the Commission's website at www.cpuc.ca.gov. Pursuant to Rule 14.3, opening comments shall not exceed 15 pages.

Comments must be filed pursuant to Rule 1.13 either electronically or in hard copy. Comments should be served on parties to this proceeding in accordance with Rules 1.9 and 1.10. Electronic and hard copies of comments should be sent to ALJ Douglas M. Long at dug@cpuc.ca.gov and the assigned Commissioner. The current service list for this proceeding is available on the Commission's website at www.cpuc.ca.gov.

/s/ PHILIP SCOTT WEISMEHL for
Karen V. Clopton, Chief
Administrative Law Judge

KVC:lil

Attachment

Decision **PROPOSED DECISION OF ALJ LONG** (Mailed 11/1/2011)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Western Water Holdings, LLC, PWC Merger Sub, Inc., Park Water Company (U314W) and Apple Valley Ranchos Water Company (U346W) for Authority for Western Water Holdings, LLC to Acquire and Control Park Water Company and Apple Valley Ranchos Water Company.

Application 11-01-019
(Filed January 21, 2011)

**DECISION CONDITIONALLY APPROVING THE APPLICATION FOR
AUTHORITY FOR WESTERN WATER HOLDINGS, LLC, CARLYLE
INFRASTRUCTURE PARTNERS WESTERN WATER L.P., AND CARLYLE
INFRASTRUCTURE PARTNERS L.P. TO ACQUIRE AND CONTROL PARK
WATER COMPANY AND APPLE VALLEY RANCHOS WATER COMPANY**

TABLE OF CONTENTS

<u>Title</u>	<u>Page</u>
DECISION CONDITIONALLY APPROVING THE APPLICATION FOR AUTHORITY FOR WESTERN WATER HOLDINGS, LLC, CARLYLE INFRASTRUCTURE PARTNERS WESTERN WATER L.P., AND CARLYLE INFRASTRUCTURE PARTNERS L.P. TO ACQUIRE AND CONTROL PARK WATER COMPANY AND APPLE VALLEY RANCHOS WATER COMPANY	1
1. Summary	2
2. Background	2
3. Standards of Review	4
3.1. Standard of Review for a Transfer of Control by Acquisition	5
3.1.1. Analysis	7
3.2. Standard of Review for a Proposed Settlement.....	9
3.2.1. Analysis	11
4. Who Are the Applicants.....	12
4.1. Park and Ranchos	12
4.2. Carlyle.....	12
5. Proposed Settlement Terms	13
5.1. Proposed Settlement’s Conditions	13
5.2. Necessary Additional Conditions to Approval.....	14
5.3. Ranchos’ Water Rights	15
5.4. Limited Life of CIP Western Water	17
6. California Environmental Quality Act.....	18
7. Procedural History	18
8. Categorization and Need for Hearings.....	19
9. Comments on Proposed Decision.....	19
10. Assignment of Proceeding.....	19
Findings of Fact	19
Conclusions of Law	20
ORDER	21

ATTACHMENT A

DECISION CONDITIONALLY APPROVING THE APPLICATION FOR AUTHORITY FOR WESTERN WATER HOLDINGS, LLC, CARLYLE INFRASTRUCTURE PARTNERS WESTERN WATER L.P., AND CARLYLE INFRASTRUCTURE PARTNERS L.P. TO ACQUIRE AND CONTROL PARK WATER COMPANY AND APPLE VALLEY RANCHOS WATER COMPANY

1. Summary

Today's decision conditionally approves the transfer of control of Park Water Company (Park) and Apple Valley Ranchos Water Company (Ranchos) to Western Water Holdings LLC. The latter is wholly-owned by Carlyle Infrastructure Partners Western Water L.P., which in turn is wholly-owned by Carlyle Infrastructure Partners L.P. The decision adopts a proposed settlement between all the applicants and the Division of Ratepayer Advocates; we incorporate the proposed terms and conditions of the proposed settlement after we clarify that none of the conditions may be viewed as limiting the Commission's future discretion. We expand upon the requirement in the proposed settlement imposing a clarified condition that Western Water Holdings LLC must preserve and maintain certain water rights held by Ranchos based upon our clear record concerning those rights. Finally, we also require as a condition of approval that Western Water Holdings LLC, a limited life entity, must file an application with a specific plan for the future disposition of Park and Ranchos no later than 18 months before Western Water Holdings LLC is dissolved, or otherwise terminated, or modified.

