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Decision 16-09-051 September 29, 2016

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Golden State Water Company (U133W) for a Certificate of Public Convenience and Necessity to Construct and Operate a Water System in Sutter County, California; and to establish Rates for Public Utility Water Service in Sutter County, California.

Application 08-08-022
(Filed August 29, 2008)

**DECISION ADOPTING THE SETTLEMENT AGREEMENT
ON THE RATE CAP ISSUE**

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**DECISION ADOPTING THE SETTLEMENT AGREEMENT
ON THE RATE CAP ISSUE**

Summary

Decision (D.) 14-06-051, *inter alia*, granted a certificate of public convenience and necessity, authorized Golden State Water Company (Golden State) to establish the South Sutter County Service Area (SSCSA), and set a rate cap -- the maximum limit on the revenue requirement for the newly-established SSCSA at \$105 per customer per month for its first two rate case cycles.

D.15-08-027 ordered limited rehearing of D.14-06-051 concerning the rate cap adopted in D.14-06-051. This decision adopts the settlement agreement on the rehearing issues and modifies D.14-06-051.

The settlement agreement adopted by this decision sets the maximum revenue requirement or rate cap for the SSCSA during its first two rate case cycles at 120 percent of Golden State's company-wide weighted average revenue requirements per customer per month. Surcharges and surcredits are excluded from the determination of the rate cap, and the rate cap will not apply to any surcharges or surcredits. The rate cap will be calculated and set at the time Golden State begins its service to the first customer in the SSCSA, and will thereafter be adjusted annually by the percentage change in the Consumer Price Index. This decision adopts the proposed settlement agreement on the rate cap issue (Rate Cap Settlement Agreement, attached to this decision as Appendix A) between Golden State and the Office of Ratepayer Advocates. By adopting the rate cap in the Rate Cap Settlement Agreement, this decision modifies D.14-06-051, and the rate cap adopted in this decision supersedes the rate cap adopted in Ordering Paragraphs 15 and 16 of D.14-06-051. This decision changes no rates or charges and closes the proceeding.

1. Background

Golden State Water Company (Golden State) is a Class A water company subject to the Commission's jurisdiction and operates nine existing ratemaking districts. In Application (A.) 08-08-022, Golden State requested the Commission's approval for a Certificate of Public Convenience and Necessity (CPCN) to construct and operate a municipal and industrial water system in South Sutter County, and to establish the South Sutter County Service Area (SSCSA) as a new non-contiguous service area and stand-alone ratemaking district. The SSCSA will serve the planned Sutter Pointe Development, a multi-phase, mixed-use project. Construction has not yet begun but would start once the Sutter Pointe Developers determine if the real estate market can support between 800 and 1,000 customers per year. The estimated construction period is 40 years, starting from the date the construction begins. Golden State projects the customer base to grow to approximately 3,000 to 4,000 customers within the first six years of starting service to SSCSA.

On July 1, 2014, the Commission issued Decision (D.) 14-06-051 which, among other things, approved a settlement agreement between Golden State, Sutter Pointe Developers, Sutter County and the Robbins Ad-Hoc Committee (the CPCN Settlement Agreement). The Office of Ratepayer Advocates (ORA) opposed the CPCN Settlement Agreement. In D.14-06-051, the Commission, *inter alia*:

- (1) Approved the CPCN Settlement Agreement;
- (2) Granted Golden State a CPCN to construct and operate a municipal and industrial water system in South Sutter County, and to establish the SSCSA as a new non-contiguous service area and stand-alone ratemaking district;
- (3) Approved an incremental acquisition mechanism (IAM) which allows Golden State to incrementally acquire up to \$81 million

of water system infrastructure from the Sutter Pointe Developers, as customers move into SSCSA;¹ and

- (4) Established a rate cap on Golden State's revenue requirements in the SSCSA not to exceed \$105 per customer per month for its first two rate case cycles.²

Upon issuance of D.14-06-051, ORA filed an application for rehearing, and Golden State filed a petition for modification. Each raised, *inter alia*, concerns regarding the adopted future rate cap. The Commission issued D.15-08-027, on August 13, 2015, granting a limited rehearing and re-opening the proceeding for the limited purpose of reviewing the adopted rate cap.³

The assigned Commissioner and Administrative Law Judge (ALJ) issued the Fourth Amended Scoping Memo and Ruling on December 7, 2015, and identified the following issues to be addressed in the limited rehearing of D.14-06-051:

- (a) Whether the rate cap adopted in D.14-06-051 (i) is of a reasonable amount, (ii) applies for a reasonable period of time, and (iii) if not, what is a reasonable rate cap amount and time frame;
- (b) Whether and how an adoption of a rate cap affects the CPCN Settlement Agreement, and
- (c) Whether the rate cap ultimately adopted is just and reasonable.

