

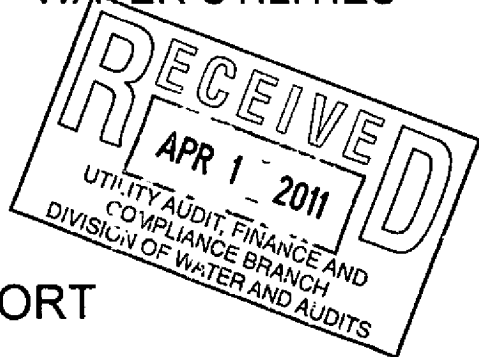
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Examined _____

CLASS A
WATER UTILITIES

U# 342-W _____



2010
ANNUAL REPORT
OF

VALENCIA WATER COMPANY

(NAME UNDER WHICH CORPORATION, PARTNERSHIP, OR INDIVIDUAL IS DOING BUSINESS)

24631 AVENUE ROCKEFELLER

VALENCIA, CA 91355

(OFFICIAL MAILING ADDRESS)

ZIP

TO THE
PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
FOR THE
YEAR ENDED DECEMBER 31, 2010

REPORT MUST BE FILED NOT LATER THAN MARCH 31, 2011

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GENERAL INSTRUCTIONS

1. Two completed and signed hard copies of this report and one electronic copy must be filed **NOT LATER THAN MARCH 31, 2011**, with:

**CALIFORNIA PUBLIC UTILITIES COMMISSION
DIVISION OF WATER AND AUDITS
ATTN: KAYODE KAJOPAIYE
505 VAN NESS AVENUE, ROOM 3105
SAN FRANCISCO, CALIFORNIA 94102-3298
kok@cpuc.ca.gov**

2. Failure to file the report on time may subject a utility to the penalties and sanctions provided by the Public Utilities Code.
3. The Oath, on page 60, must be signed by an authorized officer, partner or owner.
4. The report must be prepared in ink or by the use of a typewriter. Computer generated report forms may be substituted.
5. The report must be filled in, and every question answered. **LEAVE NO SCHEDULE BLANK.** Insert the words "none" or "not applicable" or "n/a" when appropriate.
6. Certain balance sheet and income statement accounts refer to supplemental schedules. The totals of the details in the latter must agree with the balances of the accounts to which they refer.
7. Some schedules provide for a "balance at beginning of year." The amount shown should agree with the "balance at end of year" as shown in the report for the previous year. If there is a difference it should be explained by footnote.
8. When there is insufficient space in a schedule to permit a complete statement of the requested information, insert sheets should be prepared and identified by the number of the schedule to which it refers. Be certain that the inserts are securely attached to the report. If inserts are needed, prepare all inserts in one separate electronic file in Microsoft Excel format and file it with electronic file of this report.
9. This report must cover the calendar year from January 1, 2010, through December 31, 2010. Fiscal year reports will not be accepted.
10. Your company's external auditor information, such as external auditor's name, phone number, and address, must be included in Page 12, Item 12, of this report.

INSTRUCTIONS

FOR PREPARATION OF SELECTED FINANCIAL DATA SHEET FOR ALL WATER UTILITIES

To prepare the attached data sheets, refer to the Balance Sheet, Income Statement and supporting detail schedules in the annual report for the required data.

Please follow the instructions below:

1. Common plant allocated to water should be indicated with water plant figures in Net Plant Investment.
2. The capitalization section for those reporting on both California Only and Total System Forms should be identical and completed with Total Company Data. Be sure that Advances for Construction include California water data only.
3. Complete the operation section with California water revenues and expenses, but if necessary, remove interdepartmental revenues and expenses.
4. All other utility and nonutility revenues and expenses are netted on Line No. 38.

BALANCE SHEET AND CAPITALIZATION DATA
Calendar Year 2010

NAME OF UTILITY VALENCIA WATER COMPANY PHONE (661) 294-0828

PERSON RESPONSIBLE FOR THIS REPORT Beverly Johnson

	01/01/10	12/31/10	Average
BALANCE SHEET DATA			
1 Intangible Plant	115,083	115,083	115,083
2 Land and Land Rights	1,366,286	1,366,286	1,366,286
3 Depreciable Plant	156,168,364	157,239,766	156,704,065
4 Gross Plant in Service	157,649,733	158,721,135	158,185,434
5 Less: Accumulated Depreciation	(42,301,188)	(46,636,033)	(44,468,611)
6 Net Water Plant in Service	115,348,545	112,085,102	113,716,824
7 Water Plant Held for Future Use			
8 Construction Work in Progress	3,088,619	3,925,141	3,506,880
9 Materials and Supplies	386,224	356,091	371,158
10 Less: Advances for Construction	(13,804,621)	(13,098,867)	(13,451,744)
11 Less: Contributions in Aid of Construction	(57,666,964)	(57,335,477)	(57,501,221)
12 Less: Accumulated Deferred Income and Investment Tax Credit:	(9,487,943)	(9,525,429)	(9,506,686)
13 Net Plant Investment	37,863,860	36,406,561	37,135,211
CAPITALIZATION			
14 Common Stock	1,536,500	1,536,500	1,536,500
15 Proprietary Capital (Individual or Partnership)			
16 Paid-in Capital	6,207,025	6,207,025	6,207,025
17 Retained Earnings	25,845,875	14,327,231	20,086,553
18 Common Stock and Equity (Lines 14 through 17)	33,589,400	22,070,756	27,830,078
19 Preferred Stock	1,200,000	1,200,000	1,200,000
20 Long-Term Debt	12,000,000	24,000,000	18,000,000
21 Notes Payable			
22 Total Capitalization (Lines 18 through 21)	46,789,400	47,270,756	47,030,078

INCOME STATEMENT AND OTHER DATA
Calendar Year 2010

NAME OF UTILITY Valencia Water Company PHONE (661) 294-0828

INCOME STATEMENT	Annual Amount
23 Unmetered Water Revenue (6110, 6111, 6112, 6093, 6140-44)	350,382
24 Fire Protection Revenue (6040, 6041, 6042)	779,719
25 Irrigation Revenue (6030, 6031)	181,954
26 Metered Water Revenue (all other accts)	21,041,905
27 Total Operating Revenue	<u>22,353,960</u>
28 <u>Operating Expenses</u>	<u>(13,484,468)</u>
29 Depreciation Expense (Composite Rate 2.80%)	(2,646,629)
30 Amortization and Property Losses	904,761
31 Property Taxes	(443,080)
32 Taxes Other Than Income Taxes	(186,077)
33 Total Operating Revenue Deduction Before Taxes	<u>(15,855,494)</u>
34 California Corp. Franchise Tax	(390,078)
35 Federal Corporate Income Tax	(1,765,205)
36 Total Operating Revenue Deduction After Taxes	<u>(18,010,777)</u>
37 Net Operating Income (Loss) - California Water Operations	4,343,183
38 Other Operating and Nonoper. Income and Exp. - Net (Exclude Interest Expense)	(357,076)
39 Income Available for Fixed Charges	3,986,107
40 Interest Expense	(706,017)
41 Net Income (Loss) Before Dividends	3,280,091
42 Preferred Stock Dividends	(199,500)
43 Net Income (Loss) Available for Common Stock	<u>3,080,591</u>

OTHER DATA

44 Refunds of Advances for Construction	705,754
45 Total Payroll Charged to Operating Expenses	2,126,190
46 Purchased Water	4,861,267
47 Power	<u>1,690,904</u>
48 Class A Water Companies Only:	
a. Pre-TRA 1986 Contributions in Aid of Construction	1,046,399
b. Pre-TRA 1986 Advances for Construction	4,167,362
c. Post TRA 1986 Contributions in Aid of Construction	56,289,078
d. Post TRA 1986 Advances for Construction	<u>8,931,505</u>

<u>Active Service Connections</u>	(Exc. Fire Protect)	<u>1,304</u>	Jan. 1	Dec. 31	Annual Average
49 Metered Service Connections			28,645	28,776	28,711
50 Flat Rate Service Connections					0
51 Total Active Service Connections			<u>28,645</u>	<u>28,776</u>	<u>28,711</u>

BALANCE SHEET AND CAPITALIZATION DATA

**Adjusted to Exclude Non-Regulated Activity
Calendar Year 2010**

NAME OF UTILITY VALENCIA WATER COMPANY PHONE (661) 294-0828

PERSON RESPONSIBLE FOR THIS REPORT Beverly Johnson

	01/01/10	12/31/10	Average
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CAPITALIZATION			
14 Common Stock	1,536,500	1,536,500	1,536,500
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INCOME STATEMENT AND OTHER DATA

Adjusted to Exclude Non-Regulated Activity
Calendar Year 2010

NAME OF UTILITY Valencia Water Company PHONE (661) 294-0828

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26	Metered Water Revenue	(all other accts)	<u>21,041,905</u>
27	Total Operating Revenue		<u>22,353,960</u>
28	<u>Operating Expenses</u>		<u>(13,484,468)</u>
29	Depreciation Expense (Composite Rate 2.80%)		<u>(2,646,629)</u>
30	Amortization and Property Losses		<u>904,761</u>
31	Property Taxes		<u>(443,080)</u>
32	Taxes Other Than Income Taxes		<u>(186,077)</u>
33	Total Operating Revenue Deduction Before Taxes		<u>(15,855,494)</u>
34	California Corp. Franchise Tax		<u>(390,078)</u>
35	Federal Corporate Income Tax		<u>(1,765,205)</u>
36	Total Operating Revenue Deduction After Taxes		<u>(18,010,777)</u>
37	Net Operating Income (Loss) - California Water Operations		<u>4,343,183</u>
38	Other Operating and Nonoper. Income and Exp. - Net (Exclude Interest Expense)		<u>(357,076)</u>
39	Income Available for Fixed Charges		<u>3,986,107</u>
40	Interest Expense		<u>(706,017)</u>
41	Net Income (Loss) Before Dividends		<u>3,280,091</u>
42	Preferred Stock Dividends		<u>(199,500)</u>
43	Net Income (Loss) Available for Common Stock		<u>3,080,591</u>

OTHER DATA

44	Refunds of Advances for Construction		<u>705,754</u>
45	Total Payroll Charged to Operating Expenses		<u>2,126,190</u>
46	Purchased Water		<u>4,861,267</u>
47	Power		<u>1,690,904</u>
48	Class A Water Companies Only:		
a.	Pre-TRA 1986 Contributions in Aid of Construction		<u>1,046,399</u>
b.	Pre-TRA 1986 Advances for Construction		<u>4,167,362</u>
c.	Post TRA 1986 Contributions in Aid of Construction		<u>56,289,078</u>
d.	Post TRA 1986 Advances for Construction		<u>8,931,505</u>

<u>Active Service Connections</u>		(Exc. Fire Protect)	<u>1,304</u>	Jan. 1	Dec. 31	Annual Average
49	Metered Service Connections			<u>28,645</u>	<u>28,776</u>	<u>28,711</u>
50	Flat Rate Service Connections					<u>0</u>
51	Total Active Service Connections			<u>28,645</u>	<u>28,776</u>	<u>28,711</u>

Notes to Adjusted Selected Financial Data

Instructions: Provide reasons for each adjustment to the Selected Financial Data due to non-regulated activities. Detail this information by name of line item (Gross Plant, Operating Revenues, etc.), account number, dollar amount, and by point in time (end of year, beginning of year, or average).

1	NONE
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Excess Capacity and Non-Tariffed Services

NOTE: In D.00-07-018, D.03-04-028, and D. 04-12-023, the CPUC set forth rules and requirements regarding water utilities provision of non-tariffed services using excess capacity. These decisions require water utilities to: 1) file an advice letter requesting Commission approval of that service, 2) provide information regarding non-tariffed goods/services in each companies Annual Report to the Commission.