This decision changes no rates or charges and the proceeding is closed.

2. Background

Park Water Company (Park) wholly-owns and operates Apple Valley Ranchos Water Company (Ranchos). Both are Class A water utilities regulated by the California Public Utilities Commission. Western Water Holdings LLC,

PWC Merger Sub, Inc. (Merger Sub), Park and Ranchos (collectively Applicants) filed this joint application seeking Commission authorization for Merger Sub to merge with and into Park, and for Western Water Holdings LLC to thereby acquire and control, directly or indirectly, Park and Ranchos (the Transaction). Both Merger Sub and Western Water Holdings LLC are wholly-owned subsidiaries of Carlyle Infrastructure Partners Western Water L.P. (CIP Western Water), which is wholly-owned by a group of investment fund vehicles associated with Carlyle Infrastructure Partners L.P. (collectively Carlyle Infrastructure). (Application at 1.)¹ As further explained in the application, this transfer is intended to provide an orderly transition from the close control of Park by an individual, Mr. Henry Wheeler, to a new owner, Western Water Holdings LLC. As used in this decision, these various related acquiring entities are referred to collectively as “Carlyle.”

As discussed further in today’s decision, the Commission’s Division of Ratepayer Advocates (DRA) reviewed the transaction and entered into a proposed settlement with the Applicants. There is no other testimony, evidence, or filing offered by DRA except for the proposed settlement and DRA’s initial protest.

The Town of Apple Valley (Town) also protested the application and filed comments on the proposed settlement. As a result, we investigated whether the proposed transfer of Ranchos, which serves Town, would place at risk of impairment or loss valuable water rights held by Ranchos. The security and

¹ The application further says that Carlyle Infrastructure Partners, L.P., “and the associated investment fund vehicles that together comprise Carlyle Infrastructure [are all] privately held Delaware limited partnerships.” (Application at 6.)

preservation of those rights is discussed further, below. Town also expressed concern whether Carlyle, as the new owner, would provide adequate infrastructure investment for Ranchos to provide safe and reliable service. We discuss this concern below.

Several additional entities filed protests and were consequently granted party status. They did not participate in the settlement conference required by our rules when Applicants and DRA noticed a proposed settlement and did not file comments on the motion for the adoption of the settlement although they remain on the service list as parties.

3. Standards of Review

In this proceeding, there are two relevant standards of review. The primary standard concerns the requested relief. Applicants bear the burden of proof to show that the regulatory relief they request is just and reasonable. In order to authorize the proposed transfer of control over Park and Ranchos the Commission must find that the transaction satisfies the standard of review applicable to transfers, which we describe in section 3.1 below.

The second standard of review, which we describe in section 3.2 below, concerns the settlement between Applicants and DRA. In general, a settlement should help the Commission to determine whether the requested relief is justified. Thus, a settlement may propose responses intended to satisfy objections to the requested relief. Here, the settlement provides various conditions and commitments to which Applicants agree, and which attempt to address objections raised in protests by DRA, Town, and others. In essence, the Commission will find that the settlement should be approved to the extent we are satisfied it fairly resolves those objections.

3.1. Standard of Review for a Transfer of Control by Acquisition

We begin our analysis by summarizing the statutes with most direct bearing on whether this merger and transfer of control is consistent with the law and in the public interest. Pub. Util. Code § 851, in relevant part, requires Commission approval before a public utility may sell the whole or any part of its system; § 852 requires a public utility to secure Commission authority before acquiring any capital stock of any other public utility; § 854(a) requires Commission authorization before any person or corporation may acquire or merge with any public utility; and § 854(d) requires the Commission to consider reasonable “options” to the applicants’ proposal recommended by other parties, in order to determine whether comparable short-term and long-term economic savings can be achieved through other means while avoiding the possible adverse consequences of the proposal. The Commission has long interpreted the above code sections to prohibit acquisitions, mergers, and transfers of control unless the Commission finds the proposed transaction to be in the public interest.

