

ATTACHMENT A

SETTLEMENT AGREEMENT BETWEEN GREAT OAKS WATER COMPANY AND THE DIVISION OF RATEPAYER ADVOCATES

APPENDIX A

Settlement Agreement

Agreement after taking into account the possibility that each of the Parties may or may not prevail on any given issue.

1.3. This Agreement has been jointly negotiated and drafted by the Parties. The language of this Agreement shall be construed as a whole according to its fair meaning and not strictly enforced for or against any Party.

1.4. Pursuant to Rule 12.5 of the Commission's Rules of Practice and Procedure (Rules), approval of this Agreement by the Commission may not be construed as a precedent or statement of policy of any kind for or against either of the Parties in any current or future proceeding.

1.5. The Parties agree to maintain the confidentiality of all settlement negotiations and communications made during the course of settlement discussions and such communications remain subject to Rule 12.6 of the Commission's Rules.

1.6. This Agreement is not severable. The Parties agree that if the Commission fails to adopt this Agreement in its entirety and without condition or modification, the Parties shall convene a settlement conference within fifteen days after the Commission's action to discuss whether they can resolve issues raised by the Commission's disposition of this Agreement. If the Parties cannot mutually agree to resolve the issues raised by the Commission's actions within thirty days after their settlement conference, this Agreement shall be rescinded and deemed as if the Parties never entered into this Agreement, and the Parties shall be released from any and all obligations set forth in this Agreement.

1.7. None of the provisions of this Agreement shall be considered waived by the Parties unless such waiver is given in writing. The failure of either of the Parties to insist in any one or more instances upon strict performance of any of the provisions of this Agreement or to take advantage of any of their respective rights hereunder shall not be construed as a waiver of any such provision or the relinquishment of any such rights for the future, but the same shall continue and remain in full force and effect.

1.8. This Agreement and all covenants set forth herein shall be binding upon and shall inure to the benefit of the respective Parties hereto, including their respective successors in interest.

1.9. The Parties agree without further consideration to execute and deliver such other documents and take such other actions as may be necessary to achieve the purposes of this Agreement. The Parties agree to use their best efforts to obtain Commission approval of this Agreement. The Parties shall request that the Commission approve and adopt this Agreement without change and find the Agreement to be reasonable, consistent with the law, and in the public interest.

2. BACKGROUND AND SCOPE OF PROCEEDING

2.1. Commission Decision (D.) 10-11-034, issued November 19, 2010, resolved Great Oaks' general rate case Application (A.) 09-09-001. On December 21, 2010, Great Oaks filed its Application for Rehearing of D.10-11-034. On February 8, 2011, the Commission issued D.11-02-003, an Order Correcting Errors in D.10-11-034.

2.2. On October 30, 2012, the Commission issued D.12-10-045, an Order Granting Limited Rehearing and Modifying D.10-11-034, and Denying Rehearing of the Decision, as Modified, as to All Other Issues.

2.3. On February 20, 2013, a prehearing conference was held to determine procedural matters for the limited rehearing. On March 1, 2013, the Assigned Commissioner's Scoping Memo and Ruling (Scoping Memo) was issued, identifying the issues for the limited rehearing:

1. Calculate the Appropriate Domestic Production Activities Deduction.
2. Determine the appropriate disallowance for time spent on unregulated activities and adjustment for services provided to affiliates.
3. The effect on results of operations and rates from changes resulting from the calculations of issues 1 and 2.

2.4. Pursuant to the schedule set forth in the Scoping Memo, Great Oaks submitted its prepared testimony on April 15, 2013. DRA requested and obtained an extension of time to submit its prepared testimony in order to facilitate informal settlement negotiations between the Parties. On May 29, 2013, DRA submitted its prepared testimony in accord with the revised schedule set forth in the Administrative Law Judge's Ruling Confirming Electronic Mail Rulings of April 9, 2013 and May 14, 2013.

2.5. Great Oaks and DRA engaged in informal settlement negotiations and on June 14, 2013 reached a tentative agreement on the terms and conditions of a settlement, pending execution of this Agreement. On June 17, 2013, Great Oaks served a Notice of Settlement Conference, setting a formal settlement conference for this proceeding on June 26, 2013. Also on June 17, 2013, Great Oaks and DRA notified the Administrative Law Judge of the tentative settlement and requested that the schedule for this proceeding be suspended, pending the execution of this Agreement. Administrative Law Judge Dan Burcham advised by email that Great Oaks' prepared rebuttal testimony would be due on July 3, 2013, giving the Parties sufficient time to prepare and execute this Agreement.