Based on the information and filings required in D.00-07-018, D. 03-04-028, and D.04-12-023, provide the following information by each individual non-tariffed good and service provided in 2010:

Row Number	Description of Non-Tariffed Goods/Services	Applies to All Non-Tariffed Goods/Services that require Approval by Advice Letter									
		Active or Passive	Total Revenue Derived from Non-tariffed Goods/ Services (by account)	Revenue Account Number	Total Expenses Incurred to Provide Non-tariffed Goods/ Services (by account)	Expense Account Number	Advice Letter and/or Resolution Number Approving Non-tariffed Goods/ Services	Total Income Tax Liability Incurred Because of Non-tariffed Goods/ Services (by account)	Income Tax Liability Account Number	Gross Value of Regulated Assets Used in the Provision of a Non-tariffed Goods/ Services (by account)	Regulated Asset Account Number
	NONE										

GENERAL INFORMATION

- 1 Name under which utility is doing business: Valencia Water Company
- 2 Official mailing address: 24631 Avenue Rockefeller,
Valencia, CA ZIP 91355
- 3 Name and title of person to whom correspondence should be addressed:
Beverly Johnson, Controller Telephone: (661) 294-0828
- 4 Address where accounting records are maintained:
24631 Avenue Rockefeller, Valencia, CA 91355
- 5 Service Area (Refer to district reports if applicable):
Valencia, Newhall, Saugus, Stevenson Ranch, Castaic
- 6 Service Manager (If located in or near Service Area.) (Refer to district reports if applicable.)
Name: N/A
Address: _____ Telephone: _____

7 OWNERSHIP. Check and fill in appropriate line:

- | | |
|-------------------------------------|--|
| <input type="checkbox"/> | Individual (name of owner) _____ |
| <input type="checkbox"/> | Partnership (name of partner) _____ |
| <input type="checkbox"/> | Partnership (name of partner) _____ |
| <input type="checkbox"/> | Partnership (name of partner) _____ |
| <input checked="" type="checkbox"/> | Corporation (corporate name) <u>Valencia Water Company</u> |
- Organized under laws of (state) California Date: 1965

Principal Officers:

(Name) <u>Keith Abercrombie</u>	(Title) <u>General Manager</u>
(Name) <u>Greg Milleman</u>	(Title) <u>Senior Vice President</u>
(Name) <u>Beverly Johnson</u>	(Title) <u>Controller</u>
(Name) _____	(Title) _____

- 8 Names of associated companies: The Newhall Land and Farming Company Inc., LandSource Holding Company, Newhall Land Development, Newhall Intermediary Holding Co., Newhall Holding Co., Lennar Homes of California, Tournament Players Club at Valencia and The Newhall Land and Farming L.P.
- 9 Names of corporations, firms or individuals whose property or portion of property have been acquired during the year, together with date of each acquisition:
None

Date: _____

Date: _____

Date: _____

10 Use the space below for supplementary information or explanations concerning this report:

11 List Name, Grade, and License Number of all Licensed Operators:

SEE ATTACHED SCHEDULE

12. List Name, Address, and Phone Number of your company's external auditor:

Name: Deloitte and Touche LLP Telephone: 213-996-4970
Address: 350 South Grand Ave., 9th Floor, Los Angeles, CA 90071

VALENCIA WATER COMPANY
2/18/2011

GENERAL INFORMATION
Item #11

Employee Name	Distribution Operator Grade	Distribution License Number	Treatment Operator Grade	Treatment License Number
Abercrombie, Keith A.	D5	15212	T2	21906
Almanza, Joe	D2	26571	T2	26835
Baker, Bradley T.	D2	16534	T1	26836
Crotzer, Ryan	D2	35285		
Desautels, Michael J	D1	34609		
Eppenbaugh, Josh	D1	36994		
Flores, Sergio	D3	16680	T2	26023
Garcia, Eugene	D2	16569		
Graves, Jerold	D1	34608	T1	37283
Hermosillo Jr., Gil	D2	30015	T1	31080
Lathrop, Bob	D2	28628	T1	26848
Licona, Ramon	D1	30016		
Lough, Cory	D1	37950		
Maldonado, Richie A	D1	34607		
Ngoon, Peter	D1	18871		
Overbeck, Kim J.	D2	34159	T2	30522
Saenz, Chris	D2	32080	T2	29980
Saenz, James R.	D4	25649	T2	26854
Serrano, Rodrigo	D1	30018		
Tucker, Terry	D2	17372	T2	21251
Villegas, Cheryl Ann	D2	16644	T2	27819
Whatley, Theresa E.	D2	30019	T2	26857

**SCHEDULE A
COMPARATIVE BALANCE SHEETS
Assets and Other Debits**

Line No.	Acct.	Title of Account (a)	Schedule No. (b)	Balance End-of-Year (c)	Balance Beginning of Year (d)
1		I. UTILITY PLANT			
2	100	Utility plant	A-1	162,646,275.70	160,738,352.32
3	107	Utility plant adjustments			
4		Total utility plant		162,646,275.70	160,738,352.32
5	250	Reserve for depreciation of utility plant	A-3	(46,611,869.43)	(42,282,778.65)
6	251	Reserve for amortization of limited term utility investments	A-3	(24,163.90)	(18,409.78)
7	252	Reserve for amortization of utility plant acquisition adjustment	A-3		
8		Total utility plant reserves		(46,636,033.33)	(42,301,188.43)
9		Total utility plant less reserves		116,010,242.37	118,437,163.89
10					
11		II. INVESTMENT AND FUND ACCOUNTS			
12	110	Other physical property	A-2		
13	253	Reserve for depreciation and amortization of other property	A-3		
14		Other physical property less reserve		0.00	0.00
15	111	Investments in associated companies	A-4		
16	112	Other investments	A-5		
17	113	Sinking funds	A-6		
18	114	Miscellaneous special funds	A-7		
19		Total investments and fund accounts		0.00	0.00
20					
21		III. CURRENT AND ACCRUED ASSETS			
22	120	Cash		2,348,011.24	1,535,439.81
23	121	Special deposits	A-8		
24	122	Working funds			
25	123	Temporary cash investments		3,499,002.23	3,999,294.44
26	124	Notes receivable	A-9		
27	125	Accounts receivable		1,999,570.89	2,066,749.07
28	126	Receivables from associated companies	A-10	42,904.43	70,276.21
29	131	Materials and supplies		356,090.61	386,223.75
30	132	Prepayments	A-11	160,833.00	341,230.00
31	133	Other current and accrued assets	A-12		
32		Total current and accrued assets		8,406,412.40	8,399,213.28
33					
34		IV. DEFERRED DEBITS			
35	140	Unamortized debt discount and expense	A-13	526,741.72	373,600.90
36	141	Extraordinary property losses	A-14		
37	142	Preliminary survey and investigation charges			
38	143	Clearing accounts		(2,044.70)	299.35
39	145	Other work in progress			
40	146	Other deferred debits	A-15	6,885,970.16	7,277,276.03
41		Total deferred debits		7,410,667.18	7,651,176.28
42		Total assets and other debits		131,827,321.95	134,487,553.45
43					

SCHEDULE A
COMPARATIVE BALANCE SHEETS
Liabilities and Other Credits

Line No.	Acct.	Title of Account (a)	Schedule No. (b)	Balance End-of-Year (c)	Balance Beginning of Year (d)
1		I. CORPORATE CAPITAL AND SURPLUS			
2	200	Common capital stock	A-18	1,536,500.00	1,536,500.00
3	201	Preferred capital stock	A-18	1,200,000.00	1,200,000.00
4	202	Stock liability for conversion			
5	203	Premiums and assessments on capital stock	A-19		
6	150	Discount on capital stock	A-16	()	()
7	151	Capital stock expense	A-17	()	()
8	270	Capital surplus	A-20	6,207,025.00	6,207,025.00
9	271	Earned surplus	A-21	14,327,230.98	25,845,875.41
10		Total corporate capital and surplus		23,270,755.98	34,789,400.41
11					
12		II. PROPRIETARY CAPITAL			
13	204	Proprietary capital (Individual or partnership)	A-22		
14	205	Undistributed profits of proprietorship or partnership	A-23		
15		Total proprietary capital		0.00	0.00
16					
17		III. LONG-TERM DEBT			
18	210	Bonds	A-24		
19	211	Receivers' certificates			
20	212	Advances from associated companies	A-25		
21	213	Miscellaneous long-term debt	A-26	24,000,000.00	12,000,000.00
22		Total long-term debt		24,000,000.00	12,000,000.00
23					
24		IV. CURRENT AND ACCRUED LIABILITIES			
25					
26	220	Notes payable	A-28		
27	221	Notes receivable discounted			
28	222	Accounts payable		349,820.28	336,611.34
29	223	Payables to associated companies	A-29	0.00	0.00
30	224	Dividends declared		0.00	114,000.00
31	225	Matured long-term debt			
32	226	Matured interest			
33	227	Customers' deposits		16,720.00	97,019.00
34	228	Taxes accrued	A-31	9,843,832.05	9,493,251.06
35	229	Interest accrued		232,540.00	43,916.41
36	230	Other current and accrued liabilities	A-30	1,849,820.93	1,603,031.51
37		Total current and accrued liabilities		12,292,733.26	11,687,829.32
38					
39		V. DEFERRED CREDITS			
40	240	Unamortized premium on debt	A-13		
41	241	Advances for construction	A-32	13,098,866.64	13,804,620.88
42	242	Other deferred credits	A-33	1,829,489.51	4,538,738.56
43		Total deferred credits		14,928,356.15	18,343,359.44
44					
45		VI. RESERVES			
46	254	Reserve for uncollectible accounts	A-34		
47	255	Insurance reserve	A-34		
48	256	Injuries and damages reserve	A-34		
49	257	Employees' provident reserve	A-34		
50	258	Other reserves	A-34		
51		Total reserves		0.00	0.00
52					
53		VII. CONTRIBUTIONS IN AID OF CONSTRUCTION			
54	265	Contributions in aid of construction	A-35	57,335,476.56	57,666,964.28
55		Total liabilities and other credits		131,827,321.95	134,487,553.45

SCHEDULE B
Income Account for the Year

Line No.	Acct.	Account (a)	Schedule Page No. (b)	Amount (c)
1		I. UTILITY OPERATING INCOME		
2	501	Operating revenues	B-1	22,353,960.16
3				
4		Operating Revenue Deductions:		
5	502	Operating expenses	B-2	(13,578,468.47)
6	503	Depreciation	A-3	(2,646,629.40)
7	504	Amortization of limited-term utility investments	A-3	(5,754.12)
8	505	Amortization of utility plant acquisition adjustments	A-3	
9	506	Property losses chargeable to operations	B-3	910,515.00
10	507	Taxes	B-4	(2,784,439.96)
11		Total operating revenue deductions		(18,104,776.95)
12		Net operating revenues		4,249,183.21
13	508	Income from utility plant leased to others		
14	510	Rent for lease of utility plant		
15		Total utility operating income		4,249,183.21
16				
17		II. OTHER INCOME		
18	521	Income from nonutility operations (Net)	B-6	
19	522	Revenue from lease of other physical property		
20	523	Dividend revenues		
21	524	Interest revenues		9,212.92
22	525	Revenues from sinking and other funds		
23	526	Miscellaneous nonoperating revenues	B-7	
24	527	Nonoperating revenue deductions - Dr.	B-8	
25		Total other income		9,212.92
26		Net income before income deductions		4,258,396.13
27				
28		III. INCOME DEDUCTIONS		
29	530	Interest on long-term debt		706,016.66
30	531	Amortization of debt discount and expense (5311)		366,288.90
31	532	Amortization of premium on debt - Cr.		
32	533	Taxes assumed on interest		
33	534	Interest on debt to associated companies		
34	535	Other interest charges	B-9	0.00
35	536	Interest charged to construction - Cr.		
36	537	Miscellaneous amortization		
37	538	Miscellaneous income deductions	B-10	(94,000.00)
38		Total income deductions		978,305.56
39		Net income		3,280,090.57
40				
41		IV. DISPOSITION OF NET INCOME		
42	540	Miscellaneous reservations of net income		
43				
44		Balance transferred to Earned Surplus or		
45		Proprietary Accounts scheduled on page 21		
46				