Golden State and ORA submitted prepared testimony on March 18, 2016, and each submitted timely rebuttal testimony. Each contended that the rate cap

¹ D.15-08-027 at 5.

² D.14-06-051 at 128, Ordering Paragraphs (OPs) 15 and 16.

³ D.15-08-027 also added additional Findings of Facts to D.14-06-051 clarifying the purpose of the IAM.

adopted in D.14-06-051 was not reasonable, and respectively proposed alternative rate caps and justifications for their formulations.⁴

On May 11, 2016, Golden State and ORA (the Settling Parties) submitted a request to suspend the proceeding after reaching a settlement in principle on all issues in the rehearing phase of this proceeding.⁵ On May 16, 2016, the assigned ALJ granted the request. The Settling Parties filed the instant Joint Motion to Approve Settlement Agreement (Motion) on June 9, 2016, requesting approval of a settlement agreement on the rate cap issue (Rate Cap Settlement Agreement).

2. Standard of Review

Under Rule 12.1(d) of the Commission's Rules of Practice and Procedure (Rules), to approve and adopt the Rate Cap Settlement Agreement, the Commission must find that it is "reasonable in light of the whole record, consistent with law, and in the public interest."

3. Rate Cap Settlement Agreement

Along with the Motion, the Settling Parties executed and filed the Rate Cap Settlement Agreement on June 9, 2016. No party objected or opposed the Motion and the Rate Cap Settlement Agreement.

As set forth in Section 3.2 of the Rate Cap Settlement Agreement, the Settling Parties propose to replace the rate cap adopted in OPs 15 and 16 of D.14-06-051 with a rate cap not to exceed 120 percent of Golden State's company-wide weighted average revenue requirements per customer per month. As proposed: (1) surcharges and surcredits will not factor into the determination

⁴ On May 3, 2016, Golden State filed a motion to strike portions of ORA's rebuttal testimony.

⁵ Golden State sent an e-mail request to the Assigned ALJ, dated May 11, 2016, and copied to all parties on the service list of this proceeding.

of the rate cap; (2) the rate cap will not apply to any surcharges or surcredits; (3) the rate cap will be calculated initially as of the time Golden State begins its service to the first customer in the SSCSA, and will thereafter be adjusted annually on each anniversary of its commencement by the percentage change in the Consumer Price Index (CPI); and (4) the rate cap will apply for six years.

The Settling Parties represent that the Commission's adoption of the proposed rate cap does not have any effect on the CPCN Settlement Agreement approved in D.14-06-051.⁶ The Settling Parties assert that the Commission's approval of the Rate Cap Settlement Agreement and its terms without modifications or conditions will resolve all outstanding issues in A.08-08-022.

4. Discussion

As discussed below, the Rate Cap Settlement Agreement is reasonable, in the public interest, and consistent with law, and we approve it in its entirety.

4.1. Reasonableness

The Rate Cap Settlement Agreement is reasonable because it is a fair compromise, addresses the utility's and ratepayers' concerns, commands a broad support of the parties and does not affect or otherwise interfere with the existing CPCN Settlement Agreement.

Reasonableness of the Proposed Rate Cap

The rate cap jointly proposed in the Rate Cap Settlement Agreement represents a fair and reasonable compromise between the Settling Parties' positions, in both amount and duration. Golden State previously proposed a rate cap of 150 percent of its weighted average revenue requirements (to be adjusted

⁶ Section 3.3 of the Rate Cap Settlement Agreement.

annually according to changes in its revenue requirements and proposed a period of two rate case cycles or six years). ORA previously proposed a rate cap of 100 percent of Golden State's weighted average revenue requirements (to be adjusted annually according to changes in the CPI and proposed a period of 17 years which is just under six rate case cycles). In the Rate Cap Settlement Agreement, the Settling Parties agreed to a rate cap of 120 percent of Golden State's weighted average revenue requirements. This is a fair and sensible rate cap that falls between the two positions.