2.6. On June 26, 2013, pursuant to Notice, Great Oaks and DRA conducted a settlement conference and this Agreement was reached by the Parties.

3. AGREEMENT ON ISSUES IN THIS LIMITED REHEARING

3.1. As further described in this Section, the Parties agree that GOWC is due additional revenue of \$276,351, which is a reduction of \$138,431, or 33% from the amount of \$415,633 that GOWC originally requested in its Application. Spread over the Test Year 2013-2014 adopted sales forecast of 4,796,470 ccf, this results in a surcharge of \$.0576 per ccf. The estimated impact of this surcharge on the average Single Family Residential Customer is an increase of \$0.75 per month and \$7.20 for all other classes of customers who are primarily Business and Multi-Family Residential customers.

3.2. Great Oaks submitted prepared testimony supporting a Domestic Production Activities Deduction (DPAD) of \$76,782 for Test Year 2010/2011, \$74,720 for Escalation Year 2011/2012, and \$72,737 for Escalation Year 2012/2013. Subsequently, in response to DRA Data Request JJS-002, Great Oaks submitted revised and corrected calculations supporting a DPAD of \$71,845 for Test Year 2010/2011, \$74,720 for Escalation Year 2011/2012, and \$72,810 for Escalation Year 2012/2013. Great Oaks' DPAD calculations were based, in part, on Great Oaks' testimony pertaining to the unregulated activities disallowance for management salaries.

3.3. In response to DRA Data Request JJS-002, Great Oaks subsequently submitted evidence supporting a DPAD of \$76,718 for Test Year 2010/2011, \$74,720 for Escalation Year 2011/2012, and \$72,737 for Escalation Year 2012/2013. Incorporated into Great Oaks' evidence provided in response to DRA Data Request JJS-002 was the

correction of an error, which GOWC believes to be inadvertent, in the federal tax calculations of D.11-02-003.

3.4. Great Oaks submitted prepared testimony supporting an unregulated activities disallowance for management salaries as shown in the following table. The Corrected Disallowance percentage applies to Test Years 2010/2011, and Escalation Years 2011/2012 and 2012/2013. Using the Disallowance percentage shown in the table, Great Oaks' prepared testimony supported total net payroll expenses of \$1,641,437 in Test Year 2010/2011, \$1,667,700 in Test Year 2011/2012, and \$1,702,629 in Test Year 2012/2013.

Employee Title	Test Year Base Salary 2010/2011 D.10-11-034	Corrected Disallowance % for LLC work (Adjustment)	Corrected Authorized Salary
Chairman, CEO	\$332,505	0.50%	\$330,842
Treasurer/CFO	\$138,964	1.15%	\$137,366
General Counsel	\$209,250	0.00%	\$209,250
Reg. Affairs/Atty.	\$178,668	1.15%	\$176,811
Total	\$859,387		\$854,269

3.5. DRA submitted prepared testimony supporting a DPAD of \$61,030 for Test Year 2010/2011, \$74,790 for Escalation Year 2011/2012, and \$70,685 for Escalation Year 2012/2013. DRA's DPAD calculations were based, in part, on DRA's testimony pertaining to the unregulated activities disallowance for management salaries. DRA agreed that the calculations of D.11-02-003 contained several significant errors in addition to those at issue in this proceeding, but believes that correction of such errors are not permitted within the scope of this Limited Rehearing.

3.6. DRA submitted prepared testimony supporting an unregulated activities disallowance for management salaries as shown in the following table. DRA's disallowance percentage applies to Test Years 2010/2011, Escalation Years 2011/2012 and 2012/2013. Using the DRA Disallowance shown in the table, DRA's prepared testimony supported total net payroll expenses of \$1,625,428 in Test Year 2010/2011, \$1,651,435 in Escalation Year 2011/2012, and \$1,702,629 in Escalation Year 2012/2013.

