

DATE OF ISSUANCE: 06/25/2021

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION W-5237

June 24, 2021

RESOLUTION

**(RES. W-5237) GOLDEN STATE WATER COMPANY. ORDER
AUTHORIZING GOLDEN STATE WATER COMPANY TO
ACQUIRE ROBBINS WATER SYSTEM FROM SUTTER
COUNTY WATER WORKS DISTRICT NO. 1.**

**By Golden State Water Company's Advice Letter 1818-W;
submitted on May 27, 2020.**

SUMMARY

By Advice Letter 1818-W submitted on May 27, 2020, Golden State Water Company (Golden State) requests Commission authority to: 1) acquire the Robbins Water System (Robbins) from Sutter County Water Works District No. 1 (Sutter County), based on Robbins being an Inadequately Operated and Maintained Small Water Utility (IOMSWU) as defined in Decision No. 99-10-064; 2) consolidate Robbins into the Arden-Cordova Customer Service Area; 3) allow Robbins' customers to remain on their current flat rate tariff for a 12-month grace period, then merge them on the Arden-Cordova metered rate tariff; 4) recognize/acknowledge the needed capital improvements to the Robbins system; 5) establish an Unanticipated Repair Cost Memorandum Account (URCMA) for Robbins; and 6) establish the Robbins Tax Memorandum Account to track tax liabilities and expenses (including costs associated therewith) resulting from approval of Golden State's proposed actions in this filing that are not otherwise provided for in a general rate case application or decision.

This Resolution grants Commission authority for the following to Golden State: 1) to acquire the Robbins Water System for the purchase price of \$1,000 under the terms and conditions set forth in the August 25, 2020 Second Amendment to Water System Purchase and Sale Agreement, 2) to add Robbins to its Arden-Cordova Customer Service Area; 3) to allow Robbins' customers to remain on their current flat rate tariff for a 12-month grace period; and 4) to grant authority to establish the Robbins Tax

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Memorandum Account and recovery to be amortized across Golden State's entire customer base.

This Resolution rejects Golden State's request to establish the Unanticipated Repair Cost Memorandum Account due to the approval of Golden State consolidating the Robbins Water System with the Arden-Cordova Customer Service Area. Standard Practice U-14-W requires recovery of the URCMA from only IOMSWU customers and as Robbins' customers are being consolidated with Arden-Cordova's, the request is moot. In addition, Golden State will receive grant funding to assist with the well and treatment facility construction.

This Resolution finds that Golden State's ability to provide safe and reliable drinking water to the Robbins Water System is in the best interest for the Robbins' customers.

BACKGROUND

The Robbins Water System (Robbins) is a public water system operated by the Sutter County Water Works District No. 1 (Sutter County), a dependent district of the County of Sutter. Robbins contains approximately 94 connections on a flat monthly charge. In 2000, the State Water Resources Control Board granted a water supply permit amendment #01-02-93(P)51002-A1 to Robbins to construct and operate a new well with iron and manganese removal treatment known as the Wagner Aviation Well.

On January 2, 2009, Sutter County was issued a compliance order by the State Water Resources Control Board, Division of Drinking Water (DDW) to lower the average arsenic concentration of the treated water at the Wagner Aviation Well. Samples collected at the Wagner Aviation Well detected arsenic levels that exceeded the maximum contaminant level ("MCL") established for arsenic. Sutter County does not possess the financial capacity necessary to upgrade Robbins to comply with State and Federal drinking water standards and is subject to this outstanding compliance order from DDW.

On August 29, 2008, Golden State submitted Application (A.) 08-08-022 to grant Golden State a Certificate of Public Convenience and Necessity (CPCN) to construct a new non-contiguous service area in the southern portion of Sutter County. Decision (D.) 14-06-051 approved the CPCN and also approved a Settlement Agreement that included the potential future acquisition of Robbins by Golden State. In D. 14-06-051, the Commission did not "pre-approve" Golden State's acquisition of Robbins, rather the Commission would review the acquisition of Robbins when Golden State comes before the Commission to seek approval of the acquisition.

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On December 11, 2015, Sutter County received an amended compliance order, due to the Wagner Aviation Well's continued exceedance of the arsenic MCL in the treated water supply.¹ Furthermore, as specified in the amended compliance order, the failure of Sutter County to bring the potable water from the Wagner Aviation Well into compliance with the arsenic MCL, as specified in Section 64431 and 64432 of the California Code of Regulations, by December 31, 2018, could result in penalties, citations, and/or suspension or revocation of its water system operating permit. On March 1, 2018, DDW issued an additional Compliance Order for Violation of Secondary Drinking Water Standards² (total dissolved solids [TDS], specific conductance, and chloride) and in July 2019, Robbins entered into an Administrative Order on Consent with the US EPA.³ EPA's Administrative Order requires that the system meet the elements of their compliance plan by January 1, 2022.

On March 11, 2016, Golden State submitted Advice Letter No. 1653-W to acquire Robbins. Advice Letter No. 1653-W was supplemented on April 12, 2016 to extend Golden State's California Alternative Rates for Water program to the customer service area, if the Commission granted approval for the acquisition. Advice Letter No. 1653-WA was rejected due to State Water Resources Control Board's rules at the time against extending loans or grants for constructing a well in a recognized flood plain. As such, Golden State's acquisition of Robbins would require private capital investment and thus result in a negative cost-benefit acquisition for existing customers in Golden State Water's Arden-Cordova Customer Service Area. Since this rejection, Golden State has continued working with Sutter County to determine a viable approach to acquiring the Robbins System.

On May 27, 2020, Golden State submitted Advice Letter (AL) No. 1818-W to acquire Robbins, an Inadequately Operated and Maintained Small Water Utility (IOMSWU), and add Robbins to Golden State's Arden-Cordova Customer Service Area. Golden State references Decision 99-10-064 which authorizes utilities the use of an Advice Letter process to acquire an IOMSWU. General Order 96-B, Water Industry Rule Section 7.3.3(10) provides further guidance that a utility acquiring an IOMSWU must submit a

¹ Amended Compliance Order

https://www.waterboards.ca.gov/drinking_water/programs/documents/ddwem/dwp%20enforcement%20actions/Sutter/2015/01_21_15R_008_5100107_02.pdf

² Violation of Secondary Drinking Water Standards,

https://www.waterboards.ca.gov/drinking_water/programs/documents/ddwem/dwp%20enforcement%20actions/Sutter/2018/01_21_18R_001_5100107_MA.pdf

³ Golden State AL 1818-W Exhibit X-13

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Tier 3 Advice Letter which will be disposed of by a Commission resolution pursuant to General Rule 7.6.2.

AL 1818-W outlines Golden State's proposal to drill a new well and install a treatment facility, expected to cost \$3.8 million, to comply with the arsenic MCL and secondary MCLs. Golden State also applied for principal-forgiveness funding through the State Water Resource Control Board DDW's Safe Affordable Funding for Equity and Resilience (SAFER) program to pay for the new well and treatment facilities for the Robbins' customers. Golden State requested to continue applying Robbins' current flat rates to the customers for a 12-month grace period and transition the customers to Arden-Cordova's current metered rates. Sutter County previously installed meters to all connections within the Robbins territory without charging metered rates, and no further meter installations are necessary after Golden State acquires Robbins and transitions the customers from flat rates to metered rates. The 12-month grace period will ease the transition for Robbins' customers to move from flat rate service to metered tariff rates while Golden State will inform these customers of their water usage and potential costs under metered rates.

Lastly, Golden State requests in AL 1818 to establish two memorandum accounts: 1) the Unanticipated Repair Cost Memorandum Account (URCMA) and 2) the Robbins Tax Memorandum Account (RTMA). The URCMA will track any costs associated with unanticipated repairs to Robbins for later recovery in rates, subject to its prudent administration of such repairs. The RTMA will allow Golden State recovery of an estimated \$1.1 million from federal tax liabilities associated with the principal-forgiveness funding. The Tax Cuts and Job Act (TCJA) enacted on December 22, 2017 changed the tax code to cause grant funding to be treated as income, and thus counted as taxable, for private utilities.

