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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Investigation on the Commission's Own Motion into the Planned Merger between SJW Group, Holding Company of San Jose Water Company (U168W), and Connecticut Water Service, Inc. and its Effect on California Ratepayers and the California Economy.

Investigation 18-07-007

**SCOPING MEMO AND RULING OF ASSIGNED COMMISSIONER
AND JOINT RULING WITH ADMINISTRATIVE LAW JUDGE**

Summary

This Scoping Memo and Ruling (Scoping Memo) sets forth the category, issues, need for hearing, schedule, and other matters necessary to scope this proceeding pursuant to Public Utilities Code § 1701.1 and Article 7 of the Commission's Rules of Practice and Procedure.¹

1. Background

On July 12, 2018, the Commission issued an Order Instituting Investigation (OII) into the proposed merger of SJW Group, the holding company parent of CPUC-jurisdictional water utility, San Jose Water Company (SJWC) and California Water Services, Inc. (CWSI). As originally proposed, the merger would have been effectuated through an exchange of stock, following which SJW Group would have become the holding company parent of both SJWC and

¹ California Code of Regulations, Title 20, Division 1, Chapter 1; hereinafter, Rule or Rules.

CWSI. The original transaction would have involved, among other things, a substantial change in the capital structure of SJW Corp., dilution of the ownership position of the largest shareholder of SJW Group (the Moss family), and the addition of five CWSI Board members to the Board of SJW Group. On August 6, 2018, following a period in which the original merger agreement was amended to change its financial terms and California Water Company made a series of bids to acquire control of SJWI, the merger agreement was amended. The Second Amended Agreement is the one that is before the Commission today. It converts the proposed transaction from a “merger of equals” effectuated through an exchange of common stock into a cash purchase by SJW Group of all the outstanding shares of CWSI at a price of \$70 per share. As in the original transaction, SJW Group will become the parent of both SJWC and CWSI but, unlike the original transaction, the number of new shares of SJW Group issued in connection with the transaction will be small, the ownership percentage of the Moss Family will be only slightly diluted, and two, rather than five, members of the CWSI Board will become members of the SJW Group Board. The cash required to purchase the CWSI shares will be obtained through a combination of borrowing and issuance of additional equity.

On August 22, 2018 a pre-hearing conference (PHC) was held to determine parties, discuss the scope, the schedule, and other procedural matters.

2. Scope

Based on the OII, parties’ responses, and the discussion at the PHC, the following issues are within the scope of this proceeding:

1. Is the merger subject to review pursuant to Public Utilities Code Section 854, and if so, does it comply with the statute?

2. How does SJW Group propose to allocate corporate overhead between its two operating divisions?
3. Will SJW Group reduce its investments in San Jose Water Company compared to the investments it would make if there were no CWSI acquisition?
4. How will the proposed borrowing or other aspects of the transaction affect San Jose Water Company's future rates?
5. How will the proposed borrowing or other aspects of the transaction affect San Jose Water Company's ability to invest in new infrastructure?
6. How will the proposed borrowing or other aspects of the transaction affect San Jose Water Company's cash flow, credit rating and capital structure?
7. What support can San Jose Water Company offer for its claims that the transaction may lower rates and increase water quality for its customers?
8. Does the proposed transaction raise any safety concerns and, if so, what are they?
9. Does the proposed transaction raise any water quality concerns, and, if so, what are they?
10. Does the transaction benefit or harm San Jose Water Company ratepayers?
11. Will the proposed merger cause a change in control of San Jose Water Company?
12. Are there other factors that warrant review of the proposed merger?
13. Would the proposed merger have harmful effects in California?

14. Is the proposed merger in the public interest?

3. Categorization

The Commission in the Order Instituting Investigation, issued on July 12, 2018, determined that the category of the proceeding is ratesetting.

This Scoping Memo confirms the categorization. Anyone who disagrees with this categorization must file an appeal of the categorization no later than 10 days after the date of this scoping ruling. (*See* Rule 7.6.)

4. Need for Hearing

The Commission in the Order Instituting Investigation also preliminarily determined that hearings are not required. We confirm the preliminary hearing determination.

5. Ex Parte Communications

Ex parte communications are permitted subject to the requirements of Rule 8.2(c).

6. Assignment of Proceeding

Carla J. Peterman is the assigned Commissioner and Karl J. Bemesderfer is the assigned Administrative Law Judge (ALJ).

7. Filing, Service and Service List

The official service list has been created and is on the Commission's website. Parties should confirm that their information on the service list is correct and serve notice of any errors on the Commission's Process office, the service list, and the ALJ. Persons may become a party pursuant to Rule 1.4.

When serving any document, each party must ensure that it is using the current official service list on the Commission's website.

This proceeding will follow the electronic service protocols set forth in Rule 1.10. All parties to this proceeding shall serve documents and pleadings

using electronic mail, whenever possible, transmitted no later than 5:00 p.m., on the date scheduled for service to occur. Rule 1.10 requires service on the ALJ of both an electronic and a paper copy of filed or served documents

Persons who are not parties but wish to receive electronic service of documents filed in the proceeding may contact the Process Office at process_office@cpuc.ca.gov to request addition to the “Information Only” category of the official service list pursuant to Rule 1.9(f).

8. Discovery

Discovery may be conducted by the parties consistent with Article 10 of the Commission’s Rules. Any party issuing or responding to a discovery request shall serve a copy of the request or response simultaneously on all parties. Electronic service under Rule 1.10 is sufficient, except Rule 1.10(e) does not apply to the service of discovery and discovery shall not be served on the Administrative Law Judge. Deadlines for responses may be determined by the parties. Motions to compel or limit discovery shall comply with Rule 11.3.

9. Public Advisor

Any person interested in participating in this proceeding who is unfamiliar with the Commission’s procedures or who has questions about the electronic filing procedures is encouraged to obtain more information at <http://consumers.cpsc.ca.gov/pao/> or contact the Commission’s Public Advisor at 866-849-8390 or 415-703-2074 or 866-836-7825 (TTY), or send an e-mail to public.advisor@cpuc.ca.gov.

10. Schedule

The adopted schedule is:

EVENT	DATE
Prehearing Conference	August 22, 2018
Opening Comments	September 14, 2018
Public Participation Hearing	October 8, 2018 San Jose, CA
Reply Comments	October 19, 2018
Proposed Decision	November 2018
Commission Vote	December 2018

The assigned Commissioner or assigned ALJ may modify this schedule as necessary to promote the efficient management and fair resolution of this proceeding.

It is the Commission's intent to complete this proceeding within 12 months of the date the action is initiated. This deadline may be extended by order of the Commission. (Public Utilities Code § 1701.2(i).)

IT IS RULED:

1. The category of this proceeding is ratesetting.
2. The scope of the issues for this proceeding is as stated in "Section 2. Scope" of this ruling.
3. Hearing is not necessary.
4. The schedule for the proceeding is set in "Section 10. Schedule" of this ruling. The assigned Commissioner may adjust this schedule as necessary for efficient management and fair resolution of this proceeding.

5. *Ex parte* communications are permitted subject to the requirements of Rule 8.2(c).

Dated September 7, 2018, at San Francisco, California.

/S/ CARLA J. PETERMAN

Carla J. Peterman
Assigned Commissioner

/S/ KARL J. BEMESDERFER

Karl J. Bemederfer
Administrative Law Judge