

APPENDIX D

SETTLEMENT AGREEMENT



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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking on the Commission's)
own motion to set rules and provide guidelines for)
the Acquisition and Mergers of Water Companies)
_____)

R.97-10-048

SETTLEMENT

1.00 Introduction

1.01 The parties to this Settlement ("Parties") relating to the Order Instituting Rulemaking issued by the California Public Utilities Commission ("Commission") on October 22, 1997, are the Ratepayers Representation Branch ("RRB") of the Water Division and the California Water Association ("CWA").

1.02 The Parties agree that no signatory hereto nor any member of the staff of the Commission assumes any personal liability as a result of this Settlement. The Parties agree that no legal action may be brought in any state or federal court, or in any other forum, against any signatory representing the interests of RRB, any individual of RRB, its attorneys, or the RRB itself regarding this Settlement. All rights and remedies are limited to those available before the Commission.

2.00 General Requirements Regarding Acquisitions and Mergers of Public Utilities

2.01 Definition of Acquisition. An "acquisition" is a merger, a purchase of stock or assets, or an exchange of stock.

2.02 Notice Of Intention. The Parties agree that any request for authorization to acquire a Class A or B water utility should be preceded by a Notice of Intention. Such notice should include a showing as to how the merger or acquisition would affect reliability, compliance with regulations relating to health and safety, economies of scale, and customers.

2.03 Processing. The Parties agree that applications should be processed according to the schedules attached to this Settlement.

2.04 Results of Operations. The Parties agree that each application should include a forecast of the results of operation for (1) the acquiring utility, (2) the acquired utility, and (3) the combined operation for the first and fifth years following acquisition, together with all supporting documentation.

2.05 Appraisal. The Parties agree that the filing of each application should include an appraisal, together with all supporting materials and workpapers. The appraisal should include all assets, including the value of the land and the cost of replacing the existing improvements, less accumulated depreciation. The complexity and detail required will necessarily vary based on the size and price of the acquired water system.

2.06 Facilities Funded by the Federal or State Government. The Parties agree that the cost of any plant or improvement of a privately-owned utility which is funded by a loan from the federal or state government and not included in rate base should not be included in the appraisal for the purpose of setting rates. The acquiring utility should be allowed to continue any surcharge established to repay any such loan until fully repaid.

2.07 Assets Funded by Contributions. The Parties agree that any asset funded by contribution should be valued in the appraisal in accordance with Section 820 of the Evidence Code.

3.00 Acquisition of Inadequately Operated and Maintained Small Water Utilities

3.01 Definition of Inadequately Operated and Maintained Small Water Utility. An "inadequately operated and maintained small water utility" is any operation serving under 2,000 customers that is subject to an outstanding order of the Department of Health Services to implement improvement.

3.02 Use of Advice Letter. To expedite improvements mandated by the Department of Health Services, the transfer of assets and related obligations of an inadequately operated and maintained small water utility may be approved by the Commission pursuant to an advice letter.

3.03 Incentives. The Parties agree that, for a period not to exceed seven years, a utility acquiring an inadequately operated and maintained utility should, pursuant to D.92-03-093, be permitted to exercise any one or combination of the following options:

- A. Establish a memorandum account for expenses associated with unanticipated repairs,
- B. Design rates to recover up to 100% of fixed costs in the service charge,
- C. File for an increase in rates based on the most recent increase in the Consumer Price Index for All Urban Consumers, and
- D. Set rates on the basis of the applicable rate of return on rate base permitted a Class C or a Class D water utility.

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3.04 Premium Above Purchase Price. The Parties agree that, if the purchase price is less than book value, the acquiring utility should be authorized to earn a return on the price paid plus 50 percent of the difference between book value and the price paid. The amount above the purchase price should be amortized over the average remaining life of the plant. In addition, the price paid shall include for purposes of ratemaking any cost incurred to complete the acquisition.

4.00 Acquisition of Mutual and Publicly-Owned Water Systems

4.01 Sections 852 and 854 of the Public Utilities Code. The Parties agree that neither Section 852 nor Section 854 of the Public Utilities Code requires a privately-owned utility to obtain authorization from the Commission before acquiring a publicly-owned utility.

4.02 Filing of Rates. The Parties agree that the acquiring utility should be authorized to file an advice letter placing into effect the existing rates of its adjacent or nearby water system, the acquired system's rates, or rates lower than either.

4.03 Notice. Notice of a proposed acquisition should be given to all affected customers at the time when any advice letter or application is filed with the Commission. Additionally, the notice should contain a comparison of the rates before the acquisition and for the first year after the acquisition and identify any cost, including a reasonable return, not fully reflected in the first year's rates. With respect to the acquisition of a water system of a municipality, similar notice should be given to all affected customers prior to any election.

