

PROPOSED RESOLUTION

Resolution W-5280
WD

Agenda ID # 23168 (Rev. 1)
Item #18 1/10 1600

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION W-5280
January 16, 2025

RESOLUTION

**(RES. W-5280) CALIFORNIA-AMERICAN WATER
COMPANY. ORDER AUTHORIZING CALIFORNIA-
AMERICAN WATER COMPANY TO ACQUIRE WEST SAN
MARTIN WATER WORKS**

**By California-American Water Company's Advice Letter 1416
submitted July 26, 2023, and Advice Letter 1416-A submitted
on November 22, 2023**

SUMMARY

By Advice Letter 1416 submitted July 26, 2023, and as supplemented by Advice Letter 1416-A submitted on November 22, 2023, California American Water Company (Cal Am) requests Commission approval for the sale and acquisition of West San Martin Water Works, Inc. (WSM), located in Santa Clara County, and to revoke WSM's Certificate of Public Convenience and Necessity (CPCN) due to Cal Am's acquisition. Pursuant to Public Utilities (PU) Code Sections 851-854, this resolution approves the proposed acquisition of WSM by Cal Am under the conditions set forth in the December 20, 2022, Asset Purchase Agreement between Cal Am and WSM. Accordingly, WSM will no longer be a Commission regulated utility, and WSM's CPCN shall be revoked.

BACKGROUND

West San Martin Water Works, Inc. (WSM) was incorporated in California on November 22, 1967, and operates as a Class D water utility serving approximately 309 metered customers (272 residential and 37 industrial/commercial) and 21 fire protection and hydrant customers in San Martin, an unincorporated area south of Morgan Hill, Santa

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Clara County, California. California American Water Company (Cal Am), a larger Class A utility, requests to acquire WSM's assets as outlined in Advice Letter No. 1416-A, intending to consolidate WSM's operations into Cal Am's Central Division¹, enhancing service quality, operational efficiency, and access to capital for infrastructure improvements. WSM relies on groundwater extracted from the Llagas subbasin, one of three sub-basins in the Santa Clara Valley Groundwater Basin. The company's infrastructure includes three wells, each approximately 400 feet deep, with the shallowest one at about 387 feet, capable of producing 400 gallons per minute (GPM), 340 GPM, and 260 GPM, respectively. Additionally, WSM has three 50,000-gallon and one 400,000-gallon concrete storage tanks. The acquisition proposes to transition ownership of WSM to Cal Am. WSM has a majority of large meter connections. The breakdown of connections by meter size for WSM, according to the 2020 Annual CPUC Report, is as follows:

- 5/8 x 3/4 inch – 117 meters
- 1-inch – 78 meters
- 1-1/2 – 44 meters
- 2-inch – 65 meters
- 3-inch – 3 meters
- 4-inch – 2 meters

NOTICE AND PROTESTS

AL 1416-A was served in accordance with General Order 96-B, on November 22, 2023, to adjacent utilities, and persons on the AL 1416-A service list. AL 1416-A is a supplement to the original filing AL 1416 submitted on July 26, 2023. A notice was also mailed to each Cal AM customer on November 22, 2023. Several protests were received.

The WD timely received nine protests regarding Cal Am's acquisition of WSM. The protests contend that the acquisition would cause financial impacts on existing Cal Am ratepayers; raise fears of unjust and unreasonable rate increases; posed queries on the fairness of passing acquisition costs onto customers; levied criticisms regarding operational expenditures, service issues, and the effectiveness of acquisitions in

¹ Cal Am AL 1416- A Acquisition of WSM page 2 of 18, #5.

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reducing bills. Protestors also highlight disparities in water rates across districts and propose alternative financing methods to alleviate the burden on current ratepayers.

The Monterey Peninsula Water Management District (MPWMD) expressed concern in its protest² of AL 1416 regarding this consolidation stating it could interfere with the district's ongoing efforts to acquire Cal-Am's Monterey assets, following the voter-approved Measure J, which mandates public ownership of those assets. The district argues that consolidating WSM into Monterey could complicate the public acquisition process and affect potential severance damages in any eminent domain proceedings. MPWMD also notes that Monterey has unique water supply challenges that should not be further complicated by the addition of a system with different operational needs. While the district does not object to the acquisition itself, it strongly opposes including Monterey in the consolidation.