On June 15, 2020, Public Advocates Office (CalPA) submitted a letter to Water Division supporting Golden State's acquisition of Robbins. CalPA acknowledges that Sutter County is unable to meet numerous primary and secondary drinking water standards and does not seek profit from its inability to maintain the system at a reasonable cost. CalPA stated that Sutter County's sale of Robbins "appears to be precisely the type of water utility acquisition that can help achieve every Californian's 'right to safe, clean, affordable, and accessible water adequate for human consumption, cooking, and sanitary purposes.'"⁴

⁴ CalPA's response letter at p. 1.

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Discussions between Water Division and Golden State were held on October 6, 2020, and November 10, 2020, to review strategies to unburden Golden State's customers with the tax liability caused by the TCJA. Golden State recommended distributing the \$1.1 million surcharge among all customers to lessen the surcharge amount paid by Arden-Cordova customers. Water Division suggested that Sutter County request funding through the SAFER program and hire Golden State as an administrator to build the project. Hiring Golden State as an administrator would mitigate the tax liability while allowing Golden State to continue running the project with Sutter County as the grant recipient. Golden State would then acquire Robbins once the project was complete.

On February 23, 2021, Golden State responded via e-mail stating that Water Division's recommendation for Sutter County to receive the grant funding would still incur a tax liability. Golden State cites to Internal Revenue Code (IRC) Sections 61, 115, and 118. IRC Section 61 which defines gross income and provides examples of items specifically included and excluded from gross income in IRC Section 71 to 140. Golden State considered Sutter County's installation of the new well and treatment facility as a contribution in aid of construction (CIAC) where a Fair Market Value (FMV) will be assessed to the new installation. Golden State estimates a tax liability of at least \$1.1 million. Accordingly, Golden State contends that an income tax liability will be assessed on the sale regardless of when Golden State acquires Robbins.

NOTICE AND PROTESTS

In accordance with General Rules 4.3 and 7.2 and Water Industry Rule 4.1 of General Order 96-B, Golden State served copies of Advice Letter (AL) 1818-W to the service list which included customers of Robbins and the Arden-Cordova customer service area. In accordance with Water Industry Rule 3.3 (id.), Golden State also posted the advice letters on their website.

No protests were received in response to Advice Letter No. 1818-W.

DISCUSSION

Golden State has provided water service to its Arden-Cordova Customer Service Area since 1964 and currently serves approximately 16,200 customers in this area. As a Class A water utility serving over 260,000 customers state-wide for more than 80 years, Golden State has the financial resources and technical experience in operating water systems to provide safe and reliable water service for the Arden-Cordova and Robbins' customers. In addition, the acquisition will allow Robbins' customers access to Golden

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State's extensive customer service and online resources, along with Golden State's low-income customer assistance program, or the California Alternative Rates for Water program.

Need for Robbins Acquisition and Consolidation with Arden-Cordova

Currently, Robbins is unable to adequately serve its customers with safe and reliable water service as its water quality exceeds the arsenic MCL established by DDW. Therefore, Robbins has been delivering to its customers bottled water, funded by a grant from DDW for potable water needs. Sutter County is applying for an extension of the grant in order to continue to receive funding for bottled water purchases. At the time of the acquisition, Sutter County will transfer the grant to Golden State, at which time Golden State will continue providing bottled water service until the construction of the new well and treatment facility is complete.

Golden State requests to fully consolidate Robbins to its Arden-Cordova Customer Service Area by continuing to charge Robbins' customers a \$70 per month flat rate for a 12-month period and transition them to Arden-Cordova's metered rates following this grace period. During the 12-month timeframe, Golden State will assist in familiarizing Robbins' customers to metered rates by including information in customer bills on their water usage and potential costs when they transition to metered rates.

The distance between Robbins and the closest Arden-Cordova service territory is approximately forty-six miles and both areas would continue to use independent water sources. Financial resources and facility operators are the only items shared among the two districts. However, Robbins is a disadvantaged community⁵, as defined by Health and Safety Code Section 116275, subd. (aa) and placing Robbins in a separate customer service territory with a separate rate design would make rates unaffordable for the Robbins' customers. Water Division finds that Golden State fully consolidating Robbins with Arden-Cordova is in the best interest for the Robbins' customers where they will receive safe and reliable drinking water. Existing Arden-Cordova's customers will benefit from the expansion of the overall customer base with the addition of Robbins customers. In addition, Water Division finds that allowing Robbins' customers to remain on their flat rates for one year while familiarizing them to metered rates is a reasonable method to transition these customers into the Arden-Cordova district.

⁵ "Disadvantaged community" means the entire service area of a community water system, or a community therein, in which the median household income is less than 80 percent of the statewide annual median household income level.

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Under the terms and conditions of the August 25, 2020 Second Amendment to Water System Purchase and Sale Agreement, Golden State has agreed to acquire Robbins for the purchase price of \$1,000. The impact on Golden State's rate base from the acquisition of Robbins will be of a nominal amount. Water Division finds that the \$1,000 purchase price is reasonable and should be added to the Arden-Cordova rate base due to Golden State's request for full consolidation of Robbins with Arden-Cordova. Golden State has the expertise to properly provide safe drinking water to Robbins' customers.

Robbins Tax Memorandum Accounts

Golden State applied for \$3.8 million in principle-forgiveness grant funds through DDW's SAFER program to construct Robbins' new well and treatment facility. The Tax Cuts and Jobs Act (TCJA), enacted on December 22, 2017, amended Internal Revenue Code Section 118 to remove a section that exempted water utilities from paying taxes on monies received as grants from government agencies.⁶ Contributions that a utility receives to provide or encourage the provision of services to or for the benefit of the contributor must be reported as income by the utility. Golden State requests establishment of the Robbins Tax Memorandum Account (RTMA) to track the tax liabilities associated with the \$3.8 million grant funding, estimated to reach \$1.1 million and would be amortized in full via a surcharge.

Golden State proposes two options for the tax liability recovery: 1) allocate the surcharge to Arden-Cordova customers only with an estimated \$0.22/CCF surcharge for metered rate customers and an additional \$6.60 surcharge for flat rate customers; or 2) allocate a surcharge across the entire customer base of Golden State with an estimated \$0.020/CCF surcharge for metered rate customers and an additional \$2.90 surcharge for flat rate customers. In order to minimize the potential rate effects, Golden State should submit a Tier 3 advice letter or request in their next General Rate Case to amortize the RTMA across the entire customer base. Water Division finds that establishing the RTMA complies with Standard Practice U-27-W, which provides that costs associated with the RTMA can be tracked due to events of an exceptional nature that: a) are not under the utility's control; b) could not have been reasonably foreseen in the utility's last general rate case; c) will occur before the utility next scheduled rate case; d) are of a substantial nature such that the amount of money involved is worth the effort of processing a memo account; and e) have ratepayer benefits.

⁶ IRC Section 118(c), 1996

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The tax liability is not under the utility's control and was enacted as part of the TCJA 2017 where grant funds are considered taxable income to utilities. The acquisition of Robbins was not foreseen in Golden State's 2017 GRC application. Further discussions were held between Golden State and Sutter County before a settlement agreement was reached. The Administrative Order on Consent (AOC) from the US EPA requires Robbins to comply with the Arsenic MCL and secondary MCL levels prior to January 1, 2022. Golden State's General Rate Case (GRC) for 2022-2024 is expected to be completed by December 2021. The one month between the completed GRC and Administrative Order on Consent is not sufficient for Golden State to complete the necessary improvements.

Golden State is expected to incur a \$1.1 million tax liability from grant funds which is substantial in nature. Lastly, Golden State's request to establish the RTMA will allow Robbins' customers the resources needed to replace and/or upgrade their water system infrastructure to receive much needed potable water.

Unanticipated Repair Cost Memorandum Account

Golden State is requesting to establish the Unanticipated Repair Cost Memorandum Account (URCMA) to track costs during the construction of the new well and treatment facility. Standard Practice U-14-W Section 8(g) allows utilities to establish an URCMA when acquiring an Inadequately Operated Maintained Small Water Utility (IOMSWU) and recovery of the URCMA must apply to only the IOMSWU. However, Golden State requests to consolidate Robbins into Arden-Cordova and therefore the request for a URCMA is moot. In addition, Golden State is requesting \$3.8 million in grants to assist with the well and treatment facility construction. As Golden State is the entity receiving the grant funding it should not be allowed to establish an URCMA.

California Environmental Quality Act (CEQA)

The CEQA Guidelines define "responsible agency" as "a public agency which proposes to carry out or approve a project, for which a lead agency is preparing or has prepared an EIR or negative declaration." (14 Cal. Code Reg. ("CEQA Guidelines"), Sec. 15381.) For purposes of CEQA, the term "responsible agency" includes all agencies other than the lead agency that have "discretionary approval power" over the project (Id.) The approvals referred to in the definition are those within the jurisdiction of the responsible agency, rather than approval of the project as a whole (See, e.g., Public Resource Code Sec. 21153(c).) In the present case the Commission is a responsible agency with respect to the actions requested in advice letter 1818-W.

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To comply with CEQA, a responsible agency must consider the final CEQA document prepared by the lead agency and reach its own conclusions on whether and how to approve the project. (CEQA Guidelines 15096(a), (f).) Before reaching a decision, a responsible agency must consider the environmental effects identified in the CEQA document and must independently decide whether to require additional environmental documentation with respect to the parts of the project under its jurisdiction. (Public Resource Code Sec. 21001.1(d); CEQA Guidelines Sec. 15096(a), (f), (g)(1).)

An initial study and Mitigated Negative Declaration were adopted by Sutter County's Water Works District No. 1 in accordance with CEQA guidelines on May 26, 2020. The study finds that the Robbins' project could have a significant impact on the environment under Biological Resources; however, mitigation measures have been incorporated into the project which reduce potential impacts to a less than significant level.

A responsible agency must make the findings required by Public Resource Code Sec. 21081 and CEQA Guidelines 15091 in regard to the part of the project subject to its jurisdiction. The Commission has reviewed the lead agency's Mitigated Negative Declaration and Mitigation Monitoring Program, and the findings supporting them and independently finds that they are adequate for our purposes.

Permit Requirement

Pursuant to the provisions of California Health and Safety Code (CH&S) Section 116525(a), the State Water Resources Control Board (SWRCB) requires any person or entity operating a public water system to obtain a domestic water supply permit (permit) to operate that water system. Golden State must therefore apply for and receive a permit from the SWRCB to operate the Robbins Water System. Prior to obtaining a permit, Golden State must demonstrate to SWRCB that they possess adequate technical, managerial, and financial (TMF) capability to assure the delivery of pure, wholesome, and potable drinking water. Golden State will send a copy of the completed TMF Assessment Form along with all necessary attachments to the Commission. Accordingly, the transfer of operations of Robbins to Golden State should therefore be conditioned on Golden State obtaining the required permit to operate the Robbins Water System under the new ownership.

Conclusion

As discussed above, Golden State's proposal to acquire the Robbins Water System and consolidate it within Golden State's Arden-Cordova service area is reasonable.

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Accordingly, the Commission should authorize the following: 1) the acquisition of Sutter County's Robbins Water System by Golden State for \$1,000 as stated in the terms and conditions of the Second Amendment to Water System Purchase and Sale Agreement dated August 25, 2020. The addition of the \$1,000 purchase price to Arden-Cordova's rate base as Golden State requests represents a full consolidation of Robbins with Arden-Cordova, 2) that Golden State is granted the authority to add Robbins to the Arden-Cordova Customer Service Area, 3) that Robbins' customers may remain on their flat rate tariff for a 12-month grace period, after which they may be merged into the Arden-Cordova metered rate tariff, and 4) that Golden State may establish a Robbins Tax Memorandum Account to track any income tax liability resulting from the purchase of Robbins.

The Commission should deny Golden State's request to establish the URCMA. While Standard Practice U-14-W Section 8(g) allows utilities to establish an URCMA when acquiring an IOMSWU, recovery of the URCMA applies only to the IOMSWU. As, Golden State requests to consolidate Robbins into Arden-Cordova this request is moot. Furthermore, as, Golden State is requesting \$3.8 million in grants to assist with the well and treatment facility construction Golden State is the entity receiving the grant funding, and therefore it should not be allowed to establish an URCMA.

ENVIRONMENTAL AND SOCIAL JUSTICE

In February 2019, the Commission adopted an Environmental and Social Justice Action Plan (ESJ Action Plan) to serve as a roadmap to expand public inclusion in Commission decision-making processes to targeted communities across California. The ESJ Action Plan establishes a series of goals related to health and safety, consumer protection, program benefits, and enforcement in all the sectors the Commission regulates. With this Resolution, the Commission addresses Goals #1 and #3 of the ESJ Action Plan, "Consistently integrate equity and access considerations throughout Commission regulatory activities; and strive to improve access to high-quality water, communications, and transportation services for ESJ communities."

The Commission acknowledges that some populations in California such as those served by Robbins, face higher barriers in accessing safe and affordable utility services. The ESJ Action Plan tasks the Commission with the responsibility to serve Californians in a way that helps address these inequities. The action proposed in this Resolution for the acquisition of Sutter County's Robbins Water System by Golden State creates a pathway to provide safe and reliable water service for the Robbins community that currently does not have access to high-quality water with the previously mentioned water quality issues related to arsenic, TDS, chloride, and specific conductance.

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Robbins is classified as a disadvantaged community, as defined by Health and Safety Code Section 116275, subd. (aa). The California Communities Environmental Health Screening Tool, Version 3 (CalEnviroScreen 3.0) provided by the California Environmental Protection Agency, identifies disadvantaged communities by collecting multiple metrics and outputting a single value at the census tract scale. CalEnviroScreen 3.0 ranks Robbins in the 65-70th percentile of the highest scoring census tracts statewide, the census tract notably falls into the 98th percentile for Impaired Water, and in the 91st percentile for Groundwater Threats. Given these definitions and considerations, this action will provide direct relief to residents of Robbins which experience disproportionately poor water quality and demonstrates the Commission actively improving access to high-quality water for the Robbins Water System with this proposed Resolution.

COMPLIANCE

Golden State has no outstanding compliance orders, and the utility has been filing annual reports as required. Golden State is also in compliance with the SWRCB's water quality standards for safe drinking water. Robbins is still subject to an outstanding compliance order as previously discussed in the Resolution.

P.U. Code Section 433(a) requires public utilities to pay an annual public utilities reimbursement fee (annual fee) to the Commission. The Division confirmed with the Commission's fiscal office that Golden State is current with its annual fee payments.

COMMENTS

Public Utilities Code section 311(g)(1) requires that a proposed resolution be served on all parties and be subject to a public review and comment period of 30 days or more, prior to a vote of the Commission on the resolution.

Accordingly, this proposed resolution was mailed to the utilities and their service lists and made available for public comment on May 7, 2021. Comments in support of this draft resolution were received from Golden State and Regional Water Authority.

FINDINGS AND CONCLUSIONS

1. In July 2019, Sutter County received an Administrative Order on Consent from the EPA for violations of the arsenic MCL and secondary MCLs with a compliance date of January 1, 2022, with respect to the Robbins water system.

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2. By AL 1818-W, submitted on May 27, 2020, Golden State Water Company (Golden State) requested Commission authorization to acquire the Robbins Water System for a purchase price of \$1,000 under the terms and conditions set forth within the filing.
3. On June 5, 2020, Golden State requested funding from the State Water Resources Control Board (SWRCB), Division of Drinking Water's (DDW), SAFER program to construct a new well and treatment facility to comply with the US EPA's Administrative Order on Consent on Robbins' violation of arsenic MCL and DDW's Secondary MCLs for TDS, chloride, and specific conductance.
4. Golden State's request for the acquisition for Robbins by advice letter process is consistent with the process authorized by Decision 99-10-064 and General Order 96-B.
5. Golden State requests full consolidation of the Robbins Water System into the Arden-Cordova Customer Service Area.
6. Golden State requests that Robbins' customers remain on their current flat rate tariff for a 12-month grace period, then be merged onto the Arden-Cordova metered rate tariff.
7. Golden State requests to establish two memorandum accounts: 1) the Unanticipated Repair Cost Memorandum Account and 2) the Robbins Tax Memorandum Account. The Unanticipated Repair Cost Memorandum Account will track additional repair costs that are otherwise unaccounted for. The Robbins Tax Memorandum Account will be used to track the recovery of the estimated \$1.1 million tax liability resulting from the SWRCB grant funding to construct a new well and treatment facility for Robbins.
8. The acquisition serves the interest of the Robbins' customers by providing the "right to safe, clean, affordable, and accessible water adequate for human consumption, cooking, and sanitary purposes."⁷

⁷ Water Code Section 106.3

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9. Existing Golden State's Arden-Cordova's customers will benefit due to the expansion of the existing customer base with the addition of Robbins' customers.
10. No protests were received for Advice Letter 1818-W.
11. On June 15, 2020, Public Advocates Office submitted a letter to Water Division supporting Golden State's acquisition of Robbins which provides Robbins' customers with safe, clean, affordable, and reliable drinking water.
12. An environmental review under the California Environmental Quality Act (CEQA) was completed by Sutter County on January 27, 2020.
13. The Commission reviewed the lead agency's Mitigated Negative Declaration and Mitigation Monitoring Program with the findings supporting them and independently finds that they are adequate for our purposes.
14. The Robbins Water System serves a disadvantaged community as defined by Health and Safety Code Section 116275, subd. (aa).
15. Golden State's request to acquire the Robbins Water System for \$1,000 under the terms and conditions set forth in the August 25, 2020 Second Amendment to Water System Purchase and Sale Agreement is reasonable. This request should be approved and the \$1,000 should be added to Arden-Cordova's rate base.
16. Golden State can provide Robbins' customers with safe, clean, affordable, and adequate drinking water through a full consolidation and should be approved.
17. Allowing Robbins' customers to remain on their current flat rate for a 12-month period, then merging them to Arden-Cordova's metered tariff will allow Robbins' customers to acclimate to metered billing cycles and should be approved.
18. Golden State's request to establish the Robbins Tax Memorandum Account complies with Standard Practice U-27-W and should be approved. Golden State should seek recovery of the Robbins Tax Memorandum Account through

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amortization across Golden State's entire customer base by a Tier 3 advice letter or in its next General Rate Case.

19. Golden State should be denied the request to establish an Unanticipated Repair Cost Memorandum account due to the consolidation of Robbins with Arden-Cordova. Recovery of the Unanticipated Repair Cost Memorandum Account applies only to the Inadequately Operated Maintained Small Water Utility and since Robbins is being consolidated with Arden-Cordova, the request is moot. In addition, Golden State is requesting grant funding to assist with the well and treatment facility construction.
20. Golden State should be granted authority to submit a Tier 1 Advice Letter to incorporate Robbins into the Arden-Cordova service territory.

THEREFORE, IT IS ORDERED THAT:

1. Pursuant to Public Utilities Code Sections 851-854 and Resolution ALJ-272, this Resolution authorizes Golden State Water Company to acquire the Robbins Water System for \$1,000 to be included in the Arden-Cordova Customer Service Area rate base, under the terms and conditions set forth in the August 25, 2020, Second Amendment to Water System Purchase and Sale Agreement.
2. Authority is granted to Golden State Water Company to submit a Tier 1 Advice Letter incorporating Robbins' customers into its Arden-Cordova Customer Service Area and allowing Robbins' customers to remain on their flat rate tariff for a 12-month period. After the 12-month period, Golden State Water Company must submit a Tier 1 Advice Letter transitioning Robbins' customers to Arden-Cordova's metered tariff.
3. Authority is granted to Golden State Water Company to submit a Tier 1 Advice Letter to establish the Robbins Tax Memorandum Account in its Preliminary Statements. Golden State shall submit a Tier 3 Advice Letter or a request in their next General Rate Case to recover through amortization the Robbins Tax Memorandum Account across the entire customer base.
4. Golden State Water Company's request to establish an Unanticipated Repair Cost Memorandum Account is denied.

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This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on June 24, 2021; the following Commissioners voting favorably thereon:

/s/RACHEL PETERSON

RACHEL PETERSON

Executive Director

MARYBEL BATJER

President

MARTHA GUZMAN ACEVES

CLIFFORD RECHTSCHAFFEN

GENEVIEVE SHIROMA

DARCIE L. HOUCK

Commissioners

**GOLDEN STATE WATER COMPANY
RESOLUTION NO. W-5237
SERVICE LIST**

Public Advocates Office
PublicAdvocatesOffice@cpuc.ca.gov

Richard Rauschmeier
Richard.Rauschmeier@cpuc.ca.gov

Ronald Moore
rkmoore@gswater.com

Nguyen Quan
nquan@gswater.com

**CALIFORNIA PUBLIC UTILITIES COMMISSION
WATER DIVISION**

Advice Letter Cover Sheet

Utility Name: Golden State Water Company

Date Mailed to Service List: 5/27/2020

Arden Cordova
(Robbins Water System

District: Acquisition)

CPUC Utility #: 133 W

Protest Deadline (20th Day): 6/16/2020

Advice Letter #: 1818-W

Review Deadline (30th Day): 6/26/2020

Tier 1 2 3 Compliance

Requested Effective Date: 7/1/2020

D.99-10-064 and General Order
No. 96-B, Water Industry Rules,

Authorization Section 7.3.3

Rate Impact: N/A

Description: Acquisition Of An Inadequately Operated And
Maintained Small Water System

The protest or response deadline for this advice letter is 20 days from the date that this advice letter was mailed to the service list. Please see the "Response or Protest" section in the advice letter for more information.

Utility Contact: Ronald Moore

Utility Contact: Nguyen Quan

Phone: (909) 394-3600 x 682

Phone: (909) 394-3600 x 664

Email: rkmoore@gswater.com

Email: nquan@gswater.com

WD Contact: Tariff Unit

Phone: (415) 703-1133

Email: Water.Division@cpuc.ca.gov

DWA USE ONLY

DATE

STAFF

COMMENTS

APPROVED

WITHDRAWN

REJECTED

Signature: _____

Comments: _____

Date: _____



May 27, 2020

Advice Letter No. 1818-W

(U 133 W)

California Public Utilities Commission

Golden State Water Company ("Golden State") hereby transmits one original and three conformed copies of this advice letter applicable to its water operations.

Subject: Acquisition of an Inadequately Operated and Maintained Small Publicly-Owned Water Utility

PURPOSE

The purpose of this advice letter is to obtain approval from the California Public Utilities Commission ("Commission") to do the following:

- (1) To acquire the Robbins Water System ("Robbins") from Sutter County Water Works District No. 1 ("WWD1"), based on Robbins being an Inadequately Operated and Maintained Small Water Utility ("IOMSWU"), as defined in the Settlement adopted by the Commission in its Decision No. ("D.") 99-10-064;¹
- (2) Consolidate Robbins into the Arden-Cordova Customer Service Area;
- (3) Allow Robbins customers to remain on their current flat rate tariff for a 12-month grace period, then merge them on the Arden-Cordova metered tariff;
- (4) To recognize/acknowledge the needed capital improvements to the Robbins system;
- (5) To establish an Unanticipated Repair Cost Memorandum Account ("URCMA") for Robbins; and
- (6) To establish a memorandum account to track tax liabilities and expenses (including costs associated therewith) resulting from approval of Golden State's proposed actions in this filing that are not otherwise provided for in a general rate case application or decision.^{2,3}

¹ Decision No. 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" (Oct. 21, 1999) (hereinafter D.99-10-064) at Appendix D, Section 3.01 (defining an IOMSWU as "any water system serving less than 2,000 customers that is subject to an outstanding compliance order or citation from the Department of Health Services").

² For example, because of P.L. 115-97 (commonly referred to as the Tax Cuts and Jobs Act of 2017), grant funds are now considered to be taxable income to the utility.

³ Resolution No. W-5211, "California-American Water Company, Order Authorizing Adjustments And Implementation Of The Financing And Ratemaking Framework In Decision 18-09-017; The Establishment Of Two

The aforementioned request is made pursuant to Commission directives in D.99-10-064, which states: “To expedite improvements mandated by the Department of Health Services, the transfers of assets and related obligations of an inadequately operated and maintained small water utility may be approved by the Commission pursuant to an advice letter.”^{4 5}

ADVICE LETTER PROCESS

The Commission’s Standard Practice U-14-W indicates that the advice letter process is the appropriate procedural vehicle for a water utility to acquire an IOMSWU and sets forth additional procedural requirements and standards for the review, processing and disposition of such advice letter filings.⁶ Finally, Water Industry Rule 7.3.3(10) of General Order 96-B specifically contemplates the use of a Tier 3 advice letter for: “Transfer of ownership of inadequately operated and maintained Class C or Class D water Utility (see D.99-10-064).”⁷ Golden State files Advice Letter No. 1818-W pursuant to these Commission rules and procedures, and in conformance with the general procedures and standards governing advice letter filings set forth in the Commission’s General Order No. 96-B.

BACKGROUND

On March 14, 2011, Golden State and WWD1 executed a Purchase and Sale Agreement (“Purchase and Sale Agreement”) of Robbins, a potable water distribution system serving less than 100 customers in the unincorporated community of Robbins, located in Sutter County, California. The Robbins Water System is currently being operated by WWD1 pursuant to a domestic water supply permit issued to WWD1 in December 1993 by the California Department of Public Health (now State Water Resources Control Board Division of Drinking Water or “DDW”). The permit granted WWD1 permission to operate a public water system for the community of Robbins (Public Water System No. 5100107). A water supply permit amendment #01-02-93(P)51002-A1 was granted in January 2000 to construct and operate a new well with iron and manganese removal treatment.

WWD1 does not possess the financial capacity necessary to upgrade Robbins to comply with State and Federal drinking water standards, including arsenic limits established by

Associated Memorandum Accounts; And The Replacement Of The Construction Funding Charge With Additional Low Cost State Revolving Fund Loans, Associated With The Monterey Peninsula Water Supply Project” (Dec. 19, 2019) at Page 10, Ordering Paragraph No. 2.

⁴ *Id.* at Appendix D, Section 3.02.

⁵ Department of Health Services is now called State Water Resources Control Board Division of Drinking Water

⁶ *See id.* at §§ E-G.

⁷ GO 96-B at § 7.3.3(10).

DDW, and WWD1 is, thus, subject to an outstanding compliance order from DDW.⁸ On January 2, 2009, WWD1 was issued a compliance order from the DDW to lower the average arsenic concentration of the treated water at the Wagner Aviation Well, the only potable water source for Robbins. Samples collected at the Wagner Aviation Well detected arsenic levels that exceeded the maximum contaminant level (“MCL”) established for arsenic. On December 11, 2015, WWD1 received an amended compliance order, due to the Wagner Aviation Well’s continued exceedance of the arsenic MCL in the treated water supply. Furthermore, as specified in the amended compliance order, the failure of WWD1 to bring the potable water from the Wagner Aviation Well into compliance with the arsenic MCL, as specified in Section 64431 and 64432 of the California Code of Regulations, by December 31, 2018, could result in penalties, citations, and/or suspension or revocation of its water system operating permit. On March 1, 2018, the DDW issued an additional Compliance Order for Violation of Secondary Drinking Water Standards (TDS, specific conductance and chloride) and in July 2019, the Robbins systems entered into an Administrative Order on Consent with the US EPA. EPA’s Administrative Order requires that the system meet the elements of their compliance plan by January 1, 2022. As such, Robbins is an IOMSWU, as defined in the Settlement adopted by D. 99-10-064.⁹

The Purchase and Sale Agreement is Exhibit X-1 to the Settlement Agreement adopted by the Commission in D. 14-06-051¹⁰ (“A.08-08-022 Settlement Agreement”), which granted to Golden State a Certificate of Public Convenience and Necessity to construct a new non-contiguous service area in the southern and unincorporated portion of Sutter County (“South Sutter County CSA”). Section 6.3.1 of the Application No. (“A.”) 08-08-022 Settlement Agreement provides that, subject to Commission approval, Golden State will acquire Robbins pursuant to the Purchase and Sale Agreement. In D. 14-06-051, the Commission explained that such decision approving the A.08-08-022 Settlement Agreement does not “pre-approve” the future acquisition of Robbins and that the Commission would review the acquisition of Robbins when Golden State comes before the Commission seeking approval of the acquisition.¹¹ As such, Golden State’s submission of this advice letter is in furtherance of its obligations under the A.08-08-022 Settlement Agreement.

In Senate Bill 1268, the Public Water System Investment and Consolidation Act of 1997, codified as Public Utilities Code Sections 2718, *et seq.*, the California Legislature recognized the need to upgrade public water system infrastructure. Specifically, Public Utilities Code Section 2719 states:

⁸ See the outstanding order of DPH (now DDW) attached as Exhibit X-13.

⁹ See *supra*, note 1.

¹⁰ Decision 14-06-051, “Decision Granting Utility a Certificate of Public Convenience and Necessity and Approving the Settlement Agreement with Modifications” (June 26, 2014).

¹¹ *Id.* at p. 130, Conclusion of Law #25.

- (a) Public water systems are faced with the need to replace or upgrade the public water system infrastructure to meet increasingly stringent state and federal safe drinking water laws and regulations governing fire flow standards for public fire protection.
- (b) Increasing amounts of capital are required to finance the necessary investment in public water system infrastructure.
- (c) Scale economies are achievable in the operation of public water systems.
- (d) Providing water corporations with an incentive to achieve these scale economies will provide benefits to ratepayers.¹²

The Commission thereafter issued (i) D.99-10-064, which sets forth the general requirements regarding acquisitions and mergers of public utility water systems and provides incentives for acquisition of IOMSWUs, and (ii) Commission Standard Practice U-14-W, which provides the rules and guidelines for seeking approval of the acquisition of an IOMSWU through the advice letter process.

As discussed below, Golden State's proposals (i) to acquire Robbins, (ii) consolidate Robbins with Golden State's Arden-Cordova Customer Service Area, (iii) to make capital improvements to Robbins that will be paid for with principal forgiveness loan proceeds to be secured by Golden State, (iv) to establish an URCMA for unanticipated repair costs associated with the Robbins system and (v) to establish a memorandum account to track tax liabilities and expenses (including costs associated therewith) resulting from approval of Golden State's proposed actions in this filing that are not otherwise provided for in a general rate case application or decision are consistent with the incentives set forth in D.99-10-064 and the Commission's Standard Practices U-14-W¹³ and in the public interest, therefore, the Commission should authorize each of the foregoing requests.

TECHNICAL, MANAGERIAL AND FINANCIAL ("TMF")

Prior to obtaining a water supply permit for a change of ownership, Golden State must demonstrate to DDW that they possess adequate technical, managerial and financial ("TMF") capability to assure the delivery of pure, wholesome, and potable drinking

¹² Pub. Util. Code § 2719 (West 2015)

¹³ The incentive providing for the establishment of an URCMA for expenses associated with unanticipated repairs to an IOMSWU is provided in Appendix D to D.99-10-064 at Section 3.03(A), and Commission Standard Practice U-14-W (July 2007) at Section F.8.5.

water. A completed TMF Assessment form along with all necessary attachments will be submitted to DDW and the Commission by Golden State.

DISCUSSION

Robbins currently obtains groundwater supplies from its Wagner Aviation Well. In 2008, the maximum contaminant level ("MCL") for arsenic was reduced from 50 ug/l to 10 ug/l. Water samplings from the Wagner Aviation Well in 2008 showed arsenic levels in excess of the new 10 ug/l MCL. The Sutter County Public Works Department, current operator of the Robbins Water System ("Sutter County"), is operating under a Compliance Order from DPH (now DDW) requiring quarterly notification to customers of the arsenic MCL exceedance and compliance with the arsenic MCL by the end of 2018. Additionally, the Wagner Aviation Well exceeds the secondary MCLs for iron, manganese, total dissolved solids ("TDS") and chloride. Treatment is in place to remove iron and manganese.

Golden State intends to drill a new well and to install treatment at such new well in order to come into compliance with the new arsenic MCL as well as all secondary MCLs. In the meantime, Sutter County has been regularly notifying customers of the Robbins Water System of the exceedance per the Compliance Order and has been delivering bottled water to such customers for their potable water needs.

Golden State, upon acquisition of the Robbins Water System, will take over Sutter County's efforts to obtain groundwater that meets the secondary MCL for TDS and chloride and provide treatment to meet the new arsenic MCL and the iron and manganese secondary MCLs. The capital improvements that Golden State plans to implement are described in detail below. Golden State intends to continue Sutter County's practice of notifying Robbins Water System customers of the arsenic MCL exceedance per the Compliance Order and providing bottled water to customers until a new groundwater source and treatment is brought on-line.

In D. 99-10-064, the Commission adopted guidelines for the acquisition and merger of certain water utilities. In particular, citing the Public Water System Investment and Consolidation Act, Pub. Util. Code sections 2718, et seq., among other things, the Commission acknowledged that it is the policy of the State of California to provide incentives to the investor-owned utilities to acquire small publicly owned water systems and inadequately operated and maintained small water utilities (i.e., those serving less than 2,000 customers and subject to a DDW compliance order). This policy is designed to yield economies of scale to facilitate the upgrade of water system infrastructure to meet increasingly stringent water quality requirements, among other things.

In furtherance of this State policy and as part of the Commission's regulatory program to encourage investor-owned water utilities to acquire small publicly owned water systems and inadequately operated and maintained small water utilities, Golden State

requests that the Commission make a finding that, so long as Golden State is in compliance with the DDW Compliance Order and providing bottled water to Robbins Water System customers (or making alternative arrangements for providing safe drinking water to customers for their potable water needs), Golden State shall be deemed to be in compliance with all State and Federal drinking water standards, notwithstanding the Wagner Aviation Well exceedance of the primary MCL for arsenic and the secondary MCLs for iron, manganese, TDS, specific conductance and chloride. The Commission should also find that, in accordance with the California Supreme Court's decision in *Hartwell Corp. v Superior Court*, 27 Cal.4th 256, actions for damages against Golden State alleging violation of the arsenic MCL are barred. Such findings are necessary to ensure that the incentives intended by the Commission and the legislature are not undermined by concerns with water quality lawsuits while Golden State seeks to improve the water quality situation for the Robbins Water System.

ACQUISITION OF ROBBINS

On March 11, 2016, Golden State filed Advice Letter No. 1653-W to acquire the Robbins Water System, which met the obligations under the Settlement adopted by the Commission in its Decision No. 99-10-064 (D.99-10-064). Advice Letter 1653-W was supplemented on April 12, 2016 to extend Golden State's California Alternate Rates for Water (CARW) program to the Robbins customer service area, if the Commission granted approval for the acquisition. On September 23, 2016, Water Division rejected Golden State's Advice Letter 1653-WA. Since that time, Golden State has continued working with Sutter County, WWD1 and Robbins to determine a viable approach to acquiring the Robbins System.

Golden State's planned acquisition of Robbins, which is expected to occur immediately following approval by the Commission, is in the public interest. Robbins is an IOMSWU, as defined in the Settlement adopted by D.99-10-064¹⁴, because WWD1 lacks the financial capacity necessary to upgrade Robbins to be in compliance with State and Federal drinking water standards, including arsenic limits established by the California DDW, and WWD1 is thus subject to an outstanding compliance order from DDW¹⁵. WWD1 lacks the financial resources to come into compliance with the DDW order because it may not raise rates if a majority of its ratepayers protest pursuant to Proposition 218, and its ratepayers have successfully protested rate increases on several occasions. The small number of customers of Robbins makes the burden of complying with DDW standards extremely difficult, especially given the socioeconomic profile of the Robbins community. Therefore, WWD1 lacks sufficient financial resources to provide safe drinking water to its Robbins customers. By consolidating Robbins with the Arden-Cordova CSA, for both operational and ratemaking purposes, it achieves economies of scale to improve and maintain Robbins' water system infrastructure.

¹⁴ See *supra*, note 1.

¹⁵ See *supra*, note 3.

In-lieu of an appraisal, Golden State is applying the provisions of Public Utilities Code 2720(a), which states 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.” PU Code 2720(a)(2) defines “fair market value” as having the meaning set forth in Code of Civil Procedures 1263.320, subsection (a) of 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...”

Golden State understands that Robbins’ assets will be transferred “as is”, free and clear of all encumbrances, claims and liens. The purchase price for the assets is \$1,000.00. Given the de minimis purchase price, Golden State is not requesting a premium over existing Robbins’ rate base.

As set forth below and shown in Exhibit X-8, Golden State has a plan to provide the infrastructure improvements necessary to bring Robbins into compliance with state and federal drinking water standards, and Golden State’s proposed acquisition of Robbins complies with the rules and guidelines for the acquisition of IOMSWUs, set forth by the Commission in D.99-10-064 and Standard Practice U-14-W. For all of the foregoing reasons, the Commission should find Golden State’s acquisition of Robbins in the public interest and authorize the acquisition.

CAPITAL IMPROVEMENTS

As set forth in Exhibit X-8, Golden State plans to make capital improvements to Robbins in order to bring the system into compliance with State and Federal drinking water standards using principal forgiveness loan funding.

Golden State, prior to acquiring the Robbins Water System, will apply for principal-forgiveness funding under the DDW’s Drinking Water SRF program for the capital improvements described below. The system meets the criteria (small, disadvantaged community out of compliance with a primary drinking water standard) to be considered eligible and a high priority for funding. The DDW will begin reviewing the construction funding application prior to transfer of ownership but any funding agreements will be executed after the transfer of ownership.

CONSOLIDATION WITH ARDEN-CORDOVA CUSTOMER SERVICE AREA

The Arden-Cordova CSA is the closest Golden State operating water system to Robbins. At approximately forty-six (46) miles apart, existing staff at the Arden-Cordova CSA can easily be shared to service the Robbins Water System. As stated above, a completed TMF Assessment form along with all necessary attachments will be submitted to SWRCB and the Commission.

After the acquisition is granted, Golden State is proposing to keep Robbins' customers on their existing flat rate tariff for a 12-month period before merging them on the applicable Arden-Cordova rate schedule. This 12-month grace period allows the Robbins' customers to better understand and adjust their water usage patterns prior to paying volumetric rates, instead of the flat rate charge they are currently paying. At the time of acquisition, all Robbins customers will have had meters installed. Following the 12-month grace period, Robbins customers would be subject to the tariff schedules applicable to Golden State's Arden-Cordova customers and would be part of Arden-Cordova for both operational and ratemaking purposes. This request complies with provision 4.02, Filing of Rates, of Appendix D in D.99-10-064¹⁶ for the acquisition of Mutual and Publicly-Owned Water Systems. Robbins' current tariff sheet and Golden State's Schedule AC-1 - General Metered Service tariff schedule are in Exhibit X-6. Golden State will be filing a General Rate Case Application in July 2020 to establish rates for 2022 through 2024. All cost of service and capital requests related to Robbins beginning in 2022 will be addressed in the General Rate Case Application.

CALIFORNIA ALTERNATE RATES FOR WATER ("CARW")

Golden State desires to offer the CARW program to the Robbins customers, effective upon acquisition approval. The key components of the CARW program are 1.) eligibility for the program is based on certain household income and household sizes, 2.) the monthly discount is a fixed amount equal to approximately 20% of the average bill for a residential customer in the Arden-Cordova Customer Service Area, and 3.) the costs of the program are recovered through a surcharge applied to all ineligible customers. Robbins will be consolidated into Golden State's Arden-Cordova Customer Service Area and its low-income customers will be eligible to enroll for the CARW discount.

UNANTICIPATED REPAIR COST MEMO ACCOUNT ("URCMA")

Golden State proposes establishing an URCMA to track any costs associated with unanticipated repairs to Robbins for later recovery in rates, subject to its prudent administration of such repairs. Because the incentives set forth in D.99-10-064 and incorporated into Commission Standard Practice U-14-W also permit a utility acquiring an IOMSWU to establish an URCMA,¹⁷ Golden State's request is consistent with the Commission's policy. The URCMA shall track costs that are unanticipated, crucial to the operation of the utility, and costs not already included in rates.

ROBBINS TAX MEMORANDUM ACCOUNT ("RTMA")

Golden State proposes establishing a RTMA to track tax liabilities and expenses (including costs associated therewith) resulting from approval of Golden State's proposed actions in this filing that are not otherwise provided for in a general rate case application or decision.

¹⁶ This provision of rates to be charged to an IOMSWU is provided in Appendix D to D.99-10-064 at Section 4.02.

¹⁷ *Id.* at Section 3.03(A); Standard Practice U-14-W at F.8.g.

In accordance with the Commission Standard Practice U-27-W, Golden State requests to establish a memorandum account to track the aforementioned amounts. Memo accounts track costs that the Commission has directed to be tracked and costs that have been approved to be tracked due to events of an exceptional nature that:

a. are not under the utility's control,

The costs to be tracked in the RTMA are not under the control of Golden State. For example, because of the enactment on December 22, 2017 of the Tax Cuts and Jobs Act, grant funds are considered to be taxable income to the utility. Other examples of costs applicable for memo account tracking include those, if any, associated with the initial acquisition of the Robbins Water System, including those that a taxing authority may issue an assessment for, penalties or interest thereon, and audit defense costs associated with the actions proposed in this filing, and property-tax liabilities.

b. could not have been reasonably foreseen in the utility's last general rate case,

The acquisition of the Robbins Water System was not foreseen in Golden State's last GRC Application (filed July 2017). The request to acquire the Robbins Water System will be filed prior to Golden State's next GRC application, which is scheduled to be filed in July 2020.

c. that will occur before the utility's next scheduled rate case

Golden State's exposure to the income tax implications associated with principal forgiveness loan proceeds and any tax-related expenses associated with the acquisition of Robbins facilities/capital will begin on the approval date of the acquisition, which is expected to be July 2020. Additionally, to avoid retroactive ratemaking, Golden State is seeking to establish this memorandum account now, as opposed to waiting for the final decision to be rendered for its 2020 GRC application (final decision expected to happen in December 2021).

d. are of a substantial nature in that the amount of money involved is worth the effort of processing a memo account

Golden State expects to receive a loan-forgiveness (grant) in the amount of approximately \$3,826,475. As stated above, Golden State expects to incur income-tax expense on this loan forgiveness, and on the value, if any or if a taxing authority prevails in assessing tax from asserting that there is any, of the Robbins' water facilities in excess of the arm's-length purchase price.

e. have ratepayer benefits

(1) Acquiring Robbins will provide the Robbins customers TMF resources needed to replace and/or upgrade the water system infrastructure to meet

state and federal safe drinking water laws and regulations governing fire flow standards for public fire protection; (2) achieve economies of scale; and (3) assist Robbins' customers in getting much needed potable water. This is the essence of D.99-10-067.

COMPLIANCE WITH THE REQUIREMENTS OF D.99-10-064 AND COMMISSION STANDARD PRACTICE U-14-W

This advice letter and its exhibits include all of the information required by D.99-10-064 and Commission Standard Practices U-14-W:

- (1) A copy of the executed Purchase and Sale Agreement for Golden State's acquisition of Robbins is attached as Exhibit X-1, a copy of the First Amendment to Water System Purchase and Sale Agreement is attached as Exhibit X-2 and a copy of the pending, unexecuted Second Amendment to Water System Purchase and Sale Agreement is attached as Exhibit X-3;
- (2) A copy of the draft notice to be provided to all affected customers in Robbins (i) comparing their current rates with the current rates in Arden-Cordova and (ii) advising of Golden State's filing of this advice letter, is attached as Exhibit X-4;
- (3) In lieu of an appraisal of Robbins, Golden State is providing cost estimate for the proposed new well and installation of treatment facilities needed to come into compliance with the new arsenic MCL as well as all secondary MCLs, which is attached as Exhibit X-5. More discussion on the principal forgiveness loan Golden State is seeking to drill the new well and installation of the treatment facilities is discussed above in section "CAPITAL IMPROVEMENTS";
- (4) Robbins' current tariff sheet and Golden State's Schedule AC-1 - General Metered Service tariff schedule are in Exhibit X-6.;
- (5) A detailed description of Robbins, including a list of facilities including wells, storage and structures, and a distribution system map showing pipe sizes, fire flow and pressure areas is attached as Exhibit X-7;
- (6) The names and addresses of all utilities, corporations, persons or other entities, either public or private, with which Robbins is likely to compete, and all cities and counties within which service will be rendered, are included in the service list attached as Exhibit X-8; no entities are likely to compete with Robbins, and Robbins will only provide service in the unincorporated community of Robbins.
- (7) A list providing the status of the franchises and health and safety permits obtained or required to operate Robbins, including the status of the Technical, Managerial and Financial Capacity certification required from the DDW is attached as Exhibit X-9;
- (8) An accounting of the original cost (or estimated original cost) of all plant and depreciation reserve is attached as Exhibit X-10;
- (9) A service area map delineating the new service area is attached as Exhibit X-11; and

- (10) The DPH (now DDW) Compliance Order, dated January 9, 2009 and the amended Compliance Order, dated December 11, 2015 are attached as Exhibit X-12.
- (11) The US EPA Administrative Order on Consent dated July 26, 2019 is attached as Exhibit X-13.
- (12) Robbins Unanticipated Repair Cost Memorandum Account is attached as Exhibit X-14.
- (13) Robbins Tax Memorandum Account (“RTMA”) is attached as Exhibit X-15.

GENERAL REGULATORY COMPLIANCE

This filing will not interfere with the operation of Golden State’s other public utility operations or the water system of another public agency.

Golden State respectfully submits this advice letter in compliance with Commission Standard Practice U-14-W, Standard Practice For Preparing and Processing Advice Letters For Service Area Extensions, and Determining That A Mutual Does Not Infringe On The Service Area Of A Regulated Water Company. Golden State respectfully requests that the Commission issues a resolution that approves the acquisition of Robbins pursuant to the Purchase and Sale Agreement and, in accordance with D.99-10-064, find the rates applicable to customers in Robbins just and reasonable.¹⁸

REQUEST

As demonstrated and supported in this advice letter filing, Golden State requests that the Commission finds that Golden State has acted in good faith and grants the following:

- (1) Authorize Golden State’s proposed acquisition of Robbins;
- (2) Grant Golden State authority to consolidate Robbins with the Arden-Cordova Customer Service Area;
- (3) Allow Robbins customers to remain on their current flat rate tariff for a 12-month grace period, then merge them on the Arden-Cordova metered tariff;
- (4) Find that Golden State’s proposal complies with the rules and guidelines for the acquisition of IOMSWUs, set forth by the Commission in D.99-10-064 and Standard Practice U-14-W;
- (5) Find that Golden State’s acquisition of Robbins is in the public interest and is consistent with the law;
- (6) Find that, so long as Golden State is in compliance with the DPH (now DDW) Compliance Order and providing bottled water to Robbins Water System customers (or making alternative arrangements for providing safe drinking water to customers for their potable water needs), Golden State shall be deemed to be in compliance with all State and Federal drinking water standards, notwithstanding the Wagner Aviation Well exceedance of the MCL for arsenic;

¹⁸ See D.99-10-064 at p. 11, Conclusion of Law #5.

- (7) Find that, in accordance with the California Supreme Court’s decision in *Hartwell Corp. v Superior Court*, 27 Cal.4th 256, actions for damages against Golden State alleging violation of the arsenic MCL are barred;
- (8) To recognize/acknowledge the needed capital improvements to the Robbins system;
- (9) Authorize Golden State to establish an Unanticipated Repair Cost Memorandum Account (“URCMA”) for Robbins; and
- (10) Authorize Golden State to establish a memorandum account to track tax liabilities and expenses (including costs associated therewith) resulting from approval of Golden State’s proposed actions in this filing that are not otherwise provided for in a general rate case application or decision.