5.00 Financing Subject to Approval by the Commission. The Parties agree that each utility is required to file an application for approval of long-term financing involved in each acquisition. An example of long-term financing is a municipality that agrees to sell its water system in exchange for annual payments from the acquiring utility. The Parties further agree that a utility may either file an application for the long-term financing of a particular acquisition or rely on authorization previously given by the Commission for long-term financing.

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ACQUISITION OF A CLASS A OR B WATER UTILITY

| DAY | EVENT |
|---------|--|
| - 40 | Notice of Intention |
| - 20 | Notice of Deficiency |
| 0 | Application filed |
| 20 | Utility notified by RRB whether it will request an independent appraisal (excludes municipal corporations) |
| 30* | Prehearing Conference |
| 80 | RRB's Report |
| 115-125 | Hearings |
| 155 | Briefs |
| 215** | Proposed Decision |
| 245*** | Commission's Agenda |

* Scheduled dates after the prehearing conference assume no independent appraisal.

** Or 60 days after the case is submitted.

*** Or 90 days after the case is submitted.

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ACQUISITION OF A CLASS C OR D WATER UTILITY

| DAY | EVENT |
|---------|-----------------------|
| 0 | Application filed |
| 30 | Notice of Deficiency |
| 45 | Prehearing Conference |
| 90 | RRB's Report |
| 120-125 | Hearings |
| 155 | Briefs |
| 215* | Proposed Decision |
| 245** | Commission's Agenda |

* Or 60 days after the case is submitted.

** Or 90 days after the case is submitted.

ADVICE LETTER

| DAY | EVENT |
|-------|----------------------|
| 0 | Advice Letter Filed |
| 30 | Notice of Deficiency |
| 40* | Utility's Response |
| 70** | Draft Resolution |
| 100** | Commission's Agenda |

* Assumes that utility fully responds to deficiency letter within 10 days. (If complete response not received by Day 40, the schedule will be adjusted accordingly.)

** If Commission approval is required.

REQUIREMENTS FOR APPLICATIONS AND ADVICE LETTERS

In addition to an appraisal, a filing must include the following:

- Proposed Rates
- Copy of Purchase Agreement
- Service Area Map
(mutual and governmental acquisitions only)
- Copy of Notice to Customers
- Service List, Including Expected Interested Parties
(such as wholesale suppliers and adjacent utilities)

Respectfully submitted,

Program Manager, Ratepayer
Representation Branch of the
Water Division

February 2, 1999



Vice President, Regulatory Affairs
California Water Service Company

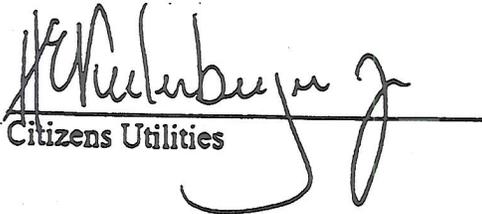
February 2, 1999

Respectfully submitted,


California American Water

February 2, 1999

Respectfully submitted,


Citizens Utilities

February 2, 1999

Respectfully submitted,



Dominguez Water Corporation
V.P. Finance

February 2, 1999

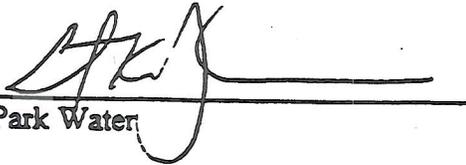
Respectfully submitted,



Great Oaks Water Company

February 2, 1999

Respectfully submitted,



Park Water

February 2, 1999

Respectfully submitted,

SAN GABRIEL VALLEY WATER COMPANY

By: 
Michael L. Whitehead

Title: President

Date: February 2, 1999

Respectfully submitted,



San Jose Water Company

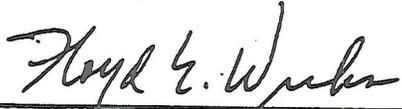
February 2, 1999

Respectfully submitted,



Santa Clarita Water Company
John Garon
U.P./CFO
February 2, 1999

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Floyd L. Winters".

Southern California Water Company

February 2, 1999

Respectfully submitted,



Suburban Water Systems

February 2, 1999

Respectfully submitted,

Greg Mellen (U-342W)
Valencia Water Company

February 2, 1999

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document entitled SETTLEMENT upon all known parties of record by mailing, by first-class mail, a copy thereof properly addressed to each party.

Dated at San Francisco, California, this 2nd day of February, 1999.

/s/ BERLINA GEE

Berlina Gee

(END OF APPENDIX D)