In response to MPWMD's protest, Cal Am argues that MPWMD's objections are speculative and lack statutory or logical support. Cal Am asserts that consolidating WSM into its Central Division is operationally necessary, as WSM is located within 50 miles of other Central Division service areas, while it is over 100 miles from the Northern Division and 250 miles from the Southern Division. Cal Am dismisses MPWMD's concerns about potential impacts on severance damages in the ongoing eminent domain proceedings, noting that MPWMD's condemnation efforts are likely to fail based on previous legal precedents. Cal Am further argues that the protest should not delay the acquisition, emphasizing the operational benefits, economies of scale, and minimal rate impacts, which would not take effect until 2027, and recommends that the CPUC approve the acquisition despite MPWMD's objections.

In response to other protests, Cal Am justifies the acquisition by referencing legislative and regulatory support for such endeavors, while highlighting the long-term benefits of economies of scale, compliance improvements, and system upgrades. Cal Am invokes the Public Water System Investment and Consolidation Act and past Commission rulings under the "ratepayer indifference standard" to argue that the projected minor rate increases are justified by the significant operational and service improvements that would follow the acquisition. Cal Am explained the anticipated broad benefits of the

² De LAY & LAREDO- RE: California-America Water Company Advice Letter No. 1416 West San Martin Acquisition. This letter was received September 26, 2023.

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acquisition, including better water system management and the advantages of economies of scale.

DISCUSSION

The discussion below explains the merits of the acquisition in terms of regulatory compliance, public interest, customer benefits, and alignment with the California Public Utilities Commission's (CPUC) goals and policies.

The proposed acquisition of West San Martin Water Works by California American Water (Cal Am) encompasses several critical considerations that warrant thorough evaluation.

The Water Division's analysis focused on the alignment of the acquisition with the CPUC's regulatory framework and public policy objectives:

- System Assessment, Condition and Recommendations
- Fair Market Value (FMV)
- Ratepayer Impacts
- Impact on Rate Base and Rates
- Continuity of Service
- Memorandum Accounts
- Environmental and Social Justice (ESJ)
- CEQA
- Compliance
- Utility Safety

SYSTEM ASSESSMENT, CONDITION AND RECOMMENDATIONS³

WSM has a history of non-compliance with the State Water Resources Control Board (Water Board) water quality requirements, as WSM was cited for violations including the presence of coliform,⁴ perchlorate, and nitrates. An email from the Water Board's engineer to Cal Am confirms that the WSM system has "returned to compliance on all

³ West San Martin Water Works, Inc. Water System Condition Assessment, Valuation and Capital Improvements Plan, June 2023.

⁴ Attachments B: Correspondence between WSM and Water Board.

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historical violations,"⁵ demonstrating that previous issues have been addressed. Despite this, the system has faced significant challenges in maintaining water quality, which is evident from the multiple citations and the necessity for ongoing vigilance to prevent future violations. The history of these issues underscores the system's struggle with maintaining the water quality standards required by regulatory bodies. Recent efforts appear to have successfully rectified these historical compliance issues.

The operational condition and current service capacity of the WSM system are marked by challenges related to well capacity and contamination. One of WSM's four groundwater wells is out of service due to nitrate contamination, and another is not currently used because of total coliform detections. The system's ability to meet its maximum daily demand is compromised. The remaining wells, despite being active, suffer from perchlorate contamination, though below maximum contaminant level (MCL). Recommendations for immediate improvement focus on treating and potentially returning contaminated wells to service, alongside a thorough investigation into the conditions and potential longevity of all wells within the system. Furthermore, the condition of the system's storage tanks and booster pump stations, which is rated as fair, and the distribution system, whose exact condition remains undetermined, indicate a need for significant maintenance and potential upgrades to ensure reliability and compliance. This evaluation highlights the importance of addressing both water quality issues and infrastructure challenges to maintain an effective and compliant water service system.

Costs related to future system maintenance, repairs, and investments are typical operational expenses for a water utility and not considered acquisition liabilities. These costs are expected to be distributed across a larger customer base, which helps mitigate the financial impact on individual customers and reduces the likelihood of significant rate increases, often referred to as "rate shock."

The proposed acquisition by Cal Am is expected to bring a structured approach to solving the issues identified with WSM through enhanced financial resources, technical expertise, and established operational practices. Cal Am's capacity for significant infrastructure investment is expected to address the critical needs for well rehabilitation, contamination treatment, and system upgrades.

