

Decision 16-12-014 December 1, 2016

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Joint Application for an order authorizing the sale of all outstanding shares of Meadowbrook Water Company of Merced, Inc., (U204W), as well as certain real property not owned by that company, to California-American Water Company (U210W).

Application 15-12-016
(Filed December 21, 2015)

**DECISION ADOPTING SETTLEMENT AGREEMENT AND APPROVING
JOINT APPLICATION OF CALIFORNIA-AMERICAN WATER COMPANY TO
PURCHASE AND MEADOWBROOK WATER COMPANY OF MERCED, INC.,
TO SELL THE MEADOWBROOK WATER SYSTEM**

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**DECISION ADOPTING SETTLEMENT AGREEMENT AND APPROVING
JOINT APPLICATION OF CALIFORNIA-AMERICAN WATER COMPANY
TO PURCHASE AND MEADOWBROOK WATER COMPANY OF MERCED,
INC., TO SELL THE MEADOWBROOK WATER SYSTEM**

Summary

This decision adopts the Settlement Agreement between California-American Water Company (Cal-Am), Meadowbrook Water Company of Merced, Inc. (Meadowbrook) and the Office of Ratepayer Advocates, and grants authority for Cal-Am to purchase and Meadowbrook, to sell the Meadowbrook water system, which serves approximately 1695 customers in Merced County. The sales price is four million dollars, of which \$3,425,000 will be rate based and \$575,000 treated as contribution in aid of construction.

This decision also revokes Meadowbrook's certificate of public convenience and necessity. Upon consummation of the purchase, Cal-Am will assume Meadowbrook's public utility obligations and will file then-current tariff rates for Meadowbrook's water district, and Meadowbrook's old tariffs will be canceled.

Cal-Am is much larger water utility, operating water systems in Monterey, San Diego, Sonoma, Ventura, Los Angeles and Sacramento counties. Therefore, it is reasonable to expect that Cal-Am will apply its water systems expertise, and financial integrity to enhance safety and reliability for Meadowbrook customers. As a result, ratepayer safety is enhanced by the ability of Cal-Am to recognize and finance necessary future system improvements. In addition, ratepayers will now have access to Cal-Am's service centers to report water system problems, which will also enhance safety.

1. Background

On December 21, 2015, California-American Water Company (Cal-Am)¹ and Meadowbrook Water Company of Merced, Inc. (Meadowbrook)² filed their application for Order Authorizing Sale and Purchase of Utility as well as Related Actions (the Application). Among other things, the Application requested the Commission to: (1) relieve Meadowbrook of its public utility responsibilities; (2) allow Cal-Am to assume those responsibilities and ownership; (3) establish rate base for the acquired system at full purchase price; (4) allow the system to function as a new Cal-Am district with the ability to apply for new rates under Meadowbrook's current Class C requirements; and (5) establish 2 transaction memorandum accounts to track transaction costs and costs for addressing required environmental improvements and compliance issues.³

On January 25, 2016, the Office of Ratepayer Advocates (ORA) filed a protest to the Application.⁴ The protest raised several issues or potential issues

¹ Cal-Am, a California corporation, is a Class A public utility water and wastewater service provider regulated by the Commission. It provides 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 with operations approximately 100 miles from Meadowbrook's operations.

² Meadowbrook is a Commission-regulated Class C public water utility. It serves approximately 1,695 connections in its Merced County, California service area. An estimated 1,600 of those connections are residential, with the remainder being commercial. All of its customers are metered. The company's roots date back to the 1950s, when Fred Walker Sr. and Fred Walker Jr. built it to provide water service in the area. Since 2003, their descendent, David Walker, has run it.

³ Application at 2-3.

⁴ 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 Class A utilities (systems with over 10,000 connections) such as Cal-Am.

concerning: (1) the valuation, (2) compliance with Public Utilities Code Section (Pub. Util. Code §) 2720, (3) the appraisal, (4) expansion of the certificate of public convenience and necessity (CPCN), (5) whether Cal-Am could file a separate rate case for Meadowbrook, (6) adjustments to ratebase, (7) memorandum accounts, and (8) payment of legal fees relating to Case (C.) 14-02-005.⁵ On February 4, 2016, Cal-Am filed its reply to ORA's protest.⁶

On February 19, 2016, the Administrative Law Judge (ALJ) issued a ruling requesting the parties to meet and confer before filing a joint prehearing conference statement on the issues to be addressed in the Scoping Memo and Ruling as well as the scheduling for the proceeding.⁷ On March 1, 2016, ORA and Cal-Am filed their Joint Prehearing Conference Statement.⁸ The prehearing conference took place on March 3, 2016, followed by issuance of the Scoping Memo and Ruling on March 18, 2016.⁹

ORA conducted discovery, serving multiple sets of data requests on Cal-Am and Meadowbrook. Hundreds of pages of documentation have been provided to ORA. ORA also met with representatives of Meadowbrook to review, in great detail, Meadowbrook's books and records. Following settlement discussions, which occurred over several months, all parties to the proceeding entered into a settlement agreement. In accordance with Commission Rule 12.1(b) settlement conferences with notice and opportunity to participate

⁵ Protest of the Office of Ratepayer Advocates, filed Jan. 25, 2016 by ORA.

⁶ February 4, 2016 Reply to Protest of the Office of Ratepayer Advocates.

⁷ Administrative Law Judge's Ruling Regarding PHC Statements, filed Feb. 19, 2016.

⁸ Joint Prehearing Conference Statement of California-American Water Company (U-210-W) and the Office of Ratepayer Advocates, filed March 1, 2016.

⁹ Assigned Commissioner's Scoping Memo and Ruling, filed March 18, 2016.

provided to all parties were held for the purpose of discussing settlements in the proceeding. One such conference occurred on May 6, 2016, with notice provided on April 20, 2016.

Those negotiations resulted in the July 6, 2016 Settlement Agreement (Settlement Agreement)¹⁰ that was moved¹¹ for the Commission's Approval and is attached to this decision as Attachment A. Settling parties Cal-Am, Meadowbrook,¹² and ORA (referred to individually as "Party" and collectively as the "Parties"), request that the Commission:

- (1) Issue a ruling approving the notice¹³ so it may be sent to customers, and
- (2) Issue a decision adopting and approving the Settlement Agreement.

The Settlement Agreement, if approved by the Commission, permits the owners of Meadowbrook to sell all outstanding interest and equity in that company to Cal-Am, as well as certain real property. It would permit Cal-Am to expand its CPCN so that Cal-Am could serve present and future customers in what would then be Meadowbrook's former territory. In addition, the Settlement Agreement would consolidate the Meadowbrook service area into Cal-Am's

¹⁰ Settlement Agreement of California-American Water Company (U-210-W), Meadowbrook Water Company of Merced, Inc. (U-204-W), and the Office of Ratepayer Advocates (Settlement Agreement).

¹¹ All-Party Joint Motion to Approve Settlement Agreement Concerning Purchase and Sale of Utility, July 6, 2016.

¹² Attachment B in this decision. Meadowbrook was incorporated in 1979 and is equally co-owned by Kathleen Ann Hill, as Trustee of the Kathleen Ann Hill Family Trust dated March 3, 1999, Mary Lee Nichols, David L. Walker, as Trustee of the David L. Walker 2013 Trust Agreement dated February 13, 2013, and Derald R. Walker. *See* Direct Testimony of Constance H. Farris, Exh. MW-1 at 3-4, for more history.

¹³ This decision provides that this will be done instead by advice letter.

Sacramento District for ratemaking purposes and into its Northern Division (of which the Sacramento District is a part) for operational purposes. Support for the Settlement Agreement is unanimous among the Parties.¹⁴

The Parties contend that the Settlement Agreement is reasonable, consistent with the law, and in the public interest, positions that we find confirmed by the testimony the Parties. In a separate motion, the parties request that the testimony to be made part of the record. We find that testimony to be relevant, not opposed and not lacking under the rules of evidence. We hereby admit that testimony into the record. We find that the Settlement Agreement addresses all of the issues raised in the March 18, 2016 Scoping Memo in this proceeding. The Parties are requesting the Commission to approve the Settlement Agreement without modification. This decision finds the Settlement Agreement to be reasonable but orders actions and conditions not anticipated in the Settlement Agreement.

2. Key Elements of Settlement

2.1. Parties' Request

In the Settlement Agreement, the Parties request that the Commission do the following:

- Approve adoption of the new map attached to the Settlement Agreement, which is expected to resolve disputes with local governments.
- Approve as just and reasonable the sale of all outstanding shares and equity in Meadowbrook to Cal-Am.

¹⁴ All parties to the proceeding signed the Settlement, support it, and request that the Commission approve it.

- Approve as just and reasonable the sale of the real property included in the Stock Purchase Agreement (SPA), but not owned by Meadowbrook.
- Approve as just and reasonable the purchase price for all assets in the SPA, i.e., all outstanding shares and equity interest in Meadowbrook and the real property not owned by Meadowbrook, for a total purchase price of four million dollars, with the following allocation:
 - \$3,425,000.00 as ratebase in accordance with California Public Utilities (Pub. Util.) Code § 2720(a), and will be included within the Sacramento District's overall ratebase.
 - \$575,000.00 as contribution in aid of construction (CIAC), that Cal-Am will recover as an expense, but on which it will not earn a rate of return. This \$575,000 will be recovered over 36 months as a surcharge on bills of the customers in the Sacramento District into which Meadowbrook will be consolidated.
- Approve consolidation of Meadowbrook's customers and service territory, as reflected in the new map,¹⁵ into Cal-Am's Northern Division for operational purposes and into its Sacramento District (which is part of its Northern Division) for ratemaking purposes.
- Relieve Meadowbrook of its public utility responsibilities following Commission approval of the transaction.
- Allow Cal-Am to assume all public utility responsibilities for the operation and ownership of the water utility operations of Meadowbrook's service territory.
- Approve expansion of Cal-Am's CPCN, so Cal-Am may provide public utility water service to the current and future customers in Meadowbrook's service territory.
- Approve cancellation of Meadowbrook's current CPCN.
- Authorize Cal-Am to operate the system in Meadowbrook under Meadowbrook's current rates, with new rates to be established in

¹⁵ The revised service area map is attached to Attachment A of this decision.

Cal-Am's 2016 General Rate Case (GRC), which was filed July 1, 2016, and effective January 1, 2018. Collection of the surcharge to recover the \$575,000 portion of the purchase price associated with CIAC will also commence on January 1, 2018.

- Authorize Cal-Am to recover \$61,002.13 in transaction costs incurred prior to execution of the Settlement Agreement. This \$61,002.13 in transaction fees will be recovered over 36 months as a surcharge on bills of the customers in the current Meadowbrook service area. Collection of that surcharge may commence upon issuance of the Commission decision approving the Settlement Agreement.
- Approve the removal from the SPA of the provision requiring that \$25,000 from the Purchase Price be deducted as reimbursement for a portion of the legal fees and costs Cal-Am expended in connection with the seller's defense of a related complaint. Meadowbrook instead shall pay that \$25,000 directly to Cal-Am within 10 calendar days of the closing. The remaining \$26,282.84 of the legal fees Cal-Am expended in connection with Meadowbrook's defense of that complaint will be recorded as Cal-Am general legal expense, which is tracked in its general legal regulatory account.
- If it has not already been done so in Application (A.) 15-08-024, approve amending the Cal-Am memorandum account that is identified in the Cal-Am tariff sheets as C.P.U.C. Sheet No. 8080-W, memorandum account.¹⁶

¹⁶ "BC Dunnigan Environmental Improvement and Compliance Issues Memorandum Account." That amended memorandum account will be re-named "The Memorandum Account for Environmental Improvements and Compliance Issues for Acquisitions" and now include expenditures in connection with the Meadowbrook service area, as well as subsequently acquired systems unless otherwise noted. If the "The Memorandum Account for Environmental Improvements and Compliance Issues for Acquisitions" has already been established by the Commission's decision on the motion to approve the settlement in A.15-08-024, then environmental improvement and compliance related costs for the Meadowbrook service area will simply be added to that memorandum account so that Cal-Am may, for recent acquisitions such as Meadowbrook Water, track in that Account costs to ensure service of safe, reliable drinking water to customers. Cal-Am will bear the burden of proof of the reasonableness of the costs in the Memorandum Account for Environmental Improvements

Footnote continued on next page

2.2. Main Relevant Features

2.2.1. Purchase Price

Instead of executing the purchase price formula in the Stock Purchase Agreement, (SPA) the Parties negotiated a final purchase price of four million dollars, a one million dollar reduction from the Application's stated initial purchase price. The portion of the purchase price that will become the Meadowbrook ratebase for a return will be \$3.425 million. The remaining portion of the purchase price, \$575,000, represents the CIAC currently on the Meadowbrook books. Ratemaking rules do not include CIAC as part of the ratebase for a return; however, Meadowbrook should be compensated for its value. To permit Cal-Am's recovery of this portion of the purchase price, Cal-Am will be able to recover the CIAC value of the system as an expense through a surcharge. Treated as an expense, the CIAC will not be capitalized as return on ratebase.¹⁷

The four million dollar purchase price is to be allocated as follows:

• Number of Meadowbrook connections:	1,695
• Purchase price per connection	\$2,360
• Sacramento District connections within Meadowbrook	\$59,853
• Rate base added to Sacramento District	\$3,425,000

and Compliance Issues for Acquisitions when seeking recovery of the amounts tracked in that account.

¹⁷ According to the SPA, while the final purchase price will be determined at closing, it establishes an initial purchase price of Five Million Dollars (\$5,000,000) modified by two adjustments: the Adjustment Amount process and a second adjustment that reduces the purchase money \$25,000. The Adjustment Amount process may increase or decrease the "equity balance" at the close. The second adjustment calls for Cal-Am to retain \$25,000 of the purchase money as reimbursement to Cal-Am for its legal assistance regarding dismissal of a formal complaint filed here at the Commission against Meadowbrook.

- Meadowbrook CIAC expense added to Sacramento District (amortized over 36 months) \$575,000

2.2.2. Consolidation and Memorandum Accounts

The proposed Settlement Agreement consolidates Meadowbrook with Cal-Am's existing Sacramento District. By completing the consolidation with the proposed Settlement Agreement, the Meadowbrook service territory will expand the Cal-Am CPCN and cancel the Meadowbrook CPCN. The consolidation will be recognized in Cal-Am's 2016 GRC for ratemaking purposes for the Meadowbrook purchase price. The proposed Settlement Agreement addresses the Application's request to establish two new memorandum accounts. For the transaction memorandum account, Cal-Am will recover its transaction costs, but not at the requested rate based investment. The transaction costs in the Settlement Agreement are treated as an expense recovered via a surcharge rate. Instead of establishment of a new memorandum account for environmental and compliance expenses, Cal-Am will adjust one of its existing memorandum accounts already created for this exact purpose to include the Meadowbrook acquisition. And finally, recovery of the \$4 million purchase price will be incorporated in the resultant rates established by Cal-Am's 2016 GRC that will become effective upon a final Commission decision in A.16-07-002.

2.2.3. Meadowbrook Stock Shares, Real Property and Service Area¹⁸

Meadowbrook intends to sell all of the Meadowbrook shares of stock, which comprise all of the issued and outstanding equity interests of Meadowbrook, to Cal-Am. In addition, Cal-Am will acquire through this

¹⁸ See map, Meadowbrook Water Company Revised Service Area per Local Agency Formation Commission, revised June 7, 2016, attached to Attachment A of this decision.

purchase, real property relevant to the operation of the system but not owned by Meadowbrook but instead by the owners of Meadowbrook. This other property basically involves the office and its associated land and a majority of the well sites.¹⁹ The other property is included with the purchase price. Meadowbrook serves a geographic area of about 3.5 square miles located in the unincorporated community of Franklin/Beachwood area just east of the City of Merced but completely within Merced County, California.

As a Commission regulated Class C public utility water company,²⁰ Meadowbrook provides potable water (plus irrigation to 317 acres) to approximately 1,695 (1,600 residential, 95 commercial/industrial) metered connections serving a permanent population of approximately 6,500 people. The commercial/industrial services include two elementary schools, three mobile home parks, one migrant housing facility, a meat packaging company, small retail businesses and three cement mixing plants. In the future, additional housing and a school are planned to be built in Meadowbrook's service area. Originally incorporated in California in 1979, Meadowbrook became an S Corporation in 1983. According to its most recent GRC, the Meadowbrook ratebase of \$1.96 million had a revenue requirement of \$877,000 at a 12.25 percent rate of return. Economically, Meadowbrook fits the definition of a disadvantaged community (DAC) as the majority of the Merced Region is considered a DAC. The communities Meadowbrook serves, the

¹⁹ An itemized inventory as of mid-October 2015 is contained in the Brown & Caldwell replacement cost Technical Memorandum, Direct Testimony of Mike Wademan, Exh. CA-4 Attachment 2 at 1-11, with Photos at A-1 through A-6.

²⁰ A Class water utility serves between 500 and 2,000 connections.

Franklin/Beachwood areas, are considered as DACs, given the poor economic conditions that exist in the area.

3. Standard of Review

Proposed water utility ownership changes are reviewed under Pub. Util. Code §§ 851-854 and §§ 2718-2720. Pub. Util. Code §§ 851-854 prohibit the sale or transfer of control of a public utility without the advance approval of this Commission. Pub. Util. Code §§ 2718-2720 encourage the acquisition of small water companies by larger, more financially secure entities and require that the Commission use the fair market value when determining the rate base for an acquired water system.

The Commission requires a test of ratepayer indifference when evaluating the sale of a public utility,²¹ and also requires the buyer (Cal-Am) to demonstrate that the buyer's acquisition of the public utility yields a tangible benefit to the ratepayer.²² Using the ratepayer indifference test to assess the sale of Meadowbrook to Cal-Am, the Commission should evaluate several key metrics including: (1) service quality; (2) continuity of service; and (3) the impact of the purchase price on ratebase.

We also assess whether the transaction is in compliance with California Environmental Quality Act (CEQA) requirements, and whether all required approvals of other agencies are received, when assessing whether a water utility should be transferred.

