BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of Western Water Holdings, LLC, PWC Merger Sub, Inc., Park Water Company (U 314 W), and Apple Valley Ranchos Water Company (U-346-W) for Authority for Western Water Holdings, LLC to Acquire and Control of Park Water Company and Apple Valley Ranchos Water Company.	Application 11-01-019 (Filed January 21, 2011)

SETTLEMENT AGREEMENT AMONG THE DIVISION OF RATEPAYER ADVOCATES, WESTERN WATER HOLDINGS, LLC, PWC MERGER SUB, INC., PARK WATER COMPANY (U 314 W), AND APPLE VALLEY RANCHOS WATER COMPANY (U-346-W)

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July 1, 2011

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1. GENERAL

1.1 Pursuant to Article 12 of the Rules of Practice and Procedure of the California Public Utilities Commission ("Commission"), Western Water Holdings, LLC ("Western Water"), PWC Merger Sub, Inc. ("Merger Sub"), Park Water Company ("Park Water"), and Apple Valley Ranchos Water Company ("AVR") (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 Western Water, Merger Sub, Park Water, and AVR for authority for Western Water to Acquire and Control Park Water and AVR ("Application"). The Parties respectfully request that the Commission grant such authorization, 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 should 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 rather than 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.

1.6 No Party has relied or presently relies upon any statement, promise or representation by any other Party, whether oral or written, except as specifically set forth in this Settlement. Each Party expressly assumes the risk of any mistake of law or fact made by such Party or its authorized representatives.

1.7 This Settlement constitutes and represents the entire agreement among the Parties and supersedes all prior and contemporaneous agreements, negotiations,

representations, warranties and understandings of the Parties with respect to the subject matter set forth herein.

2. BACKGROUND

2.1 On December 21, 2010, Western Water, Merger Sub, and Park Water entered into an Agreement and Plan of Merger ("Merger Agreement") for Western Water's acquisition of 100% of the outstanding capital stock of Park Water for up to $102 million in cash, or $4,177.65 per share. The Merger Agreement requires the present shareholders to place $10 million of the purchase price in escrow to secure their indemnification obligations under the Agreement. Park Water's existing third party debt, which as of December 31, 2010 amounted to $54.5 million, will remain outstanding following the closing of the Transaction.

2.2 On January 21, 2011, the Joint Applicants filed the Application, A.11-01-019, to request Commission authorization of the direct acquisition and control of Park Water and the indirect control of AVR resulting from Western Water's purchase of Park Water's capital stock.

2.3 On April 13, 2011, counsel for Western Water and Merger Sub sent to the service list in this proceeding a notice that a settlement conference would be held in San Francisco on May 6, 2011.

2.4 On May 6, 2011, the noticed settlement conference was held at the Commission's offices at 505 Van Ness Avenue in San Francisco. Representatives of the Joint Applicants and DRA attended the settlement conference. The Town of Apple Valley's counsel and Mr. James Smith, an Intervenor, participated in the settlement conference by telephone. An initial draft of this settlement agreement was considered and further issues were discussed.

2.5 A revised draft settlement agreement, reflecting discussion at the May 6 conference, was circulated and further discussions occurred among participants in that conference, resulting in the present Settlement Agreement.

3. CONDITIONS OF APPROVAL OF THE PROPOSED TRANSACTION

3.1 The Parties agree to 28 specific conditions that will govern certain aspects of the relationship between Park Water and AVR and Park Water's parent company, Western Water. 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. AFFILIATE TRANSACTION RULES

The Parties understand and agree that the water industry-wide affiliate transaction rules developed in Rulemaking 09-04-012 and adopted by Decision 10-10-019 in that rulemaking apply to both Park Water and Apple Valley and will continue to apply to Park Water and Apple Valley after the acquisition by Western Water of ownership and control.

Respectfully submitted,

DIVISION OF RATEPAYER ADVOCATES

By: _____
Joseph P. Como
Its: Acting Director

WESTERN WATER HOLDINGS, LLC

By: _____
Robert Dove
Its: President

PARK WATER COMPANY

By: _____
Christopher Schilling

Its: Co- Chief Executive Officer

PWC MERGER SUB, INC.

By: _____
Robert Dove

Its: President

APPLE VALLEY RANCHOS WATER COMPANY

By: _____
Leigh K. Jordan

Its: Executive Vice President

APPENDIX A

Conditions of Approval of the Proposed Transaction

1. The proposed transaction shall have no effect on the Commission's authority over the provision of public utility service to the public by Park Water Company ("Park Water") and Apple Valley Ranchos Water Company ("AVR").

2. Park Water and AVR shall comply with all applicable California and federal laws and administrative regulations.

3. Western Water Holdings, LLC ("Western Water") shall ensure that Park Water and AVR have adequate capital to fulfill all of their 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.) Western Water acknowledges Park Water's and AVR's need for significant amounts of capital to invest in their water supply and delivery infrastructure and commits to meeting all of Park Water's and AVR's capital needs that the Commission has deemed necessary.

4. For financial purposes, Park Water shall maintain an equity percentage of at least 45%, on a Park-and-subsidiaries-consolidated basis (consistent with the capital structure used for ratemaking purposes), except to the extent the Commission imputes a lower equity percentage for ratemaking purposes.

5. Park Water and AVR will notify the Commission of any dividends and distributions to Western Water or other Affiliates in their Annual Reports to the Commission (filed on or about March 31 of each year).

