

Decision 16-11-014 November 10, 2016

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

In the Matter of the Application of California-American Water Company (U-210-W) along with Harry K. Bosworth and Karen R. Bosworth (dba Geyserville Water Works (U-113-W) for an Order Authorizing the Bosworths to Sell and California-American Water Company to Purchase the Public Utility Assets Associated with Geyserville Water Works

Application 15-08-024  
(Filed August 25, 2015)

**DECISION AUTHORIZING THE SALE AND  
ADOPTING SETTLEMENT AGREEMENT**

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Appendix A - Settlement Agreement

## **DECISION AUTHORIZING THE SALE AND ADOPTING SETTLEMENT AGREEMENT**

### **Summary**

This decision authorizes the sale of Geyserville Water Works (GWW) assets by Harry K. Bosworth and Karen R. Bosworth (Bosworths), doing business as GWW, to California-American Water Company (CalAm). This decision adopts the settlement agreement between the Bosworths, CalAm and the Office of Ratepayer Advocates concerning the issues in this proceeding. This decision authorizes CalAm to expand its certificate of public convenience and necessity to incorporate GWW service area into its Sonoma County service territory. The settlement agreement is attached to this decision as Appendix A. This decision changes no rates or charges and closes the proceeding.

### **1. Background**

Harry K. Bosworth and Karen R. Bosworth (Bosworths), doing business as Geyserville Water Works (GWW), is a Class D water utility subject to the Commission's jurisdiction. GWW's system is located in Sonoma County and consists of 318 service connections (279 metered and the remainder receiving flat-rate service). The Bosworths have owned and operated GWW since 1978, and their two daughters currently run the day-to-day operation.

California-American Water Company (CalAm) is a Class A water utility subject to the Commission's jurisdiction. CalAm is a subsidiary of American Water Works Company Inc. (AWWC) and serves approximately 630,000 customers throughout California.

On June 16, 2015, the Bosworths and CalAm entered into an asset purchase agreement (APA) to sell GWW assets to CalAm for the purchase price of

\$1,415, 210. The reasons for the sale are that the Bosworths, at the age of 77, are retiring and, as a small family-run operation, the Bosworths are no longer able to keep up with the increasing operational and regulatory demands facing water utilities.<sup>1</sup>

In Application (A.) 15-08-024, GWW and CalAm requested that the Commission approve the GWW public utility asset sale to CalAm and authorize the expansion of the CalAm's certificate of public convenience and necessity (CPCN) to include the GWW service territory. As proposed, following the sale, GWW customers will be incorporated into CalAm's Sacramento District for ratemaking purposes, and into CalAm's Northern Division – Larkfield and Sacramento Districts – for operational purposes.

On October 1, 2015, the Office of Ratepayer Advocates (ORA) filed its protest. CalAm filed its reply to ORA's protest.

At the prehearing conference on November 20, 2015, the assigned Administrative Law Judge (ALJ) referred the matter to the Commission's Alternative Dispute Resolution Program. On January 13, 2016, the assigned Commissioner and ALJ issued a Scoping Memo and Ruling outlining the issues to be addressed and the anticipated schedule for the proceeding. On February 2, 2016, the parties submitted a Joint Case Management Statement informing the assigned ALJ of the status of the settlement discussions and of their belief that evidentiary hearings would not be necessary.

On May 17, 2016, all parties filed a joint motion to move evidence into the record and approve the settlement agreement (Motion). The assigned ALJ issued

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<sup>1</sup> Bosworth Testimony at 2:17-20.

a ruling on June 8, 2016 (June 8 Ruling), ordering the parties to meet and confer and file a joint comment in support of the Motion to demonstrate, inter alia, public interest benefits of the proposed sale and further justifications as to why the settlement agreement (Settlement Agreement) should be approved. On June 21, 2016, the parties filed a joint response to the June 8 Ruling.<sup>2</sup>

## **2. Standard of Review**

Pursuant to Rule 12.1(d) of the Commission's Rules of Practice and Procedure (Rules), the Commission will not approve and adopt a settlement, whether contested or uncontested, without finding that it is reasonable in light of the whole record, consistent with law, and in the public interest.

## **3. Settlement Agreement**

The Settlement Agreement is entered into by the Bosworths, CalAm, and ORA (collectively, the Settling Parties). No party opposes its adoption.

The Settlement Agreement affects CalAm's Larkfield District (18 miles from GWW service area) and Sacramento District (120 miles from GWW service area), with over 2,300 and 58,000 customers, respectively. The Settlement Agreement involves transfer of all of GWW's assets to CalAm and consolidation of the GWW service territory into CalAm's Sacramento District for ratemaking purposes and Northern Division (Larkfield and Sacramento Districts) for operational purposes. Under the Settlement Agreement, GWW rates will not change until 2018, after the Commission issues its final decision on CalAm's next general rate case (GRC). At that time, the GWW rates will be consolidated with the rates for CalAm's Sacramento District. The Settlement Agreement, inter alia:

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<sup>2</sup> Compliance Filing of the Parties Providing Joint Comment in Response, dated June 21, 2016,

*Footnote continued on next page*

- (a) Relieves the Bosworths, doing business as GWW, of the public utility obligations;
- (b) Transfers all of GWW's public utility assets to CalAm;
- (c) Confirms that the GWW service territory would be consolidated into CalAm's Sacramento District for ratemaking purposes and Northern Division (Larkfield and Sacramento Districts) for operational purposes;
- (d) Expands CalAm's Sacramento District CPCN for its Northern Division to encompass GWW's service area;
- (e) Maintains GWW's current rates, established in Resolution W-5028, until new rates are established in the next CalAm GRC;
- (f) Establishes CalAm's rate base for the acquired assets (i.e. Sacramento District rate base will be adjusted to reflect \$1,415,210, CalAm's cost of acquiring GWW);
- (g) Authorizes CalAm to recover \$37,692.15 in pre-settlement transaction costs in its future rate base as part of CalAm's soon-to-be filed GRC (expected to begin in 2018); and
- (h) Establishes a memorandum account to address environmental issues and transaction costs.<sup>3</sup>

CalAm will be financing its acquisition of GWW assets with its operating cash flow. The Settlement Agreement also provides that AWWC will assume the

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(Compliance Filing).

<sup>3</sup> The Settlement Agreement provides that CalAm's CPUC Sheet No. 8080-W memorandum account ("BC Dunnigan Environmental Improvement and Compliance Issues Memorandum Account") will include the newly acquired GWW and Dunnigan systems in an account re-named, "The Memorandum Account for Environmental Improvements and Compliance Issues for Acquisitions."

responsibility of stock issuance for the purchase price in AWK<sup>4</sup> Common Stock shares. Per the APA, CalAm and its ratepayers will not be responsible for any costs associated with the sale of shares in AWK stock received by the Bosworths. CalAm's books will record the purchase price as a debt and equity transaction. There is no payment that should be construed as "long term finance."<sup>5</sup>

#### **4. Discussion**

The proposed sale and acquisition are governed by Rule 3.6<sup>6</sup> of the Commission's Rules and Cal. Pub. Util. Code<sup>7</sup> §§ 851-854, requiring the parties to obtain Commission approval prior to any acquisition of a public utility. The acquisition envisioned in the Settlement Agreement is also subject to § 2720. Our review of the Settlement Agreement is also governed by article 12 of the Commission's Rules, and specifically, Rule 12.1(d). As discussed below, we find that the proposed sale and acquisition and the Settlement Agreement meet all of the governing requirements, and we approve them.

##### **4.1. The Settlement Agreement is in the Public Interest.**

Under the Settlement Agreement, CalAm will acquire GWW service territory from the Bosworths. CalAm is a Class A water utility regulated by the

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<sup>4</sup> New York Stock Exchange ticker symbol for AWWC.

<sup>5</sup> In Decision (D.) 14-07-015, the Commission granted CalAm's financing request by authorizing issuance of \$92.44 million in long-term debt securities for expenditures that include "acquir[ing] utility property." However, CalAm's acquisition of GWW does not trigger this prior authorization.

<sup>6</sup> Rule 3.6 lists the filing requirements for all transfers and acquisitions brought before the Commission, including financial statements, full terms and conditions, and purchase agreements. Applicants have met each of the applicable requirements under Rule 3.6.

<sup>7</sup> All statutory references are to the Cal. Pub. Util. Code (Code), unless otherwise specified.