In order to determine whether the proposed transaction is in the public interest, we note that the Commission has used both the “ratepayer indifference standard” (i.e., a showing that no negative effects result from the change of control), and a net benefit standard (i.e., a showing that the transaction offers ratepayers some equitable share of the benefits the transaction will generate). (*Compare* D.00-05-047, 2000 Cal.PUC LEXIS 314, concerning California Water Services Company’s purchase of Dominguez Water Company, et al. (*CWS/Dominguez*) *with* D.01-09-057, 2001 Cal. PUC LEXIS 826, concerning

California American Water Company's acquisition of the water utility operations of Citizens Utilities (CalAm/Citizens.)

In D.00-05-047, the Commission approved the purchase under the ratepayer indifference standard.² The dissent stated that approvals for transfers of utility property under § 851 et seq. should include a finding of ratepayer benefit. (See D.00-05-047, 2000 Cal. PUC LEXIS 314 **60-61.) The dissent also stated that while it is not necessary to address the public interest considerations listed in Pub. Util. Code § 854(b) and § 854(c), since these sections do not apply by their terms to water utilities, this itemization of issues may inform the Commission's deliberations on how to strike the public interest balance. (*Id.* at note 2.)

In the Cal-Am/Citizens matter, the Commission concluded that, for an acquisition subject to § 2720³ to be in the public interest under § 851 and § 854(a), it must offer ratepayers an equitable share of the benefits the transaction will generate. (See D.01-09-057, 2001 Cal. PUC LEXIS 826, * 107, Conclusion of Law 8). The Commission also concluded that while § 854(b) and § 854(c) do not by their terms apply to water utilities, the Commission may, but need not, consider the extent to which the factors set forth in those sections bear on the public interest. (*Id.* at Conclusion of Law 9.)

² Decision (D.) 00-09-042, which denied rehearing of D.00-05-047, concluded that D.00-05-047, although expressly relying only on ratepayer indifference, also satisfied the more stringent ratepayer benefit standard by finding definite, quantifiable benefits flowing from the purchase.

³ Section 2720 is part of the Public Water Systems Investment and Consolidation Act of 1997 (Pub. Util. Code § 2718 et seq.), which sets out a procedure for establishing rates at fair market value following the completion and approval of an acquisition of a public water system by a regulated water utility.

3.1.1. Analysis

Both Cal-Am/Citizens and CWS/Dominguez differ from this proceeding in one important respect. The Cal-Am/Citizens and CWS/Dominguez transactions involved the merger of California water utilities, and the applicants in those proceedings projected operational and administrative synergies from the merger of the affected entities. In this proceeding, applicants are not merging California water utilities; rather, this transaction involves an acquisition at a holding company level by Carlyle. For that reason, applicants cannot demonstrate that the transaction will eliminate redundancies; rather, they project Park and Ranchos will operate in a business-as-usual fashion and current senior management remains in place. The primary benefit of this transfer is to provide a new stable ownership group to replace the principal owner, a person over 80 years old who wishes to relinquish control of the utilities.

Pub. Util. Code § 854(b) and (c) are applicable to certain mergers, acquisitions, or changes in control involving electric, gas or telephone utilities and are not by their terms applicable to this proceeding involving a water utility. However, as stated above, the Commission occasionally considers factors mentioned in those statutes even when, strictly speaking, the statutes do not apply, to determine if a proposed transaction is in the public interest. Accordingly, Applicants were directed by the Judge at the prehearing conference to demonstrate whether this transaction could satisfy the public interest test of § 854(c).

Applicants filed Supplementary Information on March 11, 2011 (Supplement 1) responding to the applicability of eight criteria enumerated in § 854(c).

