

In the Matter of the Application for the Sale and Transfer of Assets from American Water Resources, Inc., to Peninsula Light Company, WUTC Docket No. UW-010417

SETTLEMENT AGREEMENT

American Water Resources, Inc., (“American Water Resources” or “Company”) and Peninsula Light Company (Peninsula Light) filed an application pursuant to the provisions of chapter 80.12 RCW for approval of the sale of certain assets of American Water Resources to Peninsula Light on March 28, 2001. American Water Resources is located in Onalaska and serves approximately 1,938 customers in Lewis, Thurston, Mason, Kitsap, Pierce, and Grays Harbor Counties. This application will affect 21 water systems with approximately 153 customers located in Mason, Kitsap and Pierce Counties

The water systems being transferred are:

Pierce County; Carney Lake #322, Groff #323, SR 302 #2, 302 #3, Zimmerman #324, Key Ridge #306, Lackey #327, Campbell #326, & Jackson Lake #325.

Kitsap County; Edquist S. Kitsap #331, Cozy Lane #332, Moore Oak #333, Forest Creek #368, Strawberry #361, & Old Sawmill #352.

Mason County; Razor 1 #336, Razor 2 #337, Razor 3 #338, Razor 4 #339, Razor Place #335, & Dream Lane #340.

Peninsula Light is a member-owned, non-profit, rural electric cooperative, a Washington mutual corporation formed to act as a utility company. Peninsula Light currently provides both electric and water services primarily in the Gig Harbor area of Pierce County. Peninsula Light is not subject to Commission jurisdiction because it is a member-owned cooperative. Peninsula Light provided notice to customers on April 27, 2001 as required by Commission rules, WAC 480-110-425 and 480-143-210.

The companies state the benefits of this acquisition of water system assets include Peninsula Light being a member-owned, non-profit, rural electric cooperative. Peninsula Light has been providing water service since 1995 and employs a certified Water Distribution Manager and other certified staff to provide all aspects of water system repair and operations. Peninsula Light states that it will maintain the rates for water service now in effect for the 21 systems for a period of one year, unless prompted to increase rates because of wholesale electric cost increases and associated impacts on the expense of operating water systems.

Peninsula Light Company will acquire water system assets (21 water systems) of American Water Resources for \$150,000, payable at closing. Staff calculates the current rate base for the 21 water systems to be approximately \$36,014. As a result of this sale and transfer of water system assets, American Water Resources will recognize a gain on sale. American Water Resources and Staff agree that \$113,986 in gain on sale should be allocated between shareholders and customers. American Water Resources and Staff also agree that \$110,856 should be deposited into a separate Capital Improvement, Contribution in Aid of Construction Account and only be used to fund capital improvements that are approved or required in writing

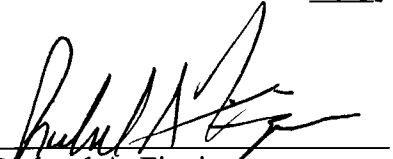
by Department of Health under the Safe Drinking Water Act or other appropriate expense. Any expenditure of funds from this account must have prior approval by a letter from the Commission Secretary before any disbursement of funds.

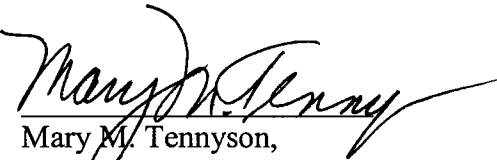
Staff has reviewed the proposed sale and transfer of assets and believes this transaction to be in the public interest only if the conditions set forth below are agreed to. Staff will recommend to the Commission that it approve the application by American Water Resources, Inc., and Peninsula Light Company, for sale and transfer of assets (21 water systems) in Docket UW-010417, subject to the following conditions on the sale proceeds:

1. American Water Resources, Inc. must deposit the Available Gain to Rate Payers of the asset sale (\$110,856) into a separate Capital Improvement, Contribution in Aid of Construction (CIAC), Account. This separate reserve account shall be listed on all company financial records and shall be considered a cash account asset (NARUC account #127). Expenditures from the reserve account shall be treated as customer contributions for ratemaking purposes.
2. Available Gain to Rate Payers from this asset sale shall only be used to fund capital improvements that are approved or required in writing by Department of Health under the Safe Drinking Water Act or other appropriate expense. Staff acknowledges that, to the extent not paid by facilities charges or other funds, the expenses of the Crescent Park chlorination project and the corrosion control projects on the Loma Vista, Prairie Villa, and Crowder Road systems may properly be paid from this account. American Water Resources, Inc., must obtain written concurrence from the Commission Secretary before any disbursements of funds from this account.
3. American Water Resources will provide monthly bank statements to Staff, until all funds in the reserve account are expended.

The parties further agree that if American Water Resources pays taxes on this transaction, Staff will allow, with prior concurrence, the company to be reimbursed for the ratepayer portion of the taxes incurred from the reserve account established to hold the gain directed to benefit the remaining customers of American Water Resources.

Dated and effective this 27th day of June, 2001.


Richard A. Finnigan,
Attorney for
American Water Resources, Inc.


Mary M. Tennyson,
Sr. Assistant Attorney General
for Commission Staff