⁵ Attachment A: Correspondence between Cal AM and Water Board.

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Additionally, leveraging Cal Am's management practices is expected to improve operational efficiencies, ensure regulatory compliance, and enhance service quality, addressing the system's challenges in a comprehensive manner, consistent with regulatory expectations and the public interest.

SYSTEM VALUATION

Cal Am seeks to record the acquisition on a net basis in accordance with generally accepted accounting principles. Upon completing the acquisition and assuming ownership of the WSM assets, the new rate base for the system will be \$1.6 million, which is the proposed purchase price to be paid by Cal Am as provided in the Purchase Agreement⁶.

An appraisal was conducted by a third party, Valentine Environmental Engineers (Valentine)⁷, who evaluated the system and estimated the required future capital costs to rehabilitate the system. The method used by Valentine to appraise the West San Martin Water Works (WSM) system was Replacement Cost New Less Depreciation (RCNLD). This method evaluates the cost to replace existing assets with new ones made from modern materials, minus depreciation. The RCNLD for the WSM system, based on the components and their conditions, is approximately \$10.6 million.

Under Commission guidelines (D.99-10-064, Appendix D, Section 2.05),⁸ water system acquisition applications must include an appraisal covering all assets, including land value and replacement costs minus depreciation. The appraisal for WSM meets these requirements, incorporating all assets and their replacement costs. Given the system's small size and the nature of the acquisition, the appraisal is appropriately simpler compared to larger, more complex acquisitions.

RATE IMPACT ANALYSIS

The purchase price for the acquisition of the WSM is \$1.6 million. Upon completion of the acquisition, Cal Am requests that the amount of the acquisition price that is incremental to WSM's existing rate base will be incorporated into Cal Am's rate base, establishing the new rate base for the WSM system. Cal Am requests that the incremental revenue requirement associated with the \$1.6 million rate base over and

⁶ AL 1416: West San Martin Acquisition MDR Response Attachment 26(b), Amendments to the Exhibits (a), Page 2.

⁷ Third Party Appraisal and Assessment, MDR Response Attachment 13.

⁸ D.99-10-064 Order Instituting Rulemaking on the Commission's Own Motion to Set Rules and to Provide Guidelines for the Acquisition and Mergers of Water Companies [82511.DOC \(live.com\)](https://www.cpuc.ca.gov/82511.DOC)

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above the authorized revenue requirement for the existing authorized rate base for WSM will be recovered from all Cal Am's existing customers, including both water and wastewater customers.

The incremental difference between the current authorized rate base for WSM and the new requested rate base post-acquisition will result in an additional revenue requirement that will need to be collected from Cal Am's existing customers. Cal Am is also proposing to keep WSM existing rates constant until Cal Am's next General Rate Case 2027 Test Year. Cal Am requests that this additional revenue requirement, attributed to the increased rate base, be initially distributed proportionally across all Cal Am districts through the end of 2027. This is estimated to result in an increase of approximately 0.056% when spread proportionally across all Cal Am districts.

In its upcoming General Rate Case, scheduled to be filed on July 1, 2025, with rates effective January 1, 2027, Cal Am may request its initial incremental revenue requirement impact of the WSM acquisition be allocated to its Central District for ratemaking purposes. The Commission will review this matter in the 2025 GRC application.

The objection of MPWMD to WDM's system being consolidated into Cal Am's Central District is premature, since WDM is not being incorporated into Cal Am's Central district at this time. We do note that Cal Am's intention to incorporate WSM into its Central District makes sense given WSM's geographic proximity with that district. Furthermore, whether and how the incorporation of WSM into Cal Am's Central District would impact MPWMD's potential acquisition of Cal Am's assets within its service territory is speculative at best, and does not serve as a basis for disapproving Cal Am's acquisition of WSM.

OPERATIONAL AND SERVICE ENHANCEMENTS FOLLOWING THE WSM ACQUISITION

The operational and service enhancements resulting from the acquisition of WSM by Cal Am are expected to provide indirect benefits for customers in other districts. These improvements, including potential cost reductions due to scale economies, expanded customer services, expertise in emergency preparedness, and long-term infrastructure planning, may contribute to enhanced operational efficiency and service quality across Cal Am's service areas.