SCHEDULE A-1
Account 100 - Utility Plant

Line No.	Acct	Title of Account (a)	Balance Beg of Year (b)	Additions During Year (c)	Retirements During Year (d)	Other Debits or (Credits) (e)	Balance End of Year (f)
1	100 - 1	Utility plant in service (Schedule A-1a)	157,649,732.92	1,379,147.79	(307,745.82)		158,721,134.89
2	100 - 2	Utility plant leased to others					
3	100 - 3	Construction work in progress	3,088,619.40			836,521.41	3,925,140.81
4	100 - 4	Utility plant held for future use (Sch A-1c)					
5	100 - 5	Utility plant acquisition adjustments					
6	100 - 6	Utility plant in process of reclassification					
7		Total utility plant	160,738,352.32	1,379,147.79	(307,745.82)	836,521.41	162,646,275.70

SCHEDULE A-1a
Account 100.1 - Utility Plant in Service

Line No.	Acct	Title of Account (a)	Balance Beg of Year (b)	Additions During Year (c)	Retirements During Year (d)	Other Debits or (Credits) (e)	Balance End of Year (f)
1		I. INTANGIBLE PLANT					
2	301	Organization					32,198.41
3	302	Franchises and consents (Schedule A-1b)	32,198.41				82,884.98
4	303	Other intangible plant	82,884.98				115,083.39
5		Total intangible plant	115,083.39	0.00	0.00	0.00	
6							
7		II. LANDED CAPITAL					
8	306	Land and land rights	1,366,286.31				1,366,286.31
9							
10		III. SOURCE OF SUPPLY PLANT					
11	311	Structures and improvements	22,045.79				22,045.79
12	312	Collecting and impounding reservoirs					
13	313	Lake, river and other intakes					
14	314	Springs and tunnels					
15	315	Wells	9,087,746.46				9,087,746.46
16	316	Supply mains					
17	317	Other source of supply plant					
18		Total source of supply plant	9,109,792.25	0.00	0.00	0.00	9,109,792.25
19							
20		IV. PUMPING PLANT					
21	321	Structures and improvements	180,078.71				180,078.71
22	322	Boiler plant equipment					
23	323	Other power production equipment					
24	324	Pumping equipment	8,764,097.99				8,764,097.99
25	325	Other pumping plant					
26		Total pumping plant	8,944,176.70	0.00	0.00	0.00	8,944,176.70
27							
28		V. WATER TREATMENT PLANT					
29	331	Structures and improvements					
30	332	Water treatment equipment	2,080,172.45	8,425.49			2,088,597.94
31		Total water treatment plant	2,080,172.45	8,425.49	0.00	0.00	2,088,597.94

SCHEDULE A-1a
Account 100.1 - Utility Plant in Service (Continued)

Line No.	Acct	Title of Account (a)	Balance Beg of Year (b)	Additions During Year (c)	Retirements During Year (d)	Other Debits or (Credits) (e)	Balance End of Year (f)
32		VI. TRANSMISSION AND DIST. PLANT					
33	341	Structures and improvements					26,285,780.04
34	342	Reservoirs and tanks	26,226,056.04	59,724.00			75,301,532.71
35	343	Transmission and distribution mains	75,301,532.71				1,374,676.71
36	344	Fire mains	1,374,676.71				12,933,200.52
37	345	Services	12,933,200.52	23,727.00			4,725,910.08
38	346	Meters	4,639,869.78	168,560.74	(82,520.44)		323,351.54
39	347	Meter installations	314,602.98	8,748.56			10,312,483.93
40	348	Hydrants	10,271,005.93	41,478.00			18,505.24
41	349	Other transmission and distribution plant	18,505.24				
42		Total transmission and distribution plant	131,079,449.91	302,238.30	(82,520.44)	0.00	131,299,167.77
43							
44		VII. GENERAL PLANT					
45	371	Structures and improvements	1,766,628.00	474,483.60			2,241,111.60
46	372	Office furniture and equipment	1,474,704.10	546,410.87	(80,216.75)		1,940,898.22
47	373	Transportation equipment	389,268.91		(102,702.13)		286,566.78
48	374	Stores equipment	27,712.00				27,712.00
49	375	Laboratory equipment	0.00				0.00
50	376	Communication equipment	953,355.78	47,589.53	(42,306.50)		958,638.81
51	377	Power operated equipment	311,323.17				311,323.17
52	378	Tools, shop and garage equipment	31,779.95				31,779.95
53	379	Other general plant					
54		Total general plant	4,954,771.91	1,068,484.00	(225,225.38)	0.00	5,798,030.53
55							
56		VIII. UNDISTRIBUTED ITEMS					
57	390	Other tangible property					
58	391	Utility plant purchased					
59	392	Utility plant sold					
60		Total undistributed items	0.00	0.00	0.00	0.00	0.00
61		Total utility plant in service	157,649,732.92	1,379,147.79	(307,745.82)	0.00	158,721,134.89

SCHEDULE A-1b
Account 302 - Franchises and Consents

Line No.	Name of Original Grantor (a)	Date of Grant (b)	Term in Years (c)	Date of Acquisition by Utility (d)	Amount at which Carried in Account ¹ (e)
1	County of Los Angeles	Dec-90	25	Dec-90	6,587.34
2	City of Santa Clarita	Dec-00	15	Dec-00	25,611.07
3					
4					
5	Total				32,198.41

¹ The total should agree with the balance at the end of the year in Account 302 in Schedule A-1a Line 3

SCHEDULE A-1c
Account 100.4 - Utility Plant Held for Future Use

Line No.	Description and Location of Property (a)	Date of Acquisition (b)	Approximate Date When Property Will be Placed in Service (c)	Balance End of Year (d)
1	NONE			
2				
3				
4				
5				
6				
7				
8				
9	Total			

SCHEDULE A-2
Account 110 - Other Physical Property

Line No.	Name and Description of Property (a)	Book Value End of Year (b)
1	NONE	
2		
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15	Total	

**SCHEDULE A-1d
RATE BASE AND WORKING CASH**

Line No.	Acct.	Title of Account (a)	Balance 12/31/2010 (c)	Balance 1/1/2010 (d)
1		Utility Plant		
2		Plant in Service	158,721,134.89	157,649,732.92
3		Construction Work in Progress	3,925,140.81	3,088,619.40
4		General Office Prorate		
5		Total Gross Plant (=Line 2 + Line 3 + Line 4)	162,646,275.70	160,738,352.32
6		Less Accumulated Depreciation		
7		Plant in Service	(46,636,033.33)	(42,301,188.43)
8		General Office Prorate		
9		Total Accumulated Depreciation (=Line 7 + Line 8)	(46,636,033.33)	(42,301,188.43)
10		Less Other Reserves		
11		Deferred Income Taxes	(9,525,428.73)	(9,487,942.99)
12		Deferred Investment Tax Credit	(114,700.00)	(114,700.00)
13		Other Reserves		
14		Total Other Reserves (=Line 11 + Line 12 + Line 13)	(9,640,128.73)	(9,602,642.99)
15		Less Adjustments		
16		Contributions in Aid of Construction	(57,335,476.56)	(57,666,964.28)
17		Advances for Construction	(13,098,866.64)	(13,804,620.88)
18		Other	7,902,000.00	7,877,600.00
19		Total Adjustments (=Line 16 + Line 17 + Line 18)	(62,532,343.20)	(63,593,985.16)
20		Add Materials and Supplies	356,090.61	386,223.75
21		Add Working Cash (=Line 34)	\$ 698,900.00	\$ 698,900.00
22		TOTAL RATE BASE	44,892,761.05	46,325,659.49
23		(=Line 5 - Line 9 - Line 14 - Line 19 + Line 20 + Line 21)		

Working Cash				
24		Determination of Operational Cash Requirement		
25		Operating Expenses, Excl Taxes, Depr. & Uncoll.	See Note 1	
26		Purchased Power & Commodity for Resale*		
27		Meter Revenues: Bimonthly Billing		
28		Other Revenues: Flat Rate Monthly Billing		
29		Total Revenues (=Line 27 + Line 28)		
30		Ratio - Flat Rate to Total Revenues (=Line 28/Line 29)		
31		5/24 x Line 25 x (100% - Line 30)		
32		1/24 x Line 25 x Line 30		
33		1/12 x Line 26		
34		Operational Cash Require. (=Line 31+ Line 32 - Line 33)	\$ 698,900.00	\$ 698,900.00
		* Electric power, gas or other fuel purchased for pumping and/or purchased commodity for resale billed after receipt (metered).		
		Note 1: The calculation above does not apply since Valencia does not have bimonthly billing. The total working cash reflected on line 34 above is Valencia's working cash as adopted in its last general rate case.		

SCHEDULE A-3

Accounts 250 to 253, Inclusive - Depreciation and Amortization Reserves

Line No.	Item (a)	Account 250 Utility Plant (b)	Account 251 Limited-Term Utility Investments (c)	Account 252 Utility Plant Acquisition Adjustments (d)	Account 253 Other Property (e)
1	Balance in reserves at beginning of year	42,282,778.65	18,409.78		
2	Add: Credits to reserves during year				
3	(a) Charged to Account 503, 504, 505 ⁽¹⁾	2,646,629.40			
4	(b) Charged to Account 265	1,905,267.72			
5	(c) Charged to clearing accounts	58,546.08			
6	(d) Salvage recovered	26,393.40			
7	(e) All other credits ⁽²⁾		5,754.12		
8	Total credits	4,636,836.60	5,754.12		
9	Deduct: Debits to reserves during year				
10	(a) Book cost of property retired	307,745.82			
11	(b) Cost of removal				
12	(c) All other debits ⁽³⁾	0.00			
13	Total debits	307,745.82	0.00		
14	Balance in reserve at end of year	46,611,869.43	24,163.90		
15					
16	(1) COMPOSITE DEPRECIATION RATE USED FOR STRAIGHT LINE REMAINING LIFE:				2.80%
17					
18	(2) EXPLANATION OF ALL OTHER CREDITS: Amortization of Intangible Assets charged to				
19	Account #5040.				
20					
21					
22					
23					
24					
25					
26					
27	(3) EXPLANATION OF ALL OTHER DEBITS:				
28					
29					
30					
31					
32					
33					
34					
35	METHOD USED TO COMPUTE INCOME TAX DEPRECIATION:				
36	(a) Straight Line	()			
37	(b) Liberalized	()			
38	(1) Double declining balance	()			
39	(2) ACRS	()			
40	(3) MACRS	()			
41	(4) Others	()			
42	(c) Both straight line and liberalized	(X)			
		150% declining balance and 25-year straight line since 06/12/96.			

