

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Joint Application of California-American Water Company (U-210-W) and East Pasadena Water Company (U-331-W) for an Order Authorizing East Pasadena Water Company to Sell and California-American Water to Purchase the Water Utility Assets of East Pasadena Water Company.

Application No. 20-04-
(Filed April 6, 2020)

**JOINT APPLICATION FOR ORDER AUTHORIZING
SALE AND PURCHASE OF UTILITY ASSETS**

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Pursuant to Sections 851-854 and 2718-2720 of the California Public Utilities Code, Decision (“D.”) 99-10-064,¹ Article 2 of the California Public Utilities Commission (“Commission”) Rules of Practice and Procedure (“Rules”), and Rule 3.6, East Pasadena Water Company (U-331-W) (“East Pasadena Water” or “Seller”) joins with California-American Water Company (U-210-W) (“California American Water,” the “Company,” or “Buyer”) (together, the “Applicants”) in this application requesting the Commission authorize the sale of East Pasadena Water’s assets, and California American Water’s purchase of those assets. The application also requests the Commission authorize certain other actions related to the sale.

I. INTRODUCTION

Provided the Commission approves this application, California American Water’s acquisition of East Pasadena Water’s utility assets will occur pursuant to the asset purchase

¹ Pursuant to the settlement approved in D.99-10-064, on August 7, 2019, California American Water and East Pasadena Water served on the California Public Utilities Commission Public Advocates Office a Notice of Intention (“NOI”). The NOI attached a draft version of this application, which showed how the transaction will “affect reliability, compliance with regulations relating to health and safety, economies of scale and customers.” D.99-10-064, *Order Instituting Rulemaking on the Commission’s Own Motion to Set Rules and Provide Guidelines for the Acquisition and Mergers of Water Companies*, Opinion, Appendix D, Section 2.02.

agreement dated April 19, 2019, between the Seller and California American Water (the “Asset Purchase Agreement”). A copy of the Asset Purchase Agreement is included as a confidential attachment to the Direct Testimony of Garry M. Hofer.

This application asks the Commission to approve the terms and conditions of the Asset Purchase Agreement and the transaction contemplated in that Agreement, and to expand California American Water’s Certificate of Public Convenience and Necessity (“CPCN”) so California American Water may assume all public utility responsibilities for operation and ownership of water utility operations in East Pasadena Water’s current service area. Specifically, Applicants request Commission authority:

- i. Approving the terms and conditions of the asset purchase agreement between California American Water and East Pasadena, entered into on April 19, 2019.
- ii. Expanding California American Water’s CPCN so the company may assume all public utility responsibilities for the operation and ownership of the water utility operations in East Pasadena’s current service area.
- iii. Relieving East Pasadena Water of its public utility responsibilities following completion of the transaction.
- iv. Establishing the rate base of the acquired water system, at the time of approval of a decision in this application, to be the Cash Purchase Price of \$34 million,² plus or minus any adjustment amounts per the Asset Purchase Agreement. Included in this establishment is recognition, and inclusion of, the water rights included in the transaction.
- v. Allowing the water system California American Water would own and operate in the East Pasadena area to be folded immediately into California

² Original acquired rate base may be subsequently adjusted to include transactional costs associated with the acquisition, depending on the resolution of recovery of such costs in a subsequent California American Water General Rate Case.

- American Water's Los Angeles County District for operational purposes.
- vi. Retaining the existing rate structure and maintaining existing Commission approved rates and charges in effect at the time the acquisition closes for the acquired water system until 2024, subject to the annual adjustments noted below.
 - vii. Approving California American Water's request to file standard CPI-U rate increases for East Pasadena as allowed for Class B utilities until East Pasadena is consolidated into California American Water's Los Angeles County District for rate purposes in 2024.
 - viii. Allowing California American Water to integrate the East Pasadena system into the California American Water's Los Angeles County District (and Corporate Office) for ratemaking purposes as of January 1, 2024. The rates for East Pasadena customers from January 1, 2024 forward would be determined in the California American Water general rate case ("GRC") to be filed on July 1, 2022.
 - ix. Approving California American Water's Request to create an East Pasadena Acquisition Contingency Memorandum Account ("EPACMA"). This account would capture the differences between revenues billed at current East Pasadena rates and revenues that would have been billed under the final rates effective January 1, 2021, if the East Pasadena system was integrated for ratemaking purposes following the decision in California American Water's 2019 GRC, Application 19-07-004. The associated revenue requirement will consist of items including, but not limited to, return on investment, ad valorem tax, depreciation, general office costs, other taxes and fees, and incremental operating expenses, if any.
 - x. Authorizing establishment of a transaction memorandum account,

pursuant to Commission Standard Practice U-27-W, to track all transaction related costs, with rate treatment to be determined in the California American Water GRC following approval of the transaction.

- xi. Allowing the tracking of costs to address any possible future required environmental improvements and compliance issues in California American Water’s already established memorandum account related to the same issues for the Dunnigan, Geyserville, Meadowbrook and Rio Plaza acquisitions.

Applicants will also serve direct testimony by Garry M. Hofer (Director of Operations, California American Water), Stephen Wesley Owens (Director of Rates & Regulatory, California American Water), Lawrence M. Morales (President, East Pasadena Water), Michael Wademan (Brown and Caldwell), Matthew Payne (WestWater Research), and Kevin Zanni (Willamette Management Associates).