²¹ Under the ratepayer indifference test, any sale of a public utility should not have any net consequences that cause the ratepayer to prefer the seller to the buyer.

²² See Decision (D.) 05-04-047 at 9-11; D.04-01-066 at 8-11; and D.01-09-057 at 26-28.

4. Discussion

4.1. Proposed Sale, and Continuity and Quality of Service

Cal-Am will provide management of the operations of Meadowbrook when the transfer of ownership is approved by the Commission. Cal-Am has extensive experience in the provision of water services in the State of California. As noted above, Cal-Am has operated under the regulatory jurisdiction of the Commission for many decades and currently provides water service to over 168,000 connections. Cal-Am will provide operational and maintenance services, collect water samples as required by the California State Water Resources Control Board, Division of Drinking Water (SWRCB DDW), respond to emergencies, and prepare reports to governmental agencies regarding the operation of the water system.²³ We find that service quality will continue or be improved and it is advantageous to Meadowbrook customers for the transfer to be approved.

4.2. Purchase Price Reasonable and Properly Calculated²⁴

The Settlement Agreement states that Cal-Am will purchase Meadowbrook for four million dollars. The total purchase price of four million dollars includes all assets reflected in the SPA (i.e., all outstanding shares and equity interest in Meadowbrook and the real property not owned by Meadowbrook as shown in Exhibit A to Exhibit 4 of the SPA. The Parties indicate that after acquisition, the

²³ The Direct Testimony of S. Audie Foster, Exh. CA-1 at 3-10, describes added benefits that Cal-Am can provide Meadowbrook customers, including service centers, translators, water efficiency programs, low-income rate assistance, bulk-pricing cost savings, various infrastructure protections to deal with natural hazards and terrorist threats.

²⁴ An itemized replacement cost Technical Memorandum by Brown and Caldwell is Attachment 2 to the Testimony of Michael Wademan, Exh. CA-4. See also Direct Testimony of Austin Peterson, Exh. CA-2.

purchase price will be allocated as follows: (1) \$3,425,000 will be established as ratebase and will be included within the Sacramento District's overall ratebase and (2) \$575,000 will be included as CIAC which Cal-Am will be allowed to recover as an expense, but on which it will not earn a rate of return. This \$575,000 will be recovered over 36 months as a surcharge on bills of the customers in the Sacramento District into which Meadowbrook will be consolidated. The Parties indicate that Cal-Am will operate the Meadowbrook water system under Meadowbrook's current rates with new rates to be established in Cal-Am's current GRC, A.16-07-002, when new rates for the Sacramento District, into which Meadowbrook will be consolidated, are to be effective January 1, 2018.²⁵

We find that the purchase price as outlined in the Settlement Agreement is reasonable. We find a premium to book value is justified in this instance as customers will be receiving the benefit of a well-financed utility with long experience in operating and maintaining water utilities in California that will insure safe and reliable water service for customers in the Meadowbrook service area. Furthermore, we note that Cal-Am's economies of scale in operating numerous districts, as well as the stronger financial position of Cal-Am relative to Meadowbrook, provides greater financial support for future necessary Meadowbrook water system improvements. In consideration of these factors, we find that the proposed sale meets the ratepayer indifference test.

²⁵ Estimated GRC bill impacts for the Sacramento District in 2018-2020 compared to current rates are shown in A.16-07-002, proposed customer notice of general rate case application.

4.3. Compliance and Safety

4.3.1. CEQA Review Not Required by the Proposed Sale

We have reviewed the Application to determine whether CEQA applies to this proposed sale and transfer. CEQA applies to a “project or action which has a potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change...[and involves] the issuance to a person of a lease, permit, license, certificate, or entitlement for use by one or more public agencies.”²⁶ If an application does involve a project under CEQA, the Commission’s Rule 2.4 imposes other procedures and requirements on the applicant.

The Application states that because there is no direct or reasonably foreseeable indirect physical change in the environment that will occur as a result of the proposed transaction, it is not subject to the provisions of CEQA. We construe this statement to be a motion under Rule 2.4(c) for a determination of the applicability of CEQA.

The Application involves only a proposed change in control and operation of existing water facilities. No new construction or changes in the source of water supply are being proposed. There is no evidence of any other changes in the operation of the system. Accordingly, there is no possibility that the transaction may have any significant effect on the environment.

Based on the record before us, there is no evidence of any potential change to the environment as the result of our approval of the proposed transfer of

²⁶ CEQA Guidelines, California Code of Regulations, Title 14, Section 15378(a)(2003).

control of Meadowbrook to Cal-Am as outlined in the Settlement Agreement.²⁷ As a result, we conclude that our approval of the Application is exempt from CEQA.

4.3.2. Received Permits Required by Other Agencies to Operate the Meadowbrook System

Pursuant to the provisions of California Health and Safety Code § 116525(a), any person or entity operating a public water system must have a permit to operate that system from SWRCB DDW. A change in ownership of a public water system requires the prospective new owner to apply to and satisfy the SWRCB DDW requirement that the new owner “possesses adequate financial, managerial, and technical capability to ensure the delivery of pure, wholesome, and potable drinking water.”

Meadowbrook’s current permit to operate its system as attached to the Application is the Department of Health Services Water Supply Permit No. 03-11-09P-004, dated February 25, 2001.

As a consequence of the purchase of Meadowbrook by Cal-Am, Cal-Am must apply for and receive a permit to operate the system from SWRCB DDW. Our approval of Cal-Am’s acquisition of Meadowbrook is conditioned on Cal-Am receiving a permit to operate the Meadowbrook water system.

²⁷ CEQA Guidelines, California Code of Regulations Title 14, Section 15061(b)(3) “A project is exempt from CEQA if...it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA.”

4.4. Recovery of Transaction Costs Incurred Prior to Execution of the Settlement Agreement

The Settlement Agreement requests authorization for Cal-Am to recover \$61,002.13 in transaction costs incurred prior to execution of the Settlement Agreement. We find it reasonable for Cal-Am to amortize the requested transaction costs over a period of 36 months through a surcharge on bills of the customers in the current Meadowbrook service area once the conditions for sale have been met and the sale is finalized. Cal-Am should file a Tier 2 Advice Letter requesting a 36-month amortization through a surcharge on customers in the current Meadowbrook service territory.

4.5. Cal-Am Required to Update its GRC Application

The Commission approved Meadowbrook's most recent GRC Application in Resolution W-4881 on July 14, 2011. The Settlement Agreement proposes that the Meadowbrook system will be consolidated for ratemaking purposes into Cal-Am's Sacramento District. The Settlement Agreement is premised on the inclusion and resolution of ratemaking for the Meadowbrook acquisition in Cal-Am's 2016 GRC, A.16-07-002. The Parties' in their motion seeking approval of the Settlement Agreement also request approval of a notice to be provided to Sacramento District and Meadowbrook customers informing them of the Meadowbrook acquisition and consolidation for ratemaking purposes into the Sacramento District. Notice to customers in the Sacramento District and Meadowbrook water system will be required by Advice Letter. However, the draft notice included with the motion requesting approval of the Settlement is insufficient. Within 30 days of the effective date of this order, Cal-Am should update the customer notice to show the comparable bill impact for both

Sacramento District and Meadowbrook customers at the requested rates for the Sacramento District in A.16-07-002, including the consolidation of the Meadowbrook system into the Sacramento District. The bill impact analysis should incorporate rate impacts for the 2018 test year and the 2019 and 2020 attrition years. Before providing the updated notice to customers, Cal-Am should obtain approval from Water Division of the revised content of the notice.

The Settlement Agreement states Cal-Am will update A.16-07-002 to provide additional calculations relating to the Meadowbrook acquisition as well as supplemental testimony concerning the acquisition. Cal-Am should provide any needed update to A.16-07-002 within 30 days of the effective date of this order.

4.6. The Settlement Agreement is Reasonable in the Light of the Whole Record, Consistent with Law, and in the Public Interest

Pursuant to Rule 12.1(d), the Commission will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with law, and in the public interest. The Commission has a well-established policy of settling disputes if they are fair and reasonable in light of the whole record. This policy reduces the expense of litigation, conserves scarce Commission resources, and allows parties to “reduce the risk that litigation will produce unacceptable results.” In the Southern California Gas Co. decision, the Commission held that the Parties’ evaluation should carry material weight in the Commission’s review of a settlement. The State of California has recognized that small communities face difficulty in maintaining adequate water systems. Meadowbrook is a Class C provider with less than 1,700 connections in Merced County, California. In resolution No. 2008-0048, the State Water Resources Control Board recognized that small

and/or disadvantaged communities cannot “provide the economies of scale necessary to build and maintain adequate water and wastewater systems.” Moreover, the Commission’s 2010 Water Action Plan supports “incentives for the acquisition or the operation of small water and sewer utilities.” Benefits from economies of scale are reflected in this transaction. Cal-Am is a Class A Commission-regulated utility with operations throughout California and more than 58,000 service connections in the Company’s Northern Division. Under the terms of the Settlement Agreement, Cal-Am will purchase Meadowbrook, which is facing an ever-growing list of regulatory requirements. The Settlement Agreement reaches a fair compromise that reflects the Parties’ intent to maximize the benefits and minimize the costs for Cal-Am’s and Meadowbrook’s customers.²⁸

The Settlement Agreement is reasonable, consistent with the law, and in the public interest. With the testimony identified as exhibits and elsewhere in this decision admitted into the record, the record contains ample evidence demonstrating the reasonableness of the Settlement Agreement. We find the transaction to be reasonable in light of the issues raised in the Scoping Memo and Ruling in this proceeding, including the need for a new CPCN, valuation of the system, legal fees from the defense of C.14-02-005, consolidation of the system rather than operating it separately, and costs relating to the transaction.

²⁸ See Application of Golden State Water Company on Behalf of its Bear Valley Electric Service Division (U913E), for Approval of RPS Contract with BioEnergy Solutions, LLC, and for Authority to Recover the Costs of the Contract in Rates, Decision 11-06-023, 2011 Cal. PUC LEXIS 330, **17-18. Also, Order Instituting Investigation into the operations and practices of the Southern California Gas Company, concerning the accuracy of information supplied to the Commission in connection with its Montebello Gas Storage Facility, D.00-09-034, 2000 Cal. PUC LEXIS 694, **29, 31. See also 1State Water Board Res. No. 2008-0048, ¶1. and 2010 Commission Water Action Plan at 9.

4.7. User Fees

The Commission's Budget and Fiscal Service Office (Fiscal Office) indicates that Meadowbrook has not yet paid its Commission User Fees (User Fees) for 2016. Accordingly, we condition our authority for the sale on the receipt of these User Fees by the Commission's Fiscal Office.

As this transfer and purchase will allow a larger water utility with greater operational and financial abilities to operate Meadowbrook, ratepayer safety is enhanced by the ability of Cal-Am to recognize and finance necessary future system improvements. In addition, ratepayers will now have access to Cal-Am's service centers, which will provide ratepayers with the opportunity to report water system problems, which will also enhance safety.

4.8. Conclusion

Both Meadowbrook and Cal-Am desire the sale and transfer of the Meadowbrook water system to Cal-Am. Cal-Am²⁹ has the experience, ability, and financial resources to operate the Meadowbrook system. The terms and conditions of service will remain unchanged as a result of the acquisition. There will be no immediate change in Meadowbrook rates, but rates may change as a result of future rate changes associated with the Sacramento District and Meadowbrook's consolidation into it.³⁰

We conclude that the proposed sale of Meadowbrook to Cal-Am is reasonable, is in the public interest, and will provide tangible benefits to ratepayers, which include continued provision of quality water service by a

³⁰ Direct Testimony of Todd Pray, Exh. CA-3 at 7-8: "The rates applicable for water service in the Meadowbrook area would be the current rates authorized for their customers."

water service provider that has the operational experience and financial ability to operate and own the Meadowbrook system. We therefore conditionally approve the sale of the Meadowbrook system as of the date of this decision. Since Cal-Am has not yet received a permit from the SWRCB DDW to operate the Meadowbrook system, we condition our authority on Cal-Am's receipt of this permit, and require that Cal-Am file it in this docket as a condition to exercise the authority granted herein. We also condition this authority on receipt by the Fiscal Office of Meadowbrook's payment of its 2016 User Fees.

Cal-Am will initially charge currently authorized Meadowbrook's tariff rates, and be bound by all Commission decisions, rules, and regulations applicable to regulated water utilities in its operation of the Meadowbrook system. Cal-Am must file a Tier 1 Advice Letter within 30 days of taking ownership of the Meadowbrook system in order to update its tariff to incorporate the existing Meadowbrook rate schedules and service area map.

The transfer and purchase of the Meadowbrook system will relieve Meadowbrook of its duty to provide public utility water service to the Meadowbrook ratepayers. Accordingly, we revoke Meadowbrook's CPCN and require Meadowbrook's current tariff sheets to be cancelled once the sale to Cal-Am is finalized. Similarly, conditioned on Cal-Am receiving an operating permit from the SWRCB-DDW for the Meadowbrook system, Cal-Am is authorized to assume all public utility responsibilities for the operation and ownership of the Meadowbrook system under Meadowbrook's current rates until such time that final rates are established in Cal-Am's current GRC, A.16-07-002, for the Sacramento District. Cal-Am's existing CPCN is amended to include the provision of public utility water service to the current and future customers in Meadowbrook's service territory as reflected in the service area

map attached to the Settlement Agreement. Within 30 days of the transaction closing and Cal-Am having obtained an operating permit for the Meadowbrook water system from the SWRCB-DDW, Cal-Am should file a Tier 1 Advice Letter to incorporate the Meadowbrook existing tariff schedules and service area map into Cal-Am's tariff. Cal-Am should also file a Tier 2 Advice Letter to recover the \$61,002.13 in transaction costs through a 36-month surcharge on customers in the existing Meadowbrook service territory.

5. Categorization and Need for Hearing

In Resolution ALJ 176-3370 dated January 14, 2016, the Commission preliminarily categorized this application as ratesetting. Given the settlement and the provision of direct testimony under penalty of perjury, the preliminary determination that hearings were necessary is changed to no hearings are necessary.

6. Waiver of Comment Period

This is an uncontested matter. Accordingly, pursuant to Pub. Util. Code § 311(g)(3), the 30-day period for public review and comment period does not apply.

7. Assignment of Proceeding

Commissioner Liane M. Randolph is the assigned Commissioner and Gary Weatherford is the assigned ALJ for this proceeding.

Findings of Fact

1. By Resolution ALJ 176-3349 dated January 15, 2015, it was preliminarily determined that this is a ratesetting proceeding and that hearings would be necessary. A protest was filed which led to settlement, the presentation of testimony under penalty of perjury and a determination that no hearings would be necessary.

2. Meadowbrook serves approximately 1,695 connections in its Merced County, California service area. An estimated 1,600 of those connections are residential, with the remainder being commercial. All of its customers are metered. The company's roots date back to the 1950s, when Fred Walker Sr. and Fred Walker Jr. built it to provide water service in the area. Since 2003, their descendent, David Walker, has run it.

3. The transfer and purchase of Meadowbrook by Cal-Am is desired by both parties.

4. Meadowbrook no longer desires to continue doing business as a regulated public utility.

5. Cal-Am has decades of experience in providing water services in the State of California under the regulated jurisdiction of the Commission.

6. The \$4 million purchase price of the Meadowbrook system is reasonable and calculated pursuant to applicable statutes.

7. Cal-Am has the financial net worth and sufficient liquid assets to own and operate the Meadowbrook system.

8. The sale of Meadowbrook will have no significant effect on the environment.

9. After consummation of the transfer, the current ownership will no longer provide public utility service to customers in the Meadowbrook system.

10. Cal-Am plans to initially charge currently authorized tariffed rates in the Meadowbrook system and be bound by all outstanding Commission decisions.

11. Meadowbrook has not paid its User Fees for 2016.

12. Cal-Am has not received a permit from the SWRCB DDW to operate the Meadowbrook system.

13. Cal-Am's request to amortize the \$61,002.13 transaction costs incurred prior to execution of the Settlement Agreement over a period of 36 months through a surcharge on bills of the customers in the current Meadowbrook service area once the conditions for sale have been met and the sale is finalized is reasonable.

14. The \$3,425,000 portion of the purchase price will be established as ratebase and will be included within Cal-Am's Sacramento District's overall ratebase in Cal-Am's current general rate case, A.16-07-002.

15. The \$575,000 portion of the purchase price will be included as CIAC which Cal-Am will be allowed to recover as an expense, but on which it will not earn a rate of return. This \$575,000 will be recovered over 36 months as a surcharge on bills of the customers in the Sacramento District into which Meadowbrook will be consolidated once a final decision is issued in A.16-07-002.

16. Cal-Am's proposed customer notice include with its motion requesting approval of the Settlement Agreement is insufficient. By Advice Letter we will require Cal-Am to amend its notice to existing Meadowbrook customers and customers in its Sacramento District of the potential future bill impacts associated with the approval of the Settlement Agreement.

17. Transfer of ownership of Meadowbrook to Cal-Am will enhance safety for Meadowbrook ratepayers due to Cal-Am's greater financial resources and because Meadowbrook's ratepayers will have access to Cal-Am's service centers.

Conclusions of Law

1. Transfer of ownership of the Meadowbrook system meets the test of ratepayer indifference, in that customers will be unaffected in terms of service quality and continuity of service.

2. The \$3,425,000 portion of the sale price is reasonable to be established in ratebase in accordance with Public Utilities Code Section 2720(a) and will be included in Cal-Am's Sacramento District's ratebase in conjunction with the Company's current GRC proceeding, A.16-07-002.

3. It is reasonable to treat the \$575,000 portion of the purchase price as CIAC to be recovered as an expense over a 36-month amortization period from customers in Cal-Am's Sacramento District to commence once a final decision is issued in A.16-07-002.

4. The current ownership of Meadowbrook should be conditionally authorized to sell and Cal-Am should be conditionally authorized to buy Meadowbrook.

5. After the sale of Meadowbrook to Cal-Am is final, the current ownership of Meadowbrook should no longer be required to provide public utility service.

6. Effective with the final date of sale of Meadowbrook to Cal-Am, the current ownership's CPCN should be revoked, and Meadowbrook's current tariffs on file with the Commission's Water Division should be cancelled.