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Following the acquisition, Cal Am intends to provide underserved communities in WSM with essential services and programs, including the implementation of Cal Am's Customer Assistance Program (CAP) tailored to low-income ratepayers. When WSM customers become eligible for the CAP program (usually upon implementation of a GRC or through a discretionary Advice Letter filing), income-eligible WSM customers would be able to enroll in the program.

Additionally, Cal Am plans to introduce expanded customer services such as translators, 24-hour emergency contacts, web-based self-service options, and paperless billing. Moreover, educational materials on water efficiency and conservation will be provided to all WSM residents, ensuring accessibility and addressing the specific needs of underserved communities.

FUTURE RATE BASE AND RATES IMPACTS

Cal Am has not determined the specific post-transition rate structure for WSM customers. Given the high average usage and relatively larger meters in WSM compared to other service areas, Cal Am plans to maintain a separate rate structure for WSM customers over several General Rate Case cycles to prevent rate shock, gradually shifting them towards more conservation-oriented rates. Conservation efforts will also be promoted to reduce average consumption. The next General Rate Case application, including a rate design proposal for WSM, is expected to be on July 1, 2025. Following the 2025 General Rate Case, WSM will be included in the Escalation and Attrition Year filings consistent with other Cal Am service areas.

CONTINUITY OF SERVICE

For the proposed physical integration of WSM, Cal Am will secure the necessary operating permit from the State Water Resources Board. Prior to the effective date of the acquisition, WSM will manage payment collections. After the effective transition date, Cal Am will manage the system and handle customer monthly payments. Customers will continue to receive groundwater from local wells, with planned infrastructure upgrades from Cal Am including disinfection systems, standby generators, improved site security, automatic read meters, and a new SCADA system. Cal Am will also provide new services such as web self-service, paperless billing, and multilingual call

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center support. Existing rates for West San Martin customers will remain unchanged until a decision is adopted in Cal Am's 2025 general rate case. The continuity of service will be contingent on Cal Am receiving the necessary operating permit from the SWRCB.

MEMORANDUM ACCOUNTS

Cal Am seeks authorization to track specific costs associated with the acquisition of WSM in memorandum accounts, intending these costs to be considered for recovery in future General Rate Cases (GRCs). The establishment of such accounts, Cal Am argues, would not guarantee the recovery of costs but serve as a preliminary step in the process. For an expense to be tracked, it needs to meet certain criteria, including causation by an exceptional event not under Cal Am's control, unforeseeable, substantial in monetary terms, and demonstrating benefits to ratepayers. Cal Am proposed the establishment of the West San Martin Acquisition Contingency Memorandum Account (WSMACMA) to track lost revenue until the acquisition could be integrated for ratemaking purposes, as well as a Transaction Cost Memorandum Account for expenses including legal and engineering services. The lost revenues are the differences between revenues billed at current rates based on pre-acquisition rate base for customers of an acquired water system and revenues that would have been billed based on the new, post-acquisition rate base and revenue requirement, assuming the acquisition could have been fully integrated at the time of the acquisition. Cal Am maintains that these accounts meet the requisite criteria, emphasizing the exceptional nature of the acquisition, the unforeseeable timing and costs involved, the substantial monetary impact, and the perceived benefits to ratepayers from such account treatments.

The enumerated criteria for establishment of memorandum accounts in Water Division's Standard Practice U-27⁹ specify that memorandum accounts are intended to track costs that are both unforeseen and beyond the utility's control, and that offer clear ratepayer benefits. These costs must also be substantial enough to justify the administrative effort in processing the memorandum account.

Cal Am has failed to satisfy the criteria outlined in Standard Practice U-27, particularly regarding the necessity of the expenses being both unforeseeable and beyond the

⁹ Standard Practice U-27: STANDARD PRACTICE FOR PROCESSING RATE OFFSETS AND ESTABLISHING AND AMORTIZING MEMORANDUM ACCOUNTS <https://docs.cpuc.ca.gov/published/REPORT/84069.htm>.

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utility's control. In Decision D.22-10-003,¹⁰ the Commission denied Cal Am's requests for the establishment of new memorandum accounts to track acquisition costs and create a "contingency" memorandum account for capturing differences in revenue between current and final rates associated with an acquisition. In this case, Cal Am made the decision to purchase the assets of West San Martin and knew or should have known of the expenses it would incur to consummate the purchase. Therefore, the costs Cal Am seeks to track in this memorandum account are not exceptional and are under the utility's control. As such, we find Cal Am's request to establish a new memorandum account to track costs related to the acquisition of West San Martin should be denied.

