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

Joint application for an order authorizing the sale of all outstanding shares of Meadowbrook Water Company of Merced, Inc., (U-204-W), as well as certain real property not owned by that company, to California-American Water Company (U-210-W).

Application No. 15-12-016
(Filed December 21, 2015)

**ALL PARTY JOINT MOTION TO APPROVE SETTLEMENT AGREEMENT
CONCERNING PURCHASE AND SALE
OF UTILITY**

[AGREEMENT ATTACHED]

Paul Angelopulo
Legal Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Tel: (415) 703-4742
Email: paul.angelopulo@cpuc.ca.gov

Attorney for the Office of Ratepayer
Advocates

David L. Walker
Meadowbrook Water Company, Inc.
2272 Meadowbrook Avenue
Merced, CA 95348
Tel: (209) 722-1069
Fax: (209) 726-5085
Email: info@mbwaterco.com

For Meadowbrook Water Company
of Merced, Inc.

Dated: July 6, 2016

Sarah E. Leeper
Nicholas Subias
California-American Water Company
555 Montgomery Street, Suite 816
San Francisco, CA 94111
Tel: (415) 863-2470
Fax: (415) 863-0615
Email: sarah.leeper@amwater.com
Email: Nicholas.subias@amwater.com

Attorneys for Applicant
California-American Water Company

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I. INTRODUCTION

Pursuant to Rules 11.1 and 12.1(a) of the California Public Utilities Commission’s (“Commission”) Rules of Practice and Procedure, California-American Water Company (“Cal Am” or the “Company”) (U-210-W), Meadowbrook Water Company of Merced, Inc. (U-204-W)¹ (“Meadowbrook Water”), and the Office of Ratepayer Advocates (“ORA”) (referred to individually as “Party” and collectively as the “Parties”), submit this motion requesting the Commission (1) issue a ruling approving the notice (“Attachment A” hereto) so it may be sent to customers, and (2) issue a decision adopting and approving the attached *Settlement Agreement of California-American Water Company (U-210-W), Meadowbrook Water Company of Merced, Inc. (U-204-W), and the Office of Ratepayer Advocates* (“Settlement Agreement”), a copy of which is included as “Attachment B.”

¹ Meadowbrook Water Company of Merced, Inc. is owned by Kathleen Ann Hill, as Trustee of the Kathleen Ann Hill Family Trust dated March 3, 1999, Mary Lee Nichols, David L. Walker, as Trustee of the David L. Walker 2013 Trust Agreement dated February 13, 2013, and Derald R. Walker.

The Settlement Agreement, if approved by the Commission, permits the owners of Meadowbrook Water to sell all outstanding interest and equity in that company to Cal Am, as well as certain real property. It would permit Cal Am to expand its Certificate of Public Convenience and Necessity so that Cal Am could serve present and future customers in what would then be Meadowbrook Water's former territory. And it would consolidate the Meadowbrook service area into Cal Am's Sacramento District for ratemaking and into its Northern Division (of which the Sacramento District is a part) for operational purposes.

Support for the Settlement Agreement is unanimous – all parties to the proceeding signed the Settlement, support it, and hereby request the Commission approve it. The Parties support the Settlement Agreement because it is reasonable, consistent with the law, and in the public interest – facts which are confirmed by the testimony the Parties will, in a separate motion, request be made part of the record. The Parties believe the Settlement Agreement addresses all of the issues raised in the March 18, 2016 Scoping Memo in this proceeding. The Parties, therefore, request the Commission approve the Settlement Agreement without modification.

II. BACKGROUND

On December 21, 2015, Cal Am and Meadowbrook Water filed their *Application for Order Authorizing Sale and Purchase of Utility as well as Related Actions* (the "Application"). Among other things, the Application requested the Commission: (1) relieve Meadowbrook Water of its public utility responsibilities; (2) allow Cal Am to assume those responsibilities and ownership; (3) establish rate base for the acquired system at full purchase price; (4) allow the system to function as a new Cal Am district with the ability to apply for new rates under Meadowbrook's current Class C requirements; and (5) establish transaction

memorandum accounts to track transaction costs and costs for addressing required environmental improvements and compliance issues.²