The proposed rate cap also addresses the shared concerns raised by the Settling Parties concerning a rate cap that is set at a fixed amount based on 2014 revenue requirements. In its testimony, Golden State expressed concern that a fixed amount would not be sufficiently flexible to account for changes in the cost of providing water service, and that 2014 values would quickly become outdated.⁷ ORA similarly noted that the rate cap should keep pace with inflation.⁸ By proposing a rate cap based on system average values when Golden State begins service to the SSCSA (to be adjusted annually based on changes in the CPI), the Rate Cap Settlement Agreement provides a reasonable compromise between the two positions while addressing the shared inflexibility concerns.

In its testimony during the rehearing, Golden State proposed to adjust the rate cap annually based on changes in its average revenue requirements. Although increases in the CPI may not perfectly align with changes in Golden State's actual system wide costs, using the CPI as an adjustment factor is a

⁷ Golden State Exhibit 36, page 4: line 8- line 25.

⁸ ORA Exhibit 8, page 8: line 15- line 24.

reasonable compromise that can at least partially account for these costs once Golden State begins service to the SSCSA. We are also aware that Golden State's average revenue requirements could increase or decrease, whereas the CPI generally increases.⁹ Therefore, if Golden State's revenue requirements decline, it is conceivable that a rate cap adjustment based on the CPI could yield a greater margin for Golden State than its original proposal to make annual adjustments for changes in its average revenue requirements.

As for a proxy rate, in this proceeding, no evidence was presented on any district with an appropriate proxy rate for the SSCSA. For instance, ORA argued that the Arden Cordova District rates should be used as a proxy for rates in the SSCSA. But we note that there was no evidence showing the similarities between the SSCSA and Arden Cordova districts to demonstrate that Arden Cordova rates would be the appropriate proxy rates for the SSCSA, and looking at 2014 rates, Arden Cordova rates were about 50 percent of Golden State's system wide weighted average, an outlier with uniquely low rates. Another district we looked at was Ojai, and its rates currently also represent an outlier (with uniquely high rates) in Golden State's service territory, because of its aging water infrastructure and other considerations noted by ORA. Again, there was no evidence showing the similarities between the SSCSA and the Ojai district to demonstrate that Ojai rates would be the appropriate proxy rates for the SSCSA.

Instead of adopting a proxy rate (either Ojai or Arden Cordova), we therefore believe establishing a rate cap at 120 percent of system wide weighted average revenue requirements (at the time of the commencement of service to its

⁹ See *id.*, page 5: line 21- page 6: line 2; Golden State Exhibit 37, Appendix B.

first customer) makes sense for the SSCSA. The SSCSA would be a brand new water system. Its multi-phase development plan, including the IAM, and the expected types, amounts and timing of costs associated with this development are not comparable to costs in either the Arden Cordova or Ojai district. No parties presented any evidence on similar or comparable proxy district.

Under these circumstances, we believe that a rate cap set at 120 percent of Golden State's system wide weighted average revenue requirements would yield a reasonable rate cap relative to other ratemaking districts in Golden State's territory. The proposed cap, to be set at the time Golden State commences service to its first customer in the SSCSA, would create a flexible rate ceiling that falls within the range of rates that Golden State currently charges to its customers, and is not unreasonably high or low.

Reasonableness of the Proposed Duration of Rate Cap

The proposed rate cap will not be calculated until service commences at Sutter Pointe Development, a date which the Sutter Pointe Developers have not yet determined. Although the commencement date is uncertain, based on currently available data, it is reasonable that 120 percent of the weighted average of Golden State's system wide revenue requirements when service commences would provide an adequate margin for Golden State to account for its actual costs at that time and earn a more reasonable rate of return while protecting customers from unreasonably high rates.

The purpose of the rate cap here is to ensure that Golden State's rates are not unreasonably high when the actual number of customers in the SSCSA is low during the earliest phase of the Sutter Pointe Development. This earliest phase would be the first six years and the rate cap would serve as the safeguard for the SSCSA ratepayers during this period. Golden State anticipates that the customer

base in Sutter Pointe Development will grow to 3,000 to 4,000 customers in six years, and that this will be a sufficiently large base from which to recover revenue requirements and transition to cost-based rates.

Based on Golden State's customer base growth projection, D.14-06-051 determined that two rate case cycles (or six years) is a reasonable duration for a rate cap in the SSCSA. Consistent with that, the Settling Parties propose six years as the agreed rate cap duration. Today, we reaffirm that six years, as proposed, is a reasonable duration for the rate cap here.