- (1) Maintain or improve the financial condition of the resulting public utility doing business in the state.
- (2) Maintain or improve the quality of service to public utility ratepayers in the state.
- (3) Maintain or improve the quality of management of the resulting public utility doing business in the states.

Applicants' response is persuasive that an orderly transfer from Henry Wheeler to Carlyle, and retaining existing managers and staff, will provide stability, expertise, and access to the capital markets, so that Park and Ranchos should remain financially healthy and provide reliable service. (Supplement 1 at 3 - 5.) Therefore we find no adverse consequences under these provisions of § 854.

- (4) Be fair and reasonable to affected public utility employees, including both union and nonunion employees.

Applicants argue persuasively that the non-union employees all remain employed as before and executives are to be retained so that no jobs will be lost and the stable ownership allows employees to expect secure employment. (Supplement 1 at 5.) Therefore we find no adverse consequences under this provision of § 854.

- (5) Be fair and reasonable to the majority of all affected public utility shareholders.

Henry Wheeler's family is the beneficial owner of all but a small minority of the stock held by the University of California. No one objected to the proposed transfer and all shares will receive the same price. The current stock is otherwise illiquid, with no market for the stock to trade. Therefore applicants are persuasive that the proposed transfer is reasonable to current shareholders. (Supplement 1 at 6.) Therefore we find no adverse consequences under this provision of § 854.

- (6) Be beneficial on an overall basis to state and local economies, and to the communities in the area served by the resulting public utility.

Applicants argue persuasively that the local community will be well served by the continued operation of Park and Ranchos by the same managers and employees. The new owners bring a strong financial basis to the operation and that utilities will therefore continue to serve the local communities.

(Supplement 1 at 6-7.) Therefore we find no adverse consequences under this provision of § 854.

- (7) Preserve the jurisdiction of the commission and the capacity of the commission to effectively regulate and audit public utility operations in the state.

Applicants argue that there will be no change and we agree: nothing about this approval in any way alters, limits, or changes the Commission's authority to regulate Park and Ranchos. As noted elsewhere in this decision, nothing in the settlement conditions proposed by Applicants and DRA can in anyway be construed in the future to have limited or preapproved any action by the Commission. Therefore we find no adverse consequences under this provision of § 854.

- (8) Provide mitigation measures to prevent significant adverse consequences which may result.

No one has identified any adverse consequences except for Town's concern over the integrity of water rights held by Ranchos. As we find elsewhere, those water rights are unharmed by the transfer and the new owner of Ranchos, Carlyle, is not able to alter, transfer, or encumber those rights without Commission authority. Therefore we find no adverse consequences under this provision of § 854.

3.2. Standard of Review for a Proposed Settlement

The Commission's Rules of Practice and Procedure (Rules) specifically address the requirements for adoption of proposed settlements. The relevant rules are Rule 12.1 *Proposal of Settlements*, and Rule 12.5 *Adoption Binding, Not Precedential*.⁴ Specifically, Rule 12.1 states in part:

(a) Parties may, by written motion any time after the first prehearing conference and within 30 days after the last day of hearing, propose settlements on the resolution of any material issue of law or fact or on a mutually agreeable outcome to the proceeding. Settlements need not be joined by all parties; however, settlements in applications must be signed by the applicant and, in complaints, by the complainant and defendant.

The motion shall contain a statement of the factual and legal considerations adequate to advise the Commission of the scope of the settlement and of the grounds on which adoption is urged. Resolution shall be limited to the issues in that proceeding and shall not extend to substantive issues which may come before the Commission in other or future proceedings.

When a settlement pertains to a proceeding under a Rate Case Plan or other proceeding in which a comparison exhibit would ordinarily be filed, the motion must be supported by a comparison exhibit indicating the impact of the settlement in relation to the utility's application and, if the participating staff supports the settlement, in relation to the issues staff contested, or would have contested, in a hearing.

(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 public interest.

⁴ http://docs.cpuc.ca.gov/published/RULES_PRAC_PROC/105138-11.htm#P623_143939.

