

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
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October 21, 2024

Jonathan Morse  
Sr. Manager Rates & Regulatory  
California-American Water Company  
520 Capitol Mall Ste. 630  
Sacramento, CA 95814

Dear Mr. Morse,

The Water Division of the California Public Utilities Commission has approved California-American Water Company's Advice Letter No. 1422-A, (Supplement to Advice Letter No. 1422), filed on October 27, 2023, regarding authorization to acquire Corral de Tierra Water Company.

Enclosed is a copy of the Advice Letter and the Resolution with an effective date of October 18, 2024 for the Utility's files.

Please contact Alison Pafford at [APF@cpuc.ca.gov](mailto:APF@cpuc.ca.gov), if you have any questions.

Thank you.

Enclosures



October 27, 2023

ADVICE LETTER NO. 1422-A (Supplement to Original Advice Letter)

TO THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

## **I. PURPOSE**

This Supplement to Advice Letter 1422 includes a minimum data requirement (“MDR”) document inadvertently omitted from the original advice letter. The Supplement at Section II.5.b. also includes additional information on the area rates to which Corral de Tierra Water Company (“Corral de Tierra”) customers will transition, and at Section III. it contains information about the water source of supply Corral de Tierra customers currently use and the one they will rely on after connecting to California-American Water Company’s (U-210-W) (“California American Water”) system. The protest period for this Supplement is 20 days from the date of this letter.

Pursuant to Sections 851-854 and 2718-2720 of the California Public Utilities Code, Decision (“D.”) 99-10-064 and D.20-08-047, Article 2 of the California Public Utilities Commission (“Commission”) Rules of Practice and Procedure (“Rules”) and Rule 3.6, as well as Commission General Order 96-B, California American Water in this Advice Letter requests the Commission authorize California American Water’s purchase of certain Corral de Tierra assets and related actions.

## **II. INTRODUCTION**

Consolidation of Corral de Tierra’s assets into California American Water’s much larger system is in the public interest. The consolidation furthers important public policies and customer interests.

Provided the Commission grants approval, California American Water’s acquisition of Corral de Tierra’s utility assets will occur pursuant to the asset purchase agreement dated February 2023 (“Asset Purchase Agreement”), between Corral de Tierra and California American Water. A copy of the Asset Purchase Agreement is included as “Confidential Attachment” to the MDR included with this Advice Letter. This Advice Letter asks the Commission to approve the Asset Purchase Agreement, the transaction contemplated in that Agreement, and certain related matters. Specifically, the Advice Letter requests Commission authority:

1. Approving the Asset Purchase Agreement’s terms and conditions.
2. Establishing the rate base of the acquired system, at the time of approval of a resolution in this Advice Letter proceeding, as the full purchase price to be paid by California

American Water for the Corral de Tierra system's assets covered by the Asset Purchase Agreement.

3. Authorizing California American Water to record the acquisition on a net basis consistent with generally accepted accounting principles.
4. Allowing California American Water immediate consolidation of the Corral de Tierra system into California American Water's Central Division for operational purposes.<sup>1</sup>
5. Permitting California American Water to do the following with respect to Corral de Tierra customer rates:
  - a. Maintain Corral de Tierra customers on their current rates immediately following closing.
  - b. Move Corral de Tierra Customers to California American Water's current Central Satellite Service Area rates following the later of (1) the completion of three months post-closing, or (2) the installation of water meters for the fifteen Corral de Tierra connections.
6. Establishing a Corral de Tierra Transaction Cost 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.
7. Approving California American Water's request to allow tracking of costs of addressing any required environmental improvements and compliance issues in the already established memorandum account related to the same issues for the Dunnigan, Geyserville, Meadowbrook, Rio Plaza, Fruitridge Vista, Hillview, East Pasadena, and Bass Lake acquisitions.

The relief requested in this Advice Letter should not be controversial. The proposed acquisition furthers important Legislative and Commission policies and goals. The acquisition also benefits Corral de Tierra and California American Water customers. The State Water Resources Control Board ("SWRCB") and the Commission have met monthly in the lead up to this filing to discuss the consolidation of Corral de Tierra's into California American Water. That consolidation is expected to move Corral de Tierra to a new water source and away from its current source which suffers from elevated arsenic levels. This proceeding, therefore, should move along quickly and be approved by resolution in accordance with the timeline established in D.99-10-064.