SCHEDULE A-3a

Account 250 - Analysis of Entries in Depreciation Reserve

(This schedule is to be completed if records are maintained showing depreciation reserve by plant accounts)

Line No.	Acct.	DEPRECIABLE PLANT (a)	Balance Beginning of Year (b)	Credits to Reserve During Year Excl. Salvage (c)	Debits to Reserves During Year Excl. Cost Removal (d)	Salvage and Cost of Removal Net (Dr.) or Cr. (e)	Balance End of Year (f)
1		I. SOURCE OF SUPPLY PLANT					
2	311	Structures and improvements	15,242.35	414.46			15,656.81
3	312	Collecting and impounding reservoirs					
4	313	Lake, river and other intakes					
5	314	Springs and tunnels					
6	315	Wells	1,515,011.72	358,057.21			1,873,068.93
7	316	Supply mains					
8	317	Other source of supply plant					
9		Total source of supply plant	1,530,254.07	358,471.67	0.00	0.00	1,888,725.74
10							
11		II. PUMPING PLANT					
12	321	Structures and improvements	106,787.31	5,564.43			112,351.74
13	322	Boiler plant equipment					
14	323	Other power production equipment					
15	324	Pumping equipment	4,554,051.30	433,822.85			4,987,874.15
16	325	Other pumping plant					
17		Total pumping plant	4,660,838.61	439,387.28	0.00	0.00	5,100,225.89
18							
19		III. WATER TREATMENT PLANT					
20	331	Structures and improvements					
21	332	Water treatment equipment	140,316.16	71,557.93			211,874.09
22		Total water treatment plant	140,316.16	71,557.93	0.00	0.00	211,874.09
23							
24		IV. TRANS. AND DIST. PLANT					
25	341	Structures and improvements	0.00				0.00
26	342	Reservoirs and tanks	4,407,133.03	570,847.76			4,977,980.79
27	343	Transmission and distribution mains	18,580,242.89	1,942,779.54	0.00		20,523,022.43
28	344	Fire mains	551,267.62	27,218.60			578,486.22
29	345	Services	4,682,420.45	416,449.06			5,098,869.51
30	346	Meters	1,529,219.37	219,001.85	(82,520.44)	1,787.40	1,667,488.18
31	347	Meter installations	32,999.87	16,925.64			49,925.51
32	348	Hydrants	3,308,787.20	285,533.96			3,594,321.16
33	349	Other transmission and distribution plant	9,652.95	508.89			10,161.84
34		Total trans. and distribution plant	33,101,723.38	3,479,265.30	(82,520.44)	1,787.40	36,500,255.64
35							
36		V. GENERAL PLANT					
37	371	Structures and improvements	423,545.26	49,465.58			473,010.84
38	372	Office furniture and equipment	948,504.20	26,397.20	(80,216.75)	66.00	894,750.65
39	373	Transportation equipment	117,217.91	58,546.04	(102,702.13)	24,540.00	97,601.82
40	374	Stores equipment	39,317.90	6,697.99			46,015.89
41	375	Laboratory equipment	660.24	0.00			660.24
42	376	Communication equipment	1,081,208.37	90,950.26	(42,306.50)	0.00	1,129,852.13
43	377	Power operated equipment	220,394.76	28,299.28			248,694.04
44	378	Tools, shop and garage equipment	18,797.79	1,404.67			20,202.46
45	379	Other general plant	0.00	0.00			0.00
46	390	Other tangible property	0.00	0.00			0.00
47	391	Water plant purchased	0.00	0.00			0.00
48		Total general plant	2,849,646.43	261,761.02	(225,225.38)	24,606.00	2,910,788.07
49		Total	42,282,778.65	4,610,443.20	(307,745.82)	26,393.40	46,611,869.43

SCHEDULE A-4
Account 111 - Investments in Associated Companies

Line No.	Class of Security (a)	Name of Issuing Company (b)	Par Value End of Year (c)	Ledger Value End of Year (d)	Rate of Interest (e)	Interest Accrued During Year (f)	Interest and Dividends Received During Year (g)
1	NONE						
2							
3							
4							
5							
6							
7		Totals ¹					

¹ The total should agree with the balance at the end of the year in Account 111 on page 5.

SCHEDULE A-5
Account 112 - Other Investments

Line No.	Name and Description of Property (a)	Balance End of Year (b)
1	NONE	
2		
3		
4		
5		
6		
7		
8		
9		

SCHEDULE A-6
Account 113 - Sinking Funds

Line No.	Name of Fund (a)	Balance Beginning of Year (b)	Additions During Year		Deductions During Year (e)	Balance End of Year (f)
			Principal (c)	Income (d)		
1	NONE					
2						
3						
4						
5						
6						
7						
8						
9	Totals					

SCHEDULE A-7
Account 114 - Miscellaneous Special Funds

Line No.	Name of Fund (a)	Balance Beginning of Year (b)	Additions During Year		Deductions During Year (e)	Balance End of Year (f)
			Principal (c)	Income (d)		
1	NONE					
2						
3						
4						
5						
6						
7						
8						
9	Totals					

SCHEDULE A-8
Account 121 - Special Deposits

Line No.	Name of Depository	Purpose of Deposit (b)	Balance End of Year (c)
1	NONE		
2			
3			
4			
5			
6	Totals		

SCHEDULE A-9
Account 124 - Notes Receivable

Line No.	Maker (a)	Date of Issue (b)	Date Payable (c)	Balance End of Year (d)	Interest Rate (e)	Interest Accrued During Year (g)	Interest Received During Year (g)
1	NONE						
2							
3							
4							
5							
6	Totals						

SCHEDULE A-10
Account 126 - Receivables from Associated Companies

Line No.	Due from Whom (a)	Amount (b)	Interest Rate (c)	Interest Accrued During Year (d)	Interest Received During Year (e)
1	The Newhall Land and Farming Company	28,006.69	N/A	N/A	N/A
2	- Trade Accounts Receivable				
3					
4	Lennar	14,897.74	N/A	N/A	N/A
5	- Trade Accounts Receivable				
6					
7					
8					
9					
10	Total	42,904.43		0.00	0.00

SCHEDULE A-11
Account 132 - Prepayments

Line No.	Item (a)	Amount (b)
1	#1322 Unsecured Property Taxes	4,398.00
2	#1323 Other	21,600.00
3	#1324 Insurance	134,835.00
4		
5		
6		
7		
8		
9		
10		160,833.00

SCHEDULE A-12
Account 133 - Other Current and Accrued Assets

Line No.	Item (a)	Amount (b)
1	None	
2		
3		
4		
5		
6		
7		
8		
9		
10	Total	

SCHEDULE A-13

Accounts 140 and 240 - Unamortized Debt Discount and Expense and Unamortized Premium on Debt

1. Report under separate subheadings for Unamortized Debt Discount and Expense and Unamortized Premium or Debt, particulars of discount and expense of premium applicable to each class and series of long-term debt.
2. Show premium amounts in red or by enclosure in parentheses.
3. In column (b) show the principal amount of bonds or other long-term debt originally issued.

4. In column (c) show the discount and expense or premium with respect to the amount of bonds or other long-term debt originally issued.
5. Furnish particulars regarding the treatment of unamortized debt discount and expense or premium, redemption premiums, and redemption expenses associated with issues redeemed during the year, also, date of the Com-

- mission's authorization of treatment other than as specified by the Uniform System of Accounts.
6. Set out separately and identify undisposed amounts applicable to issues which were redeemed in prior years.
7. Explain any debits and credits other than amortization debited to Account 531, Amortization of Debt Discount and Expense, or credited to Account 532, Amortization of Premium on Debt-Credit.

Line No.	Designation of long-term debt (a)	Principal amount of securities to which discount and expense, or premium minus expense, relates (b)	Total discount and expense or net Premium (c)	AMORTIZATION PERIOD		Balance beginning of year (f)	Debits during year (g)	Credits during year (h)	Balance end of year (i)
				From- (d)	To- (e)				
1	Wells Fargo Note Payable 2009	\$12,000,000	505,547.00	Jun-09	May-10	373,600.90	0.00	(373,600.90)	0.00
2	Modern Woodmen Note Pay 2010	\$24,000,000	552,929.72	Jun-10	Sep-22	0.00	552,929.72	(28,188.00)	526,741.72
3									
4									
5									
6									
7	TOTAL					373,600.90	552,929.72	(399,788.90)	526,741.72
8									
9									
10									
11									
12									
13									
14									
15									
16									
17									
18									

SCHEDULE A-14
Account 141 - Extraordinary Property Losses

Line No.	Description of Property Loss or Damage (a)	Total Amount of Loss (b)	Previously Written off (c)	WRITTEN OFF DURING YEAR		Balance End of year (f)
				Account Charged (d)	Amount (e)	
1						0.00
2	None					0.00
3						0.00
4	Total					0.00

SCHEDULE A-15
Account 146 - Other Deferred Debits

Line No.	Item (a)	Balance End of year (b)
1	#1460 Other Deferred Debits	371,000.00
2	#1463 Deferred Taxes - CIAC	1,380,161.10
3	#1464 Deferred Taxes - Advances	2,361,896.06
4	#1464 Deferred Taxes - Other	1,491,567.00
5	#1465 Regulatory Asset	1,281,346.00
6	Total	6,885,970.16

SCHEDULE A-16
Account 150 - Discount on Capital Stock

- Report the balance at end of year of discount on capital stock for each class and series of capital stock. respect to any class or series of stock, attach a statement giving particulars of the change. State the reason for any charge-off during the year and specify the account charged.
- If any change occurred during the year in the balance with

Line No.	Class and Series of Stock (a)	Balance End of year (b)
1	None	
2		
3	Total	

SCHEDULE A-17
Account 151- Capital Stock Expense

- Report the balance at end of year of capital stock expense for each class and series of capital stock. respect to any class or series of stock, attach a statement giving particulars of the change. State the reason for any charge-off of capital stock expense and specify the account charged.
- If any change occurred during the year in the balance with

Line No.	Class and Series of Stock (a)	Balance End of year (b)
1	None	
2		
3	Total	

SCHEDULE A-18
Accounts 200 and 201- Capital Stock

Line No.	Class of Stock (a)	Number of Shares Authorized by Articles of Incorporation (b)	Par Value of Stock Authorized by Articles of Incorporation (c)	Number of Shares Outstanding ¹ (d)	Total Par Value ² Outstanding End of Year (e)	Dividends Declared During Year	
						Rate (f)	Amount (g)
1	Common Stock	50,000	\$100.00	15,365	\$1,536,500.00		\$14,599,235.00
2	Preferred Stock	50,000	\$500.00	2,400	\$1,200,000.00	9.5%	\$199,500.00
3							
4							
5							
6	Totals						\$14,798,735.00

¹ After deduction for amount of reacquired stock held by or for the respondent.

² If shares of stock have no par value, show value assigned to stock outstanding.

SCHEDULE A-18a
Record of Stockholders at End of Year

Line No.	COMMON STOCK Name (a)	Number Shares (b)	PREFERRED STOCK Name (c)	Number Shares (d)
1	The Newhall Land and Farming Company	15,365	The Newhall Land and Farming Company	2,400
2				
3				
4				
5				
6				
7				
8				
9	Total number of shares	15,365	Total number of shares	2,400

SCHEDULE A-19
Account 203 - Premiums and Assessments on Capital Stock

Line No.	Class of Stock (a)	Balance End of Year (b)
1	None	
2		
3		
4		
5		
6		
7		
8		
9	Total	

SCHEDULE A-20
Account 270 - Capital Surplus (For use by Corporations only)

Line No.	Item (a)	Amount (b)
1	Balance beginning of year	6,207,025.00
2	CREDITS (Give nature of each credit and state account charged)	
3		
4		
5	Total credits	
6	DEBITS (Give nature of each debit and state account credited)	
7		
8		
9		
10	Total debits	
11	Balance end of year	6,207,025.00

SCHEDULE A-21
Account 271 - Earned Surplus (For use by Corporations only)

Line No.	Acct	Account (a)	Amount (b)
1		Balance beginning of year	25,845,875.41
2		CREDITS	
3	400	Credit balance transferred from income account	
4	401	Miscellaneous credits to surplus (detail)	
5		2010 Income	3,280,090.57
6		Total credits	3,280,090.57
7		DEBITS	
8	410	Debit balance transferred from income account	
9	411	Dividend appropriations-Preferred stock	199,500.00
10	412	Dividend appropriations-Common stock	14,599,235.00
11	413	Miscellaneous reservations of surplus	
12	414	Miscellaneous debits to surplus (detail)	
13			
14		Total debits	14,798,735.00
15		Balance end of year	14,327,230.98

SCHEDULE A-22
Account 204 - Proprietary Capital
(Sole Proprietor or Partnership)

Line No.	Item (a)	Amount (b)
1	Balance Beginning of year	N/A
2	CREDITS	
3	Net income for year	
4	Additional investments during year	
5	Other credits (specify)	
6		
7	Total credits	
8	DEBITS	
9	Net loss for year	
10	Withdrawals during year	
11	Other debits (specify)	
12		
13	Total debits	
14	Balance end of year	

SCHEDULE A-23
Account 205 - Undistributed Profits
of Proprietorship or Partnership
 (The use of this account is optional)

Line No.	Item (a)	Amount (b)
1	Balance Beginning of year	N/A
2	CREDITS	
3	Net income for year	
4	Other credits (specify)	
5		
6	Total credits	
7	DEBITS	
8	Net loss for year	
9	Withdrawals during year	
10	Other debits (specify)	
11		
12	Total debits	
13	Balance end of year	

SCHEDULE A-24
Account 210 - Bonds

Line No.	Class of Bond (a)	Date of Issue (b)	Date of Maturity (c)	Principal Amount Authorized (d)	Outstanding ¹ Per Balance Sheet (e)	Rate of Interest (f)	Sinking Fund Added in Current Year (g)	Cost of Issuance (h)	Interest Accrued During Year (i)	Interest Paid During Year (j)
1	NONE									
2										
3										
4										
5										
6										
7										
8	Totals									

¹ After deduction for amount of reacquired bonds held by or for the respondent.