Rule 12.5 limits the future applicability of a settlement:

Commission adoption of a settlement is binding on all parties to the proceeding in which the settlement is proposed. Unless the Commission expressly provides otherwise, such adoption does not constitute approval of, or precedent regarding, any principle or issue in the proceeding or in any future proceeding.

3.2.1. Analysis

Based upon the record of this proceeding we find the settling parties complied with Rule 12.1(a) by making the appropriate filings and noticing a settlement conference. Based upon our review of the settlement documents we find that they contain a statement of the factual and legal considerations adequate to advise the Commission of the scope of the settlement and of the grounds for its adoption; that the settlement was limited to the issues in this proceeding; therefore we are able to find that the settlement complies with Rule 12.1(a), and is reasonable in light of the whole record, consistent with law, and in the public interest.

Based upon our review of the settlement document we find, pursuant to Rule 12.5, that the proposed settlement would not unreasonably bind or otherwise impose a precedent in this or any future proceeding. We wish to emphasize that none of the conditions agreed to by applicants as a part of the settlement prejudice or limit the Commission's discretion in the future regulation of Park or Ranchos.

We do adopt an additional requirement that Western Water Holdings LLC, a limited life entity, must file an application with a specific plan for the future disposition of Park and Ranchos no later than 18 months before Western Water Holdings LLC is dissolved, or otherwise terminated, or modified. This application also applies to any subsequent transfer of Western Water Holdings

LLC assets to any other Carlyle entity. With this additional requirement we find that we may adopt the terms and conditions of the proposed settlement and grant the transfer of control.

4. Who Are the Applicants

4.1. Park and Ranchos

Rancho is a wholly-owned subsidiary of Park. Both are Class A water utilities subject to the Commission's jurisdiction. Park is owned and controlled by Henry Wheeler. According to the application, he is in his eighties and now wishes to ensure an orderly and expeditious transfer of the companies to a new owner. Under the proposed agreement, Wheeler will be retained as a consultant and will be allowed to participate in lending to Park and Ranchos. These actions are addressed in the proposed settlement conditions and as found below we can adopt the settlement's conditions as reasonable and in the public interest.

4.2. Carlyle

This proposed transfer is unusual in that the proposed buyers of Park are not individuals, an existing utility, or any publicly traded company, also, the proposed buyers are, apart from this proceeding, otherwise previously unknown to the Commission. We therefore have an affirmative obligation to understand who the principal entities are, namely, Western Water Holdings, LLC, CIP Western Water, and Carlyle Infrastructure proposing to acquire Park and Ranchos, and to determine whether they are appropriate entities to control a public utility.

Carlyle Infrastructure Partners, L.P., "and the associated investment fund vehicles that together comprise Carlyle Infrastructure [are all] privately held Delaware limited partnerships." (Application at 6.) In two additional Supplementary Responses dated April 28, 2011 (one public - Supplement 3 - and

the other confidential – Supplement 4). Applicants provided a detailed description of the organization of the Carlyle entities associated with this acquisition, including Holdings, Merger Sub, CIP Western, and Carlyle Infrastructure Partners L.P. The confidential materials include organizational information, the detailed partnership agreements and much other data which demonstrate the organizational nature of the entities. We agree with Carlyle’s request that this information should remain confidential.

We find based on our review of the filed materials that Carlyle is composed of properly organized legal entities that have the resources necessary to act as the 100% owner of two regulated utilities, Park and Ranchos. No one has shown any cause in this proceeding why we should not find the underlying entities suitable to own and operate utilities to provide safe and reliable service.

5. Proposed Settlement Terms

Applicants and DRA proposed that the Commission approve the transaction and, as a part of that proposal, offer specific conditions intended to protect the public interest. We find these terms reasonable and adopt the settlement.

5.1. Proposed Settlement’s Conditions

A review of the terms of the proposed settlement (Attachment A) indicates that DRA was concerned with preserving regulatory oversight, avoiding any additional costs accruing to customers because of the merger, and the ongoing reasonable operation of both Park and Ranchos. The proposed settlement, which we adopt, is attached to this decision.