### **III. BACKGROUND:**

Corral de Tierra: Is a California non-profit corporation not currently regulated by the Commission. It provides water service to 15 non-metered customer connections. The system

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<sup>1</sup> No changes in California American Water's tariff schedules result from the acquisition. After the acquisition closes, Corral de Tierra customers would be subject to tariff schedules and rules applicable to California American's Monterey County District. Except for as referenced above, such schedules and rules would become effective five days after California American Water files a Tier 1 Advice Letter that provides details of the finalized purchase of the water system.

serves residential customers within California American Water's current service area. This will allow for connection of Corral de Tierra's system to California American Water's current system and for Corral de Tierra's operations to be folded into California American Water's Central Division. California American Water will move the Corral de Tierra customers off their current well, which pumps from the El Toro Primary Aquifer located within the Corral de Tierra Management Area of the Monterey Subbasin.<sup>2</sup> California American Water will connect the Corral de Tierra customers to California American Water's Toro system. The Toro system's wells also pump from the El Toro Primary Aquifer located within the Corral de Tierra Management Area of the Monterey Subbasin. Thus, Corral de Tierra customers will, post-acquisition, be supplied from the Monterey Subbasin – not the Seaside Basin or Carmel River.

California American Water: A California corporation, is a Class A public utility water and wastewater company regulated by the Commission. The Company provides regulated water and/or wastewater utility services in parts of San Diego, Los Angeles, Ventura, Monterey, Sonoma, Yolo, Sacramento, Merced, and Placer counties, serving approximately 680,000 people in 50 communities.

California American Water is an experienced water and wastewater system operator, with operations near Corral de Tierra. California American Water has also recently received Commission approval to acquire several smaller water providers, ranging from Class D to Class B providers as well as mutual water companies and a municipal water system.<sup>3</sup> California American Water is a subsidiary of American Water Works Company, Inc. ("American Water"), the largest publicly traded water and wastewater utility in the United States, with operations serving approximately 14 million people across North America. A description of California American Water's plant, water systems, and property is on file with the Commission in California American Water's most recent Annual Report to the Commission.

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<sup>2</sup> See

<https://gispublic.waterboards.ca.gov/portal/apps/webappviewer/index.html?id=70d27423735e45d6b037b7fbaea9a6a6>.

<sup>3</sup> See, e.g., D.15-11-012, *Decision Authorizing California-American Water Company to Purchase the Public Utility Assets of Dunnigan Water Works*, dated Nov. 10, 2015; Resolution W-5042, *Order Approving California American Water Company's Request to Acquire Ox Bow Mutual Water Company*, dated June 11, 2015; D.16-11-014, *Decision Authorizing the Sale and Adopting Settlement Agreement (Geyserville acquisition)*, dated Nov. 17, 2016; D.16-12-014, *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*, dated Dec. 6, 2017; D.19-04-015, *Decision Authorizing Sale and Transfer*, dated May 2, 2019; D.19-12-038, *Decision Authorizing the Purchase of Water Utility Assets by California-American Water Company*, dated December 19, 2019; D.21-08-002, *Decision Approving the Sale of East Pasadena Water Utility Assets to California-American Water Company, Inc.*, issued August 6, 2021; D.22-10-003, *Decision Approving California-American Water Company's Acquisition of Bellflower Municipal Water System*, issued October 11, 2022.

#### **IV. ASSET PURCHASE AGREEMENT:**

Under the Asset Purchase Agreement, California American Water will acquire certain assets associated with Corral de Tierra. For those assets, the consideration shall consist of the consolidation of Corral de Tierra's system into California's Central Division, *i.e.*, California American Water will pay to Corral de Tierra \$0.00 for the purchased assets.<sup>4</sup>

#### **V. CUSTOMER BENEFITS AND PUBLIC INTEREST:**

##### **A. Legislative Declarations and Other Resolutions Support the Acquisition**

In Public Utilities Code Section 2719, the Legislature found and declared (1) public water systems face the need to replace or upgrade infrastructure to meet increasingly stringent state and federal laws and regulations, (2) increasing amounts of capital are required to finance the necessary investment in that infrastructure, (3) scale economies are achievable in the operation of public water systems, and (4) providing water corporations with an incentive to achieve these scale economies provides benefits to ratepayers.<sup>5</sup> Similarly, State Water Resources Control Board (SWRCB) Resolution No. 2008-0048 states: small water systems (1) often cannot provide the economies of scale necessary to build and maintain adequate water and wastewater systems; (2) lack resources and in-house expertise, including those necessary to best manage long-term operations; and (3) need financial and technical assistance to ensure compliance.