Applicants expect that the relief requested in this application will not be controversial. The proposed acquisition furthers important policies and goals set by the California Legislature and the Commission. The acquisition will benefit customers of both East Pasadena Water and California American Water. This proceeding, therefore, should move along quickly and place a proposed decision on the Commission’s agenda for adoption at or before 245 days from the date of this application, in accordance with the timeline established in D.99-10-064.³

II. THE PROPOSED TRANSACTION

A. East Pasadena Water Company

1. History

East Pasadena Water is a Commission-regulated Class B public water utility. East Pasadena Water owns and operates a water system consisting of wells, reservoirs, meters, mains, distribution lines, water rights and other facilities and properties necessary and useful for the

³ See D.99-10-064 at Section 2.03 (“Processing. The Parties agree that applications should be processed according to the schedules attached to this Settlement”), and at p. 5, which sets forth the schedules.

utility's operations, which include distribution of water from East Pasadena Water's source of supply to the point of delivery to customers. The system serves approximately 3,000 connections in the Cities of Temple City, Arcadia and San Gabriel and an unincorporated portion of Los Angeles County south-east of the City of Pasadena.

California-Michigan Land and Water Company ("Cal-Mich") was the predecessor to East Pasadena Water. Cal-Mich was incorporated on December 23, 1910. The primary purpose of Cal-Mich was to develop and subdivide lands. The California Railroad Commission (today's California Public Utilities Commission) required installation of a domestic water system for the development and sale of land, so in 1913 Cal-Mich completed a domestic water distribution system and began functioning as a public water utility.

The area originally served by Cal-Mich was known as the Michillinda Tract and consisted of about 100 acres in an unincorporated area near Pasadena, California. In 1913, Cal-Mich purchased the Cribb-Brodek Light and Water Company and extended its service territory into Arcadia's South Santa Anita Tract. In 1931, Cal-Mich acquired all of the stock of the then-existing East Pasadena Water and connected that system to its own.

In 1963, by Decision 66295, the Commission authorized Cal-Mich to sell and transfer its water distribution system and water rights to its East Pasadena Water subsidiary. That decision also relieved Cal-Mich of its public utility status. Thereafter, Cal-Mich held 100% of the common stock (no preferred stock was issued) of East Pasadena Water and concentrated primarily on its land business. East Pasadena Water remained a wholly-owned subsidiary of Cal-Mich from that time forward with Camille A. Garnier as its President and primary shareholder.

On November 9, 1968, Camille Garnier passed away, leaving his son, Anton Garnier, as the new President and primary shareholder of Cal-Mich and its subsidiary East Pasadena Water. For fifty years, Anton Garnier ensured that East Pasadena Water operated according to the highest utility, business and ethical standards. Before he retired in 2007, Mr. Garnier also served as CEO of Southwest Water Company, so East Pasadena Water benefited from Anton Garnier's expertise, guidance and knowledge of best practices. Today, East Pasadena Water serves water to

approximately 3,000 service connections and is classified as a class “B” water utility. It has served the community for over 88 years while providing exemplary service and high-quality water that has consistently met or exceeded state and federal standards.

As discussed in the direct testimony of Lawrence M. Morales, East Pasadena Water understands the evolving California water challenges resulting from stricter water quality standards, water supply issues and the need to develop new conservation strategies. In the years to come, water purveyors must respond to these challenges by implementing enhanced and more frequent water quality testing, seeking alternative water supplies, installing additional water treatment facilities and implementing new water conservation programs. Although East Pasadena Water has responded effectively to water quality challenges to date and is considering installation of a treatment facility, East Pasadena Water understands that additional infrastructure requirements are on the horizon and its customer base of roughly 3,000 may find it difficult to absorb the rate increases needed to finance these projects on a stand-alone basis.

Finally, Mr. Anton Garnier is 79 years of age. At this time in his life, he would like to “pass the baton” to a large and professionally run water purveyor. He has identified California American Water as the best company to acquire East Pasadena Water. It has a long and distinguished service record in the East Pasadena Water area and is committed to continue providing the exceptional level of service and care that East Pasadena Water customers have come to expect. California American Water will not only carry on Mr. Garnier’s high business and operating standards but will increase the benefits to customers through its conservation, rate assistance and customer service programs, as well as providing improved access to the capital and critical economies of scale in meeting future water system needs.

2. East Pasadena Water’s Approved Rate Base

East Pasadena Water’s authorized rate base of \$3,959,034 was established in Resolution W-5039 and consists of: (1) plant in service of \$10,283,024, (2) materials and supplies of \$23,028, (3) working cash of \$178,603, (4) accumulated depreciation of (\$4,479,599), (5)

advances for construction of (\$3,442), (6) contributions in aid of construction of (\$690,973), and (7) deferred income taxes of (\$1,351,607).⁴

3. Water Rights

East Pasadena Water has water rights within the Main San Gabriel Basin (“Main Basin”) and the Raymond Basin. The value of these water rights is reflected in the purchase price.

The Main Basin is located in the northeastern portion of Los Angeles County. The 1973 Superior Court judgment in *Upper San Gabriel Valley Municipal Water District v. City of Alhambra et al.* adjudicated groundwater rights in the Main Basin and created a Watermaster to regulate and monitor groundwater use in the Basin and acquire and recharge imported water. On an annual basis, the Watermaster determines the Operating Safe Yield (“OSY”), which is the maximum quantity of water water producers may withdraw without incurring a replacement assessment. There are three types of adjudicated water rights in the Main Basin: (1) overlying rights, (2) diversion rights and (3) prescriptive pumping rights.⁵ Prescriptive pumping rights entitle their owners to a fixed percentage of the annual OSY (known as the “Pumper’s Share”). East Pasadena Water holds 1,407.7 acre feet (“AF”) of prescriptive pumping rights in the Main Basin, equivalent to a 0.71% Pumper’s Share.