7. The proposed sale of Meadowbrook is exempt from CEQA, and no further environmental review is required.

8. Pursuant to the California Health and Safety Code, Section 116525, when a change in ownership of a public water system occurs, the buyer of the public water system must apply for a new operating permit.

9. Authority for the current ownership to sell and Cal-Am to buy Meadowbrook should be conditioned on Cal-Am's receipt of a permit from SWRCB DDW to operate the system, and on receipt by the Commission's Fiscal Office of the 2016 User Fees for the Meadowbrook water system.

10. Cal-Am should file a copy of the SWRCB DDW permit in this docket within 30 days of receipt of such authority being granted.

11. As the applicant, Cal-Am should verify that Meadowbrook's 2016 User Fees has been paid. This verification should be filed in this docket.

12. Cal-Am should not take possession of the Meadowbrook system and not collect tariffed rates from Meadowbrook customers until it has received an operating permit from SWRCB DDW and verified that Meadowbrook's 2016 User Fees have been paid.

13. Cal-Am should file a Tier 2 Advice Letter to recover the \$61,002.13 transaction costs through a 36-month amortization on customers of the existing Meadowbrook service area once and conditions for sale of the Meadowbrook system have been satisfied and the sale is finalized.

14. Cal-Am should initially charge currently authorized tariff rates in the Meadowbrook system, and should be bound by all Commission decisions, rules, and regulations applicable to regulated water utilities.

15. By Advice Letter Cal-Am should be required to amend the customer notice to show the comparable bill impact for both Sacramento District and Meadowbrook customers at the requested rates for the Sacramento District in A.16-07-002, including the consolidation of the Meadowbrook water system into the Sacramento District. The bill impact analysis should incorporate bill impacts for the 2018 test year and the 2019 and 2020 attrition years.

16. The proceeding should remain open in order to receive a copy of the required SWRCB DDW operating permit, and verification of payment of Meadowbrook's 2016 User Fees.

O R D E R

IT IS ORDERED that:

1. The July 6, 2016 Settlement Agreement between the California-American Water Company, Meadowbrook Water Company of Merced, Inc., and the Office of Ratepayer Advocates, attached to this decision as Attachment A, is adopted.

2. The authority for the current Meadowbrook Water Company of Merced, Inc. (Meadowbrook) ownership to sell and transfer to California-American Water Company (Cal-Am) is granted, conditioned on Cal-Am's receipt of an operating permit from the State Water Resources Control Board, Division of Drinking Water to operate the Meadowbrook system and upon Cal-Am's verification of Meadowbrook's payment of its Commission User Fees for 2016.

3. California-American Water Company (Cal-Am) must file a copy of the operating permit from the State Water Resources Control Board, Division of Drinking Water referenced in Ordering Paragraph No. 1 as a compliance filing in this docket within 30 days of receipt of such authority. Cal-Am shall verify that Meadowbrook Water Company of Merced, Inc. has paid its Commission User Fees for 2016 to the Commission's Fiscal Office. The filing of these compliance filings will not reopen the record of this proceeding.

4. California-American Water Company (Cal-Am) shall file a Tier 2 Advice Letter amending the customer notice to show the comparable bill impact for both Sacramento District customers and customers of the Meadowbrook Water Company of Merced, Inc. (Meadowbrook) portion of the Sacramento District. Water customers at the requested rates for the Sacramento District in Application 16-07-002, including the consolidation of the Meadowbrook system into the Sacramento District. The bill impact analysis should incorporate bill

impacts for the 2018 test year and the 2019 and 2020 attrition years. Before providing the amended notice to customers, Cal-Am must obtain approval from Commission's Water Division of the revised content of the notice.

5. After the sale of Meadowbrook Water Company of Merced, Inc. (Meadowbrook) to California-American Water Company (Cal-Am) is final, the current ownership of Meadowbrook is no longer required to provide public utility service. Effective with the final date of sale of Meadowbrook to Cal-Am, Meadowbrook's certificate of public convenience and necessity is revoked, and Meadowbrook's current tariffs on file with the Commission's Water Division are cancelled.

6. California-American Water Company (Cal-Am) is authorized to assume all public utility responsibilities for the ownership and operation of the water utility operations of the Meadowbrook Water Company of Merced, Inc. (Meadowbrook) system. Cal-Am is authorized to operate the Meadowbrook system under Meadowbrook's current rates with new rates to be established in Application 16-07-002. Cal-Am's certificate of public convenience and necessity is amended so that Cal-Am may provide public utility water service to the current and future customers in Meadowbrook's service territory, as shown in Attachment 1 to the Settlement Agreement in Attachment A to this decision.

7. California-American Water Company shall file a Tier 1 Advice Letter within 30 days of its acquisition of the Meadowbrook Water Company of Merced, Inc. (Meadowbrook) system to update its tariffs to include new rate schedules and service area map for the Meadowbrook system.

8. California-American Water Company (Cal-Am) is authorized to file a Tier 2 Advice Letter surcharge existing customers of the Meadowbrook Water Company of Merced, Inc. (Meadowbrook) system the transaction costs of

\$61,002.13 to be amortized over 36 months upon its acquisition of the Meadowbrook system.

9. California-American Water Company (Cal-Am) shall update its current general rate case application, Application (A.) 16-07-002, to recognize the \$3,425,000 portion of the purchase price in ratebase for its Sacramento District and the \$575,000 portion of the purchase price as a Contribution in Aid of Construction to be recovered as surcharge on all customers of the Cal-Am Sacramento District through a 36-month amortization following issuance of a final Commission decision in A.16-07-002.

10. Application 15-12-016 is closed.

This decision is effective today.

Dated December 1, 2016, at San Francisco, California.

MICHAEL PICKER

President

MICHEL PETER FLORIO

CATHERINE J.K. SANDOVAL

CARLA J. PETERMAN

LIANE M. RANDOLPH

Commissioners

ATTACHMENT A
Settlement Agreement

ATTACHMENT A

FILED 7-06-16

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Joint application for an order
authorizing the sale of all outstanding
shares of Meadowbrook Water
Company of Merced, Inc., (U204W), as
well as certain real property not owned
by that company, to California
American Water Company (U210W)

Application No. 512016
Filed December 21, 2015

SETTLEMENT AGREEMENT OF CALIFORNIA-AMERICAN WATER
COMPANY (U-210-W), MEADOWBROOK WATER COMPANY OF MERCED,
INC. (U-204-W), AND THE OFFICE OF RATEPAYER ADVOCATES

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"), Meadowbrook Water Company of Merced, Inc. ("Meadowbrook Water"), 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 Meadowbrook Water is a Commission-regulated Class C public water utility. It serves approximately 1,695 connections in its Merced County, California service area. An estimated 1,600 of those connections are residential, with the remainder being commercial. All of its customers are metered. The company's roots date back to the 1950s, when Fred Walker Sr. and Fred Walker Jr. built it to

provide water service in the area. Since 2003, their descendent, David Walker, has run it.

2.2 California American Water Company, a California corporation, is a Class A public utility water and wastewater service provider regulated by the Commission. It provides 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 with operations approximately 100 miles from Meadowbrook's operations.

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 December 21, 2015, in the above-captioned matter, California American Water and Meadowbrook Water jointly filed an Application for Order Authorizing Sale and Purchase of Utility as well as Related Actions (the "Application").

3.2 The Application requests, among other things, Commission authority: (a) Relieving Meadowbrook Water of its public utility responsibilities following completion of the transaction; (b) Allowing California American Water to assume all public utility responsibilities for the operation and ownership of the water utility operations of Meadowbrook Water's current service area; (c) Establishing the rate base of the acquired system, at the time of approval of a decision in this Application, to be the full purchase price paid by California American Water; (d) Allowing the system California American Water would own and operate in the Meadowbrook area to function as a new district and have the ability to apply for new rates under Meadowbrook's current Class C requirements; (e) Establishing a transaction memorandum account, pursuant to Commission Standard Practice U-27-W, to track all transaction related costs, with rate treatment determined in California American Water's subsequent GRC; (f) Approving California American Water's requests to establish a memorandum account, pursuant to Commission Standard Practice U- 27-W, to track the costs of addressing any required environmental improvements and compliance issues. See Resolution W-5042,

Order Approving California American Water Company's Request to Acquire Ox Bow Mutual Water Company, June 11, 2015. Ox Bow is less than 100 miles from Meadowbrook Water. In addition, California American Water's main Sacramento Operations are about 125 miles from Meadowbrook's operations. With originally acquired rate base later potentially adjusted to include transactional costs associated with the acquisition, depending on the resolution of recovery of such costs in California American Water's subsequent General Rate Case ("GRC").

4. THE STOCK PURCHASE AGREEMENT

4.1 Pursuant to the Stock Purchase Agreement dated June 25, 2015, between California American Water and the owners of Meadowbrook Water (the "SPA"), the shares comprising all of the issued and outstanding equity interest of Meadowbrook Water will be sold to California American Water. Sellers will also sell to California American Water certain real property (the "Property") not owned by Meadowbrook Water.

4.2 Under the SPA, the consideration to be paid to the sellers was \$5 million plus or minus the Adjustment Amount. The adjustments were necessary to address certain accounting issues. In addition, at the closing, California American Water was to deduct \$25,000 from the Purchase Price as reimbursement for a portion of the legal fees and costs it expended in connection with the seller's defense of the Ferrari Complaint.

5. RATE BASE AND AUDIT FINDINGS

5.1 The Commission approved Meadowbrook Water's most recent GRC Application in Resolution W-4881 on July 14, 2011, recognizing its approved Rate Base as \$1,963,522.

5.2 On January 30, 2015, the Commission's Utility Audit, Finance, and Compliance Branch ("UAFCB") released audit findings and recommendations for Meadowbrook's financial statements for 2012 and 2013. According to the UAFCB opinion, the financial statements were fairly presented in all material respects except for the Water Plant in Service and associated Depreciation accounts. Meadowbrook was instructed to exclude balances that could not be substantiated for 2012 and 2013 in the above accounts when filing its 2014 annual report with the Commission.

6. ORA'S PROTEST

6.1 On January 25, 2016, ORA filed a Protest to the Application. The Protest raised several issues or potential issues involving: (1) the system's valuation,

(2) compliance with Public Utilities Code section 2720, (3) the appraisal, (4) the need to expand the Certificate of Public Convenience and Necessity ("CPCN"), (5) whether California American Water could file a separate rate case for Meadowbrook Water after taking over that system, (6) possible adjustments to ratebase, (7) establishment of memorandum accounts, and (8) payment of legal fees relating to C.14-02-005. On February 4, 2016, California American Water filed its Reply to ORA's Protest.

6.2 ORA then served multiple sets of data requests on California American Water and on Meadowbrook Water. ORA also met in-person with representatives of Meadowbrook Water to review, in great detail, Meadowbrook's books and records. When discussing the SPA, unless otherwise stated, capitalized terms will have the same meaning as they do in the SPA. See C.14-02-005, Complaint Against Meadowbrook Water Company of Merced, Inc. Regarding Advice Letters 50- W and 50-W-A for Service Area Expansion, filed Feb. 25, 2014. See "Appendix A" to W-4881.

7. SETTLEMENT DISCUSSIONS

7.1 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 relating to the valuation and operations. Following this long, in-depth settlement period of settlement discussions, the Parties reached this settlement.

8. SETTLEMENT TERMS

8.1 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 is expected to resolve potential disputes with surrounding governmental agencies. (b) Approve as just and reasonable the sale of all outstanding shares and equity interest in Meadowbrook Water to California American Water, and approve California American Water's purchase of such stock and equity interest. (c) Approve as just and reasonable the sale of the real property included in the SPA, but not owned by Meadowbrook Water. (d) Approve as just and reasonable the purchase price for all assets reflected in the SPA (i.e., all outstanding shares and equity interest in Meadowbrook Water and the real property not owned by Meadowbrook Water) for a total purchase price of \$4 million. That total purchase price will be allocated as follows: (i) \$3,425,000.00 will be established as ratebase in accordance with California Public Utilities Code

section 2720(a), and will be included within the Sacramento District's overall ratebase. (ii) \$575,000.00 will be included as contribution in aid of construction ("CIAC"), which California American Water will be allowed to recover as an expense, but on which it will not earn a rate of return. This \$575,000.00 will be recovered over 36 months as a surcharge on bills of the customers in the Sacramento District into which Meadowbrook will be consolidated. (e) Approve consolidation of Meadowbrook Water's 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. (f) Relieve Meadowbrook Water of its public utility responsibilities following Commission approval of the transaction. (g) Allow California American Water to assume all public utility responsibilities for the operation and ownership of the water utility operations of Meadowbrook Water's service territory. (h) 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 Meadowbrook Water's service territory, as reflected in "Attachment 1" hereto. Also approve the cancellation of Meadowbrook Water's current CPCN for its service area. (i) Authorize California American Water to operate the system in Meadowbrook under Meadowbrook's current rates, with new rates to be established in California American Water's 2016 GRC, which is expected to be filed July 1, 2016 and effective January 1, 2018. Collection of the surcharge to recover the \$575,000.00 portion of the purchase price associated with CIAC will also commence on January 1, 2018. (j) Authorize California American Water to recover \$61,002.13 in transaction costs incurred prior to execution of this Settlement Agreement, as an amortization. This \$61,002.13 in transaction fees will be recovered over 36 months as a surcharge on bills of the customers in the current Meadowbrook Water service area. Collection of this surcharge may commence upon issuance of the Commission decision approving this Settlement. (k) Approve the removal from the SPA of the provision requiring that \$25,000 from the Purchase Price be deducted as reimbursement for a portion of the legal fees and costs California American Water expended in connection with the seller's defense of the Ferrari Complaint. Seller instead shall pay that \$25,000 directly to California American Water within 10 calendar days of the Closing. The remaining \$26,282.84 of the legal fees California American Water expended in connection with seller's defense of the Ferrari Complaint will be recorded as California American Water general legal regulatory spend as tracked in its general legal regulatory account. (l) If it has not already been done so in A.15-08-024, approve amending the California American Water memorandum account that identified in the California American Water tariff sheets as C.P.U.C. Sheet No. 8080-W, memorandum account "BC Dunnigan Environmental Improvement and Compliance Issues

Memorandum Account.” That amended memorandum account will be re-named “The Memorandum Account for Environmental Improvements and Compliance Issues for Acquisitions” and now include expenditures in connection with the Meadowbrook service area, as well as subsequently acquired systems unless otherwise noted. If the “The Memorandum Account for Environmental Improvements and Compliance Issues for Acquisitions” has already been established by the Commission’s decision on the motion to approve the settlement in A.15-08- 024 (in connection with the Geyserville Water Works acquisition), then environmental improvement and compliance related costs for the Meadowbrook service area will simply be added to that memorandum account so that California American Water may, for recent acquisitions such as Meadowbrook Water, track in that Account costs to ensure service of safe, reliable drinking water to customers. California American Water will bear the burden of proof of the reasonableness of the costs in the Memorandum Account for Environmental Improvements and Compliance Issues for Acquisitions when seeking recovery of the amounts tracked in that account.

8.2 While this settlement incorporates the SPA 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.

8.3 In this Settlement Agreement, the Parties agree the decision in this proceeding will consolidate for ratemaking purposes the Meadowbrook Water system into California American Water’s Sacramento District; however, the Parties also recognize this Settlement is premised on the inclusion and resolution of ratemaking for the Meadowbrook Water acquisition in California American Water’s 2016 GRC. Inclusion in the soon-to-be filed 2016 GRC will require actions both by the Parties and the Commission. Thus, the Parties agree: (a) With their motion seeking approval of this Settlement Agreement, the Parties will seek approval of a notice to be provided to Sacramento District and Meadowbrook Water customers, informing them of the Meadowbrook acquisition and consolidation for ratemaking purposes into the Sacramento District. (b) That California American Water will include information concerning the Meadowbrook Water Acquisition in California American Water’s July 1, 2016 GRC filing. (c) That although it may not be the ordinary practice under the Rate Case Plan, by July 31, 2016, California American Water will provide an update to its July 1, 2016 GRC filing that may provide additional calculations relating to the Meadowbrook Water acquisition as well as supplemental testimony concerning the acquisition.

9. CONDITIONS

9.1 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.

9.2 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.

9.3 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.

9.4 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.

9.5 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.

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

11. Each signatory to the Settlement Agreement is authorized and has authority to enter the Agreement.

12. The Parties agree that pursuant to Rule 12.5 of the Commission's Rules of Practice and Procedure, adoption of this Settlement Agreement "does not constitute approval of, or precedent regarding, any principle or issue in the proceeding or in any future proceeding."

13. COMMISSION MODIFICATION OF SETTLEMENT AGREEMENT

13.1 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.

13.2 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.

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

June 28, 2016

CALIFORNIA-AMERICAN
WATER COMPANY

By: /JJG~
Robert MacLean, President

July 6. 2016

OFFICE OF RATEPAYER ADVOCATES

June_2016

MEADOWBROOK WATER
COMPANY OF MERCED, INC.

By:~~~~~
David L.
Walker,
CEO

06/28/2016

541-746-6455

FEDEX OFFICE

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June 7,
2016

OFFICE OF RATEPAYER
ADVOCATES

By: ~~~~~
Elizabeth Echols, Director

June 7.8,
2016

MEADOWBROOK WATER COMP
ANY OF
MERCED, INC.

PAGE 02/02

ATTACHMENT B

Memorandum of Understanding

Memorandum of Understanding: Meadowbrook Intent to Sell to Cal-Am

A-1 MEMORANDUM OF UNDERSTANDING THIS MEMORANDUM OF UNDERSTANDING, made this 21st day of April, 2014, is by and between Meadowbrook Water Company, Inc., a California corporation ("Meadowbrook") and California-American Water Company, a California corporation ("California American Water"). Meadowbrook and California American Water may be referred to herein individually as a "Party" or collectively as the "Parties."