Commission. Our review of the Application, the Motion, the Settlement Agreement and all supporting materials, including testimony, show that the Settlement Agreement will directly benefit GWW and CalAm customers and the Bosworths, with no adverse impact on CalAm's customers. The Settlement Agreement will also improve the safety, health, comfort and convenience of utilities' patrons and the public. We, therefore, find that the Settlement Agreement is in the public interest, as further discussed below.

#### **4.1.1. Overall Beneficial Impacts**

Here, the Bosworths are retiring and have expressed concerns with their ability to maintain operational and regulatory compliance going forward, and CalAm proposes to purchase GWW from the Bosworths. CalAm has demonstrated that it (1) has the resources and expertise to acquire and improve smaller, less capable water utilities, such as GWW, (2) offers numerous benefits to the GWW's and CalAm's customers, including the benefit of economy of scale to provide the necessary service to all of its customers and plans to extend that benefit to the GWW customers upon acquisition, and (3) is ready, willing and able to serve GWW customers as soon as the sale is consummated.

Upon acquisition, GWW customers will benefit by gaining access to CalAm's various programs that will improve service quality, water availability, and make bills more affordable. GWW customers will gain access to CalAm's wide-ranging customer service support system and online tools that allow customers to keep track of water use, pay bills, review tariffs, and even request a time to have their service turned on and off. GWW customers will benefit from AWWC's centralized multilingual call center and laboratory, nationwide Computerized Maintenance Management Systems, billing system, and corporate support.

Qualifying GWW customers will also benefit from participating in CalAm's low-income program which it coordinates with the energy utilities. Through the coordinated low-income program, CalAm is able to target, outreach and enroll qualified low-income GWW customers and provide discounts. GWW customers will benefit from CalAm's successful water conservation program with dedicated employees who work one-on-one with customers to audit high consumption connections, inform customers of water saving practices, and provide water saving equipment.

In addition, as part of its operational program, CalAm employs experts who navigate the complex requirements for government programs such as grant funds and revolving fund loans. GWW customers will gain access to these government programs CalAm accesses.

As a large investor-owned utility (IOU) and subsidiary of a nationwide water utility, CalAm can access capital at lower rates than GWW (i.e. 8.41 percent versus 10.80 percent) due to CalAm's Financial Services Agreement with AWWC, national bulk pricing contracts and volume discounts on materials which can be passed on to GWW customers. CalAm's ability to recover its costs from a larger customer base further translates to significant annual savings for GWW customers. CalAm is also able to provide faster customer support and response to service and emergency response at lower costs than GWW.

Finally, the acquisition will not affect GWW customer rates until after the decision on CalAm's next GRC, at which time, the rates are expected to decrease for current GWW customers and for CalAm customers. While CalAm's proposed rate increases, in the next GRC proceeding for its districts state-wide, presents potential impact to GWW rates, CalAm's much larger customer base and better capital rates will likely negate any adverse impacts of that GRC to

GWW customers. With the increase CalAm's customer base (after the CalAm's acquisition of GWW), CalAm's Sacramento District customers' monthly water bills should decrease slightly.<sup>8</sup> CalAm's Larkfield District customer base, comprised of 2,300 ratepayers, will also see some cost benefit from GWW customers' sharing of fixed overhead costs (i.e. managerial salary, employee wages, and facility rental costs).

#### **4.1.2. Safety and Reliability Impacts**

The direct testimonies from CalAm employees show the positive safety and reliability impacts that will result from the proposed sale and acquisition.<sup>9</sup> CalAm's current safety efforts include: (1) an Arc Flash assessment<sup>10</sup> at its facilities; (2) protection of its Supervisory Control and Data Acquisition system to ensure backup power at critical sites; and (3) terrorist prevention and response plans. With regard to cyber security, CalAm benefits from AWWC's membership in various security networks.<sup>11</sup> Moreover, as a large IOU and subsidiary of a nationwide water utility, CalAm is able to provide a better trained and faster emergency customer support, service and response, which will

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<sup>8</sup> CalAm's revenue from GWW customers (at current Sacramento rates) will be \$312,784, exceeding acquisition costs of \$301,920 by \$10,864, and reducing rates for CalAm's Sacramento District customers by \$0.02 per month. Pray Testimony, Attachment 1 at 2.

<sup>9</sup> Testimonies of Todd Pray and S. Audie Foster.

<sup>10</sup> Arc Flash is a type of electrical explosion or hazard that occurs through faulty or failing electrical system. Arc Flash Risk Assessment (formally known as Arc Flash Hazard Analysis) involves assessing safety and risk factors associated with electrical systems by examining the level of hazard that exists at each electrical enclosure such as a control panel, panelboard, disconnect switch or switchgear.

<sup>11</sup> AWWC is a member of Water Information Sharing & Analysis Center, Infragard, Homeland Security Information Network, and the Industrial Control System Computer Emergency Response Team.

promote and enhance safety and reliability of service to GWW customers. For instance, CalAm's Sacramento office has over 50 employees capable of assisting GWW's customers, including a 24-hour emergency response team.

In addition, with more expertise and personnel, CalAm is better equipped to maintain and improve treated water quality through infrastructure improvements, and track and respond to issues that may arise in the GWW system. Since the Sacramento office is 120 miles away from Geyserville, GWW customers will also receive support from and be included in CalAm's Larkfield District – within 18 miles of Geyserville – for day-to-day operational purposes.

#### **4.1.3. Sections 854(b) and 854(c) Public Interest Considerations**

While sections 854(b) and 854(c) do not apply to water utilities, the Commission has consistently considered the public interest factors addressed in these statutes for guidance in sales/acquisitions of water utilities to determine whether a proposed sale/acquisition meets the "ratepayer indifference standard." In addition, Rule 12.1(d) requires a finding of public interest before the Settlement Agreement is adopted. In the foregoing Sections 4.1.2 and 4.1.3, we discuss numerous public interest and safety and reliability benefits of the proposed sale, which is incorporated by this reference but not repeated. In addition, below, we examine other benefits, impacts and interests considered under sections 854(b) and 854(c) and the ratepayer indifference standard.

Ratepayer indifference standard means that while the transaction need not meet every sections 854(b) and (c) requirement, the factors when weighed should

demonstrate that there are no negative impacts to ratepayers affected by the transfer of control.<sup>12</sup>

Section 854(b) Considerations

Section 854(b) requires that the parties' proposal make a showing of:

- (1) Short and long-term economic benefits to ratepayers;
- (2) Equitable distribution of those total benefits between shareholders and ratepayers (i.e. not less than 50 percent to ratepayers); and
- (3) No adverse impact on competition.

With regard to the above factors, we discuss the economic benefits to CalAm's and GWW ratepayers in the foregoing section. While the parties did not delineate benefits that accrue to the shareholders versus those accruing to the ratepayers, there are many identified benefits discussed in previous sections of this decision and no evidence suggests that those benefits are accruing unfairly or disproportionately. There is no known impact on market competition among the water utilities resulting from this sale.

Section 854(c) Considerations

The Commission also weighs whether the acquisition meets the following objectives in section 854(c):

- (1) Maintain or improve the financial condition of the resulting public utility doing business in the state;
- (2) Maintain or improve the quality of service to public utility ratepayers in the state;

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<sup>12</sup> D.01-09-057, at 51-52. See also D.11-12-007, at 6-7.

- (3) Maintain or improve the quality of management of the resulting public utility doing business in the state;
- (4) Be fair and reasonable to the affected public utility employees;
- (5) Be fair and reasonable to the majority of all affected public utility shareholders;
- (6) Be beneficial on an overall basis to state and local economies, and to the communities in the area served by the resulting public utility;
- (7) Preserve the jurisdiction of the Commission and its capacity to effectively regulate and audit public utility operations in the state; and
- (8) Provide mitigation measures to prevent significant adverse consequences which may result.

With regard to these factors, we find that CalAm's financial condition would be enhanced due to increased customer base. As detailed in the foregoing Section 4.1.1., the GWW ratepayers will receive an improved quality of service from CalAm, while CalAm's ratepayers are expected to continue to receive the same quality of service. There is no evidence to suggest that the quality of CalAm's management would be affected by this sale; however, GWW ratepayers will gain the benefits of the CalAm's expert management. There is no evidence that the sale would impact the employees of CalAm and GWW in an unfair or unreasonable manner. The two daughters and the Bosworths will retire under the Settlement Agreement for agreed-upon consideration and CalAm's Northern Division employees will take over the 318 service connection within the GWW service territory. There is no evidence that the sale would impact CalAm's shareholders in an unfair or unreasonable manner.