The Raymond Basin spans approximately 40 miles and extends between La Cañada and San Rafael hills to the west, the San Gabriel Mountain foothills to the north, the Santa Anita Canyon to the east, and the Raymond fault to the south. The Raymond Basin is an adjudicated basin. The Raymond Basin Management Board is the court-appointed Watermaster of the Raymond Basin. The sum of all water that is pumped, excluding water pumped from individual storage accounts or from recharged surface water, is regulated so as not to exceed the total safe yield of the basin. Decreed Rights are the base water rights that each party to the Judgment is

⁴ Additionally, East Pasadena Water is in the planning stages of installing a granular activated carbon (“GAC”) water treatment system to treat groundwater contaminant 123-TCP down to the State-mandated acceptable level for Well No. 8. It has achieved compliance by shutting down Well No. 8. East Pasadena Water is in the process of filing a State Revolving Fund (“SRF”) loan application with the State to secure funding for the GAC system.

⁵ <https://www.watermaster.org/reports>, Watermaster 2017-2018 Annual Report, Appendix L

entitled to pump annually. East Pasadena Water holds a Decreed Right of 515.0 AF in the Pasadena Subarea of the Raymond Basin Western Unit. In 2009, the Raymond Basin Management Board called for a 30% pumping reduction for parties with water rights in the Pasadena Subarea effective July 1, 2009. The 30% reduction is still in effect, leaving 360.5 AF of East Pasadena Water's Decreed Right currently available for withdrawal.

B. California-American Water Company

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 extensive operations in Los Angeles County, including two service areas near East Pasadena Water's service area. In Resolution W-5080, the Commission granted California American Water the authority to acquire Adams Ranch Mutual Water Company and accompanying prescriptive water rights, which have since been incorporated into California American Water's Los Angeles County District.⁶ California American Water also received Commission approval to acquire a mutual water company, a Class D water/wastewater utility, a Class D water utility, and several Class C water utilities.⁷ Most recently, the Commission approved California American Water's purchase of a Class B water utility in Sacramento.⁸

⁶ Resolution W-5080, *California-American Water Company, Order Approving California-American Water Company's Request To Acquire Adams Ranch Mutual Water Company For \$800,000, Resulting In An Estimated Future Revenue Requirement Increase Of \$169,656 Or 0.58% To Los Angeles County District Ratepayers*, February, 25, 2016.

⁷ See Resolution W-5042, *Order Approving California American Water Company's Request to Acquire Ox Bow Mutual Water Company*, June 11, 2015; D.15-11-012, *Application of California-American Water Company (U210W) and Grant Park Development, Inc. (dba Dunnigan Water Works) (U437W) for an Order Authorizing Dunnigan Water Works to Sell and California-American Water Company to Purchase the Public Utility Assets of Dunnigan Water Works*, Decision Authorizing California-American Water Company to Purchase the Public Utility Assets of Dunnigan Water Works; ; D.16-11-014, *Application of California-American Water Company (U-210-W) along with Harry K. Bosworth and Karen R. Bosworth (dba Geyserville Water Works (U-113-W) for an Order Authorizing the Bosworths to Sell and California-*

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 16 million people across North America.

C. The Asset Purchase Agreement

Under the Asset Purchase Agreement, East Pasadena Water will sell and transfer substantially all of the assets used or held for use in the operation of its water system to California American Water.⁹ Pursuant to that Agreement, the consideration for those assets will be the Purchase Price, defined as (a) the Cash Purchase Price, plus or minus the Adjustment Amount, plus (b) the Assumed Liabilities.¹⁰ The Cash Purchase Price is \$34,000,000.¹¹ Assumed Liabilities include East Pasadena Water’s obligations under Assumed Contracts and certain Balance Sheet Liabilities listed in Schedule 2.3 of the Asset Purchase Agreement.

The Adjustment Amount will be determined based on the methodology set forth in Exhibit 3 to the Asset Purchase Agreement. The Adjustment Amount will be computed based on

American Water Company to Purchase the Public Utility Assets Associated with Geyserville Water Works, Decision Authorizing the Sale and Adopting Settlement Agreement; D.16-12-014, Joint Application for an order authorizing the sale of all outstanding shares of Meadowbrook Water Company of Merced, Inc., (U204W), as well as certain real property not owned by that company, to California-American Water Company (U210W), 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; D.19-04-015, Application of California-American Water Company (U210W), Rio Plaza Water Company, Inc. (U319W), and John Chris Nickel, Sr., Trustee for the John C. Nickel Trust for an Order Authorizing the Sale of all Shares of Rio Plaza Water Company, Inc. to California-American Water Company and Approval of Related Matters, Decision Authorizing Sale and Transfer; D.19-11-003, Application of California-American Water Company (U210W), Hillview Water Company, Inc. (U194W), Roger Forrester, and Jerry L. Moore and Diane F Moore, as trustees of the Jerry Moore and Diane Moore Family Trust, for an Order Authorizing the Sale of all Shares of Hillview Water Company, Inc. to California-American Water Company and Approval of Related Matters, Decision Approving Purchase of Water System.