The proposed settlement, among other issues, addresses preserving or protecting for the ratepayers’ benefit the water rights held by Ranchos. We discuss water rights elsewhere in greater detail where we independently

emphasize in our order that those rights are unaffected by the transfer of control and that we retain and will exercise our full jurisdiction over those water rights. The proposed settlement also addresses the continued application of Commission's existing affiliate rules, and other regulatory policy matters which will continue to apply to Park, Ranchos, and the proposed owner, Carlyle. We emphasize that nothing about the proposed settlement in any way limits the applicability of our previously adopted regulatory policies or reduces our oversight for any of these matters.

The settlement arguably imposes no new obligation or duty on Park or Ranchos and therefore we need not recite the various terms in this order or discuss them further. It does however demonstrate Carlyle is fully aware of and acknowledges the ongoing applicability of the regulatory practices and policies alluded to in the settlement. We find the terms reasonable and in the public interest. We find that nothing in the terms restricts this Commission's ongoing oversight or authority.

Nothing requested in this application, or contained in the settlement, will increase rates to customers. Both Park and Ranchos will continue to provide service under the terms and conditions of their existing tariffs. Rates for Park and ranchos will only change pursuant to the Commission's review of subsequent rate applications and advice letters.

5.2. Necessary Additional Conditions to Approval

Beyond the undertakings of the application and the settlement, we find that it is necessary in light of the controversy described below, to add as a condition of approval that Carlyle cannot encumber, diminish, or cause a loss of Ranchos' existing water rights in the Mojave Basin without specific authority from this Commission.

5.3. Ranchos' Water Rights

Ranchos holds water rights in the Mojave basin, subject to a water master and court adjudication. Specifically, that the Mojave Water Agency is a water agency created by California statute (the Mojave Water Agency Act) and has been appointed Watermaster by the Riverside Superior Court to “administer and enforce” an amended Judgment in the Mojave Basin Adjudication (City of Barstow v. City of Adelanto, Riverside Superior Court Case No. 208568). Town argues the rights may be either lost by the transfer under the terms of the controlling court order, or that Carlyle might try to sell the rights and then charge customers for higher cost replacement water.

Town is concerned that the water rights held by Ranchos could be legally at risk because of the complex settlement applicable to water rights in the Mojave basin. Loss or impairment of the rights would inevitably lead to significantly higher costs for replacement water or even a permanent loss in available water. Applicants counter that there was no reasonable likelihood that the transfer of control, when the utility would continue in uninterrupted operation, would impair or result in the forfeiture of the water rights.

By ruling dated March 24, 2011, the Judge directed the applicants to contact the legal counsel to the Mojave Water Agency to seek an opinion letter. The intent of the ruling was to have the opinion of Mojave Water Agency's legal counsel on the following questions:

1. Is there any provision in the Judgment or the Mojave Water Agency Act by which the Transaction will constitute a transfer of Ranchos' water rights?
2. Is there any provision in the Judgment or the Mojave Water Agency Act, or any other reason, that would require approval by the Mojave Water Agency for the Transaction to be effective?

3. Is there any provision in the Judgment or the Mojave Water Agency Act by which the Transaction will encumber, diminish, or cause a loss of Ranchos' water rights in the Mojave Basin? (Ruling at 3.)

Applicants provided an opinion letter dated April 27, 2011 from counsel to the Mojave Water Agency, William J. Brunick, Esq., with the firm Brunick, McElhaney & Beckett, in San Bernardino, Ca. In that opinion counsel affirmed that the proposed Transaction would not constitute a transfer of the water right (question 1); would not require approval by the Mojave Water Agency (question 2); and would not encumber, diminish, or cause a loss of Ranchos' rights.⁵

We find this opinion letter to be sufficient and persuasive that the transfer to Carlyle will not harm Ranchos' access to water, and therefore find that we can approve the transfer of control without concern that the transfer in itself might encumber, diminish, or cause a loss of Ranchos' existing water rights in the Mojave Basin.