Finally, ORA raises concerns that adopting a rate cap may create a presumption of reasonableness *per se* of the amount equivalent to the cap.¹⁰ Following that reasoning, Golden State may propose revenue requirements equal to the amount produced by the rate cap formula. To be clear, for each upcoming GRC cycle, the Commission will continue to review Golden State's rates to ensure they are just and reasonable, and will treat the rate cap as a "not-to-exceed maximum," rather than a *de facto*, amount. With this understanding, we find that the Rate Cap Settlement Agreement presents a rate cap that is just and reasonable in both amount and duration relative to the anticipated needs in the SSCSA, and therefore serves the public interest.

4.2. Public Interest

In this proceeding, the primary public interest is in the delivery of safe and reliable water service at reasonable rates. The proposed rate cap in the Rate Cap Settlement Agreement would serve as insurance to protect the initial group of SSCSA ratepayers from unfair, unreasonable and disproportionately high water

¹⁰ ORA Exhibit 9 at 7: line 14- line 20.

rates during the first six years, when Golden State will likely have a smaller customer base over which to recover its costs.

In addition, Golden State (as the utility) and ORA (for the ratepayers) carefully negotiated and entered into this unopposed Rate Cap Settlement Agreement. The Settling Parties represent the competing interests and concerns in this proceeding. We believe the Rate Cap Settlement Agreement adequately and fairly addresses both utility's and the ratepayers' concerns, and see no evidence that its terms in any way contravene statutory provisions or prior Commission decisions, as discussed further in section 4.3 of this decision.

There is a strong public policy favoring the settlement of disputes to avoid costly and protracted litigation,¹¹ and the Rate Cap Settlement Agreement satisfies this public policy preference. The Rate Cap Settlement Agreement serves the public interest by resolving competing concerns in a collaborative and cooperative manner. By reaching settlement, the parties avoid the costs of further litigation in this proceeding, and eliminate the possible litigation costs for rehearing and appeal.

The Commission has long held that a settlement that "commands broad support among participants fairly reflective of the affected interests" and "does not contain terms which contravene statutory provisions or prior Commission decisions" is in the public interest. Accordingly, we find that this Rate Cap Settlement Agreement is in the public interest.

¹¹ D.88-12-083, 30 CPUC2d 189, 221.

4.3. Consistent with Law

As discussed in this decision, we find that the terms of the Rate Cap Settlement Agreement are consistent with the Public Utilities Code,¹² prior Commission decisions, and other applicable laws. As detailed above, the proposed rate cap and its duration as set forth in the Rate Cap Settlement Agreement are consistent with, *inter alia*, D.14-06-051¹³ and with § 451 of the Code, which states that charges by public utilities “shall be just and reasonable.” Specifically, we find that the proposed rate cap and duration set forth in the Rate Cap Settlement Agreement would ensure just and reasonable rates in the SSCSA. Moreover, as detailed above, the Rate Cap Settlement Agreement complies with Rule 12.1(d) of the Commission’s Rules because it is “reasonable in light of the whole record, consistent with law, and in the public interest.”

Finally, the Motion and the Rate Cap Settlement Agreement fully address and resolve all of the outstanding issues in this proceeding as set forth in the Fourth Amended Scoping Memo and Ruling and those noted in D.15-08-027, the decision granting a limited rehearing and re-opening the proceeding for the limited purpose of reviewing the rate cap issue.

The Commission retains its authority to revise this decision, in the future as deemed necessary and appropriate, as set forth in § 1708. Pursuant to § 1708, our power to modify or revise our decisions and orders is not limited to

¹² All statutory references are to Public Utilities Code, unless otherwise specified.

¹³ The Settling Parties represent and we agree that the Commission’s adoption of this rate cap and the terms of the Rate Cap Settlement Agreement do not affect or otherwise interfere with the existing CPCN Settlement Agreement, adopted under D.14-06-051. This resolves the issue set forth in D.15-08-027 and the Fourth Amended Scoping Memo and Ruling concerning the potential conflict or negative effects, if any, of the currently proposed rate cap (in the Rate Cap Settlement Agreement) on the validity of the previously adopted CPCN Settlement Agreement.

situations where one of the parties has filed a formal petition. Section 1708 permits the Commission to rescind, alter, or amend today's decision upon providing notice to the parties.