⁸ D.19-12-038, *Joint Application of California-American Water Company (U210W) and Cook Endeavors d/b/a Fruitridge Vista Water Company (U136W) for an Order Authorizing Cook Endeavors to Sell and California-American Water Company to Purchase the water utility assets of Cook Endeavors*, Decision Authorizing the Purchase of Water Utility Assets by California-American Water Company.

⁹ Asset Purchase Agreement, at p. 1.

¹⁰ Asset Purchase Agreement, at p. 2 and at Asset Purchase Agreement Exhibit 2, p. 9; unless otherwise noted, capitalized terms have the same meaning as provided for in Exhibit 2 to the Asset Purchase Agreement.

¹¹ Asset Purchase Agreement, at p. 2.

changes in or prorations of the following categories: (1) Net Utility Plan Assets; (2) Prepaid Expenses (3) Accrued Liabilities Prorations, including water assessments and customer deposits; (4) Other Prorations, including Ad Valorem and other Property Taxes, Utility Expenses, Rents, Contract Liabilities and Deposits, and Construction Advances. For example, real estate and personal property taxes and other assessments levied against the Acquired Assets will be prorated at closing, with East Pasadena Water responsible for such assessments up until the time of Closing and California American Water responsible for those assessments after closing.¹²

III. CUSTOMER BENEFITS AND PUBLIC INTEREST

The Commission reviews water utility ownership changes, such as the one proposed in this application, under Sections 851 and 854(a) of the Public Utilities Code, which prohibit the sale or transfer of control of a public utility absent prior Commission approval. To determine whether the transaction should be authorized under Section 854(a), “the Commission must weigh the affected public interests and apply the ‘ratepayer indifference standard’ to determine that no harm or negative effect on the ratepayer would result from the change of control.”¹³ As shown in this application and supporting documents, the purchase is in the public interest because it helps address issues identified by the California Legislature, the State Water Resources Control Board (“SWRCB”) and the Commission, while benefitting East Pasadena Water and California American Water customers.

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

¹² Asset Purchase Agreement Exhibit 3, at p. 1.

¹³ D.15-12-029, *Joint Application of Liberty Utilities Co., Liberty WWH, Inc., Western Water Holdings, LLC, Park Water Company (U 314 W), and Apple Valley Ranchos Water Company (U346W) for Authority for Liberty Utilities Co. to Acquire and Control Park Water Company and Apple Valley Ranchos Water Company*, Decision Adopting Settlement Agreement and Conditionally Approving the Application.

public water systems, and (4) providing water corporations with an incentive to achieve these scale economies provides benefits to ratepayers.¹⁴

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 East Pasadena Water will also achieve efficiencies and economies of scale that would otherwise not be available.

1. Improved Access to Capital Supports Granting the Application

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 at lower costs than East Pasadena Water. By D.18-07-013, the Commission recently authorized California American Water to issue up to \$359,450,000 in long-term debt. 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. Thus, California American Water's acquisition of East Pasadena Water ensures access to capital needed to finance infrastructure necessary to supply East Pasadena Water customers with safe water.

2. Benefits from Economies of Scale Support Application Approval

Benefits from economies of scale also strongly support granting this application. Examples of areas where economies of scale often benefit larger utilities and their customers include: (1) complying with regulatory requirements, (2) operating customer information and

¹⁴ Cal. Pub. Util. Code §2719.

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, are able to 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, East Pasadena Water 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 the per-customer share of such costs, supports approval of this application. 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 increase, presenting a particular problem for smaller water companies, such as East Pasadena Water. With its much smaller customer base, East Pasadena Water may find it difficult to implement the rate increases needed to fund

increasing fixed costs. Because of California American Water's larger size, it has a much better ability to spread costs and improve efficiencies.

There will also be several specifically identifiable cost savings generated as part of the acquisition. California American Water anticipates savings in insurance expense from leveraging American Water's ability to attain favorable rates due to the larger company size. Further, California American Water anticipates reducing East Pasadena Water's miscellaneous expenses related to regulatory, transportation, 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 East Pasadena Water customers.

Thus, economies of scale based on the ability to spread fixed costs, improved efficiencies through specialization, California American Water's market presence (which includes access to capital and volume discounts for materials) as well as synergies all support granting the application.

B. State Water Resources Control Board

According to the Public Policy Institute of California, "...the state is actively encouraging one solution: the consolidation of smaller systems into larger ones."¹⁵ 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 that necessary to best manage long-term operations; and (3) need financial and technical assistance to ensure compliance.¹⁶ Senate Bill 88 (2015) added sections 116680-116684 to the California Health and Safety Code giving the

¹⁵ www.ppic.org/blog/connecting-water-systems-for-safe-drinking-water/: Connecting Water Systems for Safe Drinking Water.

¹⁶ SWRCB Resolution No. 2008-0048, Promoting Strategies to Assist Small and/or Disadvantaged Communities with Wastewater Needs, at p. 1.

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...”¹⁷ 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.”¹⁸ This is why the SWRCB “supports water partnerships whenever feasible.”¹⁹

As noted above, California American Water’s acquisition of East Pasadena Water will help to provide greater economies of scale and bring greater resources and expertise (financial, technical, personnel) to the management and operation of the East Pasadena Water. This instance is consistent with the SWRCB’s recognition of the benefits of this type of transaction.

C. The Commission’s Water Action Plan Supports Application 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 by Class A utilities.²⁰

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

¹⁷ www.waterboards.ca.gov/drinking_water/programs/compliance/: Mandatory Consolidation or Extension for Disadvantaged Communities.