On January 25, 2016, ORA filed a Protest to the Application. The Protest raised several issues or potential issues concerning: (1) the valuation, (2) compliance with Public Utilities Code section 2720, (3) the appraisal, (4) expansion of the Certificate of Public Convenience and Necessity (“CPCN”), (5) whether Cal Am could file a separate rate case for Meadowbrook, (6) adjustments to ratebase, (7) memorandum accounts, and (8) payment of legal fees relating to C.14-02-005.³ On February 4, 2016, Cal Am filed its Reply to ORA’s Protest.⁴

On February 19, 2016, the Administrative Law Judge issued a ruling requesting the parties meet and confer before filing a joint prehearing conference statement on the issues to be addressed in the Scoping Memo and Ruling as well as the scheduling for the proceeding.⁵ On March 1, 2016, ORA and Cal Am filed their Joint Prehearing Conference Statement.⁶ The Prehearing conference then took place, followed by issuance of the Scoping Memo and Ruling on March 18, 2016.⁷

ORA conducted discovery, serving multiple sets of data requests on Cal Am and Meadowbrook Water. Hundreds of pages of documentation have been provided to ORA. ORA also met with representatives of Meadowbrook Water to review, in great detail, Meadowbrook’s books and records. Following settlement discussions, which occurred over several months, all parties to the proceeding entered the Settlement Agreement. In accordance with Commission

² Application at pp. 2-3.

³ *Protest of the Office of Ratepayer Advocates*, filed Jan. 25, 2016 by ORA in A.15-12-016.

⁴ *California-American Water Company’s (U210W) Reply to the Office of Ratepayer Advocate’s Protest*, filed Feb. 4, 2016, in A.15-12-016.

⁵ *Administrative Law Judge’s Ruling Regarding PHC Statements*, filed Feb. 19, 2016 in A.15-12-016.

⁶ *Joint Prehearing Conference Statement of California-American Water Company (U-210-W) and the Office of Ratepayer Advocates*, filed March 1, 2016 in A.15-12-016.

⁷ *Assigned Commissioner’s Scoping Memo and Ruling*, filed March 18, 2016, in A.15-12-016.

Rule of Practice and Procedure Rule 12.1(b) the settling parties, i.e., all parties to this proceeding, convened multiple settlement conferences with notice and opportunity to participate provided to all parties for the purpose of discussing settlements in the proceeding. One such conference occurred on May 6, 2016, with notice provided on April 20, 2016.

III. NOTICE, TIMING AND COORDINATION WITH CAL AM'S 2016 GRC IS IMPORTANT

In addition to the settlement provisions discussed below, there are certain key timing issues associated with the settlement, specifically in connection with Cal Am's 2016 General Rate Case ("GRC"). Through the Settlement Agreement, the parties agreed the decision in this proceeding will consolidate for ratemaking purposes the Meadowbrook Water system into California American Water's Sacramento District. The Settlement Agreement, however, is premised on the inclusion and resolution of ratemaking for the Meadowbrook Water acquisition in California American Water's 2016 GRC. Inclusion in the soon-to-be filed 2016 GRC will require actions both by the Parties and the Commission.

Pursuant to the Settlement Agreement, the Parties have included with this Motion "Attachment A." That Attachment is a notice to be provided to Meadowbrook and Cal Am Sacramento District customers, informing them of the Meadowbrook acquisition and the consolidation for ratemaking purposes of Meadowbrook into Cal Am's Sacramento District. The Parties request that, as soon as possible and before the final decision with respect to settlement approval, a ruling be issued approving the notice included as "Attachment A," so it can be sent to customers.

Cal Am has already included information concerning the Meadowbrook Water acquisition in Cal Am's July 1, 2016 GRC filing. Although it may not be the ordinary practice under the Rate Case Plan, Cal Am and ORA have agreed that by July 31, 2016, Cal Am will

provide an update to its July 1, 2016 GRC filing that will provide additional calculations relating to the Meadowbrook Water acquisition as well as supplemental testimony concerning the acquisition.