4.4. Rate Cap Settlement Agreement Approved

The Rate Cap Settlement Agreement is reasonable, consistent with the law and in the public interest. Based on the foregoing, the Commission adopts the Rate Cap Settlement Agreement in its entirety and without modifications.

5. Categorization and Need for Hearings

In Resolution ALJ 176-3220, dated September 4, 2008, the Commission preliminarily categorized this proceeding as ratesetting and determined that hearings were not necessary. In the Fourth Amended Scoping Memo and Ruling issued on December 7, 2015, the Commission determined that all identified issues for rehearing were matters of fact or policy for which evidentiary hearings were needed. However, based upon the Rate Cap Settlement Agreement, the Motion, and the testimony which were subsequently received into the record of the proceeding and other filings in the record of this proceeding, we determine that a hearing is not necessary.

6. Waiver of Comments Period

Under Rule 14.6(c)(4) of the Commission's Rules of Practice and Procedure, the Commission may reduce or waive the period for public review and comment of decisions extending the deadline for resolving ratesetting proceedings. We waive the period for public review and comment pursuant to this rule.

7. Assignment of Proceeding

Liane M. Randolph is the assigned Commissioner and Kimberly Kim is the assigned ALJ in this proceeding.

Findings of Fact

1. By OPs 15 and 16 of D.14-06-051, the Commission, *inter alia*, established a rate cap on Golden State's revenue requirements in the SSCSA not to exceed \$105 per customer per month for its first two rate case cycles.

2. Following the issuance of D.14-06-051, ORA filed an application for rehearing, and Golden State filed a petition for modification. Each raised, *inter alia*, concerns regarding the adopted future rate cap.

3. The Commission issued D.15-08-027, on August 13, 2015, granting a limited rehearing and re-opening the proceeding for the limited purpose of reviewing the previously adopted rate cap.

4. On June 9, 2016, the Settling Parties, Golden State and ORA, file a motion for approval and adoption of the Rate Cap Settlement Agreement.

5. No party filed any objection or opposition to the Motion.

6. As set forth in the Rate Cap Settlement Agreement, the Settling Parties propose to replace the rate cap adopted in D.14-06-051 with a rate cap not to exceed 120 percent of Golden State's company-wide weighted average revenue requirements per customer per month. As proposed: (1) surcharges and surcredits will not factor into the determination of the rate cap; (2) the rate cap will not apply to any surcharges or surcredits; (3) the proposed rate cap will be calculated initially as of the time Golden State begins its service to the first customer in the SSCSA, and will thereafter be adjusted annually on each anniversary of its commencement by the percentage change in CPI; and (4) the proposed rate cap will apply for six years.

7. The Commission's adoption of the proposed rate cap in the Rate Cap Settlement Agreement does not affect or otherwise interfere with the existing CPCN Settlement Agreement approved in D.14-06-051.

8. The Rate Cap Settlement Agreement is a fair compromise (in both amount and duration), addresses the utility's and ratepayers' concerns, and commands the support of the parties.

9. The proposed rate cap, set at the time Golden State commences service to its first customer in the SSCSA, would create a flexible rate ceiling that falls within the range of rates that Golden State currently charges to its customers.

10. The purpose of the rate cap is to ensure that Golden State's rates are not unreasonably high when the actual number of customers in the SSCSA is low during the earliest phase of the Sutter Pointe Development.

11. The earliest phase of this development would be the first six years, and Sutter Pointe Development's customer base will grow to 3,000 to 4,000 customers in that phase.

12. The proposed rate cap and duration set forth in the Rate Cap Settlement Agreement would ensure just and reasonable rates and would serve as the safeguard for the SSCSA ratepayers during this period from unfair, unreasonable and disproportionately high water rates, when Golden State will likely have a smaller customer base among which to spread out its costs.

13. Following the first six years, the Golden State projects sufficiently large customer base from which to recover revenue requirements and transition to cost-based rates.

14. For each upcoming GRC cycle, the Commission will continue to review Golden State's rates to ensure they are just and reasonable, and will treat the rate cap as a not-to-exceed maximum, rather than a *de facto* amount.

15. Adopting a rate cap does not create a presumption of reasonableness *per se* of the amount equivalent to the cap because a rate cap as a "not-to-exceed maximum," rather than a *de facto*, amount.