1. By this Memorandum of Understanding, the Parties express their mutual desire for Meadowbrook to sell and California American Water to purchase, the public utility water operations of Meadowbrook in Merced County, California. The Parties contemplate that California American Water's acquisition of the public utility water operations of Meadowbrook will involve the actions and time frames set forth herein. The Parties intend the purchase will close following issuance of the California Public Utilities Commission's ("Commission") decision approving the purchase and sale of Meadowbrook but not sooner than May 1, 2017.
2.
The Parties agree that, within forty-five (45) days of the date hereof ("Preliminary Due Diligence Period"), California American Water will conduct a preliminary due diligence review of the books, records, properties and operations of Meadowbrook, and Meadowbrook will provide California American Water access to such books, records, properties and operations. Should California American Water require additional time to complete its due diligence it shall provide written notice to Meadowbrook requesting reasonable extension of time for the Preliminary Due Diligence Period. Approval for the extension of time pursuant to this Section 2 shall not be

unreasonably withheld by Meadowbrook. Such extension shall not exceed thirty (30) days.

3 Within fourteen (14) days after or at any time prior to the expiration of the Preliminary Due Diligence Period, California American Water shall submit a letter of intent ("Letter of Intent") to Meadowbrook that summarizes California American Water's proposed acquisition terms. Within fourteen (14) days of delivery to Meadowbrook of California American Water's terms, Meadowbrook shall either execute the Letter of Intent or propose revisions to be negotiated by the Parties. California American Water shall respond to Meadowbrook's proposed revisions within fourteen (14) days after receipt of the proposed revisions. Subsequent or revised Letters of Intent delivered to Meadowbrook shall have the same response time provisions pursuant to this Section 3. Should either party require additional time to negotiate terms of or respond to a Letter of Intent, that Party shall provide written notice to the other Party and request a reasonable extension of time. Approval for extensions of time pursuant to this Section 3 shall not be unreasonably withheld by either Party.

4. Within sixty (60) days after the execution of the Letter of Intent provided for in Section 3 above ("Agreement Preparation Period"), the Parties will complete negotiations and execute a definitive agreement ("Agreement") for California ATTACHMENT A Memorandum of Understanding: Meadowbrook Intent to Sell to Cal-Am A-2 American Water's acquisition of the public utility water operations of Meadowbrook., whether through the acquisition of Meadowbrook's capital stock or through the acquisition of Meadowbrook's public utility assets. Should either Party require additional time to negotiate terms of the Agreement that Party shall provide written notice to the other Party

and request an extension of time for the Agreement Negotiation Period. Approval for the extension of time pursuant to this Section 4 shall not be unreasonably withheld by either Party.

5. The Parties are aware of pending complaints ("Complaints") before the Commission, which challenge the validity of Meadowbrook's Advice Letter 50 - Service Area Extension. Upon the execution of this Memorandum of Understanding, The Parties may act jointly or independently, as advised by joint counsel ("Joint Counsel), in good faith in contesting the Complaints. California American Water shall provide funding ("Case Defense Funding") for Joint Counsel to be provided by an outside firm to represent the Parties. Case Defense Funding shall be used exclusively for defense of or in response to the Complaints and shall not exceed twenty-five thousand dollars (\$25,000) without written approval by both Parties, and shall be deducted from the to-be-negotiated purchase price for the system. Case Defense Funding shall be paid by California American Water to the Joint Counsel's firm(s). Billing statements received by California American Water for Joint Counsel shall be made available to Meadowbrook upon its request. Upon execution of the Memorandum of Understanding, the Parties shall agree upon the firm(s) that may act as Joint Counsel. The Parties may also execute a joint defense agreement or conflict of interest waiver as the Parties deem appropriate.

6. Any confidential information of either party disclosed during due diligence or during the negotiation of the Agreement shall be held in confidence by the party receiving such information and not disclosed to any third party or to the general public unless otherwise required by law. Written confidential information shall be clearly marked "Confidential" by the disclosing party. Should either party

terminate this Memorandum of Understanding, as provided for herein all written non-public information exchanged between the parties whether or not deemed confidential, including copies thereof, shall be returned to the party from whom it was disclosed upon written request of the disclosing party. Neither party shall publicize the transaction contemplated hereby without the express written consent of the other party. Neither party shall disclose confidential information to any third parties without the express consent of the other party.

7. Either Party may terminate this Memorandum of Understanding by written notice to the other Party. In the event the Memorandum of Understanding is terminated by California American Water, pursuant to Section 5 above, California American Water will not seek reimbursement from Meadowbrook for the amount of Case Defense Funding expended. In the event the Memorandum of Understanding is terminated by Meadowbrook pursuant to Section 5 above or should Meadowbrook not provide timely response to a Letter of Intent or should Meadowbrook terminate the Agreement following its execution, California American Water shall be entitled

ATTACHMENT A Memorandum of Understanding: Meadowbrook Intent to Sell to Cal-Am A-3 to reimbursement from Meadowbrook of the approved not-to-exceed amount of Case Defense Funding expended as of the date of termination. The Parties, intending to be bound by the terms hereof, have executed this Memorandum of Understanding as of the date set forth above.

MEADOWBROOK WATER COMPANY, INC David Walker, Chief Executive Officer

CALIFORNIA-AMERICAN WATER COMPANY By: Thomas f. Brunet, Senior Manager -- Business Development

ATTACHMENT C

ORA's Appraisal Estimate

ATTACHMENT C ORA's Appraisal

Description Meadowbrook	Qty	Unit	Unit Cost	Cost	33% OH	Cost Cont. and Ohs	Service Life	Asset Depreciation	RCNLD Valuation
Well 4									
Well 4	1	EA	\$233,879	\$233,879	77,180	311,059	30	\$ 238,479	\$72,580
Well 4 Pump	1	EA	\$100,000	\$100,000	33,000	133,000	25	\$ 42,560	\$90,440
Well 4 Chlorine Tank	1	EA	\$167	\$167	55	222	15	\$ 118	\$104
Well 4 Chemical Meter	1	EA	\$1,317	\$1,317	435	1,752	15	\$ 934	\$817
Well 4 Flowmeter	1	EA	\$3,658	\$3,658	1,207	4,865	25	\$ 1,557	\$3,308
Well 4 Building	1	EA	\$4,000	\$4,000	1,320	5,320	30	\$ 1,419	\$3,901
Well 5									
Well 5	1	LS	\$277,734	\$277,734	91,652	369,386	30	\$ 172,380	\$197,006
Well 5 Pump	1	EA	\$65,000	\$65,000	21,450	86,450	25	\$ 27,664	\$58,786
Well 5 Chlorine Tank	1	EA	\$167	\$167	55	222	15	\$ 118	\$104
Well 5 Chemical Meter	2	EA	\$1,317	\$2,634	869	3,503	15	\$ 1,868	\$1,635
Well 5 Flowmeter	1	EA	\$3,264	\$3,264	1,077	4,341	25	\$ 1,389	\$2,952
Well 5 Building	1	LS	\$11,900	\$11,900	3,927	15,827	30	\$ 4,221	\$11,606
Well 6									
Well 6	1	LS	\$231,114	\$231,114	76,268	307,382	30	\$ 72,108	\$235,274
Well 6 Pump	1	EA	\$75,000	\$75,000	24,750	99,750	25	\$ 10,530	\$89,220
Well 6 Chlorine Tank	1	EA	\$167	\$167	55	222	15	\$ 39	\$183
Well 6 Chemical Meter	2	EA	\$1,317	\$2,634	869	3,503	15	\$ 701	\$2,803
Well 6 Flowmeter	1	EA	\$3,658	\$3,658	1,207	4,865	25	\$ 584	\$4,281

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HYDROPNEUMATIC Tanks

33,000-gal Storage Tank (Well 4)	1	EA	\$85,167	\$85,167	28,105	113,272	10	\$	113,272	\$0
22,000-gal Storage Tank (Well 4)	2	EA	\$64,784	\$129,568	42,757	172,325	10	\$	172,325	\$0
33,000-gal Storage Tank (Well 5)	1	EA	\$85,167	\$85,167	28,105	113,272	10	\$	113,272	\$0
16,500-gal Storage Tank (Well 5)	1	EA	\$55,760	\$55,760	18,401	74,161	10	\$	74,161	\$0
16,500-gal Storage Tank (Well 6)	1	EA	\$55,760	\$55,760	18,401	74,161	10	\$	52,191	\$21,970
33,000-gal Storage Tank (Fir Ave) ABANDONED	1	EA	\$0	\$0		-	10	\$	-	\$0
16,000-gal Storage Tank (Fir Ave) ABANDONED	1	EA	\$0	\$0		-	10	\$	-	\$0

\$21,970

Distribution System

Pipeline (Paved Areas)

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Cement Asbestos - 4 inch

PVC water mains, 4" C900	5250	LF	\$45	\$236,250	77,963	314,213	50	\$	160,541	\$153,672
Cement Asbestos - 6 inch	18,375	LF	\$45	\$826,875	272,869	1,099,744	50	\$	1,099,744	
PVC water mains, 6" C900	2,138	LF	\$80	\$171,040	56,443	227,483	50	\$	166,481	\$61,002
PVC water mains, 8" C900	54,160	LF	\$100	\$5,416,000	1,787,280	7,203,280	50	\$	2,849,135	\$4,354,145
Cement Asbestos 8 inch	3,150	LF	65	204,750	67,568	272,318				
PVC water mains, 10" C900	7,350	LF	\$133	\$977,550	322,592	1,300,142	50	\$	310,274	\$989,867

Pipeline (Unpaved Areas)

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Cement Asbestos 4 inch

PVC water mains, 4" C900	580	LF	\$27	\$15,660	5,168	20,828	40	\$	30,200	\$0
PVC water mains, 6" C900	12,300	LF	\$40	\$492,000	162,360	654,360	40	\$	934,637	\$0
PVC water mains, 8" C900	1,200	LF	\$55	\$66,000	21,780	87,780	40	\$	35,711	\$52,070
Cast Iron 12 inch	825	LF	\$75	\$61,875	20,419	82,294	50	\$	(1,645,052)	
PVC water mains, 12" C900	825	LF	\$75	\$61,875	20,419	82,294	50	\$	18,105	\$64,189

Bore and Jack Pipe	--	--	--	--						
18 inch pipe casing	500	LF	\$1,500	\$750,000	247,500	997,500	50	\$	319,200	\$678,30
Service Connections	--	--	--	--						
5/8 x 3/4 inch	1542	EA	\$950	\$1,464,900	483,417	1,948,317	20	\$	2,942,298	\$0
3/4 inch	2	EA	\$1,010	\$2,020	667	2,687	20	\$	2,149	\$53
1 inch	48	EA	\$1,010	\$48,480	15,998	64,478	20	\$	40,702	\$23,77
1-1/2 inch	1	EA	\$2,400	\$2,400	792	3,192	25	\$	2,043	\$1,14
2 inch	9	EA	\$4,140	\$37,260	12,296	49,556	25	\$	39,204	\$10,35
3 inch	2	EA	\$5,415	\$10,830	3,574	14,404	30	\$	6,722	\$7,68
4 inch	14	EA	\$6,650	\$93,100	30,723	123,823	30	\$	79,306	\$44,51
Isolation (Gate) Valves	--	--	--	--						
4 inch	4	EA	\$560	\$2,240	739	2,979	25	\$	6,912	\$0
6 inch	104	EA	\$1,738	\$180,752	59,648	240,400	25	\$	368,574	\$0
8 inch	226	EA	\$2,000	\$452,000	149,160	601,160	25	\$	499,355	\$101,80
10 inch	26	EA	\$2,700	\$70,200	23,166	93,366	25	\$	39,480	\$53,88
12 inch	6	EA	\$3,300	\$19,800	6,534	26,334	25	\$	16,854	\$9,48
2" Blow-off Valves	31	EA	4,000	\$124,000	40,920	164,920	25	\$	111,691	\$53,22
Modern Fire Hydrant	139	EA	\$7,000	\$973,000	321,090	1,294,090	25	\$	1,363,108	\$0
Wharf Hydrant	3	EA	\$2,500	\$7,500	2,475	9,975	25	\$	9,758	\$21
Other										

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Electrical	1	LS	\$139,30	\$139,300	45,969	185,269	15	\$	186,257	\$0
Office Building	1	LS	\$20,60	\$20,600	6,798	27,398	30	\$	34,814	\$0
Shop	1	LS	\$7,250	\$7,250	2,393	9,643	30	\$	9,643	\$0
Well 2 ABANDONED	1	LS	\$0	\$0	-	-	30	\$	-	\$0
Spare Well Pump &	1	LS	\$50,00	\$50,000	16,500	66,500	25	\$	84,500	\$0
<u>Total</u>			<u>\$14,413.22</u>		<u>19,169.585</u>		<u>11,224.23</u>		<u>7,478.81</u>	

ATTACHMENT D

Stock Purchase Agreement

STOCK PURCHASE AGREEMENT

This Stock Purchase Agreement (this "Agreement") is dated, for reference purposes, as of June 25, 2015, and is executed on the dates set forth with the signatures below, by and among CALIFORNIA-AMERICAN WATER COMPANY ("California American Water"), a California corporation ("Buyer"), MEADOWBROOK WATER COMPANY OF MERCED, INC., a California corporation ("Company"), Kathleen Ann Hill, as Trustee of the Kathleen Ann Hill Family Trust dated March 3, 1999 ("KAH"), Mary Lee Nichols, an individual ("MLN"), David L. Walker, as Trustee of the David L. Walker 2013 Trust Agreement dated February 13, 2013 ("DLW"), and Derald R. Walker, an individual ("DRW") (KAH, MLN, DLW, and DRW being collectively referred to herein as "Sellers" and individually as "Seller"). Hereinafter, Buyer, Company, and Sellers may be referred to individually as a "Party" or together as the "Parties".

RECITALS:

A. Company currently owns and, directly or indirectly, operates a domestic water system consisting of utility infrastructure as described in Schedule D1 through D9 of the 2013 Annual Report of Meadowbrook Water Company, Inc. on file with the California Public Utilities Commission (collectively, the "System") serving approximately one thousand six hundred fifty (1,650) service connections in or near Merced County, California.

B. Sellers desire to sell the Shares, which comprise all of the issued and outstanding equity interests of Company, to Buyer, and Buyer desires to purchase the Shares from Sellers, pursuant to the terms and conditions of this Agreement.

C. Sellers desire to sell and Buyer desires to acquire real property (the "Property"), which Property is not owned by the Company, pursuant to the terms of the Real Estate Addendum attached as Exhibit 4 to this Agreement (the "Real Estate Addendum").

D. This Agreement is subject to the approval of the California Public Utilities Commission ("CPUC").

NOW, THEREFORE, in consideration of the foregoing recitals, and the representations, warranties, and covenants contained herein, and in exchange for

other consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound, agree as follows:

ARTICLE 1

Definitions and Related Matters

For purposes of this Agreement, the capitalized terms used herein shall, unless the context clearly requires otherwise, have the meanings assigned to them herein or in the attached Exhibit 1 and, for purposes of this Agreement and all other documents executed in connection herewith, the rules of construction set forth in Exhibit 1 shall govern.

ARTICLE 2

Purchase and Sale of Shares; Closing

2.1 Transfer of Shares. On and subject to the terms and conditions of this Agreement, at the Closing on the Closing Date and effective as of the Effective Time, Buyer shall purchase, acquire and accept from Sellers, and Sellers shall sell, convey, transfer, assign and deliver to Buyer, free and clear of all Encumbrances, the Shares and, subject to the terms and conditions of the Real Estate Addendum, the Property.

2.2 Consideration.

(a) The consideration for the Shares and the Property shall consist of the Purchase Price. The Parties shall allocate the Purchase Price between the Shares and the Property in accordance with the terms of this Agreement. The Property value shall be determined by a professional third party appraisal of the Property (the "Appraised Property Value") following execution of this Agreement and prior to submitting an application to the CPUC for approval of this Agreement. The portion of the Purchase Price allocated to the Shares shall be the Purchase Price minus the Appraised Property Value; the portion of the Purchase Price allocated to the Property shall be the Appraised Property Value. The Parties shall reach agreement on the selection of the third party appraiser. Buyer shall pay the costs of the appraisal. The appraisal shall be prepared within 90 days of execution of this Agreement.

(b) At Closing, Buyer shall deduct \$25,000 from the Purchase Price as reimbursement for a portion of the legal fees and costs it expended relating to the Seller's defense of the Ferrari Complaint. At Closing, Buyer shall pay to Sellers and such other payees set forth on Schedule 2.2, in accordance with

wire transfer instructions to be provided by Sellers to Buyer at least ten (10) Business Days prior to the Closing Date, in immediately available funds, an aggregate amount equal to the Purchase Price less \$25,000 as provided above, payable twenty-five percent (25%) to each Seller.

(c) Buyer shall deliver the Statement to Sellers at least thirty (30) Business Days prior to the Closing Date. Sellers shall provide Buyer and its representatives reasonable access, during normal business hours of Company, to all personnel, books and records of or related to the Company, the System or the Business within Sellers' or the Company's direction or control as reasonably requested by Buyer to assist it in its preparation of the Statement. Buyer shall deliver to Sellers a copy of the work papers prepared or used in connection with the Statement's preparation as reasonably requested by Sellers to assist in its review of the Statement, and Sellers shall have an opportunity, prior to the Closing Date, to review with representatives of Buyer and object to all or any part of the Statement, such review to be reasonable and in good faith. Sellers shall submit any objection within fifteen (15) business days of receipt of the Statement. Such objection shall include Sellers' calculation of the Adjustment Amount. The parties shall attempt to resolve any dispute with the Adjustment Amount. In the event the parties are unable to resolve the dispute, the Statement and Sellers' objection shall be submitted to an independent accounting firm mutually agreeable to Sellers and Buyer for final resolution in accordance with the terms and provisions of this Agreement. The Sellers and Buyer shall use their respective best efforts to cause the independent accounting firm to make its determination as soon as possible but in no event later than fifteen (15) business days after receipt of the disputed matters. Such determination shall be final, binding and conclusive upon the parties hereto. Seller and Buyer will share the costs of using the independent accounting firm to make this determination equally.