IV. OVERVIEW OF THE SETTLEMENT AGREEMENT

As is noted above, the Settlement Agreement, provided it is approved in its current form by the Commission, will resolve all issues between the Parties relating to the Application in this proceeding. The Settlement Agreement incorporates the Application as well as the June 25, 2015 Stock Purchase Agreement (“SPA”), entered between the owners of Meadowbrook Water and Cal Am, a copy of which is included as “Attachment 1” to the Application. Although the Settlement Agreement incorporates the Application and the SPA – to the extent any portion of the Settlement Agreement differs from those documents, the Settlement Agreement supersedes them as to all Parties.

The key elements of the Settlement Agreement concern the Parties’ request Commission do the following:

- Approve adoption of the new map attached to the Settlement Agreement, which is expected to resolve disputes with local governments.
- Approve as just and reasonable the sale of all outstanding shares and equity in Meadowbrook Water to Cal Am.
- Approve as just and reasonable the sale of the real property included in the SPA, but not owned by Meadowbrook Water.
- Approve as just and reasonable the purchase price for all assets in the SPA (*i.e.*, all outstanding shares and equity interest in Meadowbrook Water and the real

property not owned by Meadowbrook Water) for a total purchase price of \$4 million, with the following allocation:

- \$3,425,000.00 as ratebase in accordance with California Public Utilities Code section 2720(a), and will be included within the Sacramento District’s overall ratebase.
 - \$575,000.00 as contribution in aid of construction (“CIAC”), which California American Water will recover as an expense, but on which it will not earn a rate of return. This \$575,000.00 will be recovered over 36 months as a surcharge on bills of the customers in the Sacramento District into which Meadowbrook will be consolidated.
- Approve consolidation of Meadowbrook Water’s customers and service territory, as reflected in the new map, into Cal Am’s Northern Division for operational purposes and into its Sacramento District (which is part of its Northern Division) for ratemaking purposes.
 - Relieve Meadowbrook Water of its public utility responsibilities following Commission approval of the transaction.
 - Allow Cal Am to assume all public utility responsibilities for the operation and ownership of the water utility operations of Meadowbrook Water’s service territory.
 - Approve expansion of Cal Am’s CPCN, so Cal Am may provide public utility Water service to the current and future customers in Meadowbrook Water’s service territory.

- Approve cancellation of Meadowbrook Water's current CPCN.
- Authorize Cal Am to operate the system in Meadowbrook under Meadowbrook's current rates, with new rates to be established in California American Water's 2016 GRC, which is expected to be filed July 1, 2016 and effective January 1, 2018. Collection of the surcharge to recover the \$575,000.00 portion of the purchase price associated with CIAC will also commence on January 1, 2018.
- Authorize California American Water to recover \$61,002.13 in transaction costs incurred prior to execution of this Settlement Agreement. This \$61,002.13 in transaction fees will be recovered over 36 months as a surcharge on bills of the customers in the current Meadowbrook Water service area. Collection of that surcharge may commence upon issuance of the Commission decision approving this settlement.
- Approve the removal from the SPA of the provision requiring that \$25,000 from the Purchase Price be deducted as reimbursement for a portion of the legal fees and costs California American Water expended in connection with the seller's defense of the Ferrari Complaint. Seller instead shall pay that \$25,000 directly to California American Water within 10 calendar days of the closing. The remaining \$26,282.84 of the legal fees California American Water expended in connection with seller's defense of the Ferrari Complaint will be recorded as California American Water general legal spend which as tracked in its general legal regulatory account.
- If it has not already been done so in A.15-08-024, approve amending the California American Water memorandum account that identified in the California

American Water tariff sheets as C.P.U.C. Sheet No. 8080-W, memorandum account “BC Dunnigan Environmental Improvement and Compliance Issues Memorandum Account.” That amended memorandum account will be re-named “The Memorandum Account for Environmental Improvements and Compliance Issues for Acquisitions” and now include expenditures in connection with the Meadowbrook service area, as well as subsequently acquired systems unless otherwise noted. If the “The Memorandum Account for Environmental Improvements and Compliance Issues for Acquisitions” has already been established by the Commission’s decision on the motion to approve the settlement in A.15-08-024, then environmental improvement and compliance related costs for the Meadowbrook service area will simply be added to that memorandum account so that California American Water may, for recent acquisitions such as Meadowbrook Water, track in that Account costs to ensure service of safe, reliable drinking water to customers. California American Water will bear the burden of proof of the reasonableness of the costs in the Memorandum Account for Environmental Improvements and Compliance Issues for Acquisitions when seeking recovery of the amounts tracked in that account.