Conclusions of Law

1. The Rate Cap Settlement Agreement should be adopted.
2. The terms of the Rate Cap Settlement Agreement, including the proposed rate cap, are just and reasonable, and fairly reflect the affected interests.
3. The Setting Parties complied with the Rules 12.1(a) and (b); and the Rate Cap Settlement Agreement complies with Rule 12.1(d) and is consistent with law, in the public interest and reasonable in light of the whole record.
4. The terms of the Rate Cap Settlement Agreement are consistent with the Public Utilities Code, prior Commission decisions, and other applicable laws.
5. A rate cap set at 120 percent of Golden State's system wide weighted average revenue requirements is a reasonable rate cap.
6. Adoption of the Rate Cap Settlement Agreement does not constitute approval of, or precedent regarding, any principle or issue in the proceeding or in any future proceeding.
7. Adoption of the Rate Cap Settlement Agreement does not prejudice or limit the Commission's discretion in the future regulation of Golden State Water Company.
8. The Commission's approval of the Rate Cap Settlement Agreement and its terms without modification or condition will resolve all outstanding issues in A.08-08-022.
9. D.14-06-051 should be modified, and OPs 15 and 16 of D.14-06-051 should be superseded by the OPs in this decision adopting a rate cap on Golden State's revenue requirements in the SSCSA as proposed in the Motion and the Rater Cap Settlement Agreement.
10. Hearings are not necessary.
11. This proceeding should be closed.

12. The decision should take effect immediately.

O R D E R

IT IS ORDERED that:

1. The proposed Rate Cap Settlement Agreement of the Office of Ratepayer Advocates with Golden State Water Company (attached to this decision as Appendix A) is adopted.
2. The maximum revenue requirement or rate cap for the South Sutter County Service Area (SSCSA) during its first two rate case cycles shall be 120 percent of Golden State Water Company's wide weighted average revenue requirements per customer per month. Surcharges and surcredits shall be excluded from the determination of the rate cap, and the rate cap shall not apply to any surcharges or surcredits. The rate cap shall be calculated and set at the time Golden State begins its service to the first customer in the SSCSA and shall thereafter be adjusted annually by the percentage change in the Consumer Price Index.
3. The rate cap adopted in this decision shall supersede the rate cap adopted in Ordering Paragraphs 15 and 16 of Decision 14-06-051.
4. Evidentiary hearings are not necessary.
5. All motions not previously ruled on are denied.

6. Application 08-08-022 is closed.

This order is effective today.

Dated September 29, 2016, at San Francisco, California.

MICHAEL PICKER

President

MICHEL PETER FLORIO

CATHERINE J.K. SANDOVAL

LIANE M. RANDOLPH

Commissioners

Carla J. Peterman, being necessarily
absent, did not participate.

APPENDIX A

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

In the Matter of the Application of Golden State Water Company (U 133 W) for a Certificate of Public Convenience and Necessity to Construct and Operate a Water System in Sutter County, California; and to Establish Rates for Public Utility Water Service in Sutter County, California.

Application No. 08-08-022

(Filed August 29, 2008)

SETTLEMENT AGREEMENT

I. TERMS AND CONDITIONS – GENERAL

- 1.1** This Settlement Agreement (“Settlement”) is entered into by and between Golden State Water Company (“Golden State”) and the Office of Ratepayer Advocates (“ORA”) of the California Public Utilities Commission (“Commission”). Golden State and ORA are referred to jointly herein as the “Parties” or singularly as a “Party.”
- 1.2** This Settlement shall become effective and binding on the Parties as of the date it is fully executed by both Parties (“Effective Date”). The Settlement will not, however, resolve the issues before the Commission in Application 08-08-022 unless, and until, it is adopted by the Commission.
- 1.3** This Settlement resolves all outstanding issues that are currently before the Commission in Application 08-08-022.
- 1.4** The Parties agree that (except as otherwise stated herein) the Commission’s adoption of this Settlement should not be construed as an admission or waiver by any Party regarding any fact, matter of law, or issue thereof that pertains to the subject of this Settlement. In accordance with the

Commission's Rules of Practice and Procedure (hereinafter "Rule"), Rule 12.5, the Parties intend that the Commission's adoption of this Settlement be binding on each Party, including its legal successors, predecessors, assigns, partners, joint ventures, shareholders, members, representatives, agents, attorneys, parent or subsidiary companies, affiliates, officers, directors, and/or employees. Adoption of this Settlement does not constitute approval of, or establish precedent regarding, any principle in any future proceeding. Nor does adoption of this Settlement bind any Party with respect to a future proceeding except with respect to the terms and conditions set forth herein, including as provided in Sections 1.13 and 1.14.