¹⁸ https://www.waterboards.ca.gov/drinking_water/certlic/drinkingwater/waterpartnership.html: Water System Partnerships and Voluntary Consolidation.

¹⁹ *Id.*

²⁰ “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.” California Public Utilities Commission 2010 Water Action Plan, at p. 9.

balance investment, conservation, and affordability.²¹ This application seeks approval of a transaction that will further these Commission objectives.

1. Maintaining the Highest Standards of Water Quality

California American Water's purchase of East Pasadena Water will ensure that the first objective of the Water Action Plan (maintaining the highest standards of water quality) is met. 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. These 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, robust conservation program. If the application is approved, East Pasadena Water customers will ultimately have access to California American Water's wide-ranging conservation programs. These include rebates for turf replacement, water-saving appliances/equipment (*e.g.*, toilets, clothes washers, weather-based irrigation controls and efficient sprinkler heads), free water-saving devices such as showerheads and hose nozzles and free Water-Wise Home and Business Calls, a water audit service that provides visits by California American Water staff to homes and businesses to review water use and identify ways to save water. Dedicated California American Water employees work one-on-one with customers to audit high consumption connections, inform customers of water saving practices, and provide water saving equipment. These programs will benefit East Pasadena Water customers and help further State goals regarding water conservation.

3. Promoting Water Infrastructure Investment

California American Water has greater access to resources, including financing and personnel trained in planning for infrastructure development and in finding state and federal

²¹ *Id.* at p. 3.

funding where available, therefore helping to advance the Water Action Plan's goal of promoting water infrastructure investment.

4. Assisting Low-Income Ratepayers

East Pasadena Water currently lacks a low-income customer assistance program. Given East Pasadena Water's smaller size, such a program could prove difficult for East Pasadena Water to implement. 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 such 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. Streamlining Commission's Regulatory Decisionmaking

California American Water's acquisition of East Pasadena Water's assets will reduce the Commission's workload in terms of review. It will decrease the number of independent systems the Commission must regulate and facilitate a greater degree of centralized reporting.

6. 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 is able to spread costs to operate, maintain and invest over a much larger customer base.

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

D. Benefits to East Pasadena Water Customers

As discussed above, the purchase will increase the likelihood of the East Pasadena community's long-term access to safe and reliable water services at affordable prices. California American Water's size, position in the industry and association with American Water, and the proximity of California American Water's Los Angeles service areas, will allow California American Water to meet water quality, reliability, and customer service standards efficiently. 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 East Pasadena Water 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 particular 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, in essence, 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 East Pasadena Water.

E. Benefits to California American Water Customers

A portion of the water rights obtained in this transaction, discussed above, may benefit existing California American Water customers. As noted in the testimony of Garry M. Hofer, a

primary benefit will be the ability to utilize Central Basin water rights, thereby maximizing low-cost groundwater sources and relieving reliance on higher-priced imported water supplies. Furthermore, in the long run, a larger total customer base will spread costs and risks, benefiting all current and future California American Water customers.

IV. RATES AND REGULATORY TREATMENT

The regulatory treatment proposed in this application for California American Water’s acquisition of East Pasadena Water’s assets is in the public interest. The purchase and eventual full consolidation of East Pasadena Water into California American Water’s Los Angeles County District supports California American Water’s ability to provide safe, reliable and affordable water and services – including to East Pasadena Water customers. Assuring affordable, safe and reliable water services is an established goal of the State of California.

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.*, \$34,000,000 plus or minus the Adjustment Amount, plus the Assumed Liabilities).²² The purchase price resulted from negotiations between a willing and informed buyer and a willing and informed seller with neither side compelled to enter into the transaction hastily or out of necessity. The purchase price includes the acquisition of water rights owned by East Pasadena Water.

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,

²² Asset Purchase Agreement, p. 2.

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.²³

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(a), 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.

Applicants request that 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). While this fair market value exceeds East Pasadena Water’s existing approved rate base, in accordance with the Consolidation Act, the Commission should authorize California American Water to include the difference between current rate base and the final purchase price paid by California American Water in the rate base for the acquired water system.²⁴

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

²³ D.99-10-064, p. 2.

²⁴ In addition, rate base may be adjusted to include transaction costs, depending on the resolution of recovery of such costs in California American Water’s subsequent GRC.

the rate base value of the acquired distribution system.²⁵ In addition to being required by statute, the ratemaking requested is in the public interest. The purchase of East Pasadena Water's assets by California American Water supports and furthers the long-term provision of safe, reliable, and affordable water and services to current East Pasadena Water customers.

B. Rate Impact

Immediately after the application is approved and the transaction closes, the rates applicable for water service in the former East Pasadena Water service area would be the rates already in effect for East Pasadena Water at the time of closing. California American Water proposes that integration for ratemaking purposes take place in the GRC scheduled to be filed as an application on July 1, 2022 for test year 2024. In the interim, between when the sale closes and California American Water's 2022 GRC becomes effective (i.e. January 1, 2024), California American Water requests approval to file standard CPI-U rate increases, as allowed for Class B utilities, for the former East Pasadena Water service area. For example, if the sale closes in mid-2020, California American Water would file for CPI-U increases for the former East Pasadena Water customers effective January 1, 2021, 2022, and 2023 respectively. The East Pasadena Water service area would then be consolidated in 2024, so CPI-U increase filings would no longer be necessary or appropriate. As provided in Commission standard practice, these CPI-U increases would be subject to an earnings test based on the rate base determination in this proceeding.²⁶

California American Water is proposing that \$14.9 million of the purchase price be allocated to its Los Angeles County District and the remaining \$19.1 million be allocated to the Corporate Office. This will ensure that any increased revenue requirement related to the acquisition be spread over all customers of California American Water on a customer

²⁵ D.99-10-064, p. 2.