(d) Buyer shall prepare the Allocation, which Allocation shall be binding upon Sellers. The Parties shall report, act, and file Income Tax Returns in all respects and for all other Tax purposes consistent with the Allocation. No Party shall take any Tax position (whether in audits, Income Tax Returns, or otherwise) that is inconsistent with or contrary to the Allocation. In the event that the Allocation is disputed by any Governmental Authority, the Party receiving notice of such dispute will promptly notify the other Party, and the Parties will consult in good faith as to how to resolve such dispute in a manner consistent with the Allocation.

2.3 Closing. Unless this Agreement is first terminated pursuant to Article 8 hereof, and subject to the satisfaction or, if permissible, waiver of each of the conditions set forth in Article 5 hereof, and subject to the provisions of Section 5.3 of this Agreement, the Closing will take place at the offices of Escrow Holder or such other place or by such other means (e.g., e-mail/PDF or facsimile and overnight delivery of original execution documents) as is agreed to by the Parties at 10:00 A.M. Pacific time (or such other time as may be appropriate to coordinate the sale of the Shares with the sale of the Property in accordance with requirements or recommendations of the Escrow Holder), (a) after the date on which all of the conditions set forth in Article 5 hereof shall have been satisfied or (to the extent permissible) waived (other than those conditions which, by their nature are to be satisfied or waived at Closing but subject to their satisfaction or waiver at Closing) and (b) on the first date that is no less than 60 days after final approval of this purchase and sale by the CPUC and is the last day of a calendar quarter or (c) on such other date as the Parties may agree upon in writing. In any event, the Closing with respect to the Shares shall be effective as of the Effective Time. The Close of Escrow under the Real Estate Addendum shall occur concurrently with the Closing contemplated in this Agreement.

2.4 Closing Obligations.

In addition to any other documents to be delivered under other provisions of this Agreement, at Closing:

(a) Sellers shall deliver or cause to be delivered to Buyer the following documents:

(i) Certificates representing all the Shares, free and clear of all Encumbrances, duly endorsed to Buyer or in blank or accompanied by duly executed stock powers;

(ii) Cancelled certificates, agreements and/or other evidence of the redemption or other payment by the Company in respect of all previously issued and outstanding securities or other equity interests of the Company other than the Shares, including all options and warrants;

(iii) Except as set forth in Section 5.1(g), all Consents and approvals from Governmental Authorities, and third parties under Contracts, necessary to ensure that Buyer will continue to have the same full rights with respect to the Shares and the assets of the Company as Sellers had immediately prior to the consummation of the Contemplated Transactions, including the

written Consents, in form and substance reasonably acceptable to Buyer, of the Governmental Authorities and third parties set forth in;

(iv) a payoff letter from each lender from which Sellers (with respect to the Company) or the Company has incurred indebtedness for borrowed money which is outstanding, if any, and from each person or entity listed on Schedule 2.2, and a release of all Encumbrances relating to the Shares or the assets of the Company executed, filed and/or recorded by the holder of or parties to each such Encumbrance (including without limitation any violations cited by the CPUC or any other Governmental Authority with authority over the System or the assets of the Company), if any, in each case in substance and form reasonably satisfactory to Buyer and its counsel;

(v) an affidavit, as provided in Section 1445(b)(2) of the Code, stating under penalties of perjury that none of Sellers nor the Company is a foreign person within the meaning of Section 1445(f)(3) of the Code;

(vi) for each interest in Real Property and each easement and/or right-of-way affecting any Real Property or asset of the Company, whether or not identified on Schedule 3.4, that is not, as of the Closing, already vested in the Company, a recordable grant deed or such other appropriate document or instrument of transfer or approval, as the case may require, each in form and substance reasonably satisfactory to Buyer;

(vii) such other deeds, bills of sale, stock powers, assignments, certificates of title, documents and other instruments of transfer and conveyance as may reasonably be requested by Buyer, each in form and substance reasonably satisfactory to Buyer;

(viii) a copy of each permit, license, easement, land-right and other necessary authority for the operation of the System and the assets of the Company, in each case validly issued in the name of any Seller or the Company and in full force and effect;

(ix) the certificate contemplated by Section 5.1(d);

(x) a certificate of good standing issued by the Secretary of State of its state of organization with respect to the Company, dated not earlier than ten (10) Business Days prior to Closing;

(xi) a copy, certified by the Secretary of Company to be true, complete and correct as of the Closing Date, of the articles of incorporation and bylaws or other governing documents and resolutions of the board of directors and (to the extent required) shareholders (or other required representatives) of Seller and the Company authorizing and approving the Contemplated Transactions and as to the incumbency and signatures of the officers of the Company executing this Agreement or any of the Transaction Documents on behalf of Sellers or the Company;

(xii) to the extent such transfer is necessary, evidence satisfactory to Buyer of the transfer of all utilities with respect to the System from Sellers to Buyer or the Company;

(xiii) the written resignation of each member of the Board of Directors, and each officer, of the Company; and

(xiv) all other documents, instruments and writings required or reasonably requested by Buyer to be delivered at or prior to the Closing pursuant to this Agreement or otherwise required in connection herewith.

(b) At or prior to the Closing, Buyer shall deliver the following:

(i) All government and third party approvals as required by Section 5.1(g) of this Agreement;

(ii) to the Sellers and such other payees set forth on Schedule 2.2, in accordance with wire transfer instructions to be provided by the Sellers to Buyer at least ten (10) Business Days prior to the Closing Date, in immediately available funds, an aggregate amount equal to the Purchase Price; and

(iii) to the Sellers, all other documents, instruments and writings required or reasonably requested by Sellers to be delivered at or prior to the Closing pursuant to this Agreement or otherwise required in connection herewith.

ARTICLE 3

Representations and Warranties of Sellers

Each Seller, jointly and severally, and the Company, as the case may be, hereby makes the following representations and warranties to Buyer, each of which is true and correct on the date hereof, will be true and correct at Closing

subject to such exceptions as are specifically disclosed in the Disclosure Schedules, to the extent set forth herein:

3.1 Organization of Seller and the Company; Power and Authority. The Company is a duly organized, validly existing entity organized and in good standing under the Laws of the state of its organization. The Company has full power and authority to conduct the Business and the System as it is now being conducted and to own, lease and operate the System and the assets of the Company.

3.2 Enforcement; Authority; No Conflict.

(a) This Agreement constitutes the legal, valid and binding obligation of each Seller, enforceable against each Seller in accordance with its terms except as such enforcement may be limited by bankruptcy, insolvency or other similar Laws affecting the rights of creditors generally and by general principles of equity. Subject to the conditions set forth in Section 5.1(g), Sellers have the absolute and unrestricted right, power and authority to execute and deliver this Agreement and the Transaction Documents and to consummate the Contemplated Transactions. The board of directors and shareholders of Company have duly authorized the execution, delivery, and performance of this Agreement by Company and no other corporate proceeding on the part of Company or Seller is necessary to authorize the execution, delivery and performance of this Agreement.

(b) This Agreement has been, and the Transaction Documents will be, duly executed and delivered by each Seller and by the Company.

(c) Neither the execution, delivery or performance by Seller or Company of this Agreement or the Transaction Documents nor the consummation by it of the Contemplated Transactions will (i) contravene, conflict with or result in a violation of any provisions of the charter or bylaws or other governing documents of Seller or the Company, (ii) contravene, conflict with or result in a violation of or give any Governmental Authority or other Person the right to challenge any of the Contemplated Transactions or to exercise any remedy or obtain any relief under any Laws or any Order to which Seller, the Company, the Shares or the assets of the Company may be subject, (iii) contravene, conflict with or result in a violation of any of the terms or requirements of or give any Governmental Authority the right to revoke, withdraw, suspend, cancel, terminate or modify any Permit or other authorization by a Governmental Authority that is held by Seller or the Company

or that otherwise relates to the System, (iv) contravene, conflict with or result in a violation or breach of any provision of, require the Consent of any Person under, or give any Person the right to declare a default or exercise any remedy under or to accelerate the maturity or performance of or to cancel, terminate or modify any Contract, indenture, mortgage, note, lease or other instrument or document to which Seller or the Company is a party or by which any of the assets of the Company are bound or (v) result in the imposition or creation of any Encumbrance upon or with respect to the Shares or any of the assets of the Company.

(d) Except as set forth on Schedule 3.2(d), no filings or registrations with, notifications to, or authorizations, Consents or approvals of, a Governmental Authority or third party are required to be obtained or made by Seller or Company in connection with the execution, delivery or performance by Seller and Company of this Agreement or the Transaction Documents or the consummation by Seller and Company of the Contemplated Transactions. Neither the Contemplated Transactions nor the Transaction Documents will result in the creation of any Encumbrance against any of the assets of the Company.

3.3 Assets. The Company has clear, good, and marketable title to, or a valid leasehold interest in, all of the assets of the Company, free and clear of all Encumbrances. None of the assets of the Company are leased or on loan by any Seller or the Company to any third party. The assets of the Company and the Property constitute all of the assets and property that, together with the rights granted or conveyed under the Transaction Documents, are necessary for the operation of the System, the Business and the Company as conducted as of the date hereof. Upon the Closing, Buyer (through its ownership of the Company) shall continue to be vested with good title or a valid leasehold interest in the System and all of the assets of the Company. The Business constitutes all of the business conducted by any Person in connection with the System.

3.4 Real Property; Easements.

(a) The Company owns and has good, and to Seller's Knowledge, marketable title to the Real Property, free and clear of all options, leases, covenants, conditions, easements, agreements, claims, and other Encumbrances of every kind and there exists no restriction on the use or transfer of such property, in each case except as set forth on Schedule 3.4(b). Set forth on Schedule 3.4 is a complete and accurate listing of all Real Property. There are no

outstanding options, rights of first refusal or rights of first offer to purchase any of the Real Property or any portion thereof or interest therein. The Company has made available to Buyer copies of all title reports, surveys, title policies and appraisals relating to the Real Property. At and after the Closing, Buyer (directly or indirectly through its ownership of the Company) shall have the right to maintain or use the Real Property, including the space, facilities or appurtenances outside the building lines, whether on, over or under the ground, and to conduct such activities thereon as maintained, used or conducted by the Company on the date hereof and such right is not subject to revocation. At and after the Closing, Buyer shall have all rights, easements and agreements necessary for the use and maintenance of water, sewer or other utility pipelines, poles, wires, conduits or other like facilities, and appurtenances thereto, over, across and under the Real Property.

(b) No Proceeding is pending, or to Seller's Knowledge, threatened, which could adversely affect the zoning classification of the Real Property. The Company's current use and occupancy of the Real Property and its operation of the System thereon does not violate any easement, covenant, condition, restriction or similar provision in any instrument of record or other unrecorded agreement affecting such Real Property. The present use and operation of the Real Property is not covered by a variance. None of Sellers nor the Company has received any notice of violation of any easements, covenants, restrictions or similar instruments and there is no basis for the issuance of any such notice or the taking of any action for such violation. Set forth on Schedule 3.4(b) hereto is a true, correct and complete list of all easements relating to the Real Property or the assets of the Company. All of such easements are valid and will be transferred to Buyer (directly or indirectly through its ownership of the Company) and remain in full force as of the Closing. Set forth on Schedule 3.4(b) hereto is a true, correct and complete list of all rights of way relating to the Real Property or the assets of the Company. .

(c) No Improvements encroach on any land that is not included in the Real Property or on any easements affecting such Real Property, or violate any building lines or set-back lines, and there are no encroachments onto the Real Property, or any portion thereof, which would interfere with the use or occupancy of such real Property or the continued operation of the System as currently conducted.

(d) There is no unpaid property Tax, levy or assessment against the Real Property (except for Encumbrances relating to Taxes not yet due and

payable), nor is there pending or threatened any condemnation Proceeding against the Real Property or any portion thereof.

(e) Except as set forth in Schedule 3.4(e), as of the date of execution of this Agreement there is no condition affecting the Real Property or the Improvements located thereon which requires repair or correction to restore the same to reasonable operating condition. In the event the Real Property or the Improvements conditions change such that repair or correction is required prior to Closing, the Company will give the Buyer notice within 2 Business Days.

3.5 Personal Property. Set forth on Schedule 3.5(a) is the best available listing of all assets of the Company which are personal property. Except as set forth in Schedule 3.5(b): (i) no asset of the Company which is personal property is in the possession of others (other than immaterial items temporarily in the possession of others for maintenance or repair), (ii) neither the Company nor any of its Affiliates holds any such property on consignment, and (iii) each asset of the Company has been maintained in accordance with normal industry practice, is in good operating condition and repair (subject to normal wear and tear) and is suitable for the purposes for which it is presently used.

3.6 Capitalization; Subsidiaries; No Undisclosed Liabilities.

(a) The authorized capital stock of the Company and the names, addresses and holdings of the record holders thereof are set forth on Schedule 3.6. The Shares are owned by Sellers of record and beneficially (twenty-five percent (25%) by each Seller), and constitute the only issued and outstanding capital stock of the Company. Upon purchase and payment therefor and delivery to Buyer thereof in accordance with the terms of this Agreement, the Shares shall be transferred free and clear of all Encumbrances at Closing. All the Shares were duly authorized and validly issued and are fully paid and non-assessable without restriction on the right of transfer thereof. Except for Buyer's rights pursuant to this Agreement and except as set forth on Schedule 3.6(a), (i) there are no issued and outstanding (A) securities of the Company other than the Shares, or (B) warrants, preemptive rights, other rights, or options with respect to any securities of the Company, and (ii) neither the Company nor any Seller is subject to any obligation to issue, sell, deliver, redeem, or otherwise transfer, acquire or retire the Shares or any other securities of the Company.

(b) The Company does not have any subsidiaries and does not directly or indirectly own or have any capital stock or other equity interest in any Person.

(c) Except (i) to the extent and for the amount reflected as a Liability on the balance sheet included in the Unaudited Financial Statements, (ii) Liabilities incurred in the Ordinary Course of Business since the date of the balance sheet included in the Unaudited Financial Statements (none of which will or may reasonably be expected to have an adverse effect upon the Business), or (iii) as set forth on Schedule 3.6, the Company does not have any Liabilities whatsoever, known or unknown, asserted or unasserted, liquidated or unliquidated, accrued, absolute, contingent, or otherwise, there is no basis for any claim against the Company, the System or any of the assets of the Company for any such Liability and there is no basis for any such Liability to become the Liability of Buyer from and after the Closing.

3.7 Tax Matters.

(a) The Company has timely and properly filed all Tax Returns that it was required to file. All such Tax Returns were complete and correct in all respects and were prepared in compliance with all applicable Laws. All Taxes owed by the Company have been paid. The Company is not the beneficiary of any extensions of time within which to file any Tax Return. No claim has ever been made by an authority in a jurisdiction where the Company did not file Tax Returns that the Company is or may be subject to taxation by that jurisdiction. There are no Encumbrances on any of the assets of the Company that arose in connection with any failure (or alleged failure) to pay any Tax.

(b) The Company has withheld and paid all Taxes required to have been withheld and paid in connection with any amounts paid or owing to any employee, independent contractor, creditor, member, stockholder, or other third party. Forms W-2 and 1099 required with respect thereto have been properly completed and timely filed.

(c) To Seller's Knowledge there are no audits or examinations of any Tax Returns pending or threatened that relate to the operation of the System or the assets of the Company. The Company is not a party to any action or Proceeding by any Governmental Authority for the assessment or collection of Taxes relating to the operation of the System or the assets of the Company, nor has such event been asserted or threatened. There is no waiver or tolling of any statute of limitations in effect with respect to any Tax Returns relating to the operation of the System or the assets of the Company.

(d) None of the assets of the Company (i) has been or could be treated as a partnership or corporation for United States federal income Tax

purposes or (ii) is property that is required to be treated for Tax purposes as being owned by any other Person (other than those assets of the Company that are leased).

(e) None of the assets of the Company represent property or obligations of the Company, including but not limited to uncashed checks to vendors, customers or employees, non-refunded overpayments or unclaimed subscription balances, that is escheatable to any Governmental Authority under any applicable escheatment Laws as of the date hereof or that may at any time after the date hereof become escheatable to any Governmental Authority under any applicable escheatment Law.

3.8 Contracts. Set forth on Schedule 3.8 is a complete and correct list of all Contracts related to the System to which the Company is a party or is otherwise bound and which will be assigned to and assumed by Buyer hereunder. The Company has delivered or caused to be delivered to Buyer correct and complete copies of each such Contract (including any and all amendments thereto), a description of the terms of each such Contract which is not in writing, if any, and all documents affecting the rights or obligations of any party thereto. Company has not received any notice of any intention to terminate, repudiate or disclaim any such Contract. With respect to each such contract set forth on Schedule 3.8: (i) each is valid and enforceable in accordance with its terms and is in full force and effect, and each such Contract constitutes a legal, valid and binding obligation of the other party or parties thereto, enforceable against them in accordance with its terms except as such enforcement may be limited by bankruptcy, insolvency or other similar Laws affecting rights of creditors generally and by general principles of equity; (ii) no default and no event which, with the giving of notice, lapse of time, or both, would result in a default has occurred under any such Contract; (iii) there are no setoffs, counterclaims or disputes existing or asserted with respect to any such Contract, and Company has not made any agreement with any other party thereto for any deduction from or increase to any amount payable thereunder; (iv) there are no facts, events or occurrences which in any way impair the validity or enforcement of any such Contract or tend to reduce or increase the amounts payable thereunder; (v) Company has not, directly or indirectly, by operation of Law or otherwise, transferred or assigned all or any part of its right, title or interest in and to any such Contract to any other Person; and (vi) there are no Proceedings pending nor, to the knowledge of Company or Sellers, threatened against any party to any such Contract which relate to the subject matter of such Contract.

3.9 Environmental Matters.

(a) To Seller's Knowledge, the Company is and at all times has been in full compliance with and has not been and is not in violation of or liable under any applicable Environmental Law. Except as otherwise set forth on Schedule 3.9, the Company does not have any basis to expect nor has it received any actual or threatened Order, notice or other communication from any Governmental Authority or other Person of any actual or potential violation or failure to comply with any Environmental Law or of any actual or threatened obligation to undertake or bear the cost of any Environmental, Health and Safety Liabilities with respect to the Real Property or any other properties or assets (whether real, personal or mixed) in which the Company has or has had an interest or with respect to the Real Property or any other real property at or to which Hazardous Materials were generated, manufactured, refined, transferred, imported, used or processed by the Company or any other Person for whose conduct it is or may be held responsible, or from which Hazardous Materials have been transported, treated, stored, handled, transferred, disposed, recycled or received.