Similarly, we find that Cal Am's request to establish a "contingency" memorandum account to capture the difference in revenue between current and final rates associated with the West San Martin acquisition fails to satisfy Standard Practice U-27 (SP 27) criteria. SP 27 requires that the event is of an exceptional nature and beyond the utility's control. neither of those criteria are present here. Therefore, Cal Am's request to create a "contingency" memorandum account should be denied.

Cal Am has requested Commission authorization to include the West San Martin (WSM) acquisition within its existing "Memorandum Account for Environmental Improvements and Compliance Issues for Acquisitions" (Environmental Improvements Memorandum Account). This memorandum account is designed to allow CalAm, upon acquiring a small water utility, to undertake necessary environmental improvements and achieve compliance with applicable environmental regulations, with the ability to recover the associated costs. CalAm has indicated that several prior acquisitions have been deemed suitable for inclusion in this account. It is anticipated that future environmental improvements may be required, with associated costs that are beyond the utility's control and not reasonably foreseeable. Compliance with these requirements is essential for ensuring the safety and well-being of ratepayers. Consequently, CalAm should be granted authority to include the WSM acquisition in its Environmental Improvements Memorandum Account.

¹⁰ D.22-10-003: Decision Approving California-American Water Company's Acquisition Of Bellflower Municipal Water System [497649784.PDF \(ca.gov\)](#)

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ENVIRONMENTAL AND SOCIAL JUSTICE

The ESJ Action Plan establishes a series of goals related to health and safety, consumer protection, program benefits, and enforcement in all the sectors the Commission regulates. On April 7, 2022, the Commission adopted Version 2.0 of the ESJ Action Plan to guide its decisions and determine that its broad regulatory authority continues to advance equity throughout the state. With this Resolution, the Commission addresses two goals of the ESJ Action Plan: Goal #1: “Consistently integrate equity and access considerations throughout Commission regulatory activities,” and Goal #3: “Strive to improve access to high-quality water, communications, and transportation services for ESJ communities.”

Although the San Martin, CA area proposed for acquisition is not classified as a disadvantaged community, the Water Division has thoroughly considered equity and access in its review of the proposed transaction within this resolution. The California Communities Environmental Health Screening Tool, Version 4 (CalEnviroScreen 4.0), developed by the California Office of Environmental Health Hazard Assessment (OEHHA), identifies disadvantaged communities by aggregating various metrics to produce a single value at the census tract level. According to CalEnviroScreen 4.0, the relevant census tract rank inclusive of San Martin, CA is in the 0-10th percentile, placing it within the upper 10% of census tracts statewide. It is important to note that census tracts in the 75th-100th percentile are classified as Disadvantaged Communities (DACs). Based on the Water Division’s review of these criteria and considerations, the proposed acquisition of WSM is not expected to impact the current environmental and social justice conditions within the San Martin area.

CALIFORNIA ENVIRONMENTAL QUALITY ACT (CEQA)

California Environmental Quality Act (CEQA) review is not required as this advice letter involves only the transfer of the existing water facilities and no new construction or changes in the source of water supply are being proposed with this asset sale. Accordingly, approval of this advice letter is not a CEQA project as it is not possible that the transaction will have any significant effect on the environment.

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COMPLIANCE

Cal-Am has no outstanding compliance orders, and the utility has been filing annual reports as required. Cal-Am is also in compliance with the SWRCB's water quality standards for safe drinking water. Also, WSM has no outstanding compliance issues, and the utility has been filing annual reports as required. WSM is also in compliance with SWRCB's and EPA's water quality standards for safe drinking water.

Pursuant to PU Code § 433(a), public utilities are required to pay an annual Public Utilities Reimbursement Fee (annual fee) to the CPUC. WD confirmed that WSM is current with its annual fee payments.

UTILITY SAFETY

Safety for water utilities considers several factors such as water quality, system design, operation and maintenance, and service. One of the highest safety priorities for the Commission is ensuring that water utilities serving water for human consumption provide water that is not harmful or dangerous to health. As noted in the Compliance section of this resolution, WSM currently complies with all SWRCB water quality standards for safe drinking water and has no on-going or pending violations.