²⁶ See Cal. Pub. Util. Comm'n, Division of Water and Audits, Standard Practice U-27-W, revised April 16, 2014, at ¶65, <http://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M090/K002/90002198.PDF>.

proportional basis through the General Office allocation and not just be spread to the customers of the Los Angeles County District.²⁷

For illustrative purposes, it may be constructive to estimate what the revenue impact would be if consolidation were implemented immediately. Based on certain assumptions, the consolidated revenue requirement of California American Water Company would increase approximately 2.31% under rate consolidation. Based on the average residential usage, East Pasadena Water customers and California American Water customers would see an increase of approximately 0.97%. However, this estimate is for illustrative purposes only. California American Water is not seeking immediate ratemaking consolidation of East Pasadena Water in this application.

C. Memorandum Accounts

California American Water seeks authorization to track certain costs in the memorandum accounts discussed below. Costs included therein may then be considered for recovery in subsequent GRCs. Establishing memorandum accounts does not guarantee recovery of costs. It is simply a first step in the rate recovery process. California American Water's memorandum account requests meet the Commission's four-prong test: (1) they are caused by an event of an exceptional nature not under the control of the utility; (2) they cannot have been reasonably foreseen; (3) they are of a substantial nature in monetary terms; and (4) ratepayers will benefit from the memorandum account treatment.

1. East Pasadena Acquisition Contingency Memorandum Account

Although integration for ratemaking purposes will not take place until 2024, it is still necessary for California American Water to attain recovery of the approved acquisition

²⁷ In its pending GRC, California American Water is also seeking to consolidate its Los Angeles County, Ventura County and San Diego County Districts together for ratemaking purposes. This would create a single Southern California Division tariff area. Additionally, California American Water is seeking in its GRC to normalize the rate base of several recently approved acquisitions and one pending acquisition by spreading the utility plant acquisition adjustment related to those acquisitions either partially or entirely. (The pending recently approved acquisitions are Rio Plaza Water Company (D.19-04-015), Hillview Water Company, Inc. (D.19-11-013), and Fruitridge Vista Water Company (D.19-12-038). The pending acquisition is for the Bellflower Municipal Water System (A.18-09-013).

consideration paid in the interim period. In order to track this revenue requirement associated with the acquisition, the Company requests authority to establish a memorandum account, the East Pasadena Acquisition Contingency Memorandum Account (“EPACMA”), to track lost revenue from all affected entities until the acquisition can be integrated for ratemaking purposes as part of a subsequent GRC. This account would capture the differences between revenues billed at current East Pasadena rates and revenues that would have been billed under the final rates effective January 1, 2021, if the East Pasadena system were integrated for ratemaking following the decision in California American Water’s 2019 GRC. The associated revenue requirement will consist of items including, but not limited to, return on investment, ad valorem tax, depreciation, general office costs, other taxes and fees, and incremental operating expenses.

2. Transaction Memorandum Account

As with any acquisition, transaction costs will occur. Such costs may include outsourced services, such as legal, engineering, surveying, the appraisal, and other professional activities. As discussed above, the purchase of East Pasadena Water 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. California American Water proposes it be permitted to defer any unrecovered transactional costs as a recoverable regulatory asset. In its subsequent GRC, California American Water will have opportunity to support the prudence of the transactional costs, support their proposed regulatory treatment, seek recovery of the costs, and request that the Commission authorize such recovery.

3. Memorandum Account for Environmental Improvements and Compliance Issues for Acquisitions

California American Water also requests Commission approval to expand the currently authorized memorandum account entitled “The 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 East

Pasadena Water acquisition as California American Water was allowed to record in that account for the acquisitions of the Dunnigan, Geyserville, Meadowbrook and Rio Plaza water systems.²⁸

The costs to address environmental compliance and required improvements have yet to be determined. 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.

V. THE ACQUISITION COMPLIES WITH COMMISSION DECISION 99-10-064

After the Legislature passed the Consolidation Act, which added Sections 2718, 2719, and 2720 to the Public Utilities Code, the Commission instituted Rulemaking 97-10-048 to set guidelines for acquisitions and mergers of water companies. The final decision in that proceeding approved the terms of a settlement agreement included as Appendix D to D.99-10-064. That Appendix contains guidelines for mergers and acquisitions of water utilities in accordance with Public Utilities Code Sections 2718 *et seq.* Six relevant sections from the settlement from D.99-10-064 all support granting this application.

First, Section 2.04 states applications should include a forecast of the results of operation for the acquiring utility, the acquired utility, and the combined operation for the first and fifth years following the acquisition, with the supporting information. **Attachment 1** to this application includes those results of operation.

Second, Section 2.05 states the applicant should include an appraisal with all supporting materials and work papers. It also states such an appraisal "should include all assets, including the value of the land and the cost of replacing the existing improvements, less accumulated depreciation." The required appraisal, which includes a Replacement Cost New Less

²⁸ 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 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.

Depreciation (“RCNLD”) analysis is included with the Direct Testimony of Kevin Zanni of Willamette Management Associates. The total valuation of the system is in excess of the purchase price.