More recently, in D.20-08-047, the Commission recognized the benefits of transactions such as the one being proposed in this Advice Letter: "Consolidation may be a means to improve affordability, by leveraging greater economies of scale and scope, and by importing best, or better, practices related to operating a water utility, as well as designing rates to allow recovery of reasonable expenses."<sup>6</sup>

California American Water serves a population of approximately 680,000 throughout California. It is one of the largest investor-owned water utilities in the State. Its parent company, American Water, is the largest publicly traded water and wastewater utility in the United States, with operations serving approximately 16 million people across North America. As is discussed in further detail below, California American Water's size, experience, and resources give it a distinct advantage in being able to replace or upgrade systems effectively and efficiently to meet increasingly stringent state and federal mandates and provide improved access to the capital needed to finance such infrastructure investments. California American Water's acquisition of Corral de Tierra's assets will also achieve efficiencies and economies of scale that would otherwise not be available.

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<sup>4</sup> See MDR Response Attachment 26 (Confidential), Asset Purchase Agreement, at Section 2.2(a) on p. 2.

<sup>5</sup> Pub. Util. Code § 2719.

<sup>6</sup> D.20-08-047, p. 85.

## **1. Improved Access to Capital Supports Approving this Advice Letter**

As the expense of meeting increasingly stringent regulations climbs, greater amounts of capital will be required to fund infrastructure projects. California American Water has better access to capital and likely at lower costs than Corral de Tierra. By D.18-07-013, the Commission authorized California American Water to issue up to \$359,450,000 in long-term debt. Recently, in D.23-05-008, the Commission authorized California American Water to issue up to \$397,261,000 in new long-term debt securities. California American Water has a Financial Services Agreement with American Water Capital Corporation, another subsidiary of American Water. That Agreement's purpose is to provide financing to other subsidiaries, such as California American Water.<sup>7</sup> The Commission and Legislature have recognized that access to capital is important and benefits the public interest. Thus, California American Water's acquisition of Corral de Tierra ensures access to capital needed to finance infrastructure necessary to supply Corral de Tierra customers with safe water.

## **2. Benefits from Economies of Scale Support Approval**

Benefits from economies of scale also strongly support approving this advice letter. Examples of where economies of scale often benefit larger utilities and their customers include: (1) compliance with regulatory requirements, (2) maintaining customer information and billing systems, (3) purchasing materials and supplies, (4) maintaining high levels of customer service, (5) maintaining and improving quality of treated water, (6) providing for current infrastructure needs and future growth, and (7) supporting a level of expertise required to navigate often complex requirements for government programs such as grant funds and revolving fund loans.

Larger utilities, such as California American Water, can develop greater in-house expertise, creating institutional knowledge. California American Water employs personnel with specific expertise in such specialized functions as water quality and testing, environmental compliance, customer service, engineering, and conservation. Smaller utilities frequently must rely on outside consultants who usually cost more and leave at the end of the project, taking their institutional knowledge with them. Benefits from more diverse and specialized workforces at larger utilities provide advantages over smaller systems in numerous areas, including environmental and water quality, financing, human resources, and general operations. In addition, with California American Water's greater size and more extensive personnel, Corral de Tierra customers will have greater assurance of high-quality service. California American Water has a more sizeable workforce with overlapping skills, which reduces the chance of coverage gaps due to illness, vacation, or unavailability. It also has greater access to more advanced equipment and technology, which aids in resolving issues more quickly.

California American Water's ability to spread fixed costs, lowering per-customer share of such costs, supports approval of this Advice Letter. Economies of scale are also driven by the relationship between the fixed and variable costs of operation. Utilities are capital intensive. Fixed costs are high relative to variable costs. For example, testing equipment for a system of 200 customers may cost the same as that for a system of 20,000. With greater environmental and regulatory requirements, fixed costs will likely only increase, presenting a problem for

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<sup>7</sup> See D.18-07-013, *Application of California-American Water Company (U210W) to issue, sell and deliver debt securities consisting of long-term notes not exceeding \$359,450,000 in the aggregate, and other related requests*, dated July 12, 2018 ("D.18-07-013").

smaller water companies, such as Corral de Tierra. With its much smaller customer base, Corral de Tierra will have trouble spreading those increased fixed costs. Because of California American Water's large size, it has a much better ability to spread costs and improve efficiencies.

California American Water anticipates savings. Such savings may come either from lower costs or from the fact that volunteer labor that was used to run Corral de Tierra may no longer be available in the future were the system to remain independent. Cost savings may include from reducing Corral de Tierra's miscellaneous expenses related to regulatory, materials, and plant maintenance through leveraging economies of scale, existing employees, and existing statewide shared services. These specific items will not necessarily create dollar-for-dollar savings, as much of the associated work will still need to be performed; however, California American Water will be able to leverage existing economies of scale to perform the work at lower cost, creating long-term savings for Corral de Tierra customers.

Thus, economies of scale based on the ability to spread fixed costs, improved efficiencies through specialization, as well as things such as market presence (which includes access to capital and volume discounts for materials), as well as synergies all support approving this advice letter.