This sale will be beneficial on an overall basis to state and local economies and to the communities in the area because GWW customers will receive many economic and safety benefits, as discussed in the foregoing Section 4.1.1., and the community will be securing a long-term, stable and high quality water service.

The parties contend and the record of this proceeding confirms that there are no known adverse consequences of this sale. Accordingly, we do not contemplate mitigation measures, or reasonable alternatives pursuant to section 854(d), that would yield comparable short and long-term economic savings while avoiding potential adverse impacts.<sup>13</sup>

The acquisition will preserve the Commission's jurisdiction and its capacity to effectively and continually regulate and audit public utility operations in the state because the GWW water system will be operated by CalAm, a Class A utility already regulated by the Commission.

Based on the public interests/benefits review, similar to our review above, D.01-09-057 granted CalAm's application to acquire Citizens' Utilities Company of California's water system. To the extent that the Commission has consistently encouraged such acquisitions of small, less efficient water utilities, and based on the above review of a variety of resulting benefits from the proposed acquisition of GWW by CalAm, the Settlement Agreement here should be approved.

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<sup>13</sup> Section 854(d) requires the Commission to consider any reasonable alternatives recommended by other parties, such as a no-sale alternative. Here, no party offers alternatives to the proposed Settlement Agreement.

**4.2. The Settlement Agreement is Consistent with Law.**

**4.2.1. The Settling Parties complied with the applicable filing and notice requirements.**

The Settling Parties complied with the Commission's Rule 12.1(a) filing and notice requirements for the Settlement Agreement. The Settling Parties met the Rule 12.1(b) requirement, that they must hold at least one settlement conference, by engaging in a series of in-depth discussions prior to arriving at the proposed Settlement Agreement, which included extensive document exchanges. The applicants complied with the Commission's guidelines for water utility acquisitions set out in D.99-10-064.<sup>14</sup>

The Settling Parties complied with the Code's applicable notice requirements by providing notice to GWW and CalAm Sacramento District customers.<sup>15</sup> Both notices conveyed that current rates would remain unchanged for the first year following the acquisition, and gave information about how to participate in the Commission proceeding. In addition, GWW's notice provided that there would be: (1) cost-advantages in CalAm's efficient operations and lower overall rates; (2) greater access to resources including online payment

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<sup>14</sup> The June 8 Ruling ordered the Settling Parties to demonstrate how they complied with the D.99-10-064 guidelines for water utility acquisitions. The parties have complied with these requirements by providing in their application: (1) a forecast of CalAm's operation results including combined operations for first and fifth years post-acquisition; (2) an appraisal valuing contributed assets appropriately, with supporting materials and work papers, excluding the cost of any federal or state government-funded plant or improvement; (3) proposed rates; (4) a copy of the APA; (5) a service map; (6) notice of the proposed acquisition distributed to all affected customers; and (7) a service list.

<sup>15</sup> Section 853(b) provides that before approving an acquisition of a public utility that may affect customers, the Commission may demand that the affected utilities, among other requirements, provide notice to their ratepayers.

options, web self-service account management tools, and optional paperless billing; and (3) opportunity to participate in CalAm's low-income discount programs, if eligible, and CalAm's extensive conservation program.<sup>16</sup> The notice from CalAm stated that "[b]ased on current Sacramento rates, the purchase is not expected to increase rates for current California American Water customers."<sup>17</sup>

**4.2.2. The Requested Rate Base Recovery Envisioned in the Settlement Agreement Complies with sections 2718-2720.**

In 1997, Public Water System Investment and Consolidation Act, sections 2718-2720, passed. The Commission followed the legislative mandates therein, and D.99-10-064 established that sections 2718-2720 are the applicable guidelines for sales/acquisitions/mergers of an entire water system. Therefore, the sale of the entire GWW system envisioned in the Settlement Agreement is subject to section 2720, and the requested rate base recovery in rates complies with section 2720(b) which provides that "[i]f the fair market value exceeds reproduction cost, ... the commission may include the difference in the rate base for ratesetting purposes if it finds that the additional amounts are fair and reasonable."

Here, the purchase price is \$1,415, 210. This amount is far less than the appraised value of the GWW system which is \$7,170,990.<sup>18</sup> This valuation was arrived at in conformance with the definition of fair market value using

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<sup>16</sup> Compliance Filing, Exhibit A.

<sup>17</sup> Compliance Filing, Exhibit B.

<sup>18</sup> Application, Attachment 3.

appraisal methodology known as “replacement costs new less depreciation” (RCNLD). Pursuant to D.99-10-064, the Applicants filed the appraisal along with the Application. The appraisal reflected the valuation prepared using the RCNLD approach and “include[d] all assets [being sold], including the value of the land and the cost of replacing the existing improvements, less accumulated depreciation.” Based on that appraised fair market value as compared to substantially lower purchase price, it is evident and stipulated by Settling Parties that there is no premium being paid because there is no amount in excess of the fair market value being paid by CalAm for GWW system. Therefore, we need not evaluate section 2720(b) consideration for the premium above the fair market value.

Under these circumstances, we believe the acquisition helps support the public interest goals of sections 2718-2720 and the requested rate base recovery in rates complies with section 2720(b).

**4.2.3. The Proposed Sale of GWW under the Settlement Agreement is not governed by D.06-05-041 and sections 789-790.1, including the “gain on sale” doctrine**

On February 16, 2016, CalAm and ORA filed a Joint Response Concerning Legal and Scheduling Issue (Gain on Sale Brief), and moved to modify the Scoping Memo and Ruling to eliminate the “gain on sale” doctrine from the list of issues to be addressed in this proceeding. Based upon the Gain on Sale Brief, the assigned ALJ ruled on March 28, 2016 that the potential “gain on sale” issue was taken under submission.

Here, we find that D.06-05-041 and sections 789-790.1, including the “gain on sale” doctrine, do not apply. Because the subject of this proceeding concerns the sale of an entire GWW system, rather than an individual asset or routine

asset sale, sections 2718-2720 apply, as discussed above in Section 4.2.2 of and elaborated further below.

The “gain on sale” doctrine under D.06-05-041 applies where a water utility sells its assets or some portion of its water system, not the entire system, and in those instances, the seller/utility must account for the gain (or loss) on the sale of that asset to its existing ratepayers and shareholders. D.06-05-041 provides that:

the Ratepayers and shareholders ... will split the gain from non-depreciable property such as land and water rights ... [And t]his rule of thumb will apply to routine asset sales where the sale price is \$50 million or less and the after-tax gain or loss from the sale is \$10 million or less. Most ordinary asset sales that come before this Commission for approval should meet these criteria....

D.06-05-041 also clarifies sections 789-790.1, which were enacted as the Water Utility Infrastructure Improvement Act of 1995, and concerns water utility infrastructure, plant and facilities that are no longer necessary or useful to the performance of the water corporation’s duties to the public.

Here, we are dealing with a proposed sale of an entire system, not a routine asset sale, and there is no contention that the assets being sold are no longer necessary or useful. Accordingly, we find D.06-05-041 and sections 789-790.1 do not apply.

As discussed in Section 4.2.2 above, we affirm that sales of entire water systems are governed by sections 2718 - 2720. Enacted in 1997, those statutes declared the Legislature’s intent to encourage larger water companies to acquire smaller systems and established how those systems are to be valued for establishing rate base after the sale of the system. Section 2720(a) states:

(a) The commission shall use the standard of fair market value when establishing the rate base value for the distribution system of a public water system acquired by a water corporation. This standard shall be used for ratesetting.

(1) For purposes of this section, “public water system” shall have the same meaning as set forth in Section 116275 of the Health and Safety Code.

(2) For purposes of this section, “fair market value” shall have the same meaning as set forth in Section 1263.320 of the Code of Civil Procedure.

Notably, in the context of sale of an entire system, sections 2718 – 2720 mandates the use of fair market value and not the “book value,” which would be the value used as the benchmark in the gain on sale review. Instead, section 2720(b) specifically provides that “[i]f the fair market value exceeds reproduction cost... the commission may include the difference in the rate base for ratesetting purposes if it finds that the additional amounts [or premium] are fair and reasonable.”