Third, under Section 2.06, cost of any plant or improvements funded by loans from the federal or state government and not included in rate base should not be included in the appraisal for the purposes of setting rates. Plant funded by government loans has been identified and has not been included in the final RCNLD figure.

Fourth, Section 2.07 states the appraisal should value contributed assets in accordance with Section 820 of the Evidence Code. Contributed assets have been appropriately included in the appraisal of East Pasadena Water’s assets in accordance with Section 820 of the Evidence Code.

Fifth, Section 4.03 states notice of a proposed acquisition should be given to all affected customers at the time when the application is filed with the Commission.²⁹ Copies of the draft notices are included as **Attachment 2** to this application. They will be sent to East Pasadena and California American Water customers statewide as soon as the Commission assigns an application number and the Commission’s Public Advisor’s Office has reviewed and approved the notices.

Sixth, Section 5.00 states the utility needs to address how it will finance the acquisition. It may either file an application for the long-term debt financing of a particular acquisition or rely on authorization previously given by the Commission. The acquisition of East Pasadena Water is small compared to the size of California American Water and the Company already has sufficient financing authority to complete the transaction. With respect to long-term debt financing, in D.18-07-013, the Commission authorized California American Water to issue up to \$359,450,000 in long-term debt for the following purposes: “the refinancing of existing debt, upgrade aging infrastructure, addition of new facilities and infrastructure, *acquisition of other*

²⁹ Technically, this Section 4.03 may be mandatory only for the acquisition of mutual and publicly-owned water systems.

utility property and systems, reimbursement of its treasury for capital expenditures, and support for the construction of the Monterey Peninsula Water Supply Project.”³⁰

This application, therefore meets and exceeds the guidelines for acquisitions set forth in D.99-10-064 and should be approved.

VI. SAFETY

California American Water is committed to the safety of its employees and customers. As discussed above, California American Water’s robust safety program will benefit East Pasadena Water customers. California American Water’s commitment to worker safety is reflected in its work to eliminate OSHA recordable incidents and provide training to employees.

California American Water’s commitment to safety involves efforts to protect system infrastructure and safeguard customer water supplies. Such efforts include ensuring back-up power at critical sites and protecting its SCADA system. They also involve assessments of system vulnerabilities to terrorist acts and formulating response plans.

California American Water’s parent, American Water, is a member of several organizations focused on safety concerns, including Water Information Sharing and Analysis Center, Infragard, Homeland Security Information Network and Industrial Control System Computer Emergency Response Team. Information obtained from such groups helps provide American Water and its subsidiaries with information on possible physical and cyber threats as well as best practices. American Water’s physical security program was developed in compliance with the Corporations Physical Security Policy, which adopts best practices and standards from the American Water Works Association and American Society for Industrial Security.

These commitments to safety support the acquisition at issue in this application. California American Water’s efforts and resources in that area will benefit East Pasadena Water customers.

³⁰ D.18-07-013, at p. 15, Finding of Fact 5 (emphasis added).

VII. CEQA REVIEW IS NOT REQUIRED

Rule 2.4 of the Commission’s Rules of Practice and Procedure requires applications to address the applicability of the California Environmental Quality Act (“CEQA”) to the proposed project or transaction that is the subject of the application. The transaction described in this application is not subject to CEQA because it does not constitute a “project” within the meaning of CEQA. Projects under CEQA are specifically defined as any “activity which may cause either a direct physical change [to] the environment, or a reasonably foreseeable indirect physical change in the environment.”³¹ A proposed “activity [that] will not result in a direct or reasonably foreseeable indirect physical change in the environment” is not subject to CEQA.³² Similarly, where “it can be seen with certainty that there is no possibility that the [proposed] activity in question may have a significant effect on the environment, the activity is not subject to CEQA.”³³

This application seeks Commission approval of the acquisition of East Pasadena Water assets by California American Water. Critically, once sold and transferred, there will be no significant change in the operation of the East Pasadena Assets. They will be used and operated in the same manner and for the same purposes for which they are currently being used – to provide water service. The Commission has consistently held that such a transfer of control and operation of existing water system facilities does not result in any significant effects on the environment, and thus, an application seeking authorization for such a transaction is not subject to CEQA.³⁴ Here, also, because it is clear that no “direct or reasonably foreseeable indirect

³¹ See Cal. Pub. Res. Code §21065.

³² Cal. Code Reg., Title 14, Div. 6, ch. 3 (“CEQA Guidelines”) at §15060(c)(2).

³³ CEQA Guidelines at §15061(b)(3).

³⁴ See *Application of California-American Water Company (U210W) and Garrapata Water Company (U212W) for an Order Authorizing Garrapata Water Company to Sell and California-American Water Company to Purchase the Assets of Garrapata Water Company*, D.13-01-033, at pp. 8-9; *Application of Watertek, Inc. a California corporation (U420W) for Authority to Sell and Del Oro Water Co., Inc (U61W) for Authority to Buy the Watertek, Inc. Water Utilities (Grand View Gardens and East Plano) in Tulare County and (Metropolitan) in Fresno County*, D.11-03-016, at pp. 9-10.

physical change in the environment” will occur as a result of the proposed transaction, it is not subject to the provisions of CEQA.