NOTICE

The notice (i) comparing the rates before and after the acquisition of Robbins, and (ii) advising of Golden State’s filing of this advice letter, attached as Exhibit X-4, is being provided to all affected customers by first-class U.S. mail service.

Further, as detailed in Exhibit X-9, in compliance with General Rules 4.2 and 7.2 and Water Industry Rule 4.1 of General Order 96-B, this advice letter is being served on all interested and affected parties. Golden State will also post this advice letter to its website.

TIER DESIGNATION

Pursuant to Water Industry Rule 7.3.3(10) of General Order 96-B, this advice letter is submitted with a Tier 3 designation.

EFFECTIVE DATE

Golden State is requesting an effective date of July 1, 2020 for the acquisition.

PROTEST AND RESPONSES

Anyone may submit a response or protest for this Advice Letter (“AL”). When submitting a response or protest, **please include the utility name and advice letter number in the subject line.**

A **response** supports the filing and may contain information that proves useful to the Commission in evaluating the AL. A **protest** objects to the AL in whole or in part and must set forth the specific grounds on which it is based. These grounds¹⁹ are:

1. The utility did not properly serve or give notice of the AL;
2. The relief requested in the AL 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 AL contain material error or omissions;

¹⁹ G.O. 96-B, General Rule 7.4.2

4. The relief requested in the AL is pending before the Commission in a formal proceeding; or
5. The relief requested in the AL requires consideration in a formal hearing, or is otherwise inappropriate for the AL process; or
6. The relief requested in the AL is unjust, unreasonable, or discriminatory, provided that such a protest may not be made where it would require re-litigating a prior order of the Commission.

A protest may not rely on policy objections to an AL where the relief requested in the AL follows rules or directions established by statute or Commission order applicable to the utility. A protest shall provide citations or proofs where available to allow staff to properly consider the protest.

DWA must receive a response or protest via email (or postal mail) within 20 days of the date the AL is filed. When submitting a response or protest, **please include the utility name and advice letter number in the subject line.**

The addresses for submitting a response or protest are:

Email Address:

Water.Division@cpuc.ca.gov

Mailing Address:

CA Public Utilities Commission
Division of Water and Audits
505 Van Ness Avenue
San Francisco, CA 94102

On the same day the response or protest is submitted to DWA, the respondent or protestant shall send a copy of the protest to Golden State Water Company at:

Email Address:

regulatoryaffairs@gswater.com

Mailing Address:

Golden State Water Company
Attn: Ronald Moore
630 East Foothill Blvd.
San Dimas, CA 91773

Cities and counties that need Board of Supervisors or Board of Commissioners approval to protest should inform DWA, within the 20 day protest period, 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.

REPLIES²⁰

The utility shall reply to each protest and may reply to any response. Any reply must be received by DWA within five business days after the end of the protest period, and

²⁰ G.O. 96-B, General Rule 7.4.3

shall be served on the same day on each person who filed the protest or response to the AL.

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.

Sincerely,

/s/ Ronald Moore

Ronald Moore

Regulatory Affairs Department

Golden State Water Company

c: Jim Boothe, CPUC - Water Division
Bruce DeBerry, CPUC- Water Division
Eileen Odell, CPUC- PAO
Victor Chan, CPUC- PAO
Richard Rauschmeier, CPUC- PAO

GOLDEN STATE WATER COMPANY

SERVICE LIST

ARDEN-CORDOVA DISTRICT

Sacramento Suburban Water District
3701 Marconi Avenue, Suite 100
Sacramento, CA 95821
HHernandez@sswd.org
DYork@sswd.org

Carmichael Water District
7837 Fair Oaks Blvd.
Carmichael, CA 95608
laura@carmichael.org

California-American Water Co.
4701 Beloit Drive
Sacramento, CA 95838
Sherrene.chew@amwater.com

Citrus Heights Water District
6230 Sylvan Road
Citrus Heights, CA 95610
rchurch@chwd.org

Fair Oaks Water District
10317 Fair Oaks Blvd.
Fair Oaks, CA 95628

Orange Vale Water Co.
P. O. Box 620800
9031 Central Avenue
Orange Vale, CA 95662
swilcox@orangevalewater.com

City of Folsom
50 Natoma Street
Folsom, CA 95630

City of Rancho Cordova
2729 Prospect Drive
Rancho Cordova, CA 95670

County Clerk
County of Sacramento
P. O. Box 839
Sacramento, CA 95812-0839

Steve Pedretti, Division Chief
Sacramento County
Department of Water Resources
827 7th Street, Room 301
Sacramento, CA 95814
DWRexecsecretary@saccounty.net

Director
Sacramento County Water Agency
827 7th Street, Room 301
Sacramento, CA 95814
DWRexecsecretary@saccounty.net

Fred G. Yanney
Yanney Law Office
17409 Marquardt Ave., Unit C-4
Cerritos, CA 90703
FredYanney@gmail.com

Megan Somogyi
Goodin, MacBride, Squeri & Day, LLP
505 Sansome Street, Suite 900
San Francisco, CA 94111
MSomogyi@goodinmacbride.com

SERVICE LIST

ROBBINS DISTRICT

THOMAS J. MACBRIDE, JR.
ATTORNEY AT LAW
GOODIN MACBRIDE SQUERI DAY & LAMPREY LLP
505 SANSOME STREET, SUITE 900
SAN FRANCISCO, CA 94111

MICHAEL B. DAY, ATTORNEY
GOODIN MACBRIDE SQUERI DAY & LAMPREY LLP
505 SANSOME STREET, SUITE 900
SAN FRANCISCO, CA 94111-3133

FRANK ALONSO
ROBBINS AD HOC COMMITTEE
P O BOX 254
ROBBINS, CA 95676
FOR: ROBBINS AD HOC COMMITTEE

MATT FRANCK
CH2M HILL
2485 NATOMAS PARK DRIVE, SUITE 600
SACRAMENTO, CA 95830

WES STRICKLAND
JACKSON WALKER, LLP
100 CONGRESS AVENUE, SUITE 1100
AUSTIN, TX 78701

HEIDI JENSEN
OFFICE OF ASSEMBLYMAN JIM NIELSEN
STATE CAPITOL, ROOM 6031
SACRAMENTO, CA 95814

JEANNE ARMSTRONG, ATTORNEY AT LAW
GOODIN, MACBRIDE, SQUERI & DAY, LLP
505 SANSOME STREET, SUITE 900
SAN FRANCISCO, CA 94111
FOR: COUNTY OF SUTTER

MARLO A. GO
GOODIN MACBRIDE SQUERI DAY & LAMPREY LLP
505 SANSOME STREET, SUITE 900
SAN FRANCISCO, CA 94111
FOR: SUTTER POINTE LANDOWNERS / DEVELOPERS

ENVIRONMENTAL SCIENTIST
CALIFORNIA DEPARTMENT OF FISH & GAME
1701 NIMBUS ROAD
RANCHO CORDOVA, CA 95670

MEGAN SOMOGYI, ATTORNEY
GOODIN, MACBRIDE, SQUERI & DAY
505 SANSOME STREET, SUITE 900
SAN FRANCISCO, CA 94111

COUNTY CLERK
COUNTY OF SACRAMENTO
P O BOX 839
SACRAMENTO, CA 95812-0839

SACRAMENTO COUNTY
DEPARTMENT OF WATER RESOURCES
827 7TH STREET, ROOM 301
SACRAMENTO, CA 95814

ASST ATTORNEY GENERAL
STATE OF CALIFORNIA
300 SOUTH SPRING STREET
LOS ANGELES, CA 90013

DIRECTOR
SACRAMENTO COUNTY WATER AGENCY
827 7TH STREET, ROOM 301
SACRAMENTO, CA 95814

STUART SOMACH
SOMACH, SIMMONS & DUNN
500 CAPITAL MALL, SUITE 1000
SACRAMENTO, CA 95814

OFFICE OF THE COUNTY COUNSEL
1160 CIVIC CENTER BLVD., SUITE C
YUBA CITY, CA 95993

SERVICE LIST

ROBBINS DISTRICT

GEORGE CARPENTER
141 MORELLA COURT
ROSEVILLE, CA 95747