- 1.5** The Parties agree that neither Party to this Settlement, nor either Parties' legal successors, predecessors, assigns, partners, joint ventures, shareholders, members, representatives, agents, attorneys, parent or subsidiary companies, affiliates, officers, directors, and/or employees thereof, assumes any personal liability as a result of this Settlement.
- 1.6** The Parties agree that the Commission has primary jurisdiction over any interpretation, enforcement, or remedy pertaining to this Settlement. Neither Party may bring an action pertaining to this Settlement in any local, State, or Federal court, or administrative agency, without having first exhausted its administrative remedies at the Commission.
- 1.7** If either Party fails to perform its respective obligations under this Settlement, the other Party may come before the Commission to pursue a remedy including enforcement.
- 1.8** The Parties agree that this Settlement is an integrated agreement and the provisions of the Settlement are not severable. Therefore, if the Commission rejects, conditions or purports to modify any term or portion of this Settlement, the Parties shall convene a conference within fifteen (15)

days thereof and engage in good faith negotiations to determine whether some or all of the remainder of the Settlement is acceptable to the Parties. If the Parties cannot agree to resolve any issue raised by the Commission's actions within thirty (30) days of their conference, this Settlement shall be deemed to be rescinded, the Parties shall be released from any obligation, representation, or condition set forth in this Settlement, including their obligation to support this Settlement, and the Parties shall be restored to their positions prior to having entered into this Settlement. If the Commission does not issue a decision approving this Settlement in its entirety and without modification or condition within twelve (12) months from the Effective Date, this Settlement will be automatically rescinded, the Parties shall be released from any obligation, representation, or condition set forth in this Settlement, including their obligation to support this Settlement, and the Parties shall be restored to their positions prior to having entered into this Settlement. Following the rescission of this Settlement, the Parties may pursue any action they deem appropriate.

1.9 The Parties acknowledge and stipulate that they are agreeing to this Settlement freely, voluntarily, and without any fraud, duress, or undue influence by any other Party. Each Party hereby states that it has read and fully understands its rights, privileges, and duties under this Settlement, including each Party's right to discuss this Settlement with its legal counsel, and has exercised those rights, privileges, and duties to the extent deemed necessary.

1.10 The Parties have determined that this Settlement is in their best interests, and more cost-effective than undertaking the expenses, delays, and uncertainties of further litigation. In executing this Settlement, each Party declares that the terms and conditions herein are reasonable, consistent with the law, and in the public interest. Therefore, the Parties jointly request that

the Commission accept and adopt this Settlement in its entirety and without modification or condition, as reasonable, consistent with the law, and in the public interest.

- 1.11** The Parties agree that within fifteen (15) days of the Effective Date they will jointly file this Settlement for Commission approval by joint motion under Commission Rule 12.1(a). In their joint motion, the Parties will ask that the Commission expeditiously consider and approve this Settlement in its entirety and without condition or modification.
- 1.12** The Parties agree to support this Settlement and use their best efforts to secure the Commission's approval of this Settlement in its entirety and without condition or modification.
- 1.13** The Parties agree to defend this Settlement and its implementation before the Commission if the Commission's adoption or implementation of this Settlement is opposed by anyone else.
- 1.14** Each Party hereto agrees 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 Settlement, including, without limitation, furnishing such additional information, documents, and/or testimony as the Commission may require (with due regard for confidentiality) in issuing an order adopting this Settlement.
- 1.15** The Parties acknowledge and agree that this Settlement has been jointly negotiated and drafted. The language of this Settlement shall be construed as a whole according to its fair meaning and not in favor of or against either Party.
- 1.16** This Settlement constitutes the entire agreement and understanding between the Parties as to the subject of this Settlement, and supersedes any prior

agreements, commitments, representations, or discussions between the Parties.

- 1.17 This Settlement may not be amended or modified without the express written and signed consent of each Party hereto.
- 1.18 Neither Party has relied or relies upon any statement, promise, or representation by the other Party, 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 representative.
- 1.19 This Settlement and each covenant and condition set forth herein shall be binding upon the respective Parties hereto.
- 1.20 This Settlement may be executed in counterparts by each Party hereto with the same effect as if both Parties had signed one and the same document. Any such counterpart shall be deemed to be an original and shall together constitute one and the same Settlement.
- 1.21 This Settlement shall be governed by the laws of the State of California as to all matters, including validity, construction, effect, performance and remedy.