SCHEDULE A-24 (a)
CLASS A WATER COMPANIES
SAFE DRINKING WATER BOND ACT DATA

Please provide the following information relating to each Safe Drinking Water Bond Act (SDWBA) loan outstanding during the 12-month reporting period. (Use one sheet for each loan.)

1. Current Fiscal Agent:
 Name: N/A
 Address: _____
 Phone Number: _____
 Date Hired: _____

2. Total surcharge collected from customers during the 12 month reporting period: \$ _____

3. Summary of the trust bank account activities showing:

Balance at beginning of year	\$	
Deposits during the year	\$	
Withdrawals made for loan payments	\$	
Other withdrawals from this account	\$	
Balance at end of year	\$	

4. Account information:
 Bank Name: _____
 Account Number: _____
 Date Opened: _____

5. Plant amounts included in Schedule A-1a, Account No. 101 -- Water Plant in Service which were funded using SDWBA funds:

Line No.	Acct. No.	Title of Account (a)	Balance Beginning of Year (b)	Plant Additions During Year (c)	Plant Retirements During Year (d)	Other Debits or (Credits) (e)	Balance End of Year (f)
1		NON-DEPRECIABLE PLANT					
2	301	Intangible plant	N/A				
3	303	Land					
4		Total non-depreciable plant					
5		DEPRECIABLE PLANT					
6	304	Structures					
7	307	Wells					
8	311	Pumping equipment					
9	317	Other water source plant					
10	320	Water treatment plant					
11	330	Reservoirs, tanks and sandpipes					
12	331	Water mains					
13	333	Services and meter installations					
14	334	Meters					
15	335	Hydrants					
16	339	Other equipment					
17	340	Office furniture and equipment					
18	341	Transportation equipment					
19		Total depreciable plant					
20		Total water plant in service					

SCHEDULE A-25
Account 212 - Advances from Associated Companies

Line No.	Nature of Obligation (a)	Amount of Obligation (b)	Rate of Interest (c)	Interest Accrued During Year (d)	Interest Paid During Year (e)
1					
2					
3	NONE				
4					
5	Totals				

SCHEDULE A-26
Account 213 - Miscellaneous Long Term Debt

Line No.	Nature of Obligation (a)	Date of Issue (b)	Date of Maturity (c)	Principal Amount Authorized (d)	Outstanding ¹ Per Balance Sheet (e)	Rate of Interest (f)	Interest Accrued During Year (g)	Interest Paid During Year (h)
1	Note Payable	6/1/2009	6/1/2010	12,000,000.00	0.00	4%-5%	220,916.66	257,833.34
2	Note Payable	6/1/2010	9/15/2022	24,000,000.00	24,000,000.00	4.62%	485,100.00	252,560.00
3								
4								
5								
6								
7								
8	Totals			36,000,000.00	24,000,000.00		706,016.66	510,393.34

¹ After deduction for amount of reacquired debt held by or for the respondent.

SCHEDULE A-27
Securities Issued or Assumed During Year

Line No.	Class of Security (a)	Commission Authorization (b)	Amount Issued During Year (omit cents) (c)	Discount or Premium (d)	Expenses (e)
1					
2	NONE				
3					
4					
5	Totals				

SCHEDULE A-28
Account 220 - Notes Payable

Line No.	In Favor of (a)	Date of Issue (b)	Date of Maturity (c)	Balance End of Year (d)	Rate of Interest (e)	Interest Accrued During Year (f)	Interest Paid During Year (g)
1	NONE						
2							
3							
4							
5							
6							
7	Total						

SCHEDULE A-29
Account 223 - Payables to Associated Companies

Line No.	Nature of Obligation (a)	Balance End of Year (b)	Rate of Interest (c)	Interest Accrued During Year (d)	Interest Paid During Year (e)
1	NONE	0.00	N/A		
2					
3					
4					
5					
6					
7	Total				0.00

SCHEDULE A-30
Account 230 - Other Current and Accrued Liabilities

Line No.	Description (a)	Balance End of Year (c)
1	Franchise Taxes Accrued	289,893.85
2	Retention	58,278.62
3	Regulatory Commission	0.00
4	PUC Surcharge Accrued	87,226.29
5	Power Accrued	106,000.00
6	Imported Water Accrued	336,000.00
7	Job Closes Accrued	47,554.54
8	Perchlorate Litigation Costs Refunded to Ratepayers	531,605.00
9	Payroll Accrued	201,738.31
10	Vacation Accrued	122,841.32
11	Other Accruals	68,683.00
12		
13		
14		
15		
16	Total	1,849,820.93

**SCHEDULE A-31
Account 228 - Accrued and Prepaid Taxes**

1. This schedule is intended to give particulars of the combined prepaid and accrued tax accounts and to show the total taxes charged to operations and other accounts during the year. Do not include gasoline and other sales taxes which have been charged to the accounts to which the material on which the tax was levied was charged.
2. Taxes, paid during the year and charged direct to final accounts, that is, not charged to prepaid or accrued taxes, should be included in the schedule. Enter the amounts both in columns (d) and (e). The balancing of the schedule is not affected by the inclusion of these taxes.
3. Taxes charged during the year, column (d), include taxes charged to operations and other accounts through (a) accruals credited to taxes accrued, (b) amounts credited to prepaid taxes for proportions of prepaid taxes chargeable to current year, and (c) taxes paid and charged direct to operations or accounts other than accrued and prepaid tax accounts.
4. If any tax covers more than 1 year, the required information of all columns should be show separately for each year.
5. Enter all adjustments of the accrued and prepaid tax accounts in column (f) and explain each adjustment. Designate debit adjustments by parentheses.
6. See schedule entitled "TAXES CHARGED DURING YEAR," page 32, for a distribution of taxes charged, column (d) according to utility departments and accounts.
7. Do not include in this schedule entries with respect to deferred income taxes or taxes collected through payroll deductions or otherwise pending transmittal of such taxes to the taxing authority.

Line No.	Kind of Tax (See Instruction 5) (a)	BALANCE BEGINNING OF YEAR			Taxes Charged During Year (d)	Paid During Year (e)	Adjustments (f)	BALANCE END OF YEAR	
		Taxes Accrued (b)	Prepaid Taxes (c)	Taxes Accrued (Account 228) (g)				Prepaid Taxes (Incl. in Acct. 132) (h)	
1	Taxes on real and personal property	(2,650.20)	5,100.00	(443,080.41)	440,802.56	8,472.10	(4,236.05)	4,398.00	
2	State corporation franchise tax	(582.53)		(390,078.00)	367,595.60	(48,051.87)	(68,116.80)		
3	State unemployment insurance tax	0.00		(10,870.63)	10,870.63				
4	Other state and local taxes	0.00							
5	Federal unemployment insurance tax	0.00		(2,350.41)	2,350.41				
6	Fed. ins. confr. act (old age retire.)	0.00		(175,675.51)	175,675.51				
7	Other federal taxes	0.00							
8	Federal income taxes	(2,065.34)		(1,765,205.00)	890,000.00	632,219.87	(245,050.47)		
9	Deferred income taxes	(9,487,942.99)				(37,485.74)	(9,525,428.73)		
10									
11									
12									
13									
14	Totals	(9,493,251.06)	5,100.00	(2,787,259.96)	1,887,294.71	557,154.36	(9,843,632.05)	4,398.00	

SCHEDULE A-32
Account 241 - Advances for Construction

Line No.	(a)	(b)	Amount (c)
1	Balance beginning of year		13,804,620.88
2	Additions during year		
3	Subtotal - Beginning balance plus additions during year		13,804,620.88
4	Charges during year		
5	Refunds		
6	Percentage of revenue basis		
7	Proportionate cost basis		
8	Present worth basis	705,754.24	
9	Total refunds		705,754.24
10	Transfers to Acct 265 - Contributions in Aid of Construction		
11	Due to expiration of contracts		
12	Due to present worth discount		
13	Total transfers to Acct. 265		0.00
14	Securities Exchanged for Contracts (enter detail below)		
15	Subtotal - Charges during year		705,754.24
16	Balance end of year		13,098,866.64

If stock, bonds, etc., were issued in exchange for construction advance contracts give details below:

Line No.	Type of Security or Other Consideration (Other than Cash) (a)	Dividend or Interest Rate (b)	PUC Decision Number (c)	Amount Issued (d)
17	Common stock			None
18	Preferred stock			None
19	Bonds			None
20	Other (describe)			None
21				
22				

SCHEDULE A-33
Account 242 - Other Deferred Credits

Line No.	Item (a)	Balance End of Year (b)
1	#2420-2422 Other Deferred Credits	1,510,399.95
2	#2423 Deferred Revenue - CIAC	319,089.56
3		
4		
5		
6	Total	1,829,489.51

SCHEDULE A-34
Accounts 254 to 258, Inclusive - Miscellaneous Reserves

Line No.	Account (a)	Balance Beginning of Year (b)	DEBITS		CREDITS		Balance End of Year (g)
			Nature of Items (c)	Amount (d)	Account Charged (e)	Amount (f)	
1							
2							
3	NONE						
4							
5							
6							
7	Totals						

SCHEDULE A-35

Account 265 - Contributions in Aid of Construction

Instructions for Preparation of Schedule of Contributions in Aid of Construction

- ¹ The credit balance in the account other than that portion of the balance relating to nondepreciable property (column d), to property retired prior to January 1, 1955 (column e), and to the estimated amount of depreciation accrued to January 1, 1955 (column f), shall be written off through charges to this account and credits to Account 250 - Reserve for Depreciation of Utility Plant over a period equal to the estimated service life of the property involved. Upon retirement of depreciable property for which a depreciation reserve has been created through charges to this account, the cost thereof shall be credited to the appropriate plant account and concurrently charged to Account 250, if the property is retired prior to the service life originally estimated, the balance in this account with respect to the retired property shall be transferred to the depreciation reserve account.
- ² That portion of the balance applicable to nondepreciable property shall remain unchanged until the property is sold or otherwise retired. Upon retirement, the cost of such nondepreciable property acquired by donation or through use of donated funds shall be credited to the appropriate plant account and charged to this account to clear the credit balance carried herein.
- ³ That portion of the balance representing donations on property retired prior to January 1, 1955 (column e), and the amount of depreciation accrued to January 1, 1955, on property in service (column f), shall not be transferred from this account or otherwise disposed of without first receiving written authorization from the Commission.

Line No.	Item (a)	Total All Columns (b)	Subject to Amortization		Not Subject to Amortization	Depreciation Accrued through Dec. 31, 1954 on Property in Service at Dec. 31, 1954 (f)
			Property in Service After Dec. 31, 1954	Non-Depreciable (d)		
1	Balance beginning of year		57,666,964.28			
2	Add: Credits to account during year					
3	Contributions received during year		1,573,780.00			
4	Other credits*					
5	Total credits		59,240,744.28			
6	Deduct: Debits to account during year					
7	Depreciation charges for year		1,905,267.72			
8	Nondepreciable donated property retired					
9	Other debits*					
10	Total debits		1,905,267.72			
11	Balance end of year		57,335,476.56			

*Indicate nature of these items and show the accounts affected by the contra entries.