## **B. State Water Resources Control Board Policy Supports Advice Letter Approval**

According to the Public Policy Institute of California, "...the state is actively encouraging one solution: the consolidation of smaller systems into larger ones." In Resolution No. 2008-0048, the SWRCB noted that small water systems: (1) often cannot provide the economies of scale necessary to build and maintain adequate water and wastewater systems; (2) lack resources and in-house expertise, including those necessary to best manage long-term operations; and (3) need financial and technical assistance to ensure compliance. Senate Bill 88 (2015) added sections 116680-116684 to the California Health and Safety Code, giving the SWRCB the ability to mandate consolidation when appropriate – underscoring the Legislature's recognition of the need for consolidation. In implementing that new authority, the SWRCB has publicly stated that it "has encouraged – and will continue to encourage –voluntary consolidations of public water systems...." According to the SWRCB, "Small public water systems are often less resilient to natural disasters, such as drought and fire, have more difficulty adjusting to regulatory changes, and may struggle to fund infrastructure maintenance and replacement due to poor economies of scale and lack of staff." This is why the SWRCB "supports water partnerships whenever feasible."

As noted above, California American Water's acquisition of Corral de Tierra will help to provide greater economies of scale and bring greater resources and expertise (financial, technical, personnel) to the management and operation of Corral de Tierra. This is consistent with the SWRCB's recognition of the benefits of this type of transaction. Importantly, here Corral de Tierra is currently subject to an outstanding compliance order because of arsenic levels in its water. When California American Water acquires the system, California American Water will connect Corral de Tierra's current customers to California American Water's system.



### **C. The Commission's Water Action Plan Supports Advice Letter Approval**

The Commission's Water Action Plan recognizes that to maintain the highest standards of water quality, the Commission should provide incentives for the acquisition or operation of smaller water and sewer utilities. In adopting the plan, the Commission noted:

Smaller water companies often do not have the resources or expertise to operate in full compliance with increasingly stringent and complex water quality regulations. Many water companies are too small to be viable in the long-term, raising questions as to whether they will be able to continue to provide clean and reliable water in the future. DPH requests Class A utilities (over 10,000 connections) to report on an annual basis which smaller utilities they might consider purchasing.

The Water Action Plan's objectives include: (1) maintaining the highest standards of water quality; (2) strengthening water conservation programs to a level comparable to those of energy utilities; (3) promoting water infrastructure investment; (4) assisting low-income ratepayers; (5) streamlining Commission regulatory decision making; and (6) setting rates that balance investment, conservation, and affordability. This advice letter seeks approval of a transaction that will further these Commission objectives.

#### **1. Maintaining the Highest Standards of Water Quality**

California American Water's acquisition of Corral de Tierra's assets will ensure that the first objective of the Water Action Plan (maintaining the highest standards of water quality) is met. This Advice Letter seeks approval of a transaction that furthers these Commission objectives. The purchase of a smaller system by a larger system makes economic sense. California American Water will bring economies of scale, greater internal expertise, access to resources, and greater knowledge and experience. California American Water will also bring a source of supply to replace Corral de Tierra's current supply, which has elevated arsenic levels. Thus, the acquisition will help maintain the highest standards of water quality.

#### **2. Strengthening Water Conservation Programs**

The proposed transaction will also promote the Water Action Plan objective of strengthening conservation. California American Water has an established, successful, more robust conservation program. Corral de Tierra customers currently do not have meters. California American Water will install meters and ultimately provide former Corral de Tierra customers with access to California American Water's wide-ranging conservation programs.

### **3. Promoting Water Infrastructure Investment**

California American Water has greater access to resources, including financing and personnel trained in planning for infrastructure development, therefore helping to advance the Water Action Plan's goal of promoting water infrastructure investment.

### **4. Assisting Low-Income Ratepayers**

Corral de Tierra currently lacks a low-income program. California American Water has a well-functioning low-income program and has implemented that program in acquired systems. Moreover, California American Water's program benefits from the company's ability (through coordination with energy companies) to identify customers that qualify. This ability is important because some qualified customers may be unaware of the programs or unsure how to subscribe to them. Because of California American Water's size and scope of operations, the data processing costs are kept low on a per-customer basis. The acquisition, therefore, advances the Water Action Plan's objective of assisting low-income ratepayers.

### **5. Setting Rates That Balance Investment, Conservation, and Affordability**

Due to California American Water's size, financial strength, and the breadth of expertise of its employees, the acquisition supports the Commission Water Action Plan's objectives of strengthening water conservation programs and setting rates that balance investment, conservation, and affordability. In addition, California American Water can spread costs to operate, maintain, and invest over a much larger customer base.