CONCLUSION

Following Water Division's analysis of Cal Am's proposed acquisition of West San Martin, Water Division recommends the CPUC approve the acquisition. We conclude that the acquisition of West San Martin by Cal Am aligns with the CPUC's goals of ensuring reliable, high-quality water service and efficient utility operation. It is expected that the proposed acquisition will bring about operational efficiencies, better compliance with regulatory standards, and improved service quality for West San Martin customers.

COMMENTS

Public Utilities Code section 311(g)(1) provides that resolutions generally must be served on all parties and subject to at least 30 days public review and comment prior to

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a vote of the Commission. This is a contested matter and was mailed for a 30-day comment period.

On December 13, 2024, California-American Water Company (Cal Am) submitted comments on Proposed Resolution W-5280, expressing concerns about duplicative advice letter requirements and the denial of its request for a West San Martin Transaction Cost Memorandum Account. It argues that the Proposed Resolution unnecessarily includes two separate post-closing advice letters that cover identical matters, requesting the removal of one.

Additionally, Cal Am contends that the denial of the memorandum account is unjustified, as the transaction costs associated with the acquisition are exceptional and beyond the utility's control, citing the Commission's previous approval of similar accounts for other utilities. It emphasizes that denying the memorandum account would hinder the ability to track and recover these costs, undermining the Commission's and the State Water Resources Control Board's goals of fostering water system consolidation. Cal Am requests that the resolution be revised to approve the establishment of the requested memorandum account and remove the redundant advice letter requirement. In response, the Water Division revised the Ordering Paragraphs (OPs) and removed OP #8 due to duplicacy. This revision ensures that the process is streamlined, with the required updates to service maps, tariff schedules, and other tariff-related aspects being addressed through the Tier 1 compliance advice letter outlined in OP #4.

On December 14, 2024, Lynne Sawyer submitted a letter opposing Cal Am's proposed acquisition of WSM, arguing that the acquisition would lead to higher rates without benefiting customers. Sawyer challenges Cal Am's claims of improved service quality and infrastructure, noting that no such improvements were seen when Cal Am took over their previous water provider. The letter also criticizes Cal Am's focus on "access to capital" for infrastructure improvements, suggesting that these funds primarily support corporate growth rather than reducing customer rates. Additionally, Sawyer highlights poor service, including delays in replacing faulty meters, as evidence that Cal Am cannot adequately manage its existing customer base. Sawyer urges the CPUC to reject the acquisition and halt future acquisitions until Cal Am demonstrates actual benefits, such as rate reductions, from its claimed "economies of scale."

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The arguments raised above were previously made in Advice Letter 1416-A and in the protest by Cal Am and Lynne Sawyer, respectively. We considered the arguments and find them unpersuasive and, as such, have made no further changes to this resolution in response to the above comments, beyond the removal of the duplicative Ordering Paragraphs (OPs) raised by Cal Am.

FINDINGS AND CONCLUSIONS

1. Pursuant to Advice Letter No. 1416-A filed by California American Water Company (Cal Am), the company seeks CPUC approval for the acquisition of West San Martin Water Works, Inc. (West San Martin) in Santa Clara County, requesting to integrate West San Martin's operations into either Cal Am's Central or Northern Division.
2. Integration of the WSM is expected to enhance service quality, operational efficiency, and access to capital for infrastructure improvements for approximately 309 metered customer connections primarily serving residential customers in West San Martin.
3. The acquisition cost of \$1.6 million as stated in the purchase agreement for WSM is determined to be reasonable, as the estimated valuation is significantly greater.
4. The acquisition proposal has been carefully evaluated against the CPUC's regulatory framework and public policy objectives, ensuring compliance with Sections 851-854 and 2718-2720 of the California Public Utilities Code. This compliance underscores the acquisition's alignment with legislative mandates, emphasizing the importance of serving the public interest through improved service quality and economic benefits to ratepayers through utility acquisitions.
5. The acquisition provides significant West San Martin customer benefits, including enhanced operational efficiencies, better compliance with regulatory standards due to Cal Am's greater technical, managerial, and financial capacity, and improved service quality.
6. Rate impact analysis indicates minimal immediate effects on customer rates, projecting no changes until 2027.
7. The proposed acquisition meets the ratepayer indifference test, ensuring that the transaction is reasonable, in the public interest, and provides tangible benefits for the customers of WSM. The integration under Cal Am is expected to yield economies of scale, lowering operational costs and improving service delivery.