SCHEDULE B-1
Account 501 - Operating Revenues

Line No.	Acct.	ACCOUNT (a)	Amount Current Year (b)	Amount Preceding Year (c)	Net Change During Year Show Decrease in (Brackets) (d)
1		I. WATER SERVICE REVENUES			
2	601	Metered sales to general customers			
3		601.1 Commercial sales 6011,12,15,16,18,19,92,95	17,157,659.54	16,350,674.80	806,984.74
4		601.2 Industrial sales 6014, 17	1,257,829.62	1,233,215.22	24,614.40
5		601.3 Sales to public authorities 6013	2,585,997.04	2,726,039.52	(140,042.58)
6		Sub-total	21,001,486.20	20,309,929.54	691,556.56
7	602	Unmetered sales to general customers			
8		602.1 Commercial sales			
9		602.2 Industrial sales			
10		602.3 Sales to public authorities			
11		Sub-total	0.00	0.00	0.00
12	603	Sales to irrigation customers			
13		603.1 Metered sales 6030, 31	181,953.80	195,103.24	(13,149.44)
14		603.2 Unmetered sales			
15		Sub-total	181,953.80	195,103.24	(13,149.44)
16	604	Private fire protection service 6040, 41, 42	779,719.18	772,467.76	7,251.42
17	605	Public fire protection service			
18	606	Sales to other water utilities for resale			
19	607	Sales to governmental agencies by contracts			
20	608	Interdepartmental sales			
21	609	Other sales or service 6090,91,94	40,419.15	79,639.55	(39,220.40)
22		Sub-total	820,138.33	852,107.31	(31,968.98)
23		Total water service revenues	22,003,578.33	21,357,140.19	646,438.14
24		II. OTHER WATER REVENUES			
25	611	Miscellaneous service revenues 6110, 6112	25,824.70	20,255.00	5,569.70
26	612	Rent from water property			
27	613	Interdepartmental rents			
28	614	Other water revenues 6111, 6093, 6140-44	324,557.13	78,083.27	246,473.86
29		Total other water revenues	350,381.83	98,338.27	252,043.56
30	501	Total operating revenues	22,353,960.16	21,455,478.46	898,481.70

SCHEDULE B-1a
Operating Revenues Apportioned to Cities and Towns

Line No.	Location (a)	Operating Revenues (b)
31	Operations not within incorporated cities ¹	
32	LA County Code 3	
33	LA County Code 4	
34	SEE ATTACHED	
35	Operations within incorporated territory	
36	City or town of Santa Clarita City Code 1	
37	City or town of Santa Clarita City Code 2	
38	City or town of	
39	City or town of	
40	City or town of	
41		
42		
43		
44		

¹ Should be segregated to operating districts.

SCHEDULE B-1a

VALENCIA WATER COMPANY
County Ordinance: 91-0042F
City Ordinance: 91-5
Calendar Year 2010

Total Reported Revenue for Year 2010 by City and County Codes

City Code 1	\$8,196,750.73
City Code 2	6,021,717.49
County Code 3	728,019.84
County Code 4	<u>7,283,265.10</u>
	<u><u>\$22,229,753.16</u></u>

Codes 1 and 2	Within the City of Santa Clarita
Codes 3 and 4	Within unincorporated Los Angeles County
Codes 1 and 3	VWC has prior rights easement
Codes 2 and 4	Occupancy in Public R/W is by Franchise

SCHEDULE B-2

Account 502 - Operating Expenses - Class A, B, and C Water Utilities

Respondent should use the group of accounts applicable to its class

Line No.	Acct.	Account (a)	Class			Amount Current Year (b)	Amount Preceding Year (c)	Net Change During Year Show Decrease in [Brackets] (d)
			A	B	C			
1		I. SOURCE OF SUPPLY EXPENSE						
2		Operation						
3	701	Operation supervision and engineering	A	B		724,286.74	589,911.37	134,375.37
4	701	Operation supervision, labor and expenses			C			
5	702	Operation labor and expenses	A	B		62,080.20	99,764.99	(37,684.79)
6	703	Miscellaneous expenses	A			0.00	0.00	0.00
7	704	Purchased water	A	B	C	4,861,266.82	4,376,340.32	484,926.50
8		Maintenance						
9	706	Maintenance supervision and engineering	A	B				
10	706	Maintenance of structures and facilities			C			
11	707	Maintenance of structures and improvements	A	B				
12	708	Maintenance of collect and impound reservoirs	A					
13	708	Maintenance of source of supply facilities		B				
14	709	Maintenance of lake, river and other intakes	A					
15	710	Maintenance of springs and tunnels	A					
16	711	Maintenance of wells	A			65,733.82	100,587.55	(34,853.73)
17	712	Maintenance of supply mains	A					
18	713	Maintenance of other source of supply plant	A	B				
19		Total source of supply expense				5,713,367.58	5,166,604.23	546,763.35
20		II. PUMPING EXPENSES						
21		Operation						
22	721	Operation supervision and engineering	A	B				
23	721	Operation supervision labor and expense			C			
24	722	Power production labor and expense						
25	722	Power production labor, expenses and fuel		B				
26	723	Fuel for power production	A					
27	724	Pumping labor and expenses	A	B				
28	725	Miscellaneous expenses	A					
29	726	Fuel or power purchased for pumping	A	B	C	1,690,904.19	1,617,562.44	73,341.75
30		Maintenance						
31	729	Maintenance supervision and engineering	A	B		303,380.67	252,360.29	51,020.38
32	729	Maintenance of structures and equipment			C			
33	730	Maintenance of structures and improvements	A	B				
34	731	Maintenance of power production equipment	A	B				
35	732	Maintenance of pumping equipment	A	B		199,847.73	194,762.76	5,084.97
36	733	Maintenance of other pumping plant	A	B				
37		Total pumping expenses				2,194,132.59	2,064,685.49	129,447.10

SCHEDULE B-2

Account 502 - Operating Expenses - Class A, B, and C Water Utilities (Continued)

Respondent should use the group of accounts applicable to its class

Line No.	Acct.	Account (a)	Class			Amount Current Year (b)	Amount Preceding Year (c)	Net Change During Year Show Decrease in [Brackets] (d)
			A	B	C			
38		III. WATER TREATMENT EXPENSES						
39		Operation						
40	741	Operation supervision and engineering	A	B				
41	741	Operation supervision, labor and expenses			C			
42	742	Operation labor and expenses	A			168,948.46	175,347.29	(6,398.83)
43	743	Miscellaneous expenses	A	B		136,943.86	284,829.00	(147,885.14)
44	744	Chemicals and filtering materials	A	B		160,755.50	255,764.73	(95,009.23)
45		Maintenance						
46	746	Maintenance supervision and engineering	A	B				
47	746	Maintenance of structures and equipment			C			
48	747	Maintenance of structures and improvements	A	B				
49	748	Maintenance of water treatment equipment	A	B				
50		Total water treatment expenses				466,647.82	715,941.02	(249,293.20)
51		IV. TRANS. AND DIST. EXPENSES						
52		Operation						
53	751	Operation supervision and engineering	A	B		0.00	0.00	0.00
54	751	Operation supervision, labor and expenses			C			
55	752	Storage facilities expenses	A			53,420.00	49,440.00	3,980.00
56	752	Operation labor and expenses		B				
57	753	Transmission and distribution lines expenses	A					
58	754	Meter expenses	A			17,150.00	32,500.00	(15,350.00)
59	755	Customer installations expenses	A					
60	756	Miscellaneous expenses	A			71,563.82	64,613.42	6,950.40
61		Maintenance						
62	758	Maintenance supervision and engineering	A	B				
63	758	Maintenance of structures and plant			C			
64	759	Maintenance of structures and improvements	A	B				
65	760	Maintenance of reservoirs and tanks	A	B		126,079.96	146,454.87	(20,374.91)
66	761	Maintenance of trans. and distribution mains	A			134,806.85	268,355.68	(133,548.83)
67	761	Maintenance of mains		B				
68	762	Maintenance of fire mains	A					
69	763	Maintenance of services	A			268,522.19	308,575.38	(40,053.19)
70	763	Maintenance of other trans. and distribution plant		B				
71	764	Maintenance of meters	A			96,280.69	63,692.62	32,588.07
72	765	Maintenance of hydrants	A			26,434.36	38,658.59	(12,224.23)
73	766	Maintenance of miscellaneous plant	A					
74		Total transmission and distribution expenses				794,257.87	972,290.56	(178,032.69)

SCHEDULE B-2

Account 502 - Operating Expenses - Class A, B, and C Water Utilities (Continued)

Respondent should use the group of accounts applicable to its class

Line No.	Acct.	Account (a)	Class			Amount Current Year (b)	Amount Preceding Year (c)	Net Change During Year Show Decrease in [Parenthesis] (d)
			A	B	C			
75		V. CUSTOMER ACCOUNT EXPENSES						
76		Operation						
77	771	Supervision	A	B		274,425.31	269,560.79	4,864.52
78	771	Superv., meter read., other customer acct expenses			C			
79	772	Meter reading expenses	A	B				
80	773	Customer records and collection expenses	A			371,460.31	388,466.38	(17,006.07)
81	773	Customer records and accounts expenses		B				
82	774	Miscellaneous customer accounts expenses	A					
83	775	Uncollectible accounts	A	B	C	(48,803.62)	99,000.00	(147,803.62)
84		Total customer account expenses				597,082.00	757,027.17	(159,945.17)
85		VI. SALES EXPENSES						
86		Operation						
87	781	Supervision	A	B				
88	781	Sales expenses			C			
89	782	Demonstrating and selling expenses	A					
90	783	Advertising expenses	A					
91	784	Miscellaneous sales expenses	A					
92	785	Merchandising, jobbing and contract work	A					
93		Total sales expenses				0.00	0.00	0.00
94		VII. ADMIN. AND GENERAL EXPENSES						
95		Operation						
96	791	Administrative and general salaries	A	B	C	816,102.68	642,770.92	173,331.76
97	792	Office supplies and other expenses	A	B	C	445,913.72	424,328.98	21,584.74
98	793	Property insurance	A			732,270.75	704,754.96	27,515.79
99	793	Property insurance, injuries and damages		B	C			
100	794	Injuries and damages	A			50,747.95	45,179.29	5,568.66
101	795	Employees' pensions and benefits	A	B	C	613,135.55	570,874.72	42,260.83
102	796	Franchise requirements	A	B	C	261,916.00	291,258.00	(29,342.00)
103	797	Regulatory commission expenses	A	B	C	152,283.25	105,528.00	46,755.25
104	798	Outside services employed	A			251,776.43	554,859.68	(303,083.25)
105	798	Miscellaneous other general expenses		B				
106	798	Miscellaneous other general operation expenses			C			
107	799	Miscellaneous general expenses	A			396,921.60	479,493.70	(82,572.10)
108		Maintenance						
109	805	Maintenance of general plant	A	B	C	146,967.68	161,435.89	(14,468.21)
110		Total administrative and general expenses				3,868,035.61	3,980,484.14	(112,448.53)
111		VIII. MISCELLANEOUS						
112	811	Rents	A	B	C			
113	812	Administrative expenses transferred - Cr.	A	B	C	(55,055.00)	(148,760.00)	93,705.00
114	813	Duplicate charges - Cr.	A	B	C	0.00	0.00	0.00
115		Total miscellaneous				(55,055.00)	(148,760.00)	93,705.00
116		Total operating expenses				13,578,468.47	13,508,272.61	70,195.86

SCHEDULE B-3
Account 506 - Property Losses Chargeable to Operations

Line No.	Description (a)	Amount
1	Perchlorate Litigation Settlement Proceeds	(1,442,120.00)
2	Perchlorate Litigation Costs Refunded to Ratepayers	531,605.00
3		
4		
5		
6		
7		
8	Total	(910,515.00)

SCHEDULE B-4
Account 507 - Taxes Charged During Year

1. This schedule is intended to give the account distribution of total taxes charged to operations and other final accounts during the year.

2. Do not include gasoline and other sales taxes which have been charged to accounts to which the material on which the tax was levied was charged. If the actual or estimated amounts of such taxes are known, they should be shown as a footnote and designated whether estimated or actual amounts.

3. The accounts to which taxes charged were distributed should be shown in columns (c) to (f). Show both the utility department and number of account charged except for taxes capitalized.

4. For any tax which it was necessary to apportion to more than one utility department or account, state in a footnote the basis of apportioning such tax.

5. The total taxes charged as shown in column (b) should agree with the amounts shown by column (d) of schedule entitled "Accrued and Prepaid Taxes," page 24.