Employee Title	Test Year Base Salary 2010/2011 D.10-11-034	DRA Disallowance % for LLC work (Adjustment)	Corrected Authorized Salary
Chairman, CEO	\$332,505	0.50%	\$330,842
Treasurer/CFO	\$138,964	1.15%	\$137,366
General Counsel	\$209,250	0.00%	\$209,250
Reg. Affairs/Atty.	\$178,668	10.0%	\$160,801
Total	\$859,387		\$838,259

3.7. Through settlement negotiations, Great Oaks agreed to accept DRA's position that the FIT Depreciation Expense deduction error in D.11-02-003 could not be corrected within the scope of this proceeding.

3.8. Also through settlement negotiations, DRA agreed to accept Great Oaks' position on the percentage disallowance of management salaries. In addition, in future general rate case applications and proceedings, Great Oaks agrees: (a) to identify and explain all transactions with corporate affiliates involving utility employees or assets, or resulting in costs included in revenue requirement over the prior five years; (b) include all documentation, including a list of all such contracts, and accounting detail necessary to demonstrate that any services provided by Great Oaks' officers or employees to corporate affiliates are reimbursed at fully allocated costs; and (c) to the extent Great Oaks uses assets or employees included in revenue requirement for unregulated activities, identify, document, and account for all such activities, including all costs and resulting revenue, and provide a list of contracts over the prior five years. In order to ensure compliance with these requirements, GOWC agrees to develop and implement appropriate management and accounting internal controls to identify, quantify, and record in the books of account the time and other resources GOWC employees spend on non-regulated activities.

3.9. As a result of the compromise by the Parties on the two issues presented in this limited rehearing, the Parties agree on the disallowance percentages for management salaries shown in the following table. Using the Agreed Disallowance percentage shown in the table, the Parties agree upon total net payroll expense of \$1,641,239 in Test Year 2010/2011, \$1,667,499 in Escalation Year 2011/2012, and \$1,719,191 in Escalation Year 2012/2013.

Employee Title	Test Year Base Salary 2010/2011 D.10-11-034	Agreed Disallowance % for LLC work (Adjustment)	Agreed Authorized Salary
Chairman, CEO	\$332,505	0.50%	\$330,842
Treasurer/CFO	\$138,964	1.15%	\$137,366
General Counsel	\$209,250	0.00%	\$209,250
Reg. Affairs/Atty.	\$178,668	1.15%	\$176,613
Total	\$859,387		\$854,071

3.10. As a result of the compromise by the Parties on the two issues presented in this limited rehearing, the Parties agree on a DPAD of \$61,030 in Test Year 2010/2011, \$74,722 in Escalation Year 2011/2012, and \$70,685 in Escalation Year 2012/2013.

3.11. Attached to this Agreement as Exhibit 1 is a Comparison Exhibit showing the calculations of the Parties supported by their evidence and the agreed upon final values for the two issues in this limited rehearing.

3.12. Attached to this Agreement as Exhibit 2 is a complete set of workpapers showing the calculations supporting this Agreement, as well as the resulting under-collection of \$276,351 in revenues from operations.

3.13. The Parties agree that Great Oaks should recover the under-collection through a surcharge of \$0.0576 per ccf on all water sales to all customers over a twelve-month period. The surcharge calculation is provided in Exhibit 2, page WP-10.

3.14. In the final decision approving this Settlement Agreement, the Parties request the Commission authorize GOWC to establish a Balancing Account to track and record the collection of surcharge revenue as credits against the under-collection account balance.

4. EXECUTION

This 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. By signing below, each signatory for the Parties represents and warrants that he is authorized to sign this Agreement on behalf of Great Oaks or DRA and thereby bind each to the terms of this Agreement. This Agreement shall become binding and effective as of the date it is fully executed by Great Oaks and DRA.

Great Oaks Water Company

Division of Ratepayer Advocates

By: *John W.S. Roeder*
John W.S. Roeder
Chief Executive Officer

By: _____
Joseph P. Como
Acting Director

Date: 7-15-13

Date: _____

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Great Oaks Water Company

By: _____
John W.S. Roeder
Chief Executive Officer

Date: _____

Division of Ratepayer Advocates

By: _____
Joseph P. Como
Acting Director

Date: 7/11/13

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(End of Attachment A)