BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Hillview Water Company, Inc.) To borrow $1,800,000 and issue a note under) Sections 816-830 of the Public Utilities Code)		A. 05-01-033

SETTLEMENT AGREEMENT

1. General

1.1 The Parties to this Settlement Agreement before the California Public Utilities Commission ("Commission") are Hillview Water Company ("HWC") and the Water Division Audit and Compliance Branch ("Staff ") – collectively, "the Parties." There are no interveners in this proceeding. The Parties, desiring to avoid the expense, inconvenience, and uncertainly attendant to litigation of the matters in dispute between them have agreed on this Settlement, which they now submit for approval.

1.2 In addition, since this Settlement Agreement represents a compromise by them, the Parties have entered into each Stipulation 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. Furthermore, the Parties intend that the approval of this Settlement Agreement by the Commission not be construed as a precedent or statement of policy of any kind for or against any Party in any current or future proceeding.

1.3 The Parties agree that no signatory to this Settlement Agreement or any member of Staff assumes any personal liability as a result of their agreement.

1.4 The Parties agree that this Settlement Agreement is an integrated agreement, so that if the Commission rejects a portion of this Settlement Agreement, each party has the right to withdraw.

1`.5 All issues between the Parties have been resolved.

2. THE AGREEMENT

2.1 Parties agree that HWC should be authorized to enter into a loan agreement for $1.8 million and that HWC can use the $1.8 million loan from Oro Financial of California, Inc.(Oro Financial) to pay off debt identified in their application (see Attachment A for list of debt to be paid off). Staff's report recommended that HWC only be authorized to borrow $1.135 million rather than $1.8 million. Of the difference of $665,000, approximately $651,000 was attributable to Staff's position that short term debt, accounts payable and amounts owing to the surcharge account could not be refinanced into long term debt because Staff felt those items were not among the purposes stated in Section 817 of the Public Utilities Code. Staff and HWC have had discussions related to this issue and parties agree that the short term debt of $342,000, accounts payable of $240,000 and amounts owing to the surcharge account of $69,000 could be included in the list of debts to be paid off with the new borrowing.

In its application, HWC included $14,000 to be used to repay refund claims owing to certain individuals stemming from D. 03-09-072. Staff's report included this amount in the $665,000 excluded from the refinance on the basis that these refunds should be liquidated using operating revenues and not from a new borrowing. HWC agrees to accept Staff's position regarding the refund claims.

2.2 Parties agree that the debt that is being paid by the new loan must be paid through an escrow account to provide assurance that the debt is properly paid with the loan proceeds. HWC will provide the Director of the Water Division at the time of disbursement an escrow statement showing the amounts paid and identify the payees.

2.3 The $1.8 million proceeds from the Oro Financial loan will only be used to pay business related expenses of HWC and will not be used for any other purpose.

2.4 If, after all payments are made (as shown in attachment A), loan proceeds remain in escrow HWC will use these proceeds only for capital improvements.

2.5 HWC agrees not to pay dividends to stockholders for at least 3 years after a decision is issued on this application.

2.6 HWC agrees to file a GRC by application in three years. The next test year will be 2009. This does not preclude HWC from filing a GRC or other types of rate increases by advice letter if needed.

2.7 HWC agrees to make a good faith effort to negotiate with CoBank to waive the prepayment penalty on the CoBank loan. If the prepayment penalty is not waived (in whole or part), HWC may use the new Oro Financial loan proceeds to pay the prepayment penalty. HWC will not use any surcharge funds to pay the CoBank prepayment penalty. Additionally, no costs associated with a prepayment penalty will not be allowed in setting HWC rates.

2.8 Water Division agrees that approximately $300,000 of excess surcharge that has been collected may be used to pay off the CoBank loan and does not need to be refunded to the customers.

2.9 Water Division agrees that HWC can use proceeds from the $1.8 million Oro Financial loan to pay back the $69,445 owed to the surcharge account. Once paid back this money will be used to reduce the surcharge portion of the the CoBank loan prior to the refinance.

2.10 Water Division has reviewed the amounts of debt owed to shareholders and other parties and agrees that these amounts ($417,980 and $582,829) are correct and can be paid from proceeds from the $1.8 million Oro Financial loan.

2.11 At the present time HWC is negotiating with Oro Financial to obtain the $1.8 million loan. Oro Financial has offered to lend $1.8 at a fixed annual interest rate of 10.5%. Because the Oro Financial loan carries a fixed rate of 10.5% on the surcharge loan, which exceeds the current 9.6% charged by CoBank, HWC agrees to pay the difference between the 9.6% CoBank interest rate and the 10.5% Oro Financial interest rate from sources other than surcharge rates from customers. To accomplish this the surcharge amounts charged to the customer will be calculated using 9.6% instead of 10.5%. Should HWC ultimately negotiate a different interest rate, the parties agree to make similar adjustments to the surcharge to maintain the 9.6% interest rate unless the rate is lower than 9.6%. In that case, the lower rate will be used in the surcharge calculation.

2.12 HWC agrees to file a separate advice letter that continues including the CoBank Surcharge in rates. This surcharge will continue since some portion the Oro Financial loan is being used to pay off the CoBank loan.

2.13 Parties agree that this settlement and the Commission's decision in D. 05-07-029 have resolved all remaining unsettled issues and that all issues related to D.03-09-072 to the OII (Oii 97-07-018) have been resolved.

2.14 Attachment B contains all corrections that Water Division has made to its exhibit.

Submitted on this ~~30th day~~ 2nd August 552 of ~~July,~~ 2005 , at San Francisco, California.

/s/ Roger L. Forrester

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ATTACHMENT - A

HILLVIEW WATER COMPANY

LIST OF DEBT TO BE PAID FROM THE ORO FINANCIAL LOAN

Loan fees	$ 117,000
Escrow fees	9,700
Legal costs in connection with borrowing	12,000
Repay surcharge amount	69,445
CoBank (equity loan)	314,448
CoBank (surcharge portion)	218,642
CoBank prepayment penalty	167,344
Shareholder loans	**423,829**
Short term debt – PAO note #2	**165,243**
Short term debt – F & J	**177,586**
Short term debt – PAO note #3	**51,091**
Accounts payable & accrued interest	73,672
Total	$1,800,000

Bold text = actual
Non-bolded text = estimated

(END OF APPENDIX A)