Town also expressed a fear that the new controlling interests had no local ties and would consider the water rights to be a fungible commodity to potentially be sold. However, Applicants clearly acknowledge in the record that the water rights are held to serve Ranchos' customers. Further, Ranchos (regardless of who owns or controls the company) cannot dispose of the water rights or transfer the water rights without the approval of this Commission. We therefore clarify in this decision that Ranchos (or its proposed new owner Carlyle) cannot encumber, diminish, or transfer the water rights in the Mojave basin without an order of this Commission.

⁵ The full response and opinion letter: <http://docs.cpuc.ca.gov/efile/RESP/134587.pdf>

5.4. Limited Life of CIP Western Water

In the supplemental filings by Applicants (Supplements 3 and 4), it was disclosed and explained in detail that the relevant Carlyle entities to this transaction will dissolve no later than September 28, 2019, and the assets must either be disposed of or some other as yet unformed Carlyle investment fund may acquire the assets. (Supplement 3 at 3.)

Faced with a certain termination of ownership by the proposed transferees, we must ensure there will be a timely and orderly subsequent transfer of control over Park and Ranchos when Carlyle dissolves. When any utility files for a transfer of control, as did Park and Ranchos, the Commission must take whatever time is necessary to review the transaction and may even refuse the authority. Therefore we find that it is in the public interest to require Carlyle, as a condition to approval of the transfer, to file an application with a specific plan for the future disposition of Park and Ranchos. We are not concerned with whether the plan is to sell Park and Ranchos to a new owner or owners or to a new Carlyle investment vehicle: rather, we are concerned that we have sufficient time to review and approve the proposal.

We select 18 months as a reasonable period to process such an application. It is the time limit generally imposed by statute to complete a ratesetting application. It is also long enough, we believe, that the Commission may examine any proposal, and if necessary, make modifications to the plan to protect the public interest. Without this requirement the Commission could find itself forced into a hasty review or risk the uncertainty and chaos that would likely surround Park and Ranchos by the dissolution of Carlyle while a transfer of control was pending.

6. California Environmental Quality Act

The only remaining issue is whether, as the applicants assert, the proposed transfer qualifies for an exemption from the California Environmental Quality Act (CEQA). Under CEQA and Rule 2.4, we are required to consider the environmental consequences of projects that are subject to our discretionary approval. (*See*, Public Resources Code § 21080.)

We acknowledge that in some cases, it is possible that a change of ownership and/or control may alter an approved project, result in new projects, or change facility operations in ways that have an environmental impact. However, the Application demonstrated that Park and Ranchos will continue to operate as they did before the transfer of control.

We conclude that under these circumstances, the proposed project qualifies for an exemption from CEQA pursuant to § 15061(b)(3) of the CEQA guidelines, inasmuch as it can be seen with certainty that the project will have no significant impact upon the environment. Accordingly, the Commission does not have to perform further environmental review of this application.

7. Procedural History

There were no evidentiary hearings in this proceeding. The record is the Applicants' initial filings, the comments of parties, the supplementary information filed in response to specific rulings by the Administrative Law Judge (ALJ) and the terms of the proposed settlement agreement.

Timely protests were filed by DRA, Town, Apple Valley Unified School District, and several private individuals: Peter W. Allan, Angelo Santo Cici, William Elbridge McDaniel Jr., and Christine Smith and James Smith. Only Town and DRA actively participated throughout the proceeding.

The application appeared on the Commission's daily calendar; there was duly noticed prehearing conference; and a duly noticed settlement conference. Only Town filed comments on the proposed settlement, addressing water rights and the standards of review.

8. Categorization and Need for Hearings

In Resolution ALJ 176-3268 dated January 27, 2011, the Commission preliminary categorized this application as Ratesetting and preliminarily determined that hearings were necessary based upon the detailed settlement, a public hearing is not necessary.

9. Comments on Proposed Decision

The proposed decision of ALJ Long in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on _____, and reply comments were filed on _____ by _____.

10. Assignment of Proceeding

Michael R. Peevey is the assigned Commissioner and Douglas M. Long is the assigned ALJ in this proceeding.