We note, until the passage of sections 2718 – 2720, the book value was used and was relevant to the determination of the reasonableness of the purchase price of an entire water system. That approach has since been superseded by the passage of sections 2718 – 2720.

To implement sections 2718 – 2720, the Commission instituted Rulemaking 97-10-048 and issued a decision in that proceeding, D.99-10-064, which outlined the Commission’s guidelines for system sales/acquisitions/mergers envisioned in sections 2718-2790 such as the one contemplated in the Application. As required by sections 2718 – 2720, D.99-10-064 explicitly adopts “fair market value as the rate base value of

acquired [water] systems.” Conversely, D.99-10-064 does not make any reference to “book value” which, until then, used to be the benchmark from which to determine any gain or loss from sale. Instead, the Commission only referenced “book value” in the Appendix D of that decision in the limited context of inadequately operated and maintained small water systems.

In sum, we find that sections 789-790.1, D.06-05-041 and any related gain on sale doctrine do not apply here.

**4.2.4. The Settlement Agreement Furthers the Objectives of sections 2718-2720 and the Commission’s 2010 Water Action Plan (Plan)**

The Settlement Agreement is consistent with and furthers the objectives of sections 2718-2720 and the Plan, as discussed below. The Public Water System Investment and Consolidation Act of 1997 (§§ 2718-2720) directs public water systems to constantly invest in upgraded infrastructure to comply with increasing regulations, requiring water utilities to acquire increasing amounts of capital and achieve economies of scale that in turn benefit ratepayers.<sup>19</sup> In the Plan, the Commission recognizes the resource limitations of the smaller utilities and expressly encourages the larger water IOUs to acquire smaller water utilities, such as GWW, to maintain water quality.

Here, the Settling Parties agree that CalAm is more capable of updating its water system infrastructure than the Bosworths (doing business as GWW) due to

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<sup>19</sup> See also State Water Resource Control Board Resolution No. 2008-0048, which affirmed that small water systems lack the resources to achieve these economies of scale, placing immense pressure on these companies to obtain financial and technical assistance to ensure long-term compliance.

CalAm's: (a) better access to capital; (b) larger customer base; (c) discounted material costs; and (d) in-house expertise and resources.

The Settlement Agreement allows CalAm to achieve the legislative goals of sections 2718-2720 and the Plan. It will also result in lower costs per customer for the GWW service territory and furthers the Plan's objectives of assisting low-income ratepayers and setting rates that balance investment, conservation and affordability.<sup>20</sup> Specifically, as noted in the previous section of this decision, CalAm has an established low-income program that would be extended to GWW customers to offer discounted rates beyond what GWW offers. CalAm also has a successful conservation program in place that involves one-on-one customer-employee interaction which would extend to GWW customers.

**4.2.5. The Settlement Agreement is Consistent with the Commission's Standard Practice for Memorandum Accounts.**

Pursuant to D.08-03-020<sup>21</sup> and the Commission's Standard Practice For Processing Rate Offsets and Establishing and Amortizing Memorandum Accounts, Standard Practice U-27-W (U-27-W), costs tracked in a memorandum account must be due to events of an exceptional nature that: (1) are not under the utility's control; (2) could not have been reasonably foreseen in the utility's last GRC and will occur before the utility's next scheduled rate case; (3) are of a

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<sup>20</sup> Plan at 3.

<sup>21</sup> See also D.94-06-033 at 165, 191 (authorizing all large water IOUs to expand the scope of their memorandum accounts beyond testing and treating lead and copper content in light of increasing state and federal water regulations, conditioned on the IOUs showing of inability to foresee additional costs).

substantial nature such that the amount of money involved is worth the effort of processing a memorandum account; and (4) will benefit ratepayers.<sup>22</sup>

Here, the Settling Parties cannot accurately predict the cost of addressing safety, reliability, and environmental concerns before the Commission has established regulations. However, the Settling Parties stipulate that “the issues must be addressed to ensure safe and environmentally compliant service, which is a benefit to ratepayers,” and that the proposed memorandum account and the parameters set around it will ensure that CalAm “funds are used judiciously.”<sup>23</sup> The Settlement Agreement provides that CalAm’s CPUC Sheet No. 8080-W memorandum account (“BC Dunnigan Environmental Improvement and Compliance Issues Memorandum Account”) will include the newly acquired GWW and Dunnigan systems in an account re-named, “The Memorandum Account for Environmental Improvements and Compliance Issues for Acquisitions.” We find that the proposed memorandum account is compliant with the U-27-W requirements and approve it.

#### **4.3. The Settlement Agreement is Reasonable**

As detailed above, the Settlement Agreement is reasonable for the following reasons: (1) Following the acquisition, GWW customers will have access to the economic, safety, and reliability benefits that CalAm has the capacity to offer, as set forth in detail above; (2) It is consistent with and promotes the recently adopted objectives of the legislature and the Commission, as discussed above; and (3) As discussed in the foregoing Section 4.1, it is

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<sup>22</sup> U-27-W at 6.

<sup>23</sup> Pray Testimony at 27:10-17.

reasonable in light of the record and our considerations pursuant to sections 854(b) and (c).

**4.3.1. It is Reasonable to maintain GWW's current rates until 2018.**

The Settling Parties agree that it is reasonable to establish GWW's current rates for water service as CalAm rates until new rates are established in the decision on CalAm's next GRC (most likely at the beginning of 2018) in light of the fact that GWW's current rates are relatively close to CalAm Sacramento District's current rates.

**4.3.2. The Settlement Agreement provides safeguards against post-acquisition rate increase**

The Settling Parties agree that any cost adjustments following CalAm's next GRC decision will be reasonable and consistent with their shared understanding that: (1) GWW has not received notices of current non-compliance from regulatory agencies;<sup>24</sup> (2) current GWW management competently operates its water system; and (3) the proposed memorandum account will track any environmental improvement costs that CalAm will bear the burden of proving reasonable. Furthermore, CalAm will not pay a premium because the purchase price is less than the replacement cost value or RCNLD valuation. Thus, CalAm's ratepayers benefit from not having to pay a premium or any increases in their rates associated with recovery of a premium in CalAm's rate base.

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<sup>24</sup> "ORA investigation showed one possible safety/environmental issue with the Division of Drinking Water, but that issue was resolved as part of the covered NPI [net profit interest] expenses added to the purchase price." Compliance Filing at 17.

As for the issues ORA raised in its protest concerning consolidation of GWW with the Sacramento and Larkfield Districts, the Settlement Agreement clarifies that GWW customers will be incorporated into the Sacramento District, as opposed to Larkfield, for ratemaking purposes. This is because it is anticipated that consolidation with the Sacramento District will result in a 13.3 percent decrease in GWW customers' current monthly rates, as opposed to a 90.7 percent *increase* that would be triggered by GWW's incorporation into the Larkfield District. These rate disparities between Districts are simply the result of Sacramento's much larger customer base (i.e. 56,000 more customers than Larkfield). CalAm provides direct testimony and estimates that, following CalAm's next GRC, the annual impact of the acquisition per Sacramento District customer will be a decrease of \$0.18 per year.<sup>25</sup>

#### **4.3.3. The Settlement Agreement Presents No Adverse Impacts**

The parties have not raised any adverse consequence or impact to ratepayers in terms of rates, safety and reliability standards, or environmental costs. CalAm currently operates in four counties surrounding the GWW service territory, allowing for a smooth service transition. Furthermore, the acquisition will reduce the Commission's burden of regulating numerous independent, disconnected, small water systems. Accordingly, it is reasonable for the Commission to approve the proposed sale of GWW assets and expansion of CalAm's CPCN service territory and water service to the GWW ratepayers. The Commission has previously determined that CalAm is fit to take over and operate much larger water systems than GWW.

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<sup>25</sup> Pray Testimony, Attachment 1 at 2.

#### **4.4. The Settlement Agreement Should be Adopted**

As discussed above, the Settlement Agreement is reasonable, consistent with law, and in the public interest. Based on the foregoing, the Commission approves the Settlement Agreement in its entirety and without modifications.