VIII. OTHER PROCEDURAL REQUIREMENTS

A. Communications Concerning Application

All communications and correspondence with the Applicants should be directed to:

For California American Water:

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B. Articles of Incorporation and Financial Statements

East Pasadena Water filed a certified copy of its articles of incorporation with the Commission on January 10, 1931 in Application 17113. East Pasadena Water Company filed a certified copy of an amendment to its articles of incorporation with the Commission on October 11, 1963 in Application 45860.

California American Water filed a certified copy of its articles of incorporation with the Commission on January 6, 1966, in Application 48170. California American Water filed a certified copy of an amendment to its articles of incorporation with the Commission on November 30, 1989, in Application 89-11-036. California American Water filed a certified copy of a further amendment to its articles of incorporation with the Commission on February 28, 2002, in Application 02-02-030. California American Water filed, with the Commission, a certified copy of an additional amendment to its articles of incorporation with Application 17-04-003. California American Water has not subsequently amended its articles of incorporation.

C. Categorization and Schedule

Applicants request that the Commission classify this application as ratesetting. The issues presented in the application are whether the transaction will serve the public interest, whether California American Water is financially qualified to acquire East Pasadena Water, whether California American Water is qualified to operate the East Pasadena system, what the appropriate rate base for the acquisition should be and whether the Commission should approve the several rate-setting procedures and memorandum accounts proposed herein. Applicants believe these issues should not raise material contested issues of fact, so evidentiary hearings may not be required. The following schedule is consistent with D.99-10-064, including the schedule provided in the settlement attached to that decision between the Ratepayer Representation Branch of Water Division (predecessor to Public Advocates Office) and the Class A water utilities.

Proposed Schedule

Event	Day
Notice of Intention	-40
Notice of Deficiency	-20
Application Filed	0
Public Advocates Office to notify utility whether requesting independent appraisal	20
Protests Filed	30 ³⁵
Replies to Protest	40 ³⁶
Prehearing Conference	50
Scoping Memo	60
Public Advocates Office's Report	90
Rebuttal Testimony	110
Hearings (if required)	125-130
Opening Briefs	145
Reply Briefs	155
Proposed Decision	215
Comments on Proposed Decision	235
Reply Comments on Proposed Decision	240
Commission's Agenda	245

³⁵ Protests are to be filed 30 days after the Application appears in the Commission's Daily Calendar.

³⁶ Replies to Protests are to be filed 40 days after the Application appears in the Commission's Daily Calendar.

IX. NOTICE AND SERVICE OF THE APPLICATION

As soon as the Commission has accepted this application for filing and assigned it an application number and the notices have been approved by the Commission’s Public Advisor’s Office, East Pasadena Water will provide notice of the proposed transaction and the filing of this application to its customers and California American Water will provide notice to its customers. Copies of the draft notices are included as **Attachment 2** to this application.

A copy of this application is also being served on those persons and entities set forth on the service list for the application.

X. CONCLUSION

For all the reasons set forth above, the Applicants respectfully request that the Commission issue an order approving this application and granting each and every request made herein.

Dated: April 6, 2020

Respectfully submitted,

By: : /s/ Lawrence M. Morales

By: : /s/ Nicholas A. Subias

Lawrence M. Morales

Nicholas A Subias

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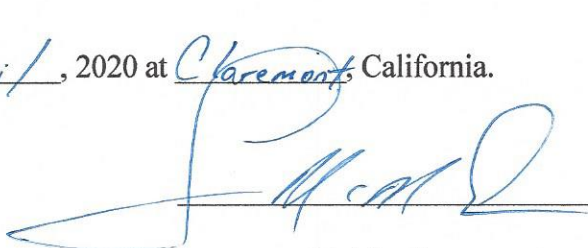
Attorneys for Applicant
California-American Water Company

VERIFICATION

I, Lawrence M. Morales, declare and verify the following:

1. This verification is made in connection with the “Joint Application of California-American Water Company (U-210-W) and East Pasadena Water Company (U-331-W) for an Order Authorizing East Pasadena Water Company to Sell and California-American Water to Purchase the Water Utility Assets of East Pasadena Water Company” (the “Application”).
2. I am the President of East Pasadena Water Company, a party to the Application. I have read the Application. As to those matters in the Application of which I have personal knowledge, I verify them to be true. As to those matters stated on information and belief, I believe them to be true.
3. I declare, under penalty of perjury under the laws of the State of California, the foregoing is true and correct.

Executed this 6th day of April, 2020 at Claremont, California.

A handwritten signature in blue ink, appearing to read 'L. Morales', is written over a horizontal line.

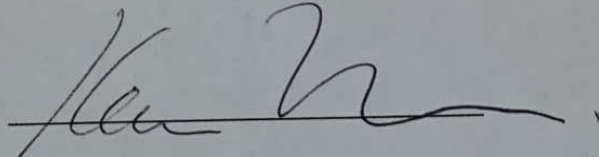
Lawrence M. Morales

VERIFICATION

I, Kevin Tilden, declare and verify the following:

1. This verification is made in connection with the “Joint Application of California-American Water Company (U-210-W) and East Pasadena Water Company (U-331-W) for an Order Authorizing East Pasadena Water Company to Sell and California-American Water to Purchase the Water Utility Assets of East Pasadena Water Company” (the “Application”).
2. I am an officer for California-American Water Company, a party to the Application. I have read the Application. As to those matters in the Application of which I have personal knowledge, I verify them to be true. As to those matters stated on information and belief, I believe them to be true.
3. I declare, under penalty of perjury under the laws of the State of California, the foregoing is true and correct.

Executed this 6 day of April, 2020 at San Diego, California.


Kevin Tilden