II. BACKGROUND

- 2.1 On July 1, 2014, the Commission issued Decision 14-06-051, granting Golden State a Certificate of Public Convenience and Necessity to provide water service for a new development in Sutter County known as Sutter Pointe, and adopting a Settlement Agreement between Golden State, Sutter County, the real estate developers of the proposed development, and the community of Robbins.

- 2.2** The Commission adopted a rate cap in Decision 14-06-051, imposing a cap of \$105 on the average revenue requirement per customer per month in the future Golden State ratemaking district for the new Sutter Pointe development, known as the South Sutter County Service Area. Golden State filed a petition to modify Decision 14-06-051, and ORA filed an application for rehearing of Decision 14-06-051.
- 2.3** On August 13, 2015 the Commission issued Decision 15-08-027 ordering a limited rehearing to address the reasonableness of the rate cap adopted in Decision 14-06-051. The Commission enumerated the issues to be addressed in the rehearing proceeding as follows: “Rehearing of Decision 14-06-051 as modified is granted and limited to the issues of (1) whether the rate cap adopted by the challenged decision is (a) of a reasonable amount and (b) applies for a reasonable period of time, and (c) if not, what is a reasonable rate cap amount and time frame; (2) whether and how an adoption of a rate cap effects the settlement agreement, and (c) whether the rate cap ultimately adopted is just and reasonable.”
- 2.4** On December 7, 2015, Commissioner Randolph and ALJ Kim issued a Fourth Amended Scoping Memo affirming the scope of issues to be addressed in the rehearing proceeding as limited to the specific rate cap issues enumerated Decision 15-08-027. The Fourth Amended Scheduling Memo also set a schedule for the remainder of the rehearing proceeding. Pursuant to this schedule, Golden State and ORA both served prepared opening testimony on March 18, 2016, and prepared rebuttal testimony on April 15, 2016.
- 2.5** In lieu of pursuing further litigation, the Parties have agreed upon terms and conditions resolving the entirety of the issues in this rehearing proceeding, which the Parties believe are fair and reasonable in light of the evidentiary

record and in the public interest. The terms and conditions agreed to by the Parties are set forth in Section III of this Settlement Agreement below.

III. TERMS AND CONDITIONS OF THE SETTLEMENT

3.1 The rate cap adopted in Decision 14-06-051 is not reasonable.

3.2 The following rate cap for the South Sutter County Service Area is just and reasonable and shall be adopted in lieu of the rate cap originally set forth in Decision 14-06-051:

A. Golden State's average revenue requirement per customer per month in the South Sutter County Service Area may not exceed 120% of Golden State's company-wide weighted average revenue requirement per customer per month (excluding the SSCSA revenue requirement), calculated initially as of the time Golden State serves its first customer at the SSCSA and adjusted pursuant to Subsection 3.2.C. Surcharges and surcredits shall not be factored into the determination of the rate cap and the rate cap shall not apply to any surcharges or surcredits in the SSCSA.

B. The rate cap shall apply for six (6) years, starting from when Golden State serves its first customer at the SSCSA.

C. The rate cap shall be adjusted annually on each anniversary of its commencement by the percentage change to the most recent Consumer Price Index published by the federal Bureau of Labor Statistics ("CPI") as of the date of the adjustment ("Base CPI") as compared to the CPI published one year prior to the Base CPI.

3.3 The Commission's adoption of a rate cap for the South Sutter County Service Area does not have any effect on the Settlement Agreement adopted by the Commission in Decision 14-06-051.

IV. CONCLUSION

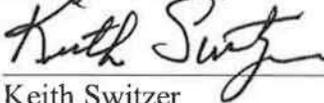
The Parties mutually agree that, based on the terms and conditions set forth above, this Settlement is reasonable, consistent with the law, and in the public interest.

Each signatory to this Settlement represents and warrants that he or she has the right, power and authority to bind the Party that he or she represents, and that his or her signature to this Settlement binds his or her respective Party to the terms of this Settlement.

Dated: June 9, 2016

Elizabeth Echols
Director
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Dated June 9, 2016



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IV. CONCLUSION

The Parties mutually agree that, based on the terms and conditions set forth above, this Settlement is reasonable, consistent with the law, and in the public interest.

Each signatory to this Settlement represents and warrants that he or she has the right, power and authority to bind the Party that he or she represents, and that his or her signature to this Settlement binds his or her respective Party to the terms of this Settlement.

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