(b) To Seller's Knowledge, there are no pending or threatened claims, Encumbrances or other restrictions of any nature, resulting from any Environmental, Health and Safety Liabilities or arising under or pursuant to any Environmental Law with respect to or affecting the Real Property or any other properties and assets (whether real, personal or mixed) in which the Company has or had an interest.

(c) Except as provided in Schedule 3.9(c), neither the Company nor any other Person for whose conduct either of them is or may be held to be responsible has any Environmental, Health and Safety Liabilities with respect to the Real Property or with respect to any other properties and assets (whether real, personal or mixed) in which the Company (or any predecessor) has or has had an interest or at any property geologically or hydrologically adjoining the Real Property or any such other property or assets that could reasonably be expected to have a material adverse effect thereon.

(d) Except as provided in Schedule 3.9(d) there are no Hazardous Materials, except those used in connection with the operation of the System and set forth in the list on Schedule 3.9(d), present on or in the Environment at the Real Property or at any geologically or hydrologically adjoining property, including any Hazardous Materials contained in barrels,

above or underground storage tanks, landfills, land deposits, dumps, equipment (whether moveable or fixed) or other containers, either temporary or permanent and deposited or located in land, water, sumps or any other part of the Real Property or such adjoining property or incorporated into any structure therein or thereon. Neither the Company nor any other Person for whose conduct either of them is or may be held to be responsible has permitted or conducted, or is aware of, any Hazardous Activity conducted with respect to the Real Property or any other properties or assets (whether real, personal or mixed) in which the Company has or has had an interest except in material compliance with all applicable Environmental Laws. There has been no Release or threat of Release, of any Hazardous Materials at or from the Real Property or from or by any other properties and assets (whether real, personal or mixed) in which the Company has or has had an interest, or any geologically or hydrologically adjoining property, whether by the Company or any other Person.

(e) Except as set forth in Schedule 3.9(e), none of the following exists at the System or on the Real Property: (1) underground storage tanks; (2) asbestos-containing material in any form; (3) materials or equipment containing polychlorinated biphenyl; (4) groundwater monitoring wells; or (5) landfills, surface impoundments, or disposal areas.

(f) Except as set forth in Schedule 3.9(f) neither Sellers, the Company nor any of their respective Affiliates, is obligated to provide financial assurance in consideration of the System under Environmental Law.

(g) The Company has delivered to Buyer true and complete copies and results of any reports, studies, analyses, tests or monitoring possessed or initiated by Seller or the Company or their respective predecessors pertaining to Hazardous Materials or Hazardous Activities in, on or under the Real Property, or concerning compliance by the Company, their respective predecessors, or any other Person for whose conduct the Company is or may be held to be responsible, with Environmental Laws, said reports, studies, etc. to include without limitation, any and all Phase I environmental reports now or hereafter in the possession or control of Seller or the Company.

3.10 Permits. Set forth on Schedule 3.10 is a complete and correct list of all Permits used by the Company in the continuing operation of the System. To Seller's Knowledge, such Permits constitute all those necessary for the continuing operation of the System and are all valid and subsisting and in full force and effect. No fact or circumstance exists which is reasonably likely to cause any such

Permit to be revoked or materially altered subsequent to the execution of this Agreement and the Closing Date. Neither the execution of this Agreement nor the Closing do or will constitute or result in a default under or violation of any such Permit.

3.11 Insurance. The Company maintains and has maintained appropriate insurance necessary for the usual and customary protection of all of its assets, properties, operations, products and services and the System. All such policies are in full force and effect and the Company will use commercially reasonable efforts to cause such policies to be outstanding and in full force and effect as of Closing and immediately following the execution of this Agreement and the consummation of the Contemplated Transactions. There are no pending Proceedings arising out of, based upon or with respect to any of such policies of insurance and, to the Company's Knowledge, no basis for any such Proceedings exists. The Company is not in default with respect to any provisions contained in any such insurance policies and no insurance provider is in default with respect to such insurance policies. Set forth in Schedule 3.11 is a true and accurate list of all such insurance policies the Company maintains, and the premiums therefor have been paid in full as they have become due and payable.

3.12 Absence of Certain Changes. To Seller's Knowledge, there has not been any occurrence or event which, individually or in the aggregate, has had or is reasonably expected to have any Material Adverse Effect. The Company has continually operated the System and the Business only in the Ordinary Course of Business. Without limitation of the foregoing, the Company has not entered into, amended, terminated or received notice of termination of any Permit necessary for the continued operation of the System. In addition, neither Seller nor the Company has taken any action in connection with the System or the Business which, if taken on or after the date hereof, would have required the prior written Consent of Buyer pursuant to Section 6.6 hereof.

3.13 Litigation and Proceedings. Other than the CPUC's ongoing audit of the Company's 2012 and 2013 annual reports and the pending complaint filed by John P. Ferrari ("Ferrari") with the CPUC on February 25, 2014, designated as Case No. 14-02-005 (the "Ferrari Complaint") and pending settlement related thereto between the Company, Ferrari and the City of Atwater described in Schedule 3.13, to Seller's Knowledge there are no Proceedings, either pending or threatened, anticipated or contemplated, against the Company or involving the operation of the System, any of the assets of the Company, or any of Seller's or the Company's members, shareholders, directors, officers, agents or other

personnel in their capacity as such, which could directly affect any of the assets of the Company or the System. To Seller's Knowledge the Company has not been charged with, and neither is under investigation with respect to, any charge which has not been resolved to its favor concerning any violation of any applicable Law with respect to any of the assets of the Company or the System and there is no valid basis for any such charge or investigation. To Seller's Knowledge neither Seller, the Company nor any of their respective Affiliates has been subject to or threatened to be subject to any Proceeding or Order relating to personal injury, death or property or economic damage arising from products sold, licensed or leased and services performed by the Company or any of its Affiliates with respect to the System or the Business. No judgment, Order, writ, injunction, decree, assessment or other command of any Governmental Authority affecting Seller, the Company or any of the assets of the Company or the System has been entered which is presently in effect. There is no Proceeding pending or, to Seller's Knowledge, threatened which challenges the validity of this Agreement or the Contemplated Transactions or otherwise seeks to prevent, directly or indirectly, the consummation of the Contemplated Transactions, nor is there any valid basis for any such Proceeding.

3.14 Compliance with Laws. To Seller's Knowledge the Company is in compliance with all Laws, Permits, Orders, ordinances, rules and regulations, whether civil or criminal, of any federal, state, local or foreign governmental authority applicable to the System or the Business and has not committed any violation of any Law or any provision of its articles of incorporation or bylaws (or equivalent governing documents) applicable to the assets of the Company and/or the operation of the System. Except as set forth in Schedule 3.14 neither Seller, the Company nor any of their respective Affiliates has received any notice alleging such default, breach or violation.

3.15 Financial Statements. Attached as Schedule 3.15 are the Financial Statements. The Financial Statements have been prepared in accordance with GAAP and the Accounting Methodologies, subject in the case of the Unaudited Financial Statements to normal year-end adjustments and the absence of footnotes. The Financial Statements were derived from the books and records of the Company, are true, correct and complete in all material respects and present fairly in all material respects the financial condition, operating results and cash flows of the Company as of the dates and during the periods indicated therein (subject, in the case of the Unaudited Financial Statements, to normal year-end adjustments and the absence of footnotes). For the purposes of this Article 3.15, Sellers disclose that during the normal scope and course of company business,

the company prepares unaudited financial statements not in accordance with GAAP.

3.16 Transactions with Related Parties. Except as set forth on Schedule 3.16, no Seller nor any director, officer, shareholder, member or Affiliate of Seller or the Company has any financial interest, direct or indirect, in any supplier or customer of, or other business which has any transactions or other business relationship with, the Company. Without limiting the generality of the foregoing, no Seller, the Company nor any of their respective Affiliates nor any executive officer of the Company any Affiliate or the Business owns, directly or indirectly, any interest in or is an owner, sole proprietor, member, stockholder, partner, director, officer, employee, consultant or agent of any Person which is a lessor, lessee, customer, licensee, or supplier of the Business and none of the employees of or servicing the Business owns, directly or indirectly, in whole or in part, any tangible property, patent, trademark, service mark, trade name, copyright, franchise, invention, Permit or license which was developed by or is used and necessary for the operation of the Business.

3.17 Customer Advances. Except as noted in Schedule 3.17 the Company is not subject to any unexpired obligations to provide for the payment of periodic refunds to parties making advances for the construction of facilities for water service (or similar agreements).

3.18 Accounts Receivable. Set forth on Schedule 3.18 is a list of all the accounts receivable of the Company and an aging schedule related thereto, as of December 31, 2014. Such accounts receivable, together with any such accounts receivable arising between such date and the Closing Date (collectively, the "Accounts Receivable"), are (to the extent not yet paid in full) valid, genuine and existing and arose or will have arisen from bona fide sales of products or services actually made in the Ordinary Course of Business. The Accounts Receivable are not subject to, and no Seller nor the Company has received any notice of, any counterclaim, set-off, defense or Encumbrance with respect to the Accounts Receivable. Except to the extent paid prior to Closing, the Accounts Receivable are and will be current and fully collectible. No agreement for deduction, free goods, discount or deferred price or quantity adjustment has been made with respect to any Accounts Receivable.

3.19 Brokers, Finders. Except as set forth in Schedule 3.19, no finder, broker, agent or other intermediary, acting on behalf of Seller, the Company or any of their respective Affiliates, is entitled to a commission, fee or other

compensation in connection with the negotiation or consummation of this Agreement or any of the Contemplated Transactions.

3.20 Guarantees. Except as set forth in Schedule 3.20, neither the Company nor any of its Affiliates is a guarantor, indemnitor, surety or accommodation party or otherwise liable for any indebtedness of any other Person, except as endorser of checks received and deposited in the Ordinary Course of Business.

3.21 Labor Matters. Except as set forth in Schedule 3.21:

(a) The Company is not a party to or bound by any collective bargaining, works council, union representation or similar agreement or arrangement;

(b) There is no controversy existing, pending or, to Seller's Knowledge, threatened with any association or union or collective bargaining representative of the employees of the Company;

(c) There is no charge or complaint relating to unfair labor practices pending against the Company, nor is there any labor strike, work stoppage, material grievance or other labor dispute pending or, to Seller's Knowledge, threatened against the Company;

(d) To Seller's Knowledge the Company is not engaging and has not engaged in any unfair labor practice;

(e) There is no labor strike, dispute, slowdown or stoppage pending or, to Seller's Knowledge, threatened against the Company;

(f) No right of representation exists respecting the employees of the Company;

(g) No collective bargaining agreement is currently being negotiated and no organizing effort is currently being made with respect to the employees of the Company;

(h) To Seller's Knowledge no current or former employee of the Company has any claim against the Company on account of or for (i) overtime pay, other than overtime pay for the current payroll period, (ii) wages or salary (excluding current bonus accruals and amounts accruing under pension and profit sharing plans) for any period other than the current payroll period,

(iii) vacation, time off or pay in lieu of vacation or time off, other than that earned in respect of the current fiscal year, or (iv) any violation of any Law relating to minimum wages or maximum hours of work;

3. (i) No claim has been made that remains outstanding for breach of any contract of employment or for services or for severance or redundancy payments or protective awards or for compensation for unfair dismissal or for failure to comply with any Law concerning employment rights or in relation to any alleged sex or race discrimination or for any other Liability accruing from the termination or variation of any contract of employment or for services, nor is the Company or Seller aware that any such claim has been threatened or is pending;

4. (j) There is no contract of service in force between the Company and any of its directors, officers or employees which is not terminable by the Company without compensation on less than three months' notice given at any time or which provides for compensation specifically in connection with the Contemplated Transactions. There are no consultancy or management services agreements in existence between the Company and any other Person;

5. (k) With respect to each person employed by the Company, (i) the Company hired such person in compliance with the Immigration Reform and Control Act of 1986 and the rules and regulations thereunder, as amended from time to time ("IRCA"); and (ii) the Company has complied with all recordkeeping and other regulatory requirements under IRCA; and

6. (l) The Company has complied with any and all obligations arising under the Worker Adjustment and Retraining Notification Act.

3.22 Employees, Officers, Directors and Consultants.

(a) Schedule 3.22(a) contains a complete and accurate list of the following information for each employee of the Company, including each employee on leave of absence or layoff status: name, job title, current compensation paid or payable, any change in compensation since August 31, 2014, and vacation accrued.

(b) Schedule 3.22(b) contains a list of: (i) all current directors of the Company, (ii) all current officers (with office held) of the Company, (iii) all current paid consultants to the Company, and (iv) all retirees and terminated employees of the Company for whom the Company has any benefits

responsibility or other continuing or contingent obligation, together with the current rate of compensation and benefits (if any) payable, and paid vacation time owing, to such person and any incentive or bonus payments.

(c) The Company is not indebted to any shareholder, director, officer, employee or agent of the Company, except for amounts due as normal salaries, wages, employee benefits and bonuses, and in reimbursement of ordinary expenses on a current basis, as set forth in Schedule 3.22(c).

(d) No officer, director, employee or consultant of the Company is indebted to the Company except for advances for ordinary business expenses on a basis consistent with past practices.

(e) All payments to agents, consultants and others made by the Company have been in payment of bona fide fees and commissions and not as bribes, kickbacks or as otherwise illegal payments. All such payments have been made directly to or for the account of the parties providing the goods or services for which such payments were made, and no such payment has been paid in a manner intended to avoid currency controls or any party's Tax reporting or payment obligations. The Company has properly and accurately reflected on its books and records: (i) all compensation paid to and perquisites provided to or on behalf of its agents and employees; and (ii) all compensation and perquisites that are due and payable to such persons, but which have not been paid or provided as of the Closing Date. Such compensation and perquisites have been properly and accurately reflected in the Financial Statements, records or Governmental Authority filings of the Company, to the extent required by Law.

(f) Except as set forth in Schedule 3.22(f), no former or current employee or current or former officer or director of the Company is a party to, or is otherwise bound by, any agreement or arrangement, including any confidentiality, non-competition or proprietary rights agreement, between such employee, officer or director and any other Person that in any way adversely affected, affects or may affect (i) the performance of his or her duties as an employee, officer or director of the Company, or (ii) the ability of the Company or Buyer to operate the System. To Seller's knowledge, no director, officer or other current and active employee of the Company intends to terminate his or her employment with the Company.

(g) Schedule 3.22(g) contains a complete and accurate list of the Company's intellectual property.

(h) Schedule 3.22(h) contains proposed internal financial controls which will enable the Company to accurately reflect its financial condition, per the direction of the CPUC Audit Final Report dated January 31, 2015.

(i) In the event of a modification or event requiring updating of any Schedule contemplated herein, Sellers shall update the Schedule immediately.

ARTICLE 4

Representations and Warranties of Buyer

Buyer hereby makes the following representations and warranties to Seller:

4.1 Organization. Buyer is a duly organized and validly existing corporation in good standing under the Laws of California and has the power and authority to own, lease and operate its assets and properties.

4.2 Enforcement; Authority; No Conflict.

(a) This Agreement constitutes the legal, valid and binding obligation of Buyer and is enforceable against Buyer in accordance with its terms, except as such enforcement may be limited by bankruptcy, insolvency or other similar Laws affecting the rights of creditors generally and by general principles of equity. Buyer has the absolute and unrestricted right, power and authority to execute and deliver this Agreement and the Transaction Documents to which it is a party and to perform its obligations hereunder and thereunder.

(b) Neither the execution or delivery of this Agreement nor the consummation of the Contemplated Transactions shall result in: (i) a violation of or a conflict with any provision of the articles of incorporation or the bylaws of Buyer; (ii) a material breach of or default under any term, condition or provision of any Contract to which Buyer is a party, or an event which, with the giving of notice, lapse of time, or both, would result in any such breach or default; or (iii) a material violation of any applicable Law, Order, judgment, writ, injunction, decree or award or any event which, with the giving of notice, lapse of time, or both, would result in any such violation.

4.3 Compliance with Securities Laws. Buyer is acquiring the Shares for investment and not with a view to distribution thereof, and will not sell, offer for sale, pledge, transfer or otherwise dispose of the Shares or any interest therein

except in compliance with the Securities Act of 1933, as amended, and any other applicable federal and state securities Laws.

4.4 Brokers, Finders. No finder, broker, agent or other intermediary, acting on behalf of Buyer or any of Buyer's Affiliates, is entitled to a commission, fee or other compensation in connection with the negotiation or consummation of this Agreement or any of the Contemplated Transactions.

4.5 Qualifications of Buyer. Buyer is a Class A Public Utility and has completed prior acquisitions similar to the Contemplated Transactions under this Agreement. Although Buyer and the Sellers have both been represented by qualified counsel in connection with the Contemplated Transactions and the Agreement, Buyer acknowledges that the basis of this Agreement was Buyer's form Stock Purchase Agreement, and that any ambiguity should be construed in the light most favorable to Sellers.

4.6 Employees of the Company. On or after the Closing Date, Buyer may choose to hire current employees of the Company. Subject to further approval by Buyer's parent company, if Buyer does hire any current employees of the Company, Buyer will seek to count the time those employees worked for the Company as time worked for Buyer for purposes of calculating eligibility for paid time off and other benefits that Buyer provides to its employees, except that in no circumstance will time worked for the Company be used to qualify current employees of the Company for any pension plans provided by Buyer or its corporate affiliates.