#### **5. California Environmental Quality Act (CEQA)**

Pursuant to the CEQA<sup>26</sup> and Rule 2.4 of the Commission's Rules, the Commission must consider the environmental impacts resulting from projects that are subject to our discretionary approval. Here, the parties stipulated that the assets "will be used in the same manner for the same purposes for which they are currently being used – to serve customers in the unincorporated area of Sonoma County." We, therefore, find that no environmental review is necessary because the proposed transaction (sale/acquisition) does not fall within the CEQA meaning of "project" defined as any "activity which may cause either a direct physical change [to] the environment, or a reasonably foreseeable indirect physical change [to] the environment."

Under CEQA Guidelines Sections 15060(c)(2) and 15061(b)(3), the proposed transaction is exempt from CEQA where the Settlement Agreement provides that: (1) there will be no change in the environment surrounding the GWW water system – given that CalAm will be using GWW's existing facilities; and (2) there will be no change in the operation of assets once GWW is sold and transferred.

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<sup>26</sup> Cal. Pub. Res. Code section 21000, *et seq.*

To the extent future changes will take place in the water system, costs for environmental improvement will be tracked in the proposed memorandum account, subject to retroactive Commission approval at each CalAm GRC.

## **6. Categorization and Need for Hearings**

In Resolution ALJ 176-3365, dated October 22, 2015, the Commission preliminarily categorized this proceeding as ratesetting and preliminarily determined that hearings were necessary. However, based upon the Settlement Agreement, all testimony received in the record of this proceeding, and the Compliance Filing received pursuant to ALJ Ruling dated January 8, 2016, we determine that a hearing is no longer necessary.

## **7. Waiver of Comment Period**

Pursuant to Rule 14.6(b), all parties stipulated to waive the 30-day public review and comment period required by Section 311 of the Code and the opportunity to file comments on the proposed decision. Accordingly, this matter was placed on the Commission's agenda directly for prompt action.

## **8. Assignment of Proceeding**

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

### **Findings of Fact**

1. Since 1978, the Bosworths have owned and operated GWW, a Class D water utility subject to the Commission's jurisdiction located in Sonoma County, and comprising 318 service connections (279 metered and the remainder receiving flat-rate service), three wells sourced from the Russian River, two storage tanks, and 31,000 feet of distribution piping.

2. CalAm (a subsidiary of AWWC) is a Class A water utility subject to the Commission's jurisdiction and serves approximately 630,000 customers throughout California.

3. On June 16, 2015, the Bosworths and CalAm entered into an APA to sell GWW public utility assets to CalAm for the purchase price of \$1,415,210, because the Bosworths, at the age of 77, are retiring and, as a small family-run operation, the Bosworths are no longer able to keep up with the increasing operational and regulatory demands facing GWW.

4. In A.15-08-024, the Bosworths and CalAm request that the Commission approve the GWW public utility asset sale to CalAm and authorize the expansion of the CalAm's CPCN to include the GWW service territory.

5. The proposed sale involves a sale of the entire GWW system, and not a routine asset sale, and there is no contention that the assets being sold are no longer necessary or useful.

6. The ORA filed its protest, and CalAm filed its reply.

7. The Settlement Agreement is entered into by all parties to this proceeding, the Bosworths, CalAm, and ORA.

8. Under the Settlement Agreement, GWW rates will not change until 2018, after the Commission issues its final decision on CalAm's next GRC; and at that time, the GWW rates will be consolidated with the rates for CalAm's Sacramento District.

9. The Settlement Agreement, inter alia:

(a) Relieves the Bosworths, doing business as GWW, of the public utility obligations;

(b) Transfers all of GWW's public utility assets to CalAm;

(c) Confirms that the GWW service territory would be consolidated into CalAm's Sacramento District for ratemaking

- purposes and Northern Division (Larkfield and Sacramento Districts) for operational purposes;
- (d) Expands CalAm's Sacramento District CPCN for its Northern Division to encompass GWW's service area;
  - (e) Maintains GWW's current rates, established in Resolution W-5028, until new rates are established in the next CalAm GRC;
  - (f) Establishes CalAm's rate base for the acquired assets (i.e. Sacramento District rate base will be adjusted to reflect \$1,415,210, CalAm's cost of acquiring GWW);
  - (g) Authorizes CalAm to recover \$37,692.15 in pre-settlement transaction costs in its future rate base as part of CalAm's soon-to-be filed GRC (expected to begin in 2018); and
  - (h) Establishes a memorandum account to address environmental issues and transaction costs.
10. The proposed sale and acquisition are financed as follows:
- (a) CalAm will be financing its acquisition of GWW assets with its operating cash flow;
  - (b) AWWC will assume the responsibility of stock issuance for the purchase price in AWK Common Stock shares;
  - (c) CalAm and its ratepayers will not be responsible for any costs associated with the sale of shares in AWK stock received by the Bosworths; and
  - (d) CalAm's books will record the purchase price as a debt and equity transaction.
11. On May 17, 2016, all parties filed an unopposed joint motion to move evidence into the record and approve the Settlement Agreement.
12. CalAm (a) has the resources and expertise to acquire and improve smaller, less capable water utilities, such as GWW, (b) offers numerous benefits to the GWW's and CalAm's customers, including the benefit of economy of scale to provide the necessary service to all of its customers and plans to extend that

benefit to the GWW customers upon acquisition, and (c) is ready, willing and able to serve GWW customers as soon as the sale is consummated.

13. CalAm is more capable of updating its water system infrastructure than the Bosworths (doing business as GWW) due to CalAm's: (a) better access to capital; (b) larger customer base; (c) discounted material costs; and (d) in-house expertise and resources.

14. The Settlement Agreement will directly benefit GWW and CalAm customers and the Bosworths, with no adverse impact on affected customers.

15. The Settlement Agreement will improve the overall safety, health, comfort and convenience of utilities' patrons and the public; and specifically, safety and reliability of water service to GWW customers will be improved after the proposed sale and acquisition.

16. CalAm's purchase price of GWW assets is less than GWW's fair market value which was arrived at using the replacement cost valuation method.

17. The Settlement Agreement provides safeguards against post-acquisition rate increase.

18. CalAm will not pay a premium because the purchase price is less than the replacement cost value; thus, CalAm's ratepayers benefit from not having to pay a premium or any increases in their rates associated with recovery of a premium in CalAm's rate base.

19. The sale and acquisition have numerous positive public interest effects and no adverse impact on ratepayers.

20. There is no adverse safety impact resulting from the sale and acquisition.

### **Conclusions of Law**

1. The Settlement Agreement should be adopted in its entirety without modification.

2. The Settlement Agreement is consistent with the requirements of article 12 and Rule 3.6 of the Commission's Rules and Code sections 851-854.

3. The Settlement Agreement is reasonable, in the public interest, and consistent with law and should be approved.

4. While sections 854(b) and 854(c) do not expressly apply to water utilities, the Commission should and has considered the public interest factors addressed in these statutes for guidance in sales/acquisitions of water utilities to determine whether a proposed sale/acquisition meets the "ratepayer indifference standard." The Settlement Agreement meets the ratepayer indifference standard.

5. The Settling Parties complied with the applicable filing and notice requirements.

6. D.99-10-064 established that sections 2718-2720 are the applicable guidelines for sales/acquisitions/mergers of an entire water system; and the requested rate base recovery envisioned in the Settlement Agreement complies with sections 2718-2720.

7. The Settling Parties complied with the Commission's applicable guidelines for water utility acquisitions set out in D.99-10-064.

8. The Settlement Agreement is consistent with and furthers the objectives of sections 2718-2720 and the Commission's 2010 Water Action Plan.

9. It is reasonable to establish GWW's current rates for water service as CalAm rates until new rates are established in the decision on CalAm's next GRC.

10. No environmental review is necessary because the proposed transaction (sale/acquisition) does not fall within the CEQA meaning of "project" defined as any "activity which may cause either a direct physical change [to] the

environment, or a reasonably foreseeable indirect physical change [to] the environment.”

11. To the extent future changes will take place in the water system, costs for all such environmental improvements should be tracked in the proposed memorandum account, subject to approval reasonableness review at each CalAm GRC.

12. The proposed memorandum account should be authorized and the parameters should be set around it to ensure that CalAm “funds are used judiciously.”

13. The proposed memorandum account complies with the requirements of D.08-03-020 and the Commission’s Standard Practice For Processing Rate Offsets and Establishing and Amortizing Memorandum Accounts, Standard Practice U-27-W and should be approved.