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8. Integrating WSM into the Central Division for ratemaking purposes is operationally sound and reasonable.
9. Cal Am did not demonstrate that the costs it proposes to include in the West San Martin Acquisition Contingency Memorandum Account (WSMACMA) and the Transaction Cost Memorandum Account are of an exceptional nature and beyond Cal Am's control.
10. The establishment of both the WSMACMA and the Transaction Cost Memorandum Account are denied, consistent with CPUC Decision D.22-10-003 and U-27 as failing to meet requirements for establishing a memorandum account.
11. CalAm should be granted authority to add the acquisition of WSM to its existing Memorandum Account for Environmental Improvements and Compliance Issues for Acquisitions.
12. The acquisition is consistent with CPUC policies encouraging water utility consolidations to achieve operational efficiencies and enhance service reliability. The legislative and regulatory framework, including the Public Water System Investment and Consolidation Act, supports such transactions for their long-term benefits to the water system infrastructure and service quality.
13. Protests received in response to the proposed acquisition were considered, with Cal Am addressing concerns regarding potential rate increases, operational expenditures, and the overall benefits of the acquisition. Cal Am's responses underscore the acquisition's alignment with policy goals for better water system management and the advantages of achieving economies of scale.
14. MPWMD's protest based on the potential impacts of WSM being incorporated into Cal Am's Central District is premature. At this time, the additional revenue requirement attributable to WSM is allocated across all WSM districts. Furthermore, any potential impact of this acquisition on MPWMD's intended acquisition of Cal Am assets within its service territory is speculative and does not serve as basis to disapprove Cal the acquisition of WSM.
15. Cal Am's request to consolidate WSM into its Central Division should be reviewed in its next GRC.
16. The transaction does not involve new construction or significant changes to the existing water supply sources, and therefore is exempt from the California Environmental Quality Act (CEQA).

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THEREFORE, IT IS ORDERED THAT:

1. Pursuant to Public Utilities Code §§ 851-854, this Resolution approves the acquisition of West San Martin Water Works, Inc. by California American Water Company (Cal Am) and expansion of California American Water Company Certificate of Public Convenience and Necessity to include the service area of West San Martin Water Works, Inc. under the terms and conditions set forth in Advice Letter No. 1416-A and as stated in Ordering Paragraph No. 3 below.
2. Cal Am shall submit in its next GRC its request to implement the new incremental rate base for the West San Martin Water Works, Inc. acquisition and the incremental associated revenue requirement from all existing Cal Am customers across its districts, including water and wastewater entities through an increase in rates once Cal Am has notified the Commission that the West San Martin Water Works, Inc. acquisition has closed.
3. Cal Am's request to integrate WSM into its Central Division for ratemaking purposes shall be reviewed in its next GRC.
4. Cal Am shall submit a Tier 1 compliance advice letter within ten days of the acquisition of WSM acquisition closing to update its service maps, tariff schedules, and other aspects of its Tariff to recognize WSM customer service area in Cal Am's Tariff.
5. Cal Am shall notify the Director of the Water Division in writing within five days when the acquisition of WSM has been completed and the transaction has closed.
6. The transfer of operations of WSM's water system to California American Water Company is conditioned on Cal-Am obtaining the domestic water supply permit required by the State Water Resources Control Board to operate the water system under the new ownership.
7. West San Martin Water Works, Inc. shall be relieved of its public utility obligation effective on the closing of the acquisition transaction and receipt of the required regulatory approvals by California American Water Company. West San Martin Water Works, Inc.'s Certificate of Public Convenience and Necessity shall be revoked at that time.
8. California American Water Company's requests to establish a new memorandum account to track acquisition costs and to establish a contingency memorandum account for capturing revenue differences between current and final rates linked to the acquisition are denied.

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9. California American Water Company is authorized to file a Tier 1 Advice Letter to add the acquisition of WSM to its existing Memorandum Account for Environmental Improvements and Compliance Issues for Acquisitions.

This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on January 16, 2025; the following Commissioners voting favorably thereon:

RACHEL PETERSON
Executive Director

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CALIFORNIA-AMERICAN WATER COMPANY ADVICE LETTER NO. 1416-A SERVICE LIST

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