ARTICLE 5

Conditions Precedent to Closing

5.1 Conditions Precedent to the Obligations of Buyer. Buyer's obligations to consummate the Contemplated Transactions are subject to the satisfaction in full, unless expressly waived in writing by Buyer, of each of the following conditions:

(a) **Authorization of Contemplated Transactions.** Buyer shall have obtained all necessary corporate approvals to consummate the Contemplated Transactions, including but not limited to the approval of its Board of Directors;

(b) **Representations and Warranties.** Each of the representations and warranties of Seller contained in this Agreement or in any Transaction

Document shall have been true, correct and accurate in all respects on and as of the date hereof and shall also be true, correct and accurate in all material respects on and as of the Closing Date with the same force and effect as though made by Seller on and as of the Closing Date;

(c) Covenants. Seller shall have performed, observed and complied in all material respects with all of its obligations, covenants, undertakings and agreements contained in this Agreement or any Transaction Document and required to be performed, observed or complied with by Seller prior to or at the Closing;

(d) Certificates. Seller shall have delivered to Buyer a certificate, dated as of the Closing Date and executed by an officer or other duly authorized representative of Seller, to the effect that the conditions set forth in Sections 5.1(b), (c) and have been satisfied;

(e) Proceedings. No provision of any Law or Order shall be in effect, and no Proceeding by any Person shall be threatened or pending before any Governmental Authority, or before any arbitrator, which would: (i) prevent consummation of the Contemplated Transactions; (ii) have a likelihood of causing the Contemplated Transactions to be rescinded following consummation; (iii) adversely affect the right of Buyer to own the Shares or any of the assets of the Company; or (iv) adversely affect the System prospects or the value or condition of any of the assets of the Company or the System;

(f) Closing Deliveries. Seller shall have delivered or caused to be delivered to Buyer each of the items set forth in Section 2.4(a);

(g) Governmental and Third Party Approvals. (i) Buyer shall have obtained all necessary regulatory approvals from the CPUC of its tariffs and rates and the necessary utility rate base to support such rates, an Order from the CPUC, reasonably acceptable to Buyer in form and substance, recognizing the full Purchase Price of the Property and the Shares in the determination of the rate base associated with the Property and the Shares, the application of its depreciation accrual rates, and the encumbrance of the System under any existing mortgage indentures, to be effective as of the Closing Date, and the CPUC's approval of the tariffs and rates proposed by Buyer and all other applicable Consents and approvals from Governmental Authorities and other third parties which are required in connection with the Contemplated Transactions, each in form and substance (including without limitation with respect to the terms and conditions contained in any such approval) reasonably

acceptable to Buyer, and (ii) any waiting periods under existing Laws, and all extensions thereof, the passing of which is necessary to complete the Contemplated Transactions, shall have expired. The Parties acknowledge that it may be necessary prior to Closing for the Buyer to prepare on behalf of Seller and to initiate a rate case filing with the CPUC to establish rates that will adequately offset the capital and operating expenses anticipated by Seller between the Closing Date and the date the System is approved for inclusion in California American Water's Sacramento District and that district's tariff structure. The Parties shall cooperate with one another to initiate this rate case filing. Buyer shall be responsible for the costs associated with this rate case filing. Buyer shall be responsible for preparing, filing, and processing an advice letter with the CPUC on behalf of Seller to effect Company's service territory adjustments as contemplated in the pending settlement agreement regarding the Ferrari Complaint as described in Schedule 3.13, and the CPUC's decision on this advice letter shall not affect the Purchase Price, Adjustment Amount, or any other term or provision of this Agreement. Buyer shall at its own discretion determine the timing and order of areas to be added to Company's service territory via advice letter filing. Buyer shall be responsible for obtaining approval from the Department of Public Health. Seller does not guarantee the outcome of any CPUC proceeding.

(h) Due Diligence. Buyer shall have completed and be satisfied, in its sole and absolute discretion, with the results of its due diligence review of the Company and the System, including without limitation with the results of any Phase I Environmental Site Assessment or other environmental assessment performed with respect to the Real Property or the Property and the Shares or chain of title search, all material contracts and operating permits and licenses of the System, and the Company's operations, contracts, employment practices, compliance, accounting and other items as Buyer deems necessary, as each of the foregoing items relate to the Company and the System; provided, however, Buyer shall notify Seller in writing on or prior to June 30, 2016 of any election to terminate this Agreement pursuant to this Section 5.1(h) and the basis of that election; and

(i) No Material Adverse Effect. Buyer shall have determined that there shall not have occurred any event or circumstance which, individually or in the aggregate, has had or could reasonably be expected to have a Material Adverse Effect.

5.2 Conditions Precedent to Obligations of Sellers. Sellers' obligation to consummate the Contemplated Transactions is subject to the satisfaction in full, unless expressly waived in writing by Sellers, of each of the following conditions:

(a) Representations and Warranties. Each of the representations and warranties of Buyer contained in this Agreement or in any Transaction Document shall have been true, correct and accurate in all respects on and as of the date hereof and shall also be true, correct and accurate in all material respects (other than representations and warranties qualified as to materiality, which shall have been true, correct and accurate in all respects) on and as of the Closing Date with the same force and effect as though made by Buyer on and as of the Closing Date (except to the extent that any such representation or warranty is made solely as of the date hereof or as of another date earlier than the Closing Date, which shall be accurate as of such date);

(b) Covenants. Buyer shall have performed, observed and complied in all material respects with all of its obligations, covenants, undertakings and agreements contained in this Agreement or any Transaction Document and required to be performed, observed or complied with by Buyer prior to or at the Closing;

(c) Proceedings. No provision of any Law or Order shall be in effect which would prevent consummation of the Contemplated Transactions; and

(d) Closing Deliveries. Buyer shall have delivered or caused to be delivered to Seller each of the items set forth in Section 2.4(b).

5.3 Use of an Escrow Holder. The Parties agree to coordinate through an escrow, the Closing of all of the Contemplated Transactions. They agree to engage Capitol City Escrow, Inc. or such other escrow company as shall be mutually agreed (the "Escrow Holder"). The Parties shall allocate between them costs and expenses incurred in connection with the use of the Escrow Holder as set forth in this Agreement or as otherwise set forth in Schedule 5.3 attached hereto; provided that any and all escrow fees and other charges or deposits, whether or not refundable, and required by Escrow Holder at the opening of the escrow for the purchase and sale of the Shares and the Property shall be made by Buyer, subject to said allocations between the Parties at the Closing.

ARTICLE 6
Covenants and Special Agreements

6.1 Access to Information; Confidentiality.

(a) Access. Between the date of this Agreement and the Closing Date, Buyer may, directly and through its representatives, make such confirmatory investigation of the System and the Company as each deems necessary or advisable. In furtherance of the foregoing, Buyer and its representatives shall have reasonable access, upon reasonable notice during normal business hours, to all employees, properties, books, Contracts, customer lists, commitments and records of the Business, and Sellers shall furnish and cause to be furnished to Buyer and its representatives such financial and operating data and other information as may from time to time be reasonably requested relating to the System, shall permit Buyer or its representatives to conduct such physical inspections and environmental audits of the Real Property as requested by Buyer and shall permit Buyer or its representatives to conduct interviews of employees of or servicing the Business. Sellers and the management, employees, accountants and attorneys of or servicing the Business, and each of them, shall cooperate fully with Buyer and its representatives in connection with such investigation.

(b) Confidentiality.

(i) Prior to Closing, each Party shall ensure that all Confidential Information which such Party or any of its respective officers, directors, employees, counsel, agents, or accountants may have obtained, or may hereafter obtain, from the other Party (or create using any such information) relating to the financial condition, results of operations, System, properties, assets, Liabilities or future prospects of the other Party or the Company, any Related Person of the other Party or the Company or any customer or supplier of such other Party or the Company or any such Related Person shall not be published, disclosed or made accessible by any of them to any other Person at any time or used by any of them, in each case without the prior written Consent of the other Party; provided, however, that the restrictions of this sentence shall not apply (i) as may otherwise be required by Law, (ii) to the extent such Confidential Information shall have otherwise become publicly available, and (iii) as to Buyer, to disclosure by or on its behalf to regulatory authorities or other third parties whose Consent or approval may be required to consummate the Contemplated Transactions and to its lenders and professionals for the purpose

of obtaining financing of such transactions. Following Closing, each Seller shall ensure that all Confidential Information relating to the financial condition, results of operations, System, properties, assets, Liabilities or future prospects of the Company, any Related Person of the Company or any customer or supplier of the Company or any such Related Person shall not be published, disclosed or made accessible by any of them to any other Person at any time or used by any of them, in each case without the prior written Consent of the Buyer; provided, however, that the restrictions of this sentence shall not apply (i) as may otherwise be required by Law, (ii) to the extent such Confidential Information shall have otherwise become publicly available, and (iii) as to Buyer, to disclosure by or on its behalf to regulatory authorities or other third parties whose Consent or approval may be required to consummate the Contemplated Transactions and to its lenders and professionals for the purpose of obtaining financing of such transactions.

(ii) In the event of termination of negotiations or failure of the Contemplated Transactions to close for any reason whatsoever, each Party promptly will destroy or deliver to the other Party and will not retain any documents, work papers and other material (and any reproductions thereof) obtained by each Party or on its behalf from such other Party or its subsidiaries as a result of this proposal or in connection therewith, whether so obtained before or after the execution hereof, and will not use any information so obtained and will cause any information so obtained to be kept confidential and not used in any way detrimental to such other Party.

6.2 Publicity Announcements. Until and after the Closing, no press release or other public statement concerning this Agreement or the Contemplated Transactions shall be issued or made without the prior written approval of the parties hereto, except as required by applicable law..

6.3 Cooperation. Subject to the terms and conditions of this Agreement, the Parties shall cooperate fully with each other and their respective counsel and accountants in connection with, and take or cause to be taken and do or cause to be done, any actions required to be taken under applicable Law to make effective the Contemplated Transactions as promptly as practicable. Prior to the Closing, the parties shall proceed expeditiously and in good faith to make such filings and take such other actions as may be reasonably necessary to satisfy the conditions to Closing set forth in Section 5.1(g). Except as otherwise provided in Section 5.1(g), any and all filing fees in respect of such filings shall be paid by Seller. From and after the Closing, the parties shall do such acts and execute such

documents and instruments as may be reasonably required to make effective the Contemplated Transactions. On or after the Closing Date, the parties shall, on request, cooperate with one another by furnishing any additional information, executing and delivering any additional documents and instruments, including contract assignments, and doing any and all such other things as may be reasonably required by the parties or their counsel to consummate or otherwise implement the Contemplated Transactions. Should any Seller, in his or her reasonable discretion, determine after the Closing that books, records or other materials constituting assets of the Company are still in the possession of Seller, Seller shall promptly deliver them to Buyer at no cost to Buyer. Each Seller hereby agrees to cooperate with Buyer to ensure a proper transition of all customers with respect to billing and customer service activities. Buyer shall take the lead in obtaining the required regulatory approvals with respect to the Contemplated Transactions. Prior to the Closing, Sellers shall cause the Company to comply with all obligations of the Company set forth in this Agreement.

6.4 Exclusivity. Each Seller will not and will not permit the Company or their respective affiliates, officers, directors, employees or other agents or representatives to, at any time prior to the termination of this Agreement, directly or indirectly, (i) take any action to solicit, initiate or encourage the making of any Acquisition Proposal, or (ii) discuss or engage in negotiations concerning any Acquisition Proposal with, or further disclose any non-public information relating to the Company to, any person or entity in connection with an Acquisition Proposal, in each case, other than Buyer and its representatives.

6.5 No Inconsistent Action. Prior to the Closing Date, no Party shall take any action, and each Party will use its commercially reasonable efforts to prevent the occurrence of any event (but excluding events which occur in the Ordinary Course of Business and events over which such Party has no control), which would result in any of its representations, warranties or covenants contained in this Agreement or in any Transaction Document not to be true and correct, or not to be performed as contemplated, at and as of the time immediately after the occurrence of such action or event. If at any time prior to the Closing Date, a Party obtains knowledge of any facts, circumstances or situation which constitutes a breach, or will with the passage of time or the giving of notice constitute a breach, of any representation, warranty or covenant of such Party under this Agreement or any Transaction Document or will result in the failure of any of the conditions contained in Article 5 to be satisfied, such Party shall give the other Party prompt written notice thereof; provided,

however, that no such notice shall cure any breach of any representation, warranty or covenant contained herein or therein or will relieve any such Party of any obligations hereunder or thereunder unless specifically agreed to in writing by the other Party.

6.6 Conduct of Business. Between the date of this Agreement and the Closing Date, Sellers shall, and shall cause the Company to, carry on the operation of the System, the Business and the Company in the Ordinary Course of Business and in compliance with Law, not introduce any materially new method of management or operation, use reasonable best efforts to preserve the System, the Business and the Company, conserve the goodwill and relationships of its customers, suppliers, Governmental Authorities and others having business relations with it, maintain in full force and effect all policies of insurance now in effect for the benefit of the Company, maintain supplies at a level which is sufficient to operate the System in accordance with past practice and maintain the assets of the Company in substantially the condition currently existing, normal wear and tear excepted. By way of illustration and not limitation, Sellers will not, and will cause the Company not to, between the date hereof and the Closing Date, directly or indirectly do, or prepare to do, any of the following without the prior written Consent of Buyer, (a) sell, lease, transfer or otherwise dispose of, or license, mortgage or otherwise encumber, or give a security interest in or subject to any Encumbrances, any of the Shares or assets of the Company, (b) merge or consolidate with or acquire, or agree to merge or consolidate with or acquire (by merging or consolidating with, or by purchasing a substantial portion of the stock or assets of, or by any other manner), any business or corporation, partnership, joint venture, association or other business organization or division thereof or otherwise change the overall character of the Business in any material way, (c) enter into any Contract other than in the Ordinary Course of Business, (d) abandon, sell, license, transfer, convey, assign, fail to maintain or otherwise dispose of any item of intellectual property, (e) make any change in any of its present accounting methods and practices, (f) make any new Tax election, or change or revoke any existing Tax election, or settle or compromise any Tax liability or file any income Tax Return prior to the last day (including extensions) prescribed by Law, in the case of any of the foregoing, material to the business, financial condition or results of operations of the Company, (g) engage in any transactions with any Related Person which would survive Closing, (h) pay, discharge, settle or satisfy any material claims or Liabilities (absolute, accrued, asserted or unasserted, contingent or otherwise), other than the payment, discharge or satisfaction, in the Ordinary Course of Business or in accordance with their terms, of Liabilities reflected or reserved against in the Financial

Statements (or the notes thereto), or not required by GAAP to be so reflected or reserved, or incurred since December 31, 2013 in the Ordinary Course of Business, or waive any material benefits of, or agree to modify any material confidentiality, standstill, non-solicitation or similar agreement with respect to the Business to which the Company or any of its Affiliates is a party, (i) engage in any activity with the purpose or intent of (A) accelerating the collection of accounts receivable or (B) delaying the payment of the accounts payable, (j) enter into commitments for new capital expenditures in excess of \$120,000 in the aggregate in a calendar year with the exception that Seller shall notify Buyer in writing of all commitments for new capital expenditures in excess of \$30,000 (k) create or issue or grant an option or other right to subscribe, purchase or redeem any of its securities or other equity interests (other than with Buyer), (l) adopt a plan of complete or partial liquidation or resolutions providing for or authorizing such a liquidation or dissolution, merger, consolidation, restructuring, recapitalization or reorganization or (m) enter into any agreement (conditional or otherwise) to do any of the foregoing.

6.7 Release of Encumbrances. Sellers promptly shall take such actions as shall be requested by Buyer to secure the release of all Encumbrances relating to the Shares or the assets of the Company, including, but not limited to, the Real Property, in each case in substance and form reasonably satisfactory to Buyer and its counsel.

6.8 Retention of Records. Subject to applicable Law and, subject to any applicable restrictions as to confidentiality (as to which Buyer does not provide indemnification, or the waiver of which Sellers shall not have obtained after using reasonable best efforts), Seller shall preserve any books and records relating to the Company, the System or the Business that are not delivered to Buyer hereunder for a period no less than seven (7) years after the Closing Date (or such longer period as shall be required by applicable Law), and Sellers shall make available such books and records for review and copying to Buyer and its authorized representatives following the Closing at Buyer's expense upon reasonable notice during normal business hours. During such period, Sellers shall permit, to the extent permitted by applicable Law and upon request of Buyer, Buyer and any of its agents, representatives, advisors or consultants reasonable access to employees of or servicing the Business for information related to periods up to and including the Closing.

6.9 Tax Covenants.

(a) Sellers shall pay all Taxes of Sellers, the Company, the System and the assets of the Company for any Tax year or period (or portion thereof) ending at or before the Closing. For the purposes of this Section 6.8(a), the portion of such personal property or similar ad valorem Tax that relates to the Tax period ending as of the Closing shall be deemed to be the amount of such Tax for the entire Tax period multiplied by a fraction, the numerator of which is the number of days in the Tax period ending as of the Closing and the denominator of which is the number of days in the entire Tax period. For purpose of this Section 6.8(a), the portion of all other Taxes that relates to the Tax period ending as of the Closing shall be determined on the basis of an interim closing of the books.

(b) Each Party agrees to furnish or cause to be furnished to the other Party, upon request, as promptly as practical, such information (including reasonable access to books and records, Tax Returns and Tax filings) and assistance as is reasonably necessary for the filing of any Tax Return, the conduct of any Tax audit, and for the prosecution or defense of any claim, suit or Proceeding relating to any Tax matter. The Parties shall cooperate with each other in the conduct of any Tax audit or other Tax Proceedings and each shall execute and deliver such powers of attorney and other documents as are necessary to carry out the intent of this Section 6.8(b).

(c) Sellers shall pay all Taxes necessary for the transfer of the Shares, or the filing or recording of such transfer.

6.10 Termination of Intercompany Obligations. As of or prior to the Closing, Seller shall, and shall cause its Affiliates to, settle all intercompany accounts payable and accounts receivable between and among such Persons and the Company.

ARTICLE 7
Indemnification

7.1 Survival of Representations and Warranties and Covenants.

7. The representations and warranties contained in Section 3.7 shall survive for a period of three (3) years from the Closing Date and the representations and warranties contained in Section 3.6(a) shall survive indefinitely. All other representations and warranties made by Buyer and Sellers in this Agreement, its

Schedules, or any certificates or documents hereunder shall survive until the Closing Date (inclusive of the Closing Date), and not beyond the Closing Date.