For all these reasons, the acquisition will further the Commission's goals under the Water Action Plan and should be approved by the Commission.

#### **D. Customer Benefits**

As discussed above, the acquisition of Corral de Tierra's assets, for \$0.00, will increase the likelihood of the Corral de Tierra community's long-term access to safe and reliable water services at affordable prices. California American Water's size, and position in the industry and association with American Water, will allow California American Water to meet water quality, reliability, and customer service standards efficiently. This is particularly important here, where Corral de Tierra's current source of supply suffers from contamination. California American Water's larger and more specialized workforce and nearby locations allow for expanded customer service options and for assistance in emergency situations. In addition, after the acquisition, customers now served by Corral de Tierra will have access to web self-service for many services, paperless billing and call centers that have the capacity to obtain translation services in several languages.

California American Water also has a robust safety program that focuses on leading indicators. The Company's near miss program is one example of this. Employees are

encouraged to report incidents that could have created an injury or accident but did not in that instance. Near miss incidents are reported through a phone call, computer, or handheld device. Corrective actions are then taken if appropriate. Another program is the Company's Safety Lead Program, where field employees are empowered to perform job site safety checks and teach safety courses for co-workers. Learning from their peers is an excellent way to make certain that California American Water communicates safety information to employees and contractors. Finally, each worker carries a "Stop Work Authority" reminder on the back of his/her work identification card. This is a reminder that if an employee feels that a job is unsafe, the employee is empowered to stop the job immediately until the unsafe situation is remedied. All these programs will enhance the safety of the water service provided to customers now served by Corral de Tierra.

The acquisition also benefits current California American Water customers. In the long run, a larger total customer base will spread costs and risks, benefiting all current and future California American Water customers.

#### **E. The Transaction Furthers the Commission's Environmental and Social Justice Goals**

The Commission's Environmental and Social Justice Action Plan ("ESJ Plan") identifies existing inequities and proposes actions for how the Commission can use its regulatory authority to address health and safety, consumer protection, program benefits, and enforcement to encompass all the industries it regulates, including energy, water, and communications programs. Goal 3 of the Commission's ESJ Plan is to improve access to high-quality water, communications, and transportation services for ESJ Communities. For water utilities, objectives for this goal include (1) consolidating small water systems, and (2) expanding low-income programs.

The ESJ Plan recognizes consolidation of smaller systems is an important tool to ensure customers receive safe and reliable water. The Commission recognizes smaller water systems often lack the ability to fully comply with increasingly stringent water quality regulations and to be viable in the long-term. As noted above, California American Water will bring economies of scale, internal expertise, access to resources, as well as greater knowledge and experience. California American Water's much larger size will also enable it to spread costs over a much broader customer base, reducing the chance of rate shock for customers and ensuring that necessary rate increases are more moderate.

As previously discussed, California American Water has a low-income assistance program that has assisted many customers. The Commission's approval of California American Water's acquisition of Corral de Tierra's assets could allow for expansion of that program to customers of Corral de Tierra, which does not currently offer a low-income assistance program. California American Water reports annually to the Commission on its supplier diversity. The Company also conducts diversity fairs to provide opportunities for diverse vendors. California American Water has a Diversity Champion Network and conducts numerous employee trainings. As is noted above, California American Water also provides translation services for

customers who would prefer to communicate with the Company in a language other than English.

## **VI. RATES AND REGULATORY TREATMENT:**

### **A. Request for Authorized Rate Base Equal to Fair Market Value**

Applicants request the Commission authorize rate base equal to the total final purchase price (i.e., \$0.00). California American Water requests to record the acquisition on a net basis consistent with generally accepted accounting principles. At close of the acquisition, with California American Water's taking ownership of all of Corral de Tierra's assets included in the transaction, the new rate base for the system would total \$0.00.

This purchase price resulted from negotiations between a willing and informed buyer and a willing and informed seller with neither side compelled to enter the transaction hastily or out of necessity. The purchase price conforms to the definition of "fair market value" set forth in Code of Civil Procedure Section 1263.320(a). Inclusion of the entire purchase price in rate base is supported by Commission Decision D.99-10-064 and the Public Water System Investment and Consolidation Act of 1997 ("Consolidation Act"), codified at Public Utilities Code Sections 2718-2720. The Legislature enacted the Consolidation Act to facilitate the acquisitions by Class A water utilities and to:

...aid water systems in making infrastructure improvements, to meet increasingly stringent state and federal drinking water laws, to recognize that economies of scale are achievable in the operation of public water systems, and to provide water corporations with incentives to achieve economies that benefit ratepayers.