6 Park Water and AVR will notify DRA and the Commission in writing of any change in corporate dividend policy within 30 days of the effective date of the adoption of such change.

7. Rate recovery of direct charges from Western Water or any other unregulated affiliates, as defined in the Affiliate Transaction Rules adopted by Decision 10-10-019 or any amendments or modifications thereto ("Affiliates") to Park Water or AVR shall be prohibited without the Commission's authorization. All such direct charges shall be specifically identified in general rate cases or advice letter filings.

8. Neither Park Water nor AVR shall issue long-term debt or guarantee any debt of any of their Affiliates without prior approval by the Commission.

9. Neither Park Water nor AVR shall sell, transfer, or encumber any utility assets necessary or useful to provide utility service, including water rights, without prior approval by the Commission.

10. Park Water and AVR shall continue to maintain their books and records in accordance with all Commission rules. Park Water's and AVR's books and records shall be maintained and be available in California.

11. The transfer of ownership and control will not adversely affect Park Water's or AVR's 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.

12. Customer service to Park Water's and AVR's customers will not be affected by the transaction. Western Water shall maintain Park Water's and AVR's commitment to high quality public utility water service and community involvement.

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

14. No additional layer of management overhead may be allocated to Park Water or AVR as a result of the transaction.

15. The proposed transaction shall not adversely affect any of the outstanding debt owed and recorded as liabilities on the regulated books of Park Water and AVR. There shall be no increase in Park Water's or AVR's cost of service or reduction in quality of service due to effects of the proposed transaction on the income statement, balance sheet or financial position of Park Water or AVR.

16. The ratepayers of Park Water and AVR shall not incur, directly or indirectly, any transaction costs or other liabilities or obligations arising from the proposed transaction. In particular, any expenses incurred by Park Water or AVR due to the proposed transaction or the related Commission proceeding, A.11-01-019 (such as outside legal expense and travel costs) shall be accounted for as non-utility expense and shall not be included in the recorded base of any account included in the calculation of revenue requirement for future rate cases.

17. The payroll and active-employee payroll-related costs associated with the President (Henry H. Wheeler, Jr.) and the Assistant Corporate Secretary (Chayre M. Wheeler), who will retire as a result of completion of the transaction, will not be included in the ratemaking expenses for Park Water's General Office nor will any direct charges or allocations of those costs be included in the ratemaking expenses of Park Water's operating divisions or utility subsidiaries, including AVR. The payroll-related costs to be excluded are workers' compensation insurance, payroll taxes, and associated active-employee benefits. (As neither Mr. nor Ms. Wheeler is eligible for Pension benefits or has ever participated in the 401(k) plan, there are no costs for these categories; as Mr. and Ms. Wheeler are fully vested in Park Water's Post-retirement Benefits Other than Pension ("PBOP") plan, their retirement does not affect Park Water's PBOP cost.)

18. The amount of Board of Director Fees to be recognized as utility expense in calculating revenue requirement for ratemaking purposes will be set at $100,000 (in 2012 dollars) per year for the period 2012-2014. This amount will be included in the Park Water General Office expenses, which are allocated to Park Water's operating divisions and utility subsidiaries, including AVR.

19. Consulting fees incurred by Park Water under any consulting agreement or arrangement with Henry H. Wheeler, Jr. will be recognized as utility expense in calculating revenue requirement for ratemaking purposes in the amount of $63,000 (in 2012 dollars) for 2012 and 2013 and zero in 2014. Specifically, $63,000 will be added to the expenses otherwise estimated in the Park Water General Office "Outside Services Expense" category for test year 2012, prior to allocation to AVR. In 2014, $63,000 (in 2012 dollars) will be deducted from the

adopted 2013 Outside Services expense prior to applying the appropriate escalation factor to arrive at the 2014 expense in the escalation year filing.

20. In future General Rate Increase applications for Park Water or AVR, those companies agree to specifically identify any consulting fees contained in the historic expenses incurred under any consulting agreement or arrangement with Henry H. Wheeler, Jr. so that DRA will have the information to propose any adjustment it may consider appropriate.

21. As part of this proceeding, the ratepayers of Park Water and AVR shall not incur financial obligations due to any premium paid by the purchasing Applicants for the acquisition of Park Water or AVR.

22. Park Water and AVR shall not incur any additional indebtedness, issue any additional securities, or pledge any assets to finance any part of the proposed transaction.

23. Affiliates of Park Water shall take no actions that would impair Park Water's or AVR's ability to fulfill their public utility obligations to serve and to operate in a prudent and efficient manner.

24. Any activities or actions directed at enhancing or increasing Western Water's investment in Park Water will require Commission approval for reflection of such investment in rates.

25. Any loans made to Park Water by Mr. Henry H. Wheeler, Jr. will be at prevailing market rates or lower and will be subject to prior Commission approval.

26. Affiliates of Park Water, including Western Water, shall not require Park Water or AVR to take any action inconsistent with AVR's rights under the terms of the Mojave Basin Adjudication (*City of Barstow v. City of Adelanto*, Riverside Superior Court Case No. 208568)

and the Judgment After Trial, entered January 10, 1996, as amended December 5, 2002, in that case.

27. Park Water and AVR, and Western Water as the parent of Park Water, shall comply with the Affiliate Transaction Rules adopted by the Commission in Rulemaking 09-04-012, the Commission Rulemaking to develop standard rules for affiliate transactions and the use of regulated assets for non-tariffed services of water utilities

28. 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 set forth in this Appendix A.

-- End of Appendix A --

(END OF ATTACHMENT A)