7.2 Indemnification and Payment of Damages by Seller. Subject to the terms of this Article 7, each Seller hereby agrees to fully pay, protect, defend, indemnify and hold harmless the Indemnified Persons from any and all Damages arising out of, resulting from, relating to or caused by: (i) any inaccuracy in or breach of (or any claim by any third party alleging or constituting an inaccuracy or breach of) any representation or warranty of, or any failure to perform or nonfulfillment of any provision or covenant contained in this Agreement or any other Transaction Document by, Sellers or the Company; (ii) any Encumbrance affecting the assets of the Company; (iii) assessments, charges and other similar claims due or owing, directly or indirectly, by Sellers or the Company or otherwise as a result of or on account of the assets of the Company or the System at any time prior to the Closing Date; (iv) the ownership and/or operation of any of the Shares, the assets of the Company or the System prior to Closing; (v) any Proceeding now existing or hereafter arising and relating to the Company or the System and arising from events or matters occurring prior to the Closing Date; (vi) intercompany accounts payable and accounts receivable by and among the Company and/or its Affiliates; (vii) transaction costs and expenses incurred by or on behalf of Sellers or the Company in connection with this Agreement or the Contemplated Transactions remained owed after Closing; or (viii) any matters described on Schedule 7.2 (collectively "Losses".)

7.3 Limitations on Sellers' Indemnity

(a) Sellers shall have no liability to Buyer or any Indemnified Person under this Stock Purchase Agreement in any manner whatsoever except as set forth in paragraph 7.2 as hereby limited and modified.

(b) No claim for Damages or indemnification by any Indemnified Person under Section 7.2 shall be asserted for any individual item or series of related items where the Losses with respect to such items are less than \$25,000.

(c) Sellers shall not have any liability under Section 7.2 above unless the aggregate of all Losses relating thereto for which Sellers would, but for this proviso, be liable exceeds on a cumulative basis an amount equal to \$50,000; provided that no such limitation shall apply to the Fundamental Representations and Warranties.

(d) The Sellers' aggregate liability for Losses under Section 7.2 above (other than with respect to Fundamental Representations and Warranties) shall in any event never exceed the Purchase Price.

(e) No individual Sellers' aggregate liability for Losses under Section 7.2 above (including Fundamental Representations and Warranties) shall exceed the portion of the Purchase Price actually received by such Seller.

7.4 Indemnification By Buyer. Buyer hereby agrees to fully pay, protect, defend, indemnify and hold harmless Sellers and their respective successors and assigns, from any and all Damages incurred by any of them arising out of, resulting from, relating to or caused by (i) any inaccuracy in or breach of any representation or warranty of, or any failure to perform or nonfulfillment of any provision or covenant contained in this Agreement or any other Transaction Document by, Buyer or (ii) transaction costs and expenses incurred by or on behalf of Buyer in connection with this Agreement or the Contemplated Transactions. Notwithstanding anything to the contrary set forth in this Section 7.4, Sellers shall retain, and do not waive, any rights they may hold for indemnification pursuant to California Corporation Code § 317 or any similar statute with respect to such Seller's role as a director or officer of the Company prior to the Closing (and not, for the avoidance of doubt, for any liability incurred in such Seller's capacity as a Seller hereunder or otherwise); provided that the Company has, at all times during the ten years preceding the Closing Date, maintained a customary occurrence-based policy with respect to director and officer liability insurance prior to the Closing Date.

7.5 Limitations on Buyer's Indemnification.

(a) Buyer shall have no liability to the Seller, any of the individual Sellers and/or their respective successors and assigns under this Stock Purchase Agreement in any manner whatsoever except as set forth in paragraph 7.4.

(b) No claim for Damages or indemnification by the Seller, any of the individual Sellers and/or their respective successors and assigns under Section 7.4 shall be asserted for any individual item or series of related items where the Losses with respect to such items are less than \$25,000.

(c) Buyer shall not have any liability under Section 7.4 above unless the aggregate of all Losses relating thereto for which Buyer would, but for this proviso, be liable exceeds on a cumulative basis an amount equal to \$50,000.

(d) Buyer's liability for Losses under Section 7.2 above (other than with respect to Fundamental Representations and Warranties) shall in any event exceed the Purchase Price.

7.6 Notice of Claim. In the event that either party seeks indemnification on behalf of an Indemnified Person, such party seeking indemnification (the "Indemnified Party") shall give reasonably prompt written notice to the indemnifying party (the "Indemnifying Party") specifying the facts constituting the basis for such claim and the amount, to the extent known, of the claim asserted; provided, however, that the right of a person or entity to be indemnified hereunder shall not be adversely affected by a failure to give such notice unless, and then only to the extent that, an Indemnifying Party is actually irrevocably and materially prejudiced thereby. Subject to the terms hereof, the Indemnifying Party shall pay the amount of any valid claim not more than 10 days after the Indemnified Party provides notice to the Indemnifying Party of such amount.

7.7 Right to Contest Claims of Third Persons. If an Indemnified Party is entitled to indemnification hereunder because of a claim asserted by any Third Person, the Indemnified Party shall give the Indemnifying Party reasonably prompt notice thereof after such assertion is actually known to the Indemnified Party; provided, however, that the right of a Person to be indemnified hereunder in respect of claims made by a Third Person shall not be adversely affected by a failure to give such notice unless, and then only to the extent that, an Indemnifying Party is actually irrevocably and materially prejudiced thereby. Buyer shall have the right, upon written notice to Seller, to investigate, contest or settle the Third Person Claim. Seller may thereafter participate in (but not control) the defense of any such Third Person Claim with its own counsel at its own expense. If Seller thereafter seeks to question the manner in which Buyer defended such Third Person Claim or the amount or nature of any such settlement, Seller shall have the burden to prove by clear and convincing evidence that conduct of Buyer in the defense and/or settlement of such Third Person Claim constituted gross negligence or willful misconduct. The Parties shall make available to each other all relevant information in their possession relating to any such Third Person Claim and shall cooperate in the defense thereof, provided that Buyer shall control the defense thereof. Promptly (and in any event within 10 days) following the resolution of any Third Person Claim, Seller shall pay to Buyer any amount to which Buyer is entitled pursuant to this Article 7 with respect to such Third Person Claim.

7.8 Certain Indemnification Matters.

(a) Notwithstanding anything contained herein or elsewhere to the contrary, all "material" and "Material Adverse Effect" or similar materiality type qualifications contained in the representations and warranties set forth in this Agreement shall be ignored and not given any effect for purposes of the indemnification provisions hereof, including, without limitation, for purposes of determining whether or not a breach of a representation or warranty has occurred and/or determining the amount of any Damages.

(b) No information or knowledge acquired, or investigations conducted, by Buyer or its representatives, of Sellers, the Company or the System or otherwise shall in any way limit, or constitute a waiver of, or a defense to, any claim for indemnification by any Indemnified Persons under this Agreement.

ARTICLE 8
Termination

8.1 Termination. This Agreement may be terminated at any time prior to the Closing only (a) by mutual written Consent of Sellers and Buyer, (b) by Sellers or Buyer upon written notice to the other, if the Closing shall not have occurred on or prior to December 31, 2018; provided, however, that the right to terminate this Agreement under this Section 8.1, (b) shall not be available to any Party whose breach under this Agreement has caused or resulted in the failure of the Closing to occur on or before such date, (c) by Buyer, if Buyer is not in material breach of any of its representations, warranties, covenants and agreements under this Agreement and there has been a material breach of any representation, warranty, covenant or agreement contained in this Agreement on the part of Sellers and Sellers have not cured such breach within five (5) Business Days after receipt of notice of such breach (provided, however, that, no cure period shall be required for a breach which by its nature cannot be cured), (d) by Buyer, if, at any time before June 30, 2016, Buyer is not satisfied with the results of its due diligence review of the System, the Company and the assets of the Company, (e) by Sellers if Sellers are not in material breach of any of its representations, warranties, covenants and agreements under this Agreement and there has been a material breach of any representation, warranty, covenant or agreement contained in this Agreement on the part of Buyer and Buyer has not cured such breach within fifteen (15) Business Days after receipt of notice of such breach (provided, however, that, no cure period shall be required for a breach which by its nature cannot be cured), (f) by Sellers or Buyer upon written

notice to the other, if any court of competent jurisdiction or other competent Governmental Entity shall have issued a statute, rule, regulation, Order, decree or injunction or taken any other action permanently restraining, enjoining or otherwise prohibiting the Contemplated Transactions, and such statute, rule, regulation, Order, decree or injunction or other action shall have become final and non-appealable.

8.2 Effect of Termination. The right of each Party to terminate this Agreement under Section 8.1 is in addition to any other rights such Party may have under this Agreement or otherwise, and the exercise of a right of termination will not be an election of remedies. If this Agreement is terminated pursuant to Section 8.1, all further obligations of the Parties under this Agreement will terminate, except that the obligations set forth in Section 6.1(b) ("Confidentiality"), Section 6.2 ("Publicity; Announcements"), this Section 8.2 ("Effect of Termination") or Article 9 ("General Provisions") will survive; provided, however, that if this Agreement is terminated by a Party because of the breach of the Agreement by another Party or because one or more of the conditions to the terminating Party's obligations under this Agreement is not satisfied as a result of the other Party's failure to comply with its obligations under this Agreement, the terminating Party's right to pursue all legal remedies will survive such termination unimpaired.

ARTICLE 9

General Provisions

9.1 Amendment and Modification. No amendment, modification or supplement of any provision of this Agreement will be effective unless the same is in writing and is signed by the Parties.

9.2 Assignments. No Sellers may assign or transfer any of his or her rights or obligations under this Agreement to any other Person without the prior written Consent of Buyer. Buyer may not assign its rights and obligations under this Agreement to any third party, without the prior written Consent of Sellers on behalf of Sellers, but may assign its rights and obligations under this Agreement to any Related Person or successor in interest without the Consent of Sellers. Subject to this Section 9.2, all provisions of this Agreement are binding upon, inure to the benefit of and are enforceable by or against the Parties hereto and their respective heirs, executors, administrators or other legal representatives and permitted successors and assigns.

9.3 Captions; Construction. Captions contained in this Agreement and any table of contents preceding this Agreement have been inserted herein only as a matter of convenience and in no way define, limit, extend or describe the scope of this Agreement or the intent of any provision hereof. In the event of an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the Parties and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any provisions of this Agreement.

9.4 Counterparts; Facsimile; Electronic Signatures. This Agreement may be executed by the Parties hereto on any number of separate counterparts, and all such counterparts so executed constitute one agreement binding on all the Parties hereto notwithstanding that all the Parties hereto are not signatories to the same counterpart. For purposes of this Agreement, a document (or signature page thereto) signed and transmitted by e-mail (via PDF or similar transmittal), facsimile machine or telecopier is to be treated as an original document.

9.5 Entire Agreement with Attachments. This Agreement and the other Transaction Documents, including the Real Estate Addendum, constitute the entire agreement among the Parties hereto pertaining to the subject matter hereof and supersede all prior agreements, letters of intent, understandings, negotiations and discussions of the Parties hereto, whether oral or written, executed by the Parties pertaining to the subject matter hereof. All of the Exhibits and Schedules to which references are made in this Agreement as being attached to this Agreement are, and shall be deemed, incorporated into and constitute parts of this Agreement by this reference the same as if fully set forth herein.

9.6 Governing Law. This Agreement and the rights and obligations of the Parties hereunder are to be governed by and construed and interpreted in accordance with the Laws of the State of California applicable to Contracts made and to be performed wholly within California, without regard to choice or conflict of laws rules.

9.7 Legal Fees, Costs. Except for the legal costs expended by Buyer for external legal support of Seller's defense of the Ferrari Complaint, all legal, consulting and advisory fees and other costs and expenses incurred in connection with this Agreement and the Contemplated Transactions are to be paid by the Party incurring such costs and expenses. Notwithstanding this Section, Buyer shall withhold \$25,000 from the Purchase Price as reimbursement for a portion of

the legal fees and costs it expended relating to the Seller's defense of the Ferrari Complaint.

9.8 Notices. All notices, Consents, requests, demands and other communications hereunder are to be in writing and are deemed to have been duly given, made or delivered: (i) when delivered in person or by e-mail, (ii) three (3) business Days after deposited in the United States mail, first class postage prepaid, or (iii) in the case of telegraph or overnight courier services, one (1) business Day after delivery to the telegraph company or overnight courier service with payment provided, in each case addressed as follows:

(a) if to Seller, (i) to Meadowbrook Water Company of Merced, Inc., 2272 Meadowbrook Avenue, Merced, CA 95348, Attn: David L. Walker, dlwalker@sonic.net **up to the Closing Date** and (ii) with a copy to **Hanson Bridgett LLP**, ATTN: WILLIAM HUNTER, 500 Capitol Mall, Ste. 1500, Sacramento, CA 95814 or **whunter@hansonbridgett.com** and (iii) after Closing Date to individual Seller's addresses as provided at Closing.

(b) if to Buyer, (i) to California-American Water Company, 1033 B Avenue, Suite 200, Coronado, CA 94118, Attn: Robert MacLean, President (presidentmaclean@amwater.com) and (ii) with a copy to California-American Water Company, 1033 B Avenue, Suite 200, Coronado, CA 94118, Attn: Anthony Cerasuolo, Vice President, Legal - Operations,

8. or to such other address as any Party hereto may designate by notice to the other Parties in accordance with the terms of this Section.

9.9 Severability. This Agreement shall be deemed severable; the invalidity or unenforceability of any term or provision of this Agreement shall not affect the validity or enforceability of this Agreement or of any other term hereof, which shall remain in full force and effect, for so long as the economic or legal substance of the Contemplated Transactions is not affected in any manner materially adverse to any Party.

9.10 Specific Performance and Injunctive Relief; Remedies. The Parties hereto recognize that if any or all of them fail to perform, observe or discharge any of their respective obligations under this Agreement, a remedy at law may not provide adequate relief to the other Parties hereto. Therefore, in addition to any other remedy provided for in this Agreement or under applicable Law, any Party hereto may demand specific performance of this Agreement, and such Party shall be entitled to temporary and permanent injunctive relief, in a court of

competent jurisdiction at any time when any of the other Parties hereto fail to comply with any of the provisions of this Agreement applicable to such Party. To the extent permitted by applicable Law, all Parties hereto hereby irrevocably waive any defense based on the adequacy of a remedy at law which might be asserted as a bar to such Party's remedy of specific performance or injunctive relief. Except as otherwise provided herein, all rights and remedies of the parties under this Agreement are cumulative and without prejudice to any other rights or remedies under Law. Nothing contained herein shall be construed as limiting the Parties' rights to redress for fraud.

9.11 No Third-Party Beneficiary. This Agreement is solely for the benefit of the Parties hereto and their respective successors and permitted assigns (and those Persons entitled to recover under the indemnity provisions hereof), and no other Person (other than those Persons entitled to recover under the indemnity provisions hereof) has any right, title, priority or interest under this Agreement or the existence of this Agreement.

9.12 Waiver of Compliance; Consents. Any failure of a Party to comply with any obligation, covenant, agreement or condition herein may be waived by the other Party only by a written instrument signed by the Party granting such waiver, but such waiver or failure to insist upon strict compliance with such obligation, covenant, agreement or condition shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure. Whenever this Agreement requires or permits Consent by or on behalf of any Party hereto, such Consent shall be given in writing in a manner consistent with the requirements for a waiver of compliance as set forth in this Section 9.12.

9.13 Jurisdiction; Venue; Consent to Service of Process. Each of the Parties irrevocably and unconditionally submits to the non-exclusive jurisdiction of the Superior Court in the County of Sacramento, State of California or, if such court will not accept jurisdiction, the Supreme Court of the State of California or any court of competent civil jurisdiction sitting in Sacramento County, California. In any action, suit or other Proceeding, each of the Parties irrevocably and unconditionally waives and agrees not to assert by way of motion, as a defense or otherwise any claims that it is not subject to the jurisdiction of the above courts, that such action or suit is brought in an inconvenient forum or that the venue of such action, suit or other Proceeding is improper. Each of the Parties also hereby agrees that any final and unappealable judgment against a Party in connection with any action, suit or other Proceeding shall be conclusive and binding on such Party and that such award or judgment may be enforced in any court of

competent jurisdiction, either within or outside of the United States. Each Party irrevocably consents to service of process in the manner provided for the giving of notices pursuant to Section 9.8. Nothing in this Section 9.13 shall affect the right of any Party to serve process in any other manner permitted under applicable Law.

9.14 Binding. This Agreement shall be binding upon the Parties hereto, their heirs, successors and permitted assigns.

9.15 WAIVER OF JURY TRIAL. TO THE FULLEST EXTENT PERMITTED BY LAW, EACH OF THE PARTIES IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, SUIT, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OF THE CONTEMPLATED TRANSACTIONS.

9.16 Amendment of Schedules. Sellers reserve the right to amend any schedules hereto upon written notice to Buyer any time prior to the Closing.

[Remainder of page intentionally left blank; signature page attached.]

IN WITNESS WHEREOF, the Parties have executed this Stock Purchase Agreement as of the date first set forth above:

**California-American Water Company,
A California corporation**

By:

Title: President

Date: July 22, 2015

Attest:

**Meadowbrook Water Company of Merced,
Inc., a California corporation**

By: _____

Title: President

Date: _____

Attest:

IN WITNESS WHEREOF, the Parties have executed this Stock Purchase Agreement as of the date first set forth above:

California-American Water Company,
A California corporation

By: DERALD R. WALKER

Title: PRESIDENT

Date: 7.14.15

Attest:

MARY LEE NICHOLS

Meadowbrook Water Company of Merced,
Inc., a California corporation

By: [Signature]

Title: President

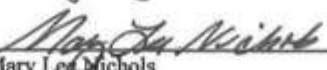
Date: July 14, 2015

Attest:


[Signature]
Susan


Derald R. Walker


Date: July 14, 2015


Mary Lee Nichols

Date: July 14, 2015


Kathleen Ann Hill, as Trustee of the Kathleen
Ann Hill Family Trust dated March 3, 1999

Date: July 19, 2015


David L. Walker, as Trustee of the David L.
Walker 2013 Trust Agreement dated February
13, 2013

Date: July 14, 2015

[Exhibits Omitted]