14. D.06-05-041 and sections 789-790.1, including the “gain on sale” doctrine, do not apply to the proposed sale of an entire water system.

15. Because the subject of this proceeding concerns the sale of an entire GWW system, rather than an individual asset or routine asset sale, sections 2718-2720 apply.

16. There is no premium, amount above the fair market value, to consider and evaluate reasonableness in this sale. In the context of sale of an entire water system, sections 2718–2720 mandates the use of fair market value and not the “book value,” which would be the value used as the benchmark in the gain on sale review.

17. Because the appraised fair market value is greater than the actual purchase price, it is evident and stipulated by Settling Parties that there is no amount in excess of the fair market value being paid by CalAm for GWW system; as such,

we need not evaluate section 2720(b) consideration for the premium above the fair market value.

18. The Commission should approve and adopt the Settlement Agreement.
19. Evidentiary hearings are not necessary.
20. This decision should be effective immediately.
21. This proceeding should be closed.

## **O R D E R**

**IT IS ORDERED** that:

1. The proposed Settlement Agreement of Harry K. Bosworth and Karen R. Bosworth, doing business as Geyserville Water Works (U-113-W), the Office of Ratepayer Advocates and California-American Water Company, attached to this decision as Appendix A, is adopted.

2. Harry K. Bosworth and Karen R. Bosworth, doing business as Geyserville Water Works (GWW), are authorized to sell all of the public utility assets of GWW to California-American Water Company for the purchase price of \$1,415, 210.

3. Once the sale of Geyserville Water Works to California-American Water Company is completed, Harry K. Bosworth and Karen R. Bosworth, doing business as Geyserville Water Works, are relieved of their public utility obligations.

4. California-American Water Company is authorized to purchase all of the public utility assets of Geyserville Water Works (GWW) and expand its Sacramento District certificate of public convenience and necessity for its Northern Division service territory to encompass GWW's service territory.

5. California-American Water Company is authorized to consolidate

Geyserville Water Works service territory into its Sacramento District for ratemaking purposes and its Northern Division (Larkfield and Sacramento Districts) for operational purposes.

6. California-American Water Company (CalAm) shall maintain Geyserville Water Works' current rates, established in Resolution W-5028, until new rates are established in the next CalAm general rate case.

7. California-American Water Company is authorized to adjust its Sacramento District rate base to reflect its \$1,415,210 acquisition cost associated with the purchase of Geyserville Water Works' assets.

8. California-American Water Company (CalAm) is authorized to recover \$37,692.15 in pre-settlement transaction costs in its future rate base as part of CalAm's soon-to-be filed general rate case (expected to begin in 2018).

9. California-American Water Company (CalAm) is authorized to modify CalAm's CPUC Sheet No. 8080-W memorandum account ("BC Dunnigan Environmental Improvement and Compliance Issues Memorandum Account") to include the newly acquired Geyserville Water Works and Dunnigan systems in an account re-named, "The Memorandum Account for Environmental Improvements and Compliance Issues for Acquisitions" to track costs associated with all future changes to the Geyserville Water Works' water system, including the costs for environmental improvement and transaction costs; and any recovery of the costs in that memorandum account is subject to a reasonableness review during CalAm's general rate cases.

10. Geyserville Water Works (GWW) rates shall remain unchanged until 2018, after the Commission issues its final decision on the currently pending general rate case (GRC) for California-American Water Company (CalAm) for its next GRC, and at that time, the GWW rates shall be consolidated with the rates for

CalAm's Sacramento District.

11. American Water Works Company Inc. (AWWC) shall assume responsibility of stock issuance for California-American Water Company's purchase price of Geyserville Water Works (GWW) in AWK (New York Stock Exchange ticker symbol for AWWC) Common Stock shares, and per the terms of the asset purchase agreement, California-American Water Company and its ratepayers shall not be held responsible for any costs associated with the sale of shares in AWK stock received by the Bosworths.

12. Hearings are not necessary.

13. Application 15-08-024 is closed.

This order is effective today.

Dated November 10, 2016, at San Francisco, California.

MICHAEL PICKER

President

MICHEL PETER FLORIO

CATHERINE J.K. SANDOVAL

CARLA J. PETERMAN

LIANE M. RANDOLPH

Commissioners

APPENDIX A  
**Settlement Agreement**

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA

Application of California-American Water Company (U210W) along with Harry K. Bosworth and Karen R. Bosworth (dba Geyserville Water Works (U113W)) for an Order Authorizing the Bosworths to Sell and California-American Water Company to Purchase the Public Utility Assets Associated with Geyserville Water Works.

A.15-08-024  
(Filed August 25, 2015)

**SETTLEMENT AGREEMENT OF CALIFORNIA-AMERICAN WATER  
COMPANY (U-210-W), HARRY AND KAREN BOSWORTH (DBA  
GEYSERVILLE WATER WORKS) (U-113-W), AND  
THE OFFICE OF RATEPAYER ADVOCATES**

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May 17, 2016

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA

Application of California-American Water Company (U210W) along with Harry K. Bosworth and Karen R. Bosworth (dba Geyserville Water Works (U113W)) for an Order Authorizing the Bosworths to Sell and California-American Water Company to Purchase the Public Utility Assets Associated with Geyserville Water Works.

A.15-08-024  
(Filed August 25, 2015)

**SETTLEMENT AGREEMENT OF CALIFORNIA-AMERICAN WATER COMPANY (U-210-W), HARRY AND KAREN BOSWORTH (DBA GEYSERVILLE WATER WORKS) (U-113-W), AND THE OFFICE OF RATEPAYER ADVOCATES**

**1. GENERAL STATEMENT**

1.1 Pursuant to Article 12 of the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission”), California-American Water Company (“California American Water”), Harry K. Bosworth and Karen R. Bosworth (dba Geyserville Water Works), and the Office of Ratepayer Advocates (“ORA”) (referred to individually as a “Party” and collectively as “the Parties”), to avoid the expense and uncertainty of litigation of the matters in dispute between them before the California Public Utilities Commission (“Commission”), agree on the terms of this settlement agreement (“Settlement Agreement”), which they now submit for review, consideration, and approval by the Commission.

**2. THE PARTIES**

2.1 Harry K. Bosworth and Karen R. Bosworth (dba Geyserville Water Works; hereafter, in the context of the water system, Harry and Karen Bosworth will be referred to as “Geyserville Water Works”) have owned and operated Geyserville Water Works since 1978. Located in Geyserville, California, it is a Class D public water utility regulated by the Commission. Geyserville Water Works serves approximately 318 connections of which at least 279 are metered, with the remainder receiving flat-rate service. It maintains three wells, each sourced by the Russian River, as well as two storage tanks (75,000 and 125,000 gallons, respectively), and approximately 31,000 feet of distribution piping.

2.2 California American Water Company, a California corporation, is a Class A public utility water and sewer company regulated by the Commission. It provides

regulated water and wastewater utility services in parts of San Diego, Los Angeles, Ventura, Monterey, Sonoma, Sacramento, Yolo, and Placer counties, serving approximately 630,000 people in 50 communities. It is an experienced water and wastewater system operator, including in areas near Geyserville, California, such as Sacramento, Sonoma, Yolo, and Placer Counties, which are within about 100 miles.

2.3 ORA is the independent office within the Commission that advocates solely on behalf of investor owned utility ratepayers. Its mission is to obtain the lowest possible rate for service consistent with reliable and safe service levels. ORA's Water Branch represents ratepayers by investigating California's 9 Class A utilities (systems with over 10,000 connections) such as California American Water.

### 3. THE APPLICATION

3.1 On August 25, 2015, in the above-captioned matter, California American Water and Geyserville Water Works jointly filed an *Application for Order Authorizing Sale and Purchase of Utility Assets as well as Related Actions* (the "Application").