6. Do not include in this schedule entries with respect to deferred income taxes, or taxes collected through payroll deductions or otherwise pending transmittal of such taxes to the taxing authority.

Line No.	Kind of Tax (a)	Total Taxes Charged During Year (b)	DISTRIBUTION OF TAXES CHARGED (Show utility department where applicable and account charged)			
			Water (Account 507) (c)	Nonutility (Account 521) (d)	Other (Account ---) (e)	Capitalized (Omit Account) (f)
9	Taxes on real and personal property	443,080.41	443,080.41			
10	State corp. franchise tax	390,078.00	390,078.00			
11	State unemployment insurance tax	10,870.63	10,708.63		162.00	
12	Other state and local taxes				35.00	
13	Federal unemployment insurance tax	2,350.41	2,315.41			35.00
14	Federal insurance contributions act	175,675.51	173,052.51			2,623.00
15	Other federal taxes					
16	Federal income tax	1,765,205.00	1,765,205.00			
17						
18						
19						
20						
21						
22	Totals	2,787,259.96	2,784,439.96	0.00	0.00	2,820.00

SCHEDULE B-5

Reconciliation of Reported Net Income With Taxable Income for Federal Taxes

1. Report hereunder a reconciliation of reported net income for the year with taxable income used in computing Federal income tax accruals and show computation of such tax accruals. The reconciliation shall be submitted even though there is no taxable income for the year. Descriptions should clearly indicate the nature of each reconciling amount.

2. If the utility is a member of a group which files a consolidated Federal tax return, reconcile reported net income with taxable net in-

come as if a separate return were to be filed, indicating, however, inter-company amounts to be eliminated in such consolidated return. State names of group members, tax assigned to each group member, and basis of allocation, assignment, or sharing of the consolidated tax among the group members

3. Show taxable year if other than calendar year from----to----

Line No.	Particulars (a)	Amount (b)
1	Net income for the year per Schedule B, page 7.....	3,280,091
2	Reconciling amounts (list first additional income and unallowable deductions, followed by additional	
3	deductions for non-taxable income):	
4	Income Tax Expense	2,155,283
5	Pre-tax income	5,435,374
6		
7		
8	T&E 50%	6,855
9	Deferred revenue grossup	(58,794)
10	CIAC grossup received	19,390
11	Association Dues	24,455
12	Domestic Production Activities	(63,085)
13	Repayment of 89-91 loans	29,227
14	Regulatory Reserve	(94,000)
15	Bad Debt Reserve	1,338
16	Accrued Vacation / Incentive	(53,764)
17	CIAC received	55,403
18	Advance refunds	(424,654)
19	Repayment of 92-96 loans	47,194
20	Section 263a capitalized G&A	23,626
21	Tax loss on Sale/Abandonment	(41,997)
22	Capitalized Interest	125,440
23	Tax/Book depreciation difference	(400,294)
24	Perchlorate Litigation	(910,515)
25	Prior year state taxes	(318,477)
26	Miscellaneous	(58,000)
27	Federal Taxable Income	3,344,722
28	Federal tax rate	34%
29	Current federal tax payable	1,137,205
30	Deferred federal tax	628,000
31	Total federal tax expense	1,765,205
32		
33	STATE:	
34	Federal Taxable Income	3,344,722
35	Adjustments to get to state taxable income	1,856,158
36	State Taxable Income	5,000,878
37	State tax rate	8.84%
38	Current state tax payable	442,078
39	Deferred state tax	(52,000)
40		390,078
41		
42	Total Income Tax Expense	2,155,283
43	Federal tax net income.....	
44	Computation of tax:	
45		
46		
47	Tax per return N/A - 2010 Tax Return not filed as of March 31,2011	

SCHEDULE B-6
Account 521 - Income from Nonutility Operations

Line No.	Description (a)	Revenue (b)	Expenses (c)	Net Income (d)
1				
2	NONE			
3				
4				
5	Totals			

SCHEDULE B-7
Account 526 - Miscellaneous Nonoperating Revenue

Line No.	Description (a)	Amount (b)
1		
2	NONE	
3		
4		
5		
6		
7		
8	Totals	

SCHEDULE B-8
Account 527 - Nonoperating Revenue Deductions (Dr.)

Line No.	Description (a)	Amount (b)
1		
2	NONE	
3		
4		
5	Total	

SCHEDULE B-9
Account 535 - Other Interest Charges

Line No.	Description (a)	Amount (b)
1	NONE	
2		
3		
4	Total	0.00

SCHEDULE B-10
Account 538 - Miscellaneous Income Deductions

Line No.	Description (a)	Amount (b)
1	BALANCING/ MEMO ACCOUNT	(94,000.00)
2		
3		
4		
5	Total	(94,000.00)

SCHEDULE C-1

Engineering and Management Fees and Expenses, etc., During Year

Line No.	Give the required particulars of all contracts or other agreements in effect in the course of the year between the respondent and any corporation, association, partnership or person covering supervision and/or management of any department of the respondents affairs such as accounting, engineering, financing, construction or operation, and show the payments under such agreements and also the payments for advice and services to a corporation or corporations which directly or indirectly control respondent through stock ownership		
1	Did the respondent have a contract or other agreement with any organization or person covering supervision and/or management of its own affairs during the year? Answer: Yes <u>X</u> No _____		
2	Name of each organization or person that was a party to such a contract or agreement The Newhall Land and Farming Company (NLF)		
3	Date of original contract or agreement.	<u>1/5/94 Copy provided with 1994 report</u>	
4	Date of each supplement or agreement.	<u>See attached 2010 Annual Contracts for intercompany services at Schedule E-4, Affiliated Transactions</u>	
	Note: File with the report a copy of every contract, agreement, supplement or amendment mentioned above unless a copy of the instrument in due form has been furnished in which case a definite reference to the report of the respondent relative to which it was furnished will suffice.		
5	Amount of compensation paid during the year for supervision or management:		<u>\$146,760</u>
6	To whom paid:	<u>Same as above</u>	
7	Nature of payment (salary, traveling expenses, etc.):	<u>General & Administrative, Info Systems, Income Taxes</u>	
8	Amounts paid for each class of service:	G&A and Info Systems	\$ <u>\$133,680</u>
		Income Taxes	\$ <u>\$13,080</u>
9	Base for determination of such amounts	<u>Study of comparable amounts</u>	
10	Distribution of payments:		
	(a) Charged to operating expenses		<u>\$146,760</u>
	(b) Charged to capital accounts	\$	<u>0</u>
	(c) Charged to other accounts	\$	<u>0</u>
	Total	\$	<u>\$146,760</u>
11	Distribution of charges to operating expenses by primary accounts.		
	Number and Title of Account		
	<u>7925 Intercompany G&A</u>		
	Total		<u>\$146,760</u>
12	What relationship, if any, exists between respondent and supervisory and/or managing concerns? <u>NLF owns 100% of Valencia Water Company</u>		

SCHEDULE C-2

Compensation of Individual Proprietor or Partner

Do operating expenses include any charge for owner's compensation in the form of salary or wages, rental allowances, or for the use of a private automobile. (If the word "none" truly states the fact it should be given as the answer to this inquiry.)

Line No.	Nature of Allowance (a)	Account Charged (b)	Amount (c)
1			
2	NONE		
3			
4			
5			
6	Total		

SCHEDULE C-3

Employees and Their Compensation

(Charged to Account 502 - Operating Expenses - Schedule B-2)

Line No.	Classification (a)	Number at End of Year (b)	Total Salaries and Wages Paid During Year (c)
1	Employees - Source of supply	13	724,286.74
2	Employees - Pumping	7	303,380.67
3	Employees - Water treatment	3	168,948.46
4	Employees - Transmission and distribution		
5	Employees - Customer account	7	274,425.31
6	Employees - Sales		
7	Employees - Administrative	8	655,149.11
8	General officers		
9	General office		
10	Totals	38	2,126,190.29

SCHEDULE C-4

Record of Accidents During Year

Line No.	Date of Accident (a)	TO PERSONS					TO PROPERTY			
		Employees on Duty		Public ¹		Total Number (f)	Company		Other	
		Killed (b)	Injured (c)	Killed (d)	Injured (e)		Number (g)	Amount (h)	Number (i)	Amount (j)
1						NONE				
2										
3										
4	Totals									

¹ Accidents to employees not on duty should be included in "Public" accidents

**SCHEDULE C-5
Expenditures for Political Purposes**

Hereunder report all direct or indirect expenditures incurred or made to elect or defeat a candidate for public office; or to place any measure on the ballot; at any election, or to keep it from being placed on the ballot at any election, or to support or defeat any measure on the ballot; at an election, or to support or defeat any proposed legislation, also name the account or accounts to which the expenditures herein mentioned have been charged. (If the word "none" truly states the fact, it should be given as the answer to this inquiry.)

1	California Water Association PAC	\$6,000
2		
3		
4		
5		
6		

**SCHEDULE C-6
Loans to Directors, or Officers, or Shareholders**

Show hereunder the amount of loans to directors, or officers, or shareholders and the terms and conditions of such loans. Among other things, show the name of each director, or officer, or shareholder, receiving a loan or loans, the amount of each loan, the rate of interest payable on such loan or loans, the maturity date of each loan or loans, the security given and the date when the shareholders authorized each loan. If such authorization was given. (If the word "none" truly states the fact, it should be given as the answer to this inquiry.)

1	None
2	
3	
4	
5	
6	

**SCHEDULE D-1
Sources of Supply and Water Developed**

STREAMS				FLOW IN(unit) ²				Annual Quantities Diverted(Unit) ²	Remarks
Line No.	Diverted into*	From Stream or Creek (Name)	Location of Diversion Point	Priority Right		Diversions			
				Claim	Capacity	Max.	Min.		
1									
2	NOT APPLICABLE								
3									
4									
5									
WELLS							Annual Quantities Pumped(Unit) ²	Remarks	
Line No.	At Plant (Name or Number)	Location	Number	Dimensions	¹ Depth to Water	Pumping Capacity(Unit) ²			
6									
7	SEE ATTACHED SCHEDULE D-1								
8									
9									
10									
TUNNELS AND SPRINGS				FLOW IN(Unit) ²			Annual Quantities Used(Unit) ²	Remarks	
Line No.	Designation	Location	Number	Maximum	Minimum				
11									
12	NOT APPLICABLE								
13									
14									
15									
Purchased Water for Resale									
16	Purchased from		Castaic Lake Water Agency						
17	Annual quantities purchased		11,213.70			(Unit chosen) ²	ACRE FEET		
18									
19									

* State ditch, pipe line, reservoir, etc., with name, if any.

¹ Average depth to water surface below ground surface.

2 The quantity unit in established use for expressing water stored and used in large amounts is the acre foot, which equals 42,560 cubic feet; in domestic use the thousand gallon or the hundred cubic feet. The rate of flow or discharge in larger amounts is expressed in cubic feet per second, in gallons per minute, in gallons per day, or in the miner's inch. Please be careful to state the unit used.