Public Utilities Code Section 2720(a) provides that the Commission "shall use the standard of fair market value when establishing the rate base for the distribution system of a public water system acquired by a water [utility]. This standard shall be used for ratesetting." Public Utilities Code Section 2720(a)(2) defines "fair market value" as having the meaning set forth in Code of Civil Procedure Section 1263.320, which states that fair market value is "the highest price ... that would be agreed to by a seller, being willing to sell but under no particular or urgent necessity for doing, nor obligated to sell, and a buyer, being ready, willing, and able to buy but under no particular necessity for doing so." The Act, therefore, requires that any water corporation acquiring a public water system use the fair market value as the rate base value of the acquired distribution system.

California American Water requests the Commission authorize inclusion of the full purchase price reached through the Asset Purchase Agreement into California American Water's rate base. As described above, this purchase price is the result of arms' length negotiations between a willing and knowledgeable buyer and seller. The total purchase price therefore represents the fair market value for the assets purchased, pursuant to Public Utilities Code Section 2720 and Code of Civil Procedure Section 1263.320(a).

D.99-10-064 specifically recognizes that Public Utilities Code Sections 2718-2720 require that any water corporation acquiring a public water system use the fair market value as the rate base value of the acquired distribution system. It should also be noted that, as the appraisal makes clear, the value of the rate base being requested is well below the replacement or reproduction cost new less depreciation value for the system. In addition to being required by statute, the ratemaking requested is in the public interest. The purchase of Corral de Tierra's assets by California American Water supports and furthers the long-term provision of safe, reliable, and affordable water and services to current Corral de Tierra customers.

### **B. The Appraisal Complies with Commission Guidelines and Supports the Acquisition**

The "Corral de Tierra Valuation," dated September 1, 2023 ("Appraisal"), is MDR Response 13 Attachment. The Appraisal complies with Commission guidelines and is appropriate for this type of transaction. The \$96,446 appraised value (which does not include associated easements) for the system well exceeds the \$0.00 purchase price. Thus, the Appraisal supports approval of the acquisition.

Under the Commission guidelines for water system acquisitions established in D.99-10-064, Appendix D, Section 2.05, applications to acquire water systems should include an appraisal and that appraisal "should include all assets, including the value of the land and the cost of replacing the existing improvements, less accumulated depreciation." The Appraisal provided with this Advice Letter includes all assets (except the value of easements) and the cost of replacing those assets less accumulated depreciation. It, therefore, meets these requirements.

D.99-10-064, Appendix D, Section 2.05 further states: "The complexity and detail required [for the appraisal] will necessarily vary based on the size and price of the acquired water system." Corral de Tierra is a small water system acquisition. The total purchase price is \$0.00 dollars. The number of connections is just 15. The Appraisal, therefore, is simpler and not as complex as larger, more sophisticated acquisitions might require.<sup>8</sup>

Finally, pursuant to Cal. Pub. Util. Code section 2720(b), "[i]f the fair market value exceeds the reproduction cost, as determined in accordance with Section 820 of the Evidence Code, the commission may include the difference in rate base for rate setting purposes if"

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<sup>8</sup> The appraisal in this acquisition is a Replacement Cost New Less Depreciation Appraisal. It considers basic depreciation of the assets. It does not, as significantly more complex appraisals do, account for things such as economic obsolescence. By way of example, in A.20-04-003, California American Water sought Commission authorization to purchase the East Pasadena Water Company. That transaction involved a \$34 million purchase price for a system with over 3,000 connections. The "size and price" of that acquisition warranted a correspondingly more complex appraisal that considered economic obsolescence. In that case, the total value of the system prior to consideration of economic obsolescence was \$49.2 million. Applying economic obsolescence reduced the value in the appraisal to \$43.2 million. Given that the Appraisal in the current acquisition came in more than \$96,000 over the \$0.00 purchase price, it is not expected that, even if economic obsolescence was considered, that would reduce the appraised value to any point near where the purchase price exceeded that appraised value.

certain conditions are met. Here, there is no need to conduct the section 2720(b) analysis. The appraised value well exceeds the purchase price.

**C. Rate Impact**

Eventual impacts to Corral de Tierra customers transitioning to California American Water rates will vary, depending on a given customer’s usage. This acquisition is not expected to impact current California American Water Customers’ rates. Corral de Tierra residential bill per month is based on monthly average usage as follows:

<b>COMPARISON OF TOTAL RESIDENTIAL BILL PER CUSTOMER PER MONTH</b>					
<b>BASED ON CURRENT AUTHORIZED RATES</b>					
<b>District</b>	<b>Avg Res Usage (CGL)<sup>(1)</sup></b>	<b>Pre-Acquisition Total Bill<sup>(2)</sup></b>	<b>Post-Acquisition Forecasted Total Bill</b>	<b>\$ Increase</b>	<b>% Increase</b>
Corral de Tierra	136.65	\$125.00	\$194.27	\$69.27	55.42%

- (1) California American Water’s Central satellite customer’s monthly average usage is 92.01 CGL
- (2) Total Bill based on California American Water’s Central Satellite Rates from AL 1420
- (3) Bill impacts are presented as monthly comparison; however, flat rate residential customers are billed on a semi-annual basis. Applicable surcharges are estimated based on location.

**VII. MEMORANDUM ACCOUNTS**

California American Water seeks authorization to track certain costs in the memorandum accounts discussed below. Costs included therein may be considered for recovery in subsequent GRCs. Establishing memorandum accounts does not guarantee recovery of costs. It is simply a first step in the recovery process. To establish a memorandum account, the following may be considered with respect to the expense to be tracked: (1) were they caused by an event of an exceptional nature not under the control of the utility; (2) could they have been reasonably foreseen; (3) are they of a substantial nature in monetary terms; and (4) do ratepayers benefit from the memorandum account treatment.

**A. Corral de Tierra Transaction Cost Memorandum Account**

With any acquisition, certain transaction costs are inevitable. Here, they may include the cost for outsourced services, such as legal, engineering, surveying, the appraisal, noticing, and other professional activities necessary to complete the proposed transaction. California American Water requests establishment of a memorandum account to track these transaction costs.

This memorandum account meets the requirements established pursuant to Commission Standard Practice U-27-W. With respect to transaction costs, each of these requirements is met. First, the expense is caused by an event of an exceptional nature that is not under the utility's control. This memorandum account is necessary given the acquisition of a water system is an event of exceptional nature. Transaction costs are inherent in the acquisition of smaller water systems and the acquiring company should receive due consideration of recovery of these costs. The Commission will decide on the schedule for this proceeding and the date of the ultimate decision and recovery of costs. Thus, such a decision and its timing are outside of California American Water's control.

Second, the expenses in question here could not have been reasonably foreseen in California American Water's last GRC and will occur before the utility's next scheduled case. The Corral de Tierra acquisition could not have been included in California American Water's last GRC given that the agreement between Corral de Tierra and California American Water was not executed until February 2023 – well after the 2022 GRC was filed. Therefore, these transaction costs have been and will be incurred between rate cases.

Third, the expense is of a substantial nature as to the amount of money involved. As noted above, transaction costs include outsourced services, such as legal, engineering, surveying, the appraisal, noticing costs, and other professional activities necessary to complete the proposed transaction. These costs are substantial in nature.

Fourth, the ratepayers will benefit by the memorandum account treatment. As discussed in this Advice Letter, the purchase of Corral de Tierra by California American Water promotes the public interest and is in line with Commission and SWRCB directives and findings, which recognize that the purchase of smaller utilities is important and provides benefits, including to ratepayers. Ensuring the appropriate recovery of costs associated with such transactions helps make such acquisitions possible. Further, a memorandum account provides for tracking of costs for future Commission prudence and reasonableness review prior to cost recovery. Thus, customers will benefit from the acquisition and will benefit by this account.

California American Water should be permitted to establish a memorandum account to track transaction costs for future recovery. California American Water further proposes that it be allowed to defer any unrecovered transaction cost as a recoverable regulatory asset. In its subsequent GRC, California American Water will support the prudence of the transaction costs, seek recovery of the costs, and request that the Commission authorize such recovery.

## **B. Memorandum Account for Environmental Improvements and Compliance Issues**

California American Water also requests Commission approval to expand the currently authorized memorandum account entitled "Memorandum Account for Environmental Improvements and Compliance Issues for Acquisitions." That approval would allow California American Water to record in that account the same type of costs in connection with the Corral de Tierra acquisition as California American Water was allowed to record in that account for the acquisitions of the Dunnigan, Geyserville, Meadowbrook, Fruitridge Vista, East Pasadena, and Rio Plaza water systems.<sup>9</sup> The costs to address environmental compliance and required

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<sup>9</sup> Because California American Water is not seeking to establish a new memorandum account, meeting the prerequisites for creating such an account is not necessary. That said, because of

improvements have yet to be determined and/or incurred. Such costs are not under the utility's control, nor can they be reasonably foreseen. Compliance with such requirements, however, ensures safety, benefitting ratepayers. The proposed memorandum account treatment helps make certain that the requisite capital expenditures will be subject to regulatory oversight and that funds will be used judiciously.

### **VIII. CALIFORNIA ENVIRONMENTAL QUALITY ACT**

California Environmental Quality Act ("CEQA") review is not required as this advice letter filing 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 the proposed 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.

### **IX. NOTICE**

The final draft of the proposed notice is included as MDR Response 20 Attachment. It was provided to the Commission's Public Advisor's Office ("PAO"). The PAO returned the edited, approved final draft. The notice will be served on Corral de Tierra Customers as those are the only customers expected to be impacted. The protest period for this advice letter will be the standard 20 days.

#### **Tier Designation:**

Pursuant to General Order No. 96-B, this advice letter is designated as a Tier 3 filing.

#### **Effective Date:**

California American Water requests California American Water's Monterey District tariffs become effective five days after California American Water files a Tier 1 Advice Letter that provides details of the finalized purchase.

#### **Service List:**

In accordance with General Order 96-B, General Rule 4.3 and 7.2 and Water Industry Rule 4.1, a copy of this advice letter will be transmitted electronically to competing and adjacent utilities and other utilities or interested parties having requested such notification. ***Please note that this advice letter will only be distributed electronically.***

#### **Protest and Responses:**

Anyone may respond to or protest this advice letter. A response supports the filing and may contain information that proves useful to the Commission in evaluating the advice letter.

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the nature of the costs to be tracked, such prerequisites are nonetheless satisfied. The memorandum account treatment helps make certain that the requisite capital expenditures will be subject to regulatory oversight and that funds are used judiciously.



A protest objects to the advice letter in whole or in part and must set forth the specific grounds on which it is based. These grounds may include the following:

- (1) The utility did not properly serve or give notice of the advice letter;*
- (2) The relief requested in the advice letter would violate statute or Commission order, or is not authorized by statute or Commission order on which the utility relies;*
- (3) The analysis, calculations, or data in the advice letter contain material error or omissions;*
- (4) The relief requested in the advice letter is pending before the Commission in a formal proceeding; or*
- (5) The relief requested in the advice letter requires consideration in a formal hearing, or is otherwise inappropriate for the advice letter process; or*
- (6) The relief requested in the advice letter is unjust, unreasonable, or discriminatory (provided that such a protest may not be made where it would require relitigating a prior order of the Commission.)*

A protest shall provide citations or proofs where available to allow staff to properly consider the protest.

A response or protest must be made in writing or by electronic mail and must be received by the Water Division within 20 days of the date this advice letter is filed. The address for mailing or delivering a response or protest is:

Tariff Unit, Water Division, 3<sup>rd</sup> floor  
California Public Utilities Commission,  
505 Van Ness Avenue, San Francisco, CA 94102  
water\_division@cpuc.ca.gov

On the same date the response or protest is submitted to the Water Division, the respondent or protestant shall send a copy by mail (or e-mail) to us, addressed to:

<b>Recipients:</b>	<b>E-Mail:</b>	<b>Mailing Address:</b>
CA Rates	ca.rates@amwater.com	520 Capitol Mall, Suite 630 Sacramento, CA 95814
Sarah E. Leeper <i>Vice President - Legal, Regulatory</i>	sarah.leeper@amwater.com	555 Montgomery Street Suite 816 San Francisco, CA 94102 Fax: (415) 863-0615
Nicholas Subias Director, Legal – Regulatory	nicholas.subias@amwater.com	555 Montgomery Street Suite 816

		San Francisco, CA 94102 Fax: (415) 293-3024
Jonathan Morse <i>Sr. Manager – Rates &amp; Regulatory</i>	jonathan.morse@amwater.com	520 Capitol Mall, Suite 630 Sacramento, CA 95814

Cities and counties that need Board of Supervisors or Board of Commissioners approval to protest should inform the Water Division, within the protest period (here, 20-days), so that a late filed protest can be entertained. The informing document should include an estimate of the date the proposed protest might be voted on.

The actions requested in this advice letter are not now the subject of any formal filings with the California Public Utilities Commission, including a formal complaint, nor action in any court of law.

This filing will not cause the withdrawal of service, nor conflict with other schedules or rules.

If you have not received a reply to your protest within 10 business days, please contact me at (916) 568-4241.

CALIFORNIA-AMERICAN WATER COMPANY

*/s/ Chase Grady*

Chase Grady

Associate Rates & Regulatory Analyst

**CENTRAL DIVISION SERVICE LIST**  
**CALIFORNIA-AMERICAN WATER COMPANY**

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Karen Crouch  
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City of Pacific Grove  
c/o Community Development Department  
Attention: Sarah Hardgrave  
300 Forest Ave., 2nd floor  
Pacific Grove, CA 93950

City of Sand City  
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Monterey Peninsula Water Management  
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**CENTRAL DIVISION SERVICE LIST**  
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**BY E-MAIL:**

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