V. **THE SETTLEMENT AGREEMENT IS REASONABLE IN LIGHT OF THE WHOLE RECORD, CONSISTENT WITH LAW, AND IN THE PUBLIC INTEREST**

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 public interest. The Commission has a well-established policy of

settling disputes if they are fair and reasonable in light of the whole record.⁸ This policy reduces the expense of litigation, conserves scarce Commission resources, and allows parties to “reduce the risk that litigation will produce unacceptable results.”⁹ 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.¹⁰

The State of California has recognized that small communities face difficulty in maintaining adequate water systems. Meadowbrook Water is a Class C provider with under 1,700 connections in Merced County, California. In resolution No. 2008-0048, the State Water Resources Control Board recognized that small and/or disadvantaged communities cannot “provide the economies of scale necessary to build and maintain adequate water and wastewater systems.”¹¹ Moreover, the Commission’s 2010 Water Action Plan supports “incentives for the acquisition or the operation of small water and sewer utilities.”¹²

Benefits from economies of scale are reflected in this transaction. California American Water is a Class A Commission-regulated utility with operations throughout California and more than 58,000 service connections in the company’s Northern Division. Under the terms of the Settlement Agreement, California American Water will purchase Meadowbrook Water, which is facing an ever-growing list of regulatory requirements. The settlement agreement reaches a fair compromise that reflects the Parties’ intent to maximize the benefits and minimize the costs for

⁸ *Application of Golden State Water Company on Behalf of its Bear Valley Electric Service Division (U913E), for Approval of RPS Contract with BioEnergy Solutions, LLC, and for Authority to Recover the Costs of the Contract in Rates*, Decision 11-06-023, 2011 Cal. PUC LEXIS 330, **17-18.

⁹ *Id.*

¹⁰ *Order Instituting Investigation into the operations and practices of the Southern California Gas Company, concerning the accuracy of information supplied to the Commission in connection with its Montebello Gas Storage Facility*, D.00-09-034, 2000 Cal. PUC LEXIS 694, **29, 31.

¹¹ State Water Board Res. No. 2008-0048, ¶1.

¹² 2010 Commission Water Action Plan, p. 9.

California American Water's and Meadowbrook Water's customers. Thus, the Settlement Agreement is reasonable, consistent with the law, and in the public interest.

Once the testimony is identified as exhibits and admitted into the record, as will be requested in a separate motion, the record will contain ample evidence demonstrating the reasonableness of the Settlement Agreement and the transaction in light of the issues raised in the Scoping Memo and Ruling in this proceeding, including the need for a new CPCN, valuation of the system, legal fees from the defense of C.14-02-005, consolidation of the system rather than operating it separately, and costs relating to the transaction. Thus, the Settlement Agreement and the related transaction should be approved by the Commission.

VI. CONCLUSION

The Parties, therefore, respectfully request that the Commission adopt and approve the Settlement Agreement in its entirety and, before doing so, issue a ruling approving the notice (Attachment A) for distribution to customers.

Dated: July 6, 2016

[s] David L. Walker

David L. Walker
Meadowbrook Water Company, Inc.
2272 Meadowbrook Avenue
Merced, CA 95348
Tel: (209) 722-1069
Fax: (209) 726-5085
Email: info@mbwaterco.com

For Meadowbrook Water Company
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Paul Angelopulo
Legal Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Tel: (415) 703-4742
Email: paul.angelopulo@cpuc.ca.gov

For: The Office of Ratepayer Advocates

Dated: July 6, 2016

[s] Sarah E. Leeper

Sarah E. Leeper

California-American Water Company
555 Montgomery Street, Suite 816
San Francisco, CA 94111
Tel: (415) 863-2470
Fax: (415) 863-0615
Email: sarah.leeper@amwater.com

For: California American Water