- 3.2 The Application requests, among other things, Commission authority to:
- (a) Allow Geyserville Water Works to sell its public utility assets.
  - (b) Allow California American Water to purchase Geyserville Water Works' public utility assets.
  - (c) Relieve Geyserville Water Works of its public utility obligation to provide water service to customers in its service territory.
  - (d) Expand California American Water's Certificate of Public Convenience and Necessity ("CPCN"), so California American Water may provide public utility Water Service to the current and future customers in Geyserville Water Works' current Sonoma County, California service territory.
  - (e) Allow California American Water to operate the system in Geyserville after the purchase under the same rates authorized in Resolution W-5028 (from Geyserville Water Works' most recent General Rate Case ("GRC")) until new rates are established in California American Water's next GRC, which is expected to be filed on July 1, 2016 and effective on January 1, 2018, subject to potential modifications noted in the Application.
  - (f) Establish a rate base for the acquired assets, at the time of approval of the decision on the Application, to be the final purchase price paid by California American Water under the Asset Purchase Agreement. That amount will consist of the aggregate of the following: (1) the Approved Commission Rate Base,<sup>1</sup>

<sup>1</sup> "Approved CPUC [Commission] Rate Base" is defined in the Asset Purchase Agreement as "the rate base as approved under CPUC Rate Case Resolution." "CPUC Rate Case Resolution" is

(2) the actual cost of any New Plant Investment<sup>2</sup> made by Geyserville Water after December 31, 2013, and not already included in the approved Commission rate base, and (3) the sum of \$453,000.00.

(g) Establish a transaction memorandum account, pursuant to Commission Standard Practice U-27-W, to track all transaction costs related to this transaction, with rate treatment determined in California American Water's next GRC, or thereafter.

(h) Establish a memorandum account, pursuant to Commission Standard Practice U-27-W, to track the costs to address required environmental improvements and compliance issues.

(i) Consolidate Geyserville Water Works' current customers and service territory into California American Water's Northern Division for operational purposes and into its Sacramento District (which is part of its Northern Division) for ratemaking purposes.

#### 4. THE ASSET PURCHASE AGREEMENT

4.1 On June 16, 2015, California American Water entered an asset purchase agreement ("APA") with Harry and Karen Bosworth for the purchase of Geyserville Water Works assets. Under the APA, Geyserville Water Works would sell and California American Water would purchase, substantially all of the assets comprising Geyserville Water Works' system. A copy of the APA was included with the Application filed in this matter.

4.2 The Amended APA provides that California American Water will pay to Harry and Karen Bosworth, for the purchase of Geyserville Water Works' assets, consideration amounting to the aggregate of the following:

(a) The Approved Commission Rate Base at the time the APA was entered;

(b) The actual cost of any New Plant Investment made by the sellers in the ordinary course of business subsequent to December 31, 2013, and not included in the Approved Commission Rate Base, and

(c) The sum of \$453,000.

defined in the Asset Purchase Agreement as "the Public Utilities Commission of the State of California, Division of Water and Audits, Water and Sewer Advisory Branch, Resolution W-5028, dated May 7, 2015, obtained by Seller from CPUC regarding the increase to Seller's rate base under the application submitted to the CPUC on October 16, 2014."

<sup>2</sup> The Asset Purchase Agreement notes that "New Plant Investment" as used therein means the same as this type of investment is defined in the Rate Base application Advice Letter No. 39.

**5. ORA OPPOSED COMMISSION APPROVAL**

5.1 On October 1, 2015, ORA filed a Protest to the Application. The Protest raised several issues involving: (1) the system's valuation, (2) the premium reflected in the APA, (3) use of stock in the purchase, (4) whether the Commission should permit expansion of California American Water's service territory to cover Geyserville, (5) whether an expansion of Geyserville Water Works' current service area was involved, (6) consolidation of the Geyserville system into California American Water's Northern Division for operational purposes and its Sacramento District for ratemaking purposes, (7) whether California American Water met its burden for establishing new memorandum accounts, and (8) whether ratepayers received adequate notification.

5.2 ORA then served multiple sets of data requests on California American Water and served data requests on Geyserville Water Works, as well. ORA also conducted a site visit to inspect the Geyserville Water Works' facilities and interview Harry Bosworth, who runs the system.

**6. SETTLEMENT DISCUSSIONS**

6.1 Over a period of months, the Parties met several times, including in-person and by phone, to discuss settlement. These meetings included the exchange of extensive documents supporting requested costs. They also included invoice-by-invoice review by Mr. Bosworth and ORA of those documents supporting New Plant Investment. Following this long, in-depth settlement period of settlement discussions, the Parties reached this settlement.

**7. SETTLEMENT TERMS**

7.1 The Parties reached a settlement based on the terms and conditions set forth in this section. In this section, the Parties agree on and respectfully request the Commission do the following:

(a) Approve adoption of a new map, included herewith as "Attachment 1," which brings the Geyserville Water Works' map on file at the Commission up-to-date to reflect the connections and area Geyserville Water Works currently serves.

(b) Approve as just and reasonable Geyserville Water Works' sale of its public utility assets to California American Water and approve California American Water's purchase of those assets.

(c) Approve as just and reasonable the final purchase price paid by California American Water for Geyserville Water Works' assets, and establish a rate base for the acquired assets to be that price. That final purchase price is comprised of

the aggregate of the following: (1) the Approved Commission Rate Base, which is \$902,303.00<sup>3</sup>; (2) the actual cost of New Plant Investment<sup>4</sup> made by Geyserville Water after December 31, 2013, and not already included in the approved Commission rate base, which is \$59,907<sup>5</sup>; and (3) the sum of \$453,000.00. Thus, the total final purchase is \$1,415,210.

(d) Relieve Geyserville Water Works of its public utility obligation to provide water service to customers in its service territory.

(e) Approve expansion of California American Water's CPCN, so California American Water may provide public utility Water Service to the current and future customers in Geyserville Water Works' Sonoma County, California service territory, as reflected in "Attachment 1" hereto.

(f) Authorize California American Water to recover \$37,692.15 in transaction costs, incurred prior to execution of this Settlement Agreement, as an amortization beginning in 2018 (the effective date of the company's soon-to-be filed GRC).

(g) Authorize California American Water to operate the system in Geyserville after the purchase under the same rates authorized in Resolution W-5028 (from Geyserville Water Works' most recent GRC) until new rates are established in California American Water's next GRC, which is expected to be filed on July 1, 2016 and effective on January 1, 2018.

(h) Approve amending the California American Water memorandum account that is 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." In addition, the Purpose and Applicability sections of this Memorandum Account will be amended to include the Geyserville Service Area and others as appropriate. As future acquisitions are included, the Applicability and Purpose sections of this Memorandum Account

<sup>3</sup> "Approved CPUC [Commission] Rate Base" is defined in the Asset Purchase Agreement as "the rate base as approved under CPUC Rate Case Resolution." "CPUC Rate Case Resolution" is defined in the Asset Purchase Agreement as "the Public Utilities Commission of the State of California, Division of Water and Audits, Water and Sewer Advisory Branch, Resolution W-5028, dated May 7, 2015, obtained by Seller from CPUC regarding the increase to Seller's rate base under the application submitted to the CPUC on October 16, 2014."

<sup>4</sup> The Asset Purchase Agreement notes "New Plant Investment" as used therein means the same as such investment is defined in the Rate Base Application, Geyserville Water Works' Advice Letter No. 39.

<sup>5</sup> This is the final number for the New Plant Investment. It includes the "Plant Additions During Year" listed in Schedule B – Water Plant In Service (as of December 31, 2015) for Geyserville Water's 2015 Annual Report. In accordance with W-5028, it subtracts \$25,000 for plant already included in Ratebase for 2015.

will be appropriately amended. The amended memorandum account, re-named “The Memorandum Account for Environmental Improvements and Compliance Issues for Acquisitions,” will require all costs tracked to implement the Purpose, Applicability, Accounting and Ratemaking Procedures sections in the existing memorandum account and currently includes the Geyserville Water Works and Dunnigan systems, as well as subsequently acquired systems unless otherwise noted. California American Water may, for future acquisitions filed at the Commission through July 1, 2019 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. California American Water will include in its 2019 GRC filing, the recovery and closure of this memorandum account as part of its 2019 GRC.

(i) Approve settlement terms holding that neither California American Water nor its ratepayers shall be responsible for any costs associated with the sale of shares in American Water Works Company, Inc. received by Harry and Karen Bosworth under the APA.

(j) Approve consolidation of Geyserville Water Works’ current customers and service territory, as reflected in the map included herewith as “Attachment 1,” into California American Water’s Northern Division for operational purposes and into its Sacramento District (which is part of its Northern Division) for ratemaking purposes.

(k) Approve establishment of an adjustment to the Sacramento District ratebase to reflect the \$1,415,210 payment made by California American Water for the purchase of Geyserville Water Works’ assets.