**SCHEDULE D-2
Description of Storage Facilities**

Line No.	Type	Number	Combined Capacity (Gallons or Acre Feet)	Remarks
1	A. Collecting reservoirs			
2	Concrete			
3	Earth			
4	Wood			
5	B. Distribution reservoirs			
6	Concrete			
7	Earth			
8	Wood			
9	C. Tanks			
10	Wood			
11	Metal	24	52.88	million gallons
12	Concrete	1	2.00	million gallons
13	Totals	25	54.88	million gallons

VALENCIA WATER COMPANY

SCHEDULE D-1 WELLS

	PLANT	LOCATION	DIMENSIONS (CASING DIA. X DEPTH)	2010 STANDING WATER DEPTH (FT.)	PUMPING CAPACITY (GPM)	2010 ANNUAL PUMPAGE (AF)
(1)	159	PICO CANYON	14" X 1900'	110	500	32.15
(2)	160	SCE SUBSTATION	16" X 2000'	76	2,000	944.55
(3)	201	VALENCIA BLVD	18" X 1700'	118	2,400	48.70
(4)	205	VALENCIA BLVD	18" X 1950'	119	2,700	727.88
(5)	206	MAGIC MOUNTAIN	18" X 2060'	64	2,500	1,799.57
(6)	D	HASLEY CANYON	18" X 142'	32	1,050	1,095.82
(7)	E15	COMMERCE CENTER	18" x 180'	39	1,400	1,095.44
(8)	I	AVENUE SCOTT	12" X 172'	22	0	
(9)	N	PARDEE FIELD	16" X 280'	35	1,250	314.77
(10)	N7	PARDEE FIELD	18" X 200'	32	2,500	1,538.06
(11)	N8	PARDEE FIELD	18" X 210'	33	2,500	1,305.36
(12)	Q2	BOUQUET CYN	18" X 158'	44	1,200	1,408.86
(13)	U4	LA AQUEDUCT	14" X 130'	48	1,000	474.40
(14)	U6	SOLEDAD	18" X 176'	59	1,250	817.79
(15)	W9	SAN FRANCISQUITO	14" X 160'	23	800	535.04
(16)	W10	SAN FRANCISQUITO	16" X 190'	40	1,500	1,618.22
(17)	W11	SAN FRANCISQUITO	18" X 180'	32	1,000	926.11
(18)	S6	BRIDGEPORT	18" X 230'	35	2,000	930.24
(19)	S7	BRIDGEPORT	18" X 240'	31	2,000	76.19
(20)	S8	BRIDGEPORT	18" X 231'	43	2,000	95.84
(21)	T7	RIVER VILLAGE	18" X 140'	59	1,200	821.69
						<u>16,606.68</u>

SCHEDULE D-3
Description of Transmission and Distribution Facilities

A. LENGTH OF DITCHES, FLUMES AND LINED CONDUITS IN MILES FOR VARIOUS CAPACITIES
Capacities in Cubic Feet Per Second or Miner's Inches (State Which) _____

Line No.		0 to 5	6 to 10	11 to 20	21 to 30	31 to 40	41 to 50	51 to 75	76 to 100
1	Ditch								
2	Flume								
3	Lined conduit								
4									
5	Totals								N/A

A. LENGTH OF DITCHES, FLUMES AND LINED CONDUITS IN MILES FOR VARIOUS CAPACITIES - Concluded
Capacities in Cubic Feet Per Second or Miner's Inches (State Which) _____

Line No.		101 to 200	201 to 300	301 to 400	401 to 500	501 to 750	751 to 1000	Over 1000	Total All Lengths
6	Ditch								
7	Flume								
8	Lined conduit								
9									
10	Totals								N/A

B. FOOTAGES OF PIPE BY INSIDE DIAMETERS IN INCHES - NOT INCLUDING SERVICE PIPING

Line No.		4	6	8	10	12	14	16	18	sub total
11	Cast Iron			15			487			502
12	Cast Iron (cement lined)		458	60		321		3,458	8,861	13,158
13	Concrete				15				15	30
14	Copper									0
15	Riveted steel									0
16	Standard screw									0
17	Screw or welded casing									0
18	Cement - asbestos	14,497	109,405	214,646	86,738	86,275	43,669	21,592	1,904	578,726
19	Welded steel		59	1,084	1,069	6,638	22,368	12,715	2,253	46,186
20	Wood									0
21	Other - PVC	10,291	106,704	333,328	136,132	242,578	99,425	199,516	65,356	1,193,330
22	Totals	24,788	216,626	549,133	223,954	335,812	165,949	237,281	78,389	1,831,932

B. FOOTAGES OF PIPE BY INSIDE DIAMETERS IN INCHES - NOT INCLUDING SERVICE PIPING - Concluded

Line No.		20	21	24	27	30	36	Other Sizes (Specify Sizes)		Total All Sizes
								48	sub total	
23	Cast Iron								0	502
24	Cast Iron (cement lined)	24		6,639			6,368		13,031	26,189
25	Concrete								0	30
26	Copper								0	0
27	Riveted steel								0	0
28	Standard screw								0	0
29	Screw or welded casing								0	0
30	Cement - asbestos	1,216							1,216	579,942
31	Welded steel	1,243		1,818	8,461	2,737		451	14,710	60,896
32	Wood								0	0
33	Other - PVC	15,363		10,951					26,314	1,219,644
34	Totals	17,846	0	19,408	8,461	2,737	6,368	451	55,271	1,887,203

**SCHEDULE D-4
Number of Active Service Connections**

Classification	Metered - Dec 31		Flat Rate - Dec 31	
	Prior Year	Current Year	Prior Year	Current Year
Commercial (including domestic)	27,353	27,470		
Industrial	451	451		
Public authorities	646	657		
Irrigation	3	3		
Other: Metered Construction	182	181		
Other - Recycled	10	14		
Subtotal	28,645	28,776	0	0
Private fire connections			1,303	1,304
Public fire hydrants				
Total	28,645	28,776	1,303	1,304

**SCHEDULE D-5
Number of Meters and Services on
Pipe Systems at End of Year**

Size	Meters	Services
5/8 x 3/4 - in	974	974
3/4 - in	24,571	24,571
1 - in	477	477
1.5 - in	422	422
2 - in	2,009	2,088
3 - in	232	232
4 - in	52	190
6 - in	22	803
8 - in	10	276
8 - in +	7	47
Total	28,776	30,080

**SCHEDULE D-6
Meter Testing Data**

A. Number of Meters Tested During Year as Prescribed	
in Section VI of General Order No. 103:	
1. New, after being received	0
2. Used, before repair	141
3. Used, after repair	0
4. Found fast, requiring billing adjustment	0
B. Number of Meters in Service Since Last Test	
1. Ten years or less	20,064
2. More than 10, but less than 15 years	3,285
3. More than 15 years	5,427

SCHEDULE D-7

Water delivered to Metered Customers by Months and Years in Ccf (Unit Chosen) ¹

Classification of Service	During Current Year												Subtotal		
	January	February	March	April	May	June	July	August	September	October	November	December		Total	
Commercial	533,726	459,580	395,174	544,986	611,793	894,584	1,034,626								4,474,469
Industrial	48,298	33,058	21,983	35,391	48,612	67,815	77,046								332,203
Public authorities	51,239	29,023	9,815	48,469	78,806	171,633	231,594								620,579
Irrigation	1,102	2,277	1,810	2,326	2,975	15,010	22,386								47,886
Other - Metered Construction	140	102	(14)	192	253	401	1,760								2,834
Other - Recycled	4,741	4,603	310	6,482	10,580	25,346	24,750								76,812
Total	639,246	528,643	429,078	637,846	753,019	1,174,789	1,392,162								5,554,783
Classification of Service	During Current Year												Total		
	August	September	October	November	December	Subtotal	Total	Prior Year							
Commercial	975,127	1,163,776	1,016,764	712,430	656,070	4,524,167	8,998,636	9,616,832							
Industrial	76,343	92,920	79,200	66,459	50,060	364,982	697,185	770,649							
Public authorities	224,293	267,806	224,951	114,854	106,364	938,268	1,558,847	1,904,568							
Irrigation	20,546	17,786	10,875	11,115	17,386	77,708	125,594	155,568							
Other - Metered Construction	893	1,949	396	248	567	4,053	6,887	22,182							
Other - Recycled	24,384	24,773	16,269	14,622	5,695	85,743	162,555	149,870							
Total	1,321,586	1,569,010	1,348,455	919,728	836,142	5,994,921	11,549,704	12,619,669							

¹ Quantity units to be in hundreds of cubic feet, thousands of gallons, acre-feet, or minor's inch-days.

Total acres irrigated _____ Total population served 113,000

Note: the population served estimate for 2010 is based on the DWR methodology to comply with Senate Bill X 7-7.

SCHEDULE D-8
Status With State Board of Public Health

1. Has the State or Local Health Department reviewed the sanitary condition of your water system during the past year?
Answer: Yes No
2. Are you having routine laboratory tests made of water served to your consumers?
Answer: Yes No
3. Do you have a permit from the State Board of Public Health for operation of your water system?
Answer: Yes No
4. Date of permit: 10/29/65
5. If permit is "temporary", what is the expiration date? N/A
6. If you do not hold a permit, has an application been made for such permit?
Answer: Yes No
7. If so, on what date? N/A

SCHEDULE D-9
Statement of Material Financial Interest

Use this space to report the information required by Section 2 of General Order No. 104-A. If no material financial interest existed during the year or contemplated at the end of the year, such fact shall be so stated. If additional space is required, attach a supplementary statement with reference made thereto.

Valencia Water Company has no financial interest in any other company.

**SCHEDULE E-1
Balancing & Memorandum Accounts**

Line No.	Description (a)	Authorized by Decision or Resolution No. (b)	Beginning of Year Balance (c)	Offset Revenues (d)	Offset Expenses (e)	Interest (f)	Surcharge (g)	Surcredit (h)	End of Year Balance (i)
1	Pchsd. Power Balancing Acct	Res. W-2818	\$79,069	\$0	(\$63,468)	\$68			\$15,669
2	Pchsd. Water Balancing Acct	Res. W-2818	(\$449,300)	\$2,673,373	(\$2,355,001)	(\$384)			(\$131,312)
3	Litigation Memo Account	Res. W-4094	\$2,573,617	\$0	(\$1,553,348)	\$5,746			\$1,026,015
4	LIRA Memo Account	D.07-06-024	(\$26,814)	\$14,135	(\$25,549)	(\$75)			(\$38,303)
5	Cost of Capital Memo Account	D.09-07-038	(\$107,298)		(\$22,705)	(\$261)			(\$130,264)
6	Military Family Relief Program	AB-1666	\$0						\$0
7									
8			\$0						\$0

Note 1: For Columns d, e, f, g, & h, provide those amounts booked in the current year.

Note 2: The detail for each individual account includes the Beginning of Year Balance, End of Year Balance, each Offset Expense adjustment during the year, each Offset Revenue adjustment during the year, each Surcharge adjustment during the year, each Surcredit adjustment during the year, and the decision or resolution number associated with each item of detail.

Schedule E- 2
Description of Low-Income Rate Assistance Program(s)

For all low income rate assistance programs offered by water utility, provide detailed responses to the following items:

1. Brief description of each low-income rate assistance program provided, by district. This shall include but is not limited to the percent of discount, the dollar amount of discount, what rate is discounted (service charge, quantity, or total bill), qualifying income level, dollar rate increase to remaining customers to pay for this program.

Valencia implemented its Low-Income Rate Assistance (LIRA) program in February 2007. The program provides a 50% discount on the monthly service charge for qualifying residential customers having a 1-inch or smaller meter. The qualifying income levels are based on the CARE program for electric and gas service. All non-qualifying customers pay a surcharge of \$0.04 per month to pay for this program.

2. Participation rate for Year 2010 (as a percent of total customers served).

Participation rate was 1.0% (362 of 30,080 customers).

3. Detail of balancing or memorandum account authorized to record expenses incurred and revenues collected for low income rate assistance program.

The LIRA memorandum account will include LIRA credits, surcharge revenues, incremental costs, franchise fees, uncollective accounts and monthly interest.

Schedule E- 3
Description of Water Conservation Program(s)

For all water conservation programs offered by water utility, provide detailed responses to the following items:

See the attached Description of Water Conservation Programs.

1. Brief description of each water conservation program provided, by district. This description shall include but not be limited to the type of program offered (such as provision of low-flow plumbing fixtures, leak detection, leak repair, written water conservation tips, or other similar programs to its customers) and length of time it was offered.
2. Discuss how is each water conservation assistance program funded, for example, through rates charged to all customers, rates charged to customer receiving water conservation assistance, shareholder contribution, community funding, government funding, or other funding method. Explain why this type of funding was used.
3. Cost of each program.
4. The degree of participation in each district by customer group.

Schedule E-3
Description of Water Conservation Programs
for 2010 CPUC Annual Report

California's urban water conservation programs are coordinated by the California Urban Water Conservation Council (CUWCC). Founded in 1991, the CUWCC is charged with developing and encouraging conservation through the implementation of the 14 Best Management Practices (BMPs) outlined in the CUWCC Memorandum of Understanding (MOU) regarding Urban Water Conservation in California. The MOