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Decision 98-06-068 June 18, 1998

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Southern California Water Company (U 133 M) a Corporation, for an Order Authorizing Southern California Water Company to Form a Holding Company Structure.

Application 97-12-016
(Filed December 5, 1997)

O P I N I O N

Summary

This decision approves an uncontested settlement agreement (Settlement) between the Ratepayer Representation Branch (RRB) of the Commission's Water Division, and Southern California Water Company (SoCalWater). SoCalWater is authorized to reorganize into a holding company structure as set forth in the Application and in the Settlement.

Procedural Background

SoCalWater filed Application 97-12-016 on December 5, 1997. At the first prehearing conference on January 16, 1998, Southern California Edison (Edison) filed an appearance under Rule 54, Participation Without Intervention. The parties indicated that they were hopeful of reaching an all-party settlement on the issues quickly. A second prehearing conference was set for February 23, 1998, to be followed immediately by an evidentiary hearing the same day if needed. At the second prehearing conference, SoCalWater and RRB indicated that they were very near agreement and expected to offer a settlement within days. Edison stated that it intended not to contest the planned settlement, while the Utility Workers Union of America, AFL-CIO (Union), entering its appearance

for the first time, had not yet taken a position. The prehearing conference was adjourned and no evidentiary hearing was convened pending developments.

On February 26, 1998, SoCalWater and RRB filed and served their Motion for Adoption of Settlement, attaching to it the Settlement duly executed by representatives of both. During the ensuing 30-day comment period permitted under Rule 51.4, Edison and the Union made filings indicating they neither supported nor opposed the Settlement and had no other comments.

SoCalWater's Application

SoCalWater is a California corporation providing regulated water service through sixteen water districts located in ten Northern and Southern California counties, and electric service in the Big Bear Lake area, San Bernardino County. It proposes to reorganize into a holding company structure under which it would become a wholly-owned subsidiary of a newly-formed parent company, with the present holders of all of SoCalWater's common and preferred shares becoming holders of the parent's common and preferred shares. Certain SoCalWater non-utility assets consisting of vacant land parcels and SoCalWater's investment in unregulated Golden State Water Company LLC (Golden State) would be transferred to Cal-Cities Water Company (Cal-Cities), currently a wholly-owned subsidiary of SoCalWater. All of the capital stock of Cal-Cities would subsequently be transferred to the new parent.

Formation of a holding company structure would not affect SoCalWater as an entity nor SoCalWater's water or electric utility operations. While immediate control of SoCalWater would change from its stockholders to the parent, ultimate control would be unaffected as current SoCalWater stockholders become the stockholders of the parent. The formation of a holding company would not change SoCalWater's board of directors, officers or employees, and, except for the non-utility assets to be transferred to Cal-Cities, it would continue to own

and control its assets and operations just as it does prior to the reorganization. SoCalWater's outstanding notes and other debt instruments would remain its own obligations and not be assumed by the new parent.

SoCalWater foresees a variety of opportunities in unregulated businesses including, for example, public/private partnerships with municipalities and other local governmental agencies that could involve long-term lease concessions of water systems, operation and maintenance contracts, and billing and other customer service functions. It may provide such services to other Commission-regulated utilities as well. A holding company structure would separate the regulated utility and thus help insulate customers from these competitive and unregulated business activities without compromising the Commission's oversight and regulatory responsibilities. There would be fewer potential cross-subsidization issues, and SoCalWater would be better able to tailor its finances and organization to both roles. SoCalWater would continue to make appropriate allocations where, as now occurs from time to time, its personnel engage in both regulated and non-regulated activities, and those allocations would continue to be subject to Commission review to protect ratepayers.

To effect the reorganization, SoCalWater requests the Commission issue an order:

- (1) Authorizing SoCalWater to form a holding company and authorizing the holding company to acquire control of SoCalWater through ownership of all outstanding SoCalWater common shares and preferred shares as contemplated in the Agreement of Merger attached to the Application;
- (2) Authorizing, if and to the extent the Commission may deem necessary, SoCalWater to transfer the non-utility parcels and its interest in Golden State to Cal-Cities, and to transfer SoCalWater's capital stock in Cal-Cities to the holding company; and
- (3) Finding that the Application is not subject to the California Environmental Quality Act.

The Settlement

The Settlement states its intent to:

(a) establish procedures for prompt and fair compensation or reimbursement for all assets, goods, and services transferred or provided between the utility and its affiliates, including the holding company; (b) provide reasonable assurance that the utility is able to maintain its financial strength so as to reasonably fulfill its obligations as a public utility; and (c) enable the Commission to monitor the utility's compliance.

To accomplish this, it sets forth the practices to be observed in the relationship between the future regulated utility and its holding company and affiliates. All transactions between them are to be guided by the policies and guidelines stated. Briefly summarized, the Settlement:

- (a) Preserves Commission access to all personnel, books and records;
- (b) Requires annual financial statements and affiliate transaction reports;
- (c) Sets standards for the exchange of goods and services between the regulated company and its unregulated affiliates;
- (d) Calls for the utility and its affiliates to follow and the Uniform System of Accounts and Generally Accepted Accounting Principles, as appropriate;
- (e) Spells out in general terms necessary financing-related principles, including those with respect to utility and affiliate long-term debt issuance, financing guarantees, loans to the utility from affiliates, utility capital structure, and dividend policy;
- (f) Establishes principles for separating regulated from unregulated operations and personnel, and for allocating costs;
- (g) Requires that the costs of restructuring go below the line; and
- (h) Preserves confidentiality of sensitive affiliate materials under General Order 66-C.

The Settlement resolves every issue between RRB and SoCalWater. It provides that the newly formed holding company may acquire control of SoCalWater, and SoCalWater may issue all outstanding stock to the holding

company. SoCalWater may transfer its interest in Golden State to Cal-Cities inasmuch as SoCalWater's investment in Golden State was not made with ratepayer funds and is not used or useful in SoCalWater's regulated water business. SoCalWater withdraws its request to transfer land parcels to Cal-Cities, and its request to transfer its capital stock in Cal-Cities to the holding company. The parties also agree that the actions to be taken as a result of the Settlement do not constitute a "project" under the California Environmental Quality Act.

Discussion

This is an "uncontested settlement" as defined in Rule 51(f), i.e., a settlement that "...is not contested by any party to the proceeding within the comment period after service of the stipulation or settlement on all parties to the proceeding." Rule 51(e) requires that settlement agreements be reasonable in light of the whole record, consistent with law, and in the public interest. (See also *San Diego Gas & Electric*, 46 CPUC2d 538 (1992), the Commission's policy on all-party settlement proposals).

Reasonable in Light of the Whole Record

In presenting its request, SoCalWater has fully outlined its motivation, the steps it would take to restructure, the anticipated benefits for stockholders and ratepayers, and the organizational, operational, financial and accounting protections it would build in for them. The Settlement speaks to each significant point raised in the Application.

There were no objections to the Settlement from the two non-signatory parties, and indeed, no views expressed in any manner on the record that were not subsequently addressed. Edison initially stated its interest as a desire to ensure that its electric capacity agreements with SoCalWater would not be adversely impacted by the proposed holding company, and to confirm that any conditions placed on the proposed holding company that may be of generic

applicability are reasonable. In its filing notifying the Commission and parties that it does not oppose the Settlement and does not intend to file comments, Edison confirmed that both of these concerns had been resolved. The Union sought an opportunity to consider the terms of any settlement and its implications to its interests. Its comments filed after review simply stated that it neither supports nor opposes the Settlement.

The Settlement's stated purposes are appropriate, and it does establish the framework to accomplish those purposes. It promulgates guidelines for compensation for assets, goods and services transferred between the utility and its parent and affiliates; keeps the utility financially strong and capable of fulfilling its public utility obligations; and preserves the Commission's ability to meet its regulatory responsibilities. We conclude that the Settlement is reasonable in light of the whole record.

Consistent with the Law

The Settlement provides that, "The holding company may acquire control of all of the outstanding stock of the utility and the utility may issue all of its outstanding stock to the holding company, as described in the Application." Public Utilities (PU) Code § 817 governs the purposes for which public utilities may issue stock:

A public utility may issue stocks and stock certificates or other evidence of interest or ownership...for any one or more of the following purposes and no others:...(f) For the reorganization or readjustment of its indebtedness or capitalization upon a merger, consolidation, or other reorganization.

PU Code § 818 requires Commission authorization before SoCalWater may transfer its stock to the holding company pursuant to the purpose in § 817.

PU Code § 854(a) governs SoCalWater's acquisition and control by the newly-formed holding company:

No person or corporation, whether or not organized under the laws of this state, shall merge, acquire, or control either directly or indirectly any public utility organized and doing business in this state without first securing authorization to do so from the commission.

And PU Code § 851 provides:

No public utility ...shall sell, lease, assign, mortgage, or otherwise dispose of or encumber the whole of any part of its ...plant, system, or other property necessary or useful in the performance of its duties to the public...without first having secured from the commission an order authorizing it so to do.

Nothing in this section shall prevent the sale, lease, encumbrance or other disposition by any public utility of property which is not necessary or useful in the performance of its duties to the public...

Both the Application and Settlement state that the ownership interest in Golden State that SoCalWater will transfer to the holding company or to an affiliate is not used and useful in the performance of SoCalWater's public utility duties. And SoCalWater itself will continue to own and control all of its necessary and useful public utility assets as it becomes a subsidiary of the holding company. Thus no approvals are required under PU Code § 851 for either of these changes.

It can be seen with certainty that there is no possibility that the actions to be taken as a result of the Application and the Settlement may have a significant effect upon the environment, thus they are not subject to the California Environmental Quality Act. (Title 14 California Code of Regulations § 15061(b)(3).)

No provision of the Settlement is in violation of any statute or Commission decision or rule. Where we are required to make specific findings or conclusions of law before issuing this decision, we are able to do so.

In the Public Interest

In Decision (D.) 96-07-059 approving Roseville Telephone Company's reorganization into a holding company structure, we observed:

We recently held that the form of organization and ownership of any for-profit venture ought to lie, in the first instance, in the sound discretion of management, subject to the rights provided otherwise of the shareholders to consent, and subject to our oversight to the extent necessary to protect the public interest. [D.95-12-018, the SDG&E Holding Company Decision]. In so holding, we adopted a standard of ratepayer indifference to the effects of a holding company reorganization. Accordingly, when a utility seeks to reorganize under a holding company structure under PU Code § 818 or § 854, we do not require it to demonstrate more than that (1) a valid business purpose exists, and (2) the reorganization may be accomplished and future operations conducted pursuant to conditions that will be adequate to protect the public interest.

In this case, the Application has demonstrated (1) above. In fact, the Application sets forth benefits stockholders and ratepayers alike can expect to realize through reorganization. The Settlement is crafted in such a way as to maintain those benefits, and the terms and conditions SoCalWater and RRB propose to establish through the Settlement ensure (2) above. After carefully comparing the two, we find that each point in the Application has been fairly reflected and dealt with in the Settlement in a way that allows the reorganization to be accomplished and future operations conducted pursuant to conditions that protect the public interest.

Findings of Fact

1. Formation of a holding company structure would affect neither SoCalWater as an entity nor SoCalWater's regulated water or electric utility operations.
2. SoCalWater's interest in Golden State is not property which is necessary or useful in the performance of SoCalWater's public utility duties.
3. SoCalWater will continue to own and control all of its necessary and useful public utility assets as it becomes a subsidiary of the holding company.
4. SoCalWater has demonstrated a valid business purpose for reorganizing.
5. Each point in the Application has been fairly reflected and dealt with in the Settlement in a way that allows the reorganization to be accomplished and future operations conducted pursuant to conditions that protect the public interest.
6. Under the Settlement, SoCalWater withdraws its request to transfer land parcels to Cal-Cities, and its request to transfer its capital stock in Cal-Cities to the holding company.
7. The Settlement resolves every issue between RRB and SoCalWater.
8. There is no known opposition to approving the Settlement, and no need to hold a hearing in this proceeding.

Conclusions of Law

1. Issuance of the evidence of interest or ownership for which SoCalWater seeks authority in connection with its reorganization is reasonably required for the purposes specified and is not reasonably chargeable to operating expenses or to income.
2. No approvals are required under PU Code § 851 for SoCalWater to transfer its interest in Golden State to the holding company or to an affiliate, or for SoCalWater to become a subsidiary of the holding company.
3. The Settlement is an "uncontested settlement" as defined in Rule 51(f).

4. The Settlement is reasonable in light of the whole record, consistent with law, and in the public interest.

5. The Settlement should be approved.

6. It can be seen with certainty that there is no possibility that the actions to be taken as a result of the Application and the Settlement may have a significant effect upon the environment, thus they are not subject to the California Environmental Quality Act.

7. The Commission having found that a hearing is not needed, the rules and procedures of Article 2.5, Senate Bill 960 Rules and Procedures, do not apply to this proceeding pursuant to Rule 6.6.

O R D E R

IT IS ORDERED that:

1. The Motion for Adoption of Settlement filed by Southern California Water Company (SoCalWater) and Ratepayer Representation Branch of the Commission's Water Division is granted. The Settlement attached to this order as Attachment 1 is adopted.

2. SoCalWater is authorized to reorganize through formation of a holding company, and to issue to the holding company such evidence of ownership interest in SoCalWater as may be necessary to complete the reorganization. The holding company is in turn authorized to control SoCalWater through ownership of all SoCalWater common and preferred shares. SoCalWater's reorganization activities shall be as set forth in Application 97-12-016 and subject to the terms and conditions established in the Settlement.

3. This proceeding is closed.

This order is effective today.

Dated June 18, 1998, at San Francisco, California.

RICHARD A. BILAS

President

P. GREGORY CONLON

JESSIE J. KNIGHT, JR.

HENRY M. DUQUE

JOSIAH L. NEEPER

Commissioners

ATTACHMENT 1

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

In the Matter of the Application)	
of Southern California Water)	
Company (U 133 W), a corporation,)	A.97-12-016
for an order authorizing Southern)	
California Water Company to form)	
a holding company structure.)	

SETTLEMENT

WHEREAS, Applicant Southern California Water Company (the "Utility") filed Application 97-12-016 with the California Public Utilities Commission ("Commission") on December 4, 1997, seeking authority to form a holding company (the "holding company"), which would acquire ownership of all outstanding stock of the Utility, and to transfer certain assets of the Utility; and

WHEREAS, the Ratepayer Representation Branch ("RRP") of the Water Division has evaluated the Utility's application and engaged in discussions with the Utility regarding the Utility's requests,

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NOW, THEREFORE, the Utility and RRP (the "Parties") agree as follows:

1. The holding company may acquire control of all of the outstanding stock of the Utility and the Utility may issue all of its outstanding stock to the holding company, as described in the Application.

2. The Utility withdraws its request to transfer certain parcels of land the Utility owns to Cal Cities Water Company, currently a wholly-owned subsidiary of the Utility.

3. The Utility withdraws its request to transfer all of its ownership of the capital stock of Cal Cities Water Company to the holding company.

4. The Utility may transfer its membership interest in Golden State Water Company LLC ("Golden State Water") to an affiliate. Golden State Water was formed in November, 1996, with US Water LLC for the purpose of, among other things, leasing or operating and maintaining municipally owned water systems. Between November, 1996, and December 31, 1997, the Utility invested approximately \$593,000 in Golden State Water. This investment was not made with funds provided by ratepayers, but rather came from the Utility's retained earnings. The Utility's interest in Golden State Water is not used or useful in the performance of the Utility's duties as a public utility.

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5. Application 97-12-016 does not seek authority to construct any new facility. Nor will the change in control of the outstanding stock of the Utility and the transfer of the Utility's interest in Golden State Water that will occur pursuant to Paragraphs 1 and 4 above have any adverse impact on the environment because the transaction involves only the transfer of equity. Therefore, the actions to be taken as a result of this Settlement do not constitute a "project" under the California Environmental Quality Act.

6. This Settlement sets forth the practices to be observed in the relationship between the Utility, on the one hand, and its holding company and regulated and non-regulated affiliated companies, if any, on the other hand. All transactions between these entities shall be guided by the policies and guidelines stated in this Settlement.

7. The Settlement is intended to (a) establish procedures for prompt and fair compensation or reimbursement for all assets, goods, and services transferred or provided between the Utility and its affiliates, including the holding company; (b) provide reasonable assurance that the Utility is able to maintain its financial strength so as to reasonably fulfill its obligations as a public utility; and (c) enable the Commission to monitor the Utility's compliance.

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8. Access To Directors, Officers, And Employees. The directors, officers, and employees of the Utility and its affiliates, including the holding company, shall be available to appear and testify in any proceeding before the Commission involving the Utility. The officers and employees of the Utility and its affiliates, including the holding company, shall be available for consultations with the Commission's staff as necessary or required.

9. Access To Books And Records. The Utility and its affiliates, including the holding company, will provide the Commission, its staff, and its agents with access to the books and records of the holding company and each affiliate in connection with the exercise by the Commission of its regulatory responsibilities.

10. Annual Report. The Utility shall file with the Commission, prior to the last working day in May of each year, a report which includes:

a. The annual consolidated financial statements of the holding company as reported on Form 10K filed with the Securities and Exchange Commission. The Utility shall also provide workpapers that reconcile the holding company's Form 10K with the holding company's, the Utility's, and each affiliate's general ledgers for the previous calendar year.

b. A summary of all transactions between the Utility and its affiliates, including the holding company, for

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the previous calendar year. The Utility shall maintain such information on a monthly basis and make such information available to the Commission's staff upon request. The summary shall include a description of each transaction and an accounting of all costs associated with each transaction, as set forth in Appendix A to this Settlement, although each transaction need not be separately identified where multiple transactions occur in the same account. These transactions shall include (a) services provided by the Utility to any affiliate, including the holding company; (b) services provided by any affiliate, including the holding company, to the Utility; (c) assets transferred from the Utility to any affiliate, including the holding company; (d) assets transferred from any affiliate, including the holding company, to the Utility; (e) employees transferred from the Utility to any affiliate, including the holding company; (f) employees transferred from any affiliate, including the holding company, to the Utility; and (g) financing arrangements and transactions between the Utility and its affiliated companies, including the holding company.

c. A copy of each report filed with the Securities and Exchange Commission during the previous year.

11. Capital Requirements. The capital requirements of the Utility shall be given first priority by the Utility's board of directors and, consistent with its fiduciary responsibilities, by the holding company's board of directors, as well.

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12. Capital Structure Of The Utility. The Utility shall maintain a capital structure consistent with that determined to be reasonable by the Commission in its most recent decision on the Utility's capital structure in order that ratepayers not be adversely affected. The holding company shall use its best efforts to provide or cause to be provided equity to restore the capital structure of the Utility whenever the Commission has determined that it has not been reasonably maintained.

13. Issuance Of Debt By The Utility. The Utility shall continue to issue its own debt.

14. Issuance Of Debt For Affiliates. Debt of the holding company and debt of other affiliates shall not be issued or guaranteed by the Utility without prior approval by the Commission.

15. The Commission's approval is not required for issuance of debt by the holding company or affiliates unless guaranteed by the Utility or secured by the Utility's assets.

16. Any loan of more than twelve months to the Utility by the holding company or any other affiliate requires prior approval by the Commission.

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17. Dividends. The policy of the Utility regarding dividends shall continue to be established by its board of directors as though it were a single company.

18. Accounting. The Utility and each of its affiliates, including the holding company, shall maintain their accounting records in accordance with Generally Accepted Accounting Principles and, where appropriate, the Commission's Uniform System of Accounts.

19. Allocation Of Common Costs. Absent any change in the applicable policy of the Commission or provision of the Public Utilities Code, the Utility and each of its affiliates, including the holding company, shall allocate costs between them in such a manner that ratepayers of the Utility not subsidize any affiliate of the Utility.

20. Unregulated Operations And Transfer Of Employees.

a. Unregulated operations, if any, including all pertinent contracts, that are performed by the Utility shall be transferred to the appropriate affiliate as soon as all requisite consent is obtained.

b. The Utility shall avoid a diversion of management that would adversely affect the Utility.

c. The Utility shall not use its directors and employees, including officers, to conduct unregulated operations if such use would adversely affect the Utility or its ratepayers.

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d. The Utility shall endeavor to transfer to its affiliates any employee whose primary responsibility is to conduct unregulated operations, taking into consideration the Utility's obligations to any such employee, its obligations under any contract with its unions or others, and the cost of providing comparable terms of employment.

21. Transfer Of Tangible Assets And Goods From The Utility. Any transfer without monetary consideration of a tangible asset or good from the Utility to any affiliate shall be priced at cost or fair market value, whichever is higher, if the asset or good is currently, or was at any time, included in the Utility's ratebase, including (a) any asset or good booked to plant held for future use that is currently, or was at any time, included in the Utility's ratebase or (b) any asset or good to which the Utility's ratepayers have contributed any carrying or operating cost. Any gain resulting from the transfer of any such asset or good shall be allocated in accordance with applicable provisions of the Public Utilities Code and policies of the Commission. Absent any change in the applicable policy of the Commission or provision of the Public Utilities Code, all gain from the transfer of any such asset or good without monetary consideration shall be allocated to ratepayers.

22. The Utility shall develop a verifiable and independent appraisal of fair market value for any tangible asset or good that is transferred to any affiliate under Paragraph 21

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above. The Commission's staff will have access to all supporting documents used in the development of the fair market value.

23. Transfer Of Intangible Assets And Goods From The Utility. Any transfer without monetary consideration of any intangible asset or good from the Utility to any affiliate shall be priced at cost or fair market value, whichever is higher, if the asset or good is currently, or was at any time, included in the Utility's ratebase, including (a) any asset or good booked to plant held for future use that is currently, or was at any time, included in the Utility's ratebase or (b) any asset or good to which the Utility's ratepayers have contributed any carrying or operating cost. Any gain resulting from the transfer of any such asset or good shall be allocated in accordance with applicable provisions of the Public Utilities Code and policies of the Commission. Absent any change in the applicable policy of the Commission or provision of the Public Utilities Code, all gain from the transfer of any such asset or good without monetary consideration shall be allocated to ratepayers.

24. For the purposes of this Settlement, intangible assets and goods shall mean all intellectual property (whether such property constitutes patents, trademarks, service marks, copyrights, or any other intellectual property).

25. The Utility shall develop a verifiable and independent appraisal of fair market value for any intangible

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asset or good that is transferred to any affiliate under Paragraph 23 above. The Commission's staff will have access to all supporting documents used in the development of the fair market value. If sufficient support for the appraisal of fair market value does not exist to the reasonable satisfaction of the Commission's staff, the Utility shall hire an independent consultant under the joint control of the Commission staff and the Utility to reappraise the fair market value for any such intangible asset or good. The fair market value may be a single price, a royalty on the intangible asset or good, or a combination.

26. Transfers Of Tangible and Intangible Assets And Goods To The Utility. Any transfer of any tangible or intangible asset or good to the Utility from any affiliate shall be in compliance with the applicable provisions of the Public Utilities Code and the Commission's policies. Unless in conflict with the Public Utilities Code or the Commission's policies, such asset or good transferred from an affiliate to the Utility shall be at cost or fair market value, whichever is lower. The Utility may seek prior authorization from the Commission, however, by filing an application or advice letter for a determination of the appropriate value of an asset or good.

27. Pricing Of Services From The Utility To The Affiliate Or Holding Company. Any service provided by the Utility to an affiliate or the holding company shall be priced to

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recover at least the Utility's cost -- such as the proportionate cost of (a) salary and benefits of any employee used in providing such services and (b) any equipment, including carrying costs with respect thereto, or supplies used in connection therewith.

28. Pricing Of Services From The Affiliate Or Holding Company To The Utility. Except for common costs allocated in the manner described in Paragraph 19, the cost of services provided by an affiliate, including the holding company, to the Utility shall be considered reasonable if it is at or below the lowest of (a) the cost which would have been incurred by the Utility if it provided such services on comparable terms, (b) the rate which would have been charged to the Utility by an unaffiliated party for the provision of comparable services on comparable terms, or (c) the rate which would have been charged by the affiliate to an unaffiliated party for the provision of comparable services on comparable terms.

29. Cost Of Reorganization. Any cost arising from the Utility's formation of the holding company shall be charged below the line, and shall not be used to determine any future revenue requirement.

30. Confidentiality. Any record or other information of a confidential nature furnished to the Commission's staff under the terms of this Settlement shall be treated in accordance with provisions of the Commission's General Order 66-C.

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31. Approval of this Settlement by the Commission should not be construed as an admission or concession by any Party regarding any fact or matter of law in dispute in this proceeding.

32. By entering into this Settlement, the Parties do not waive any legal right they may have against any other party to this Settlement in any proceeding now pending before the Commission which may be asserted in the future, except to the extent that the assertion of any such claim conflicts with or would tend to undermine this Settlement.

33. The Commission shall have jurisdiction over this Settlement, and any party seeking interpretation of this Settlement, enforcement of this Settlement, or the assertion of any right pursuant to this Settlement shall seek redress from the Commission.

34. No signatory to this Settlement nor any member of the staff of the Commission nor any employee of the Utility assumes any personal liability as a result of this Settlement. The Parties agree that no legal action may be brought by any party in any state or federal court, or any other forum, against any individual signatory representing the interests of any of the Parties. All rights and remedies of the Parties with respect to this Settlement are limited to those available before the Commission.

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35. This Settlement shall not establish, be interpreted as establishing, or be used by any party to establish or to represent the relationship of the Parties as any form of agency, partnership, or joint venture. No party shall have any authority to bind any other party or to act as its agent unless otherwise authorized in writing separate from this Settlement.


36. The Settlement shall be governed by and interpreted in accordance with the laws of the State of California and in accordance with the rules, regulations, and General Orders of the Commission.

37. Every issue related to Application 97-12-016 between the Parties has been resolved.

IN WITNESS WHEREOF, the Parties have executed this Settlement on and as of the dates set forth below.


Dated: February 25, 1998

By:


McClellan Harris III
Vice President
Southern California Water
Company

Dated: February 26, 1998

By:


Seaneen Wilson
Ratepayer Representation
Branch
California Public Utilities
Commission

ATTACHMENT 1

APPENDIX A

INFORMATION TO BE PROVIDED IN ANNUAL REPORT

A. Services Provided By The Utility To Any Affiliate,
Including The Holding Company

A summary of each account affected by an affiliated transaction, detailed by name of affiliate, description of service provided, accounts used, and amounts booked to each account, together with the following information for each service provided:

1. Rate charged, with explanation if different rates are charged
2. Formula for determining rate
3. Whether service is provided to nonaffiliate, with explanation if service not provided to nonaffiliate
4. Rate charged to nonaffiliate, with explanation if rate different than that charged to affiliate
5. Formula for determining rate charged nonaffiliate

B. Services Provided By The Affiliate Or Holding Company
To The Utility

A summary of each account affected by an affiliated transaction, detailed by name of affiliate, description of service provided by affiliate, accounts used, and amounts booked to each account, together with the following information for each service provided:

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1. Rate charged, with explanation if different rates are charged
2. Formula for determining rate
3. Whether service is provided to nonaffiliate, with explanation if service not provided to nonaffiliate
4. Rate charged to nonaffiliate or other affiliates, with explanation if rate different than that charged to Utility
5. Formula for determining rate charged nonaffiliate

C. Assets Transferred From The Utility To Any Affiliate, Including The Holding Company

1. Description of each asset transferred or sold
2. Asset's use to Utility
3. Asset's use to affiliate
4. Reason for disposition of asset
5. Number of years in ratebase
6. Fair market value, if applicable
7. Price charged to affiliate, with explanation if sold for less than fair market value
8. Whether asset was offered on the open market and, if not, why not
9. Detail of accounts affected and amount booked to each account
10. Treatment of gain

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D. Assets Transferred From The Affiliate, Including The Holding Company To The Utility

1. Description of each asset transferred or sold
2. Asset's use to affiliate
3. Asset's use to Utility
4. Reason for disposition of asset
5. Reason for not purchasing asset from nonaffiliate
6. Fair market value of asset
7. Detail of accounts affected and amount booked to each account
8. Price paid by Utility

E. Employees Transferred From Utility To Affiliate

1. Employee's name
2. Date of transfer
3. Employee's title and duties at Utility
4. Length of time with Utility
5. Last annual salary with Utility
6. Duties to be performed and title at affiliate
7. Whether duties to continue at Utility and, if so, identity of the employee to perform these duties and years of experience in performing these duties
8. If duties to be discontinued, effect on Utility's service
9. Reason for transfer

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F. Employees Transferred From Affiliate To Utility

1. Employee's name
2. Date of transfer
3. Employee's duties and title at affiliate
4. Length of time with affiliate
5. Last annual salary with affiliate
6. Annual salary at Utility
7. Duties to be performed and title at Utility
8. Qualifications for performing this duty at the Utility
9. Reason for transfer

G. Financial Arrangements And Transactions Between The Utility And Any Affiliate, Including The Holding Company

1. Name of affiliate
2. Date of transaction
3. Amount of transaction
4. Detail of each account affected and amount booked to each account
5. Rate of interest charged for transaction
6. Length of transaction
7. Schedule for repayment
8. Detail of payments made during year
9. Source of funds provided to affiliate

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10. Rate of interest, amount of new debt issued or proposed to be issued by the Utility to provide funds to an affiliate, and term of such new debt
11. Effect on common equity if retained earnings reduced to provide funds to an affiliate
12. Explanation of Utility's plans to return to a capital structure consistent with that determined to be reasonable by the Commission in its most recent decision on the Utility's capital structure if provision of funds from retained earnings to an affiliate results in a capital structure inconsistent with that determined to be reasonable by the Commission
13. Number of shares issued, number of shares sold, and effect on capital structure if Utility issues stock to provide funds to an affiliate

(END OF ATTACHMENT 1)