Findings of Fact

1. There is an adequate record composed of all filed and served documents.
2. The record was expanded by supplementary information filed in response to rulings addressing issues raised by the application and by parties.
3. The proposed settlement ensures the continued operation of Park and Ranchos will be in the public interest.

4. The Mojave basin water rights held by Ranchos are subject to the Commission's jurisdiction.
5. The Mojave Basin water rights cannot be encumbered, diminished, or transferred without a Commission order.
6. Carlyle will dissolve no later than September 28, 2019.
7. The transfer of control will not change the operations of Park or Ranchos and therefore is not a project as defined by CEQA.
8. The terms of the proposed settlement are in the public interest.
9. The proposed transfer of control will have no significant effect upon the environment, because Park and Ranchos will continue to operate as they did before the transfer of control.

Conclusions of Law

1. Applicants bear the burden of proof to show that the request is reasonable.
2. The Mojave Basin water rights are subject to the jurisdiction of this Commission and cannot be transferred without an order of this Commission.
3. The proposed settlement is reasonable in light of the whole record, consistent with law, and in the public interest, therefore the Commission may adopt it.
4. The proposed transfer of control, with adopted conditions, is consistent with the law and in the public interest and therefore the Commission may approve it.
5. It is in the public interest to require Carlyle to file an application with a proposed plan for an orderly transition of Park and Ranchos before Carlyle is dissolved on September 28, 2019. Eighteen months before then is a reasonable timeframe for reviewing and authorizing a plan.

6. The proposed settlement is reasonable because its terms are consistent with our regulatory policy and will tend to ensure Park and ranchos are operated in a professional and consistent manner.

7. The Commission has the discretion and authority to resolve issues which were not addressed in the settlement, including the limited life of Carlyle.

8. Water rights held by Ranchos in the Mojave Basin are subject to an amended Judgment in the Mojave Basin Adjudication (City of Barstow v. City of Adelanto, Riverside Superior Court Case No. 208568).

9. Water rights cannot be encumbered, diminished, or transferred by Ranchos without a specific order by this Commission.

10. The proposed transfer qualifies for an exemption from CEQA pursuant to CEQA Guidelines § 15061(b)(3), so additional environmental review is not required.

11. This decision should be effective today.

12. This proceeding should be closed.

O R D E R

IT IS ORDERED that:

1. Pursuant to Public Utilities Code Sections 851, 852, and 854, the transfer of control of Park Water Company and Apple Valley Ranchos Water Company to Western Water Holdings LLC., which is a wholly-owned subsidiary of Carlyle Infrastructure Partners Western Water L.P., which in turn is wholly-owned by Carlyle Infrastructure Partners, L.P., is approved effective as of the date of today's decision.

2. The transfer of control of Park Water Company and Apple Valley Ranchos Water Company to Water Company to Western Water Holdings LLC., which is a wholly-owned subsidiary of Carlyle Infrastructure Partners Western Water L.P., which in turn is wholly-owned by Carlyle Infrastructure Partners, L.P., approved herein qualifies for an exemption from the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines § 15061(b)(3); therefore no environmental review is required.

3. Water rights held by Apple Valley Ranchos Water Company (Ranchos) in the Mojave Basin are subject to an amended Judgment in the Mojave Basin Adjudication (City of Barstow v. City of Adelanto, Riverside Superior Court Case No. 208568). These water rights cannot be encumbered, diminished, or transferred by Ranchos, Western Water Holdings LLC, Carlyle Infrastructure Partners Western Water L.P., or Carlyle Infrastructure Partners, L.P., without a specific order by this Commission.

4. Western Water Holdings LLC., Carlyle Infrastructure Partners Western Water L.P., and Carlyle Infrastructure Partners, L.P., as the owners of Park Water Company (Park) and Apple Valley Ranchos Water Company (Ranchos) must file an application with a proposed plan for an orderly transition of Park and Ranchos no later than 18 months before September 28, 2019.

5. Hearings are not necessary.

6. Application 11-01-019 is closed.

This decision is effective today.

Dated _____, at San Francisco, California.

ATTACHMENT A