7.2 While this settlement incorporates the APA and the Application in this matter, to the extent any provision of this Settlement Agreement is inconsistent with those documents, this Settlement Agreement supersedes them and shall control.

## 8. CONDITIONS

8.1 Because this Settlement Agreement represents a compromise by them, the Parties have entered into each stipulation contained in the Settlement Agreement on the basis that its approval by the Commission not be construed as an admission or concession by any Party regarding any fact or matter of law in dispute in this proceeding.

8.2 The Parties agree that no signatory to the Settlement Agreement assumes any personal liability as a result of this Settlement Agreement. The Parties agree that the Commission has primary jurisdiction over any interpretation, enforcement, or remedy pertaining to this Settlement Agreement.

8.3 The Parties agree that the Settlement Agreement is an integrated agreement such that if the Commission rejects or modifies any portion of this Settlement Agreement, each Party must consent to the Settlement Agreement as modified, or any

Party may withdraw from the Settlement Agreement. Such consent to a Commission modified or altered Agreement may not be unreasonably withheld. As between the Parties, this Settlement Agreement may be amended or changed only by a written agreement signed by all of the Parties.

8.4 The Parties agree to use their best efforts to obtain Commission approval of the Settlement Agreement. The Parties shall request the Commission approve the Settlement Agreement without change and find the Settlement Agreement to be reasonable, consistent with the law, and in the public interest.

8.5 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. Each of the Parties hereto and their respective counsel and advocates have contributed to the preparation of this Settlement Agreement. Accordingly, the Parties agree that no provision of this Settlement Agreement shall be construed against any Party because that Party or its counsel drafted the provision.

9. This Settlement Agreement supersedes any prior representations by the Parties regarding each stipulation contained herein.

10. The Parties agree that pursuant to Rule 12.5 of the Commission's Rules of Practice and Procedure, this Settlement shall constitute no approval of, or precedent regarding, any legal principle or issue of law or fact in this proceeding or in any future proceeding.

#### 11. Commission Modification of Settlement Agreement

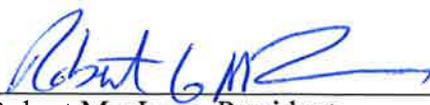
11.1 If the Commission approves the Settlement Agreement with modifications, the Parties request the Commission to provide a reasonable period for the Parties to consider and respond to such modification.

11.2 If the Commission approves the Settlement Agreement with modifications, each Party shall determine no later than two business days before the deadline imposed by the Commission for acceptance of the modification whether that Party will accept the modification and shall notify the other Parties of its determination.

11.3 If any Party does not agree to accept the Commission-approved, but modified, Settlement Agreement, then the Settlement Agreement shall be deemed void.

May 13, 2016

CALIFORNIA-AMERICAN WATER  
COMPANY

By:   
Robert MacLean, President

May 17, 2016

OFFICE OF RATEPAYER ADVOCATES

By:   
Elizabeth Echols, Director

May \_\_\_, 2016

HARRY AND KAREN BOSWORTH (dba  
Geyserville Water Works)

By: \_\_\_\_\_  
Harry K Bosworth, Owner

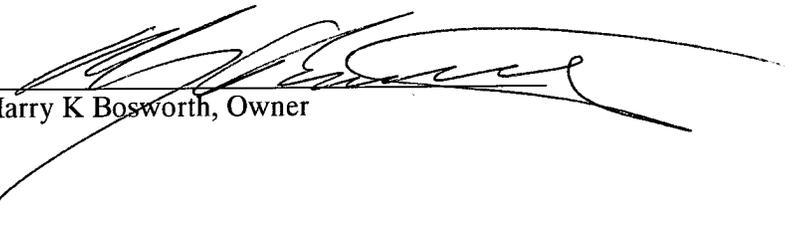
May \_\_, 2016

OFFICE OF RATEPAYER ADVOCATES

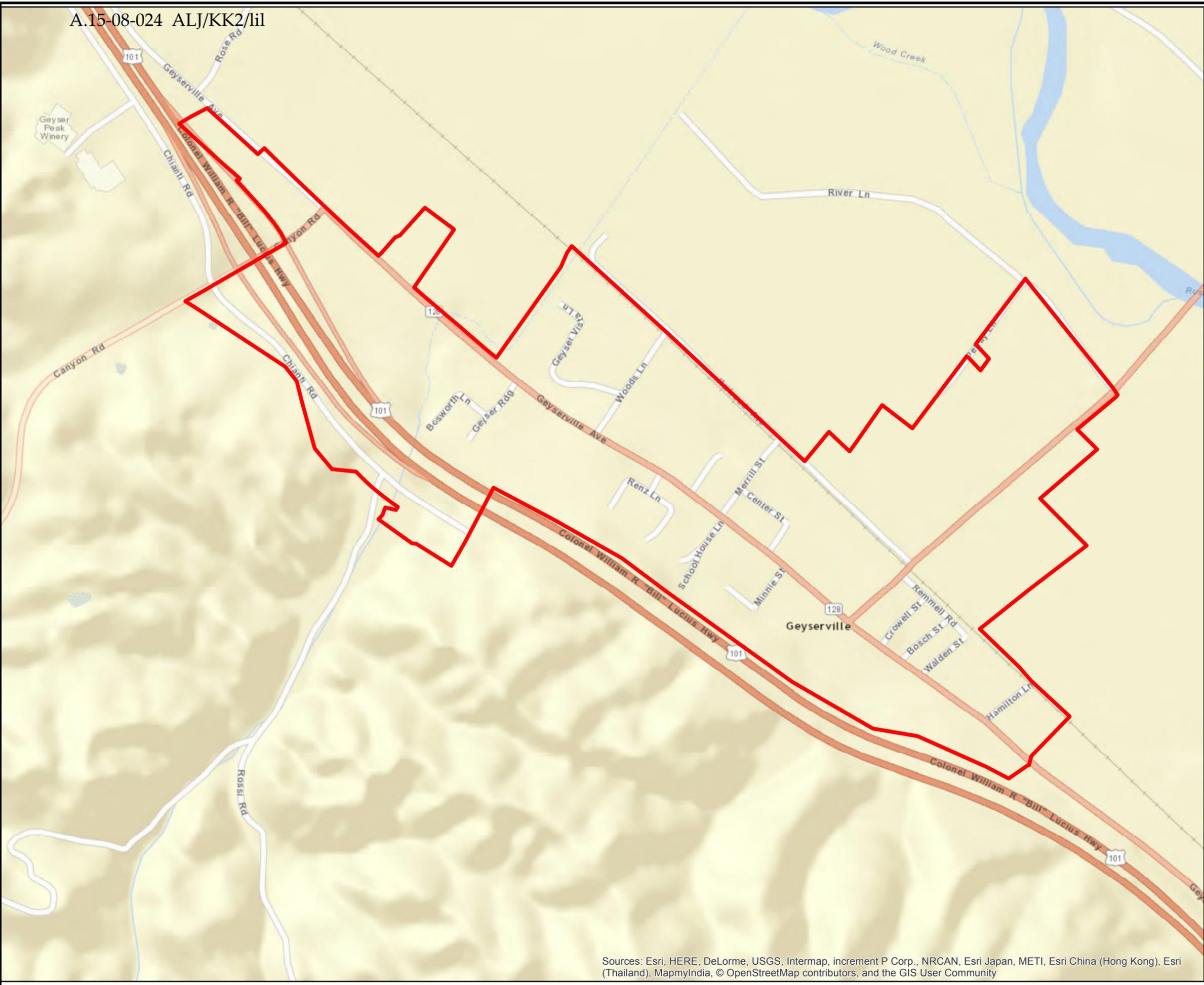
By: \_\_\_\_\_  
Elizabeth Echols, Director

May 17, 2016

HARRY AND KAREN BOSWORTH (dba  
Geyserville Water Works)

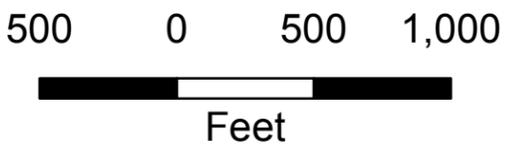
By:   
Harry K Bosworth, Owner

# **ATTACHMENT 1**



# GEYSERVILLE SERVICE AREA MAP

**Legend**  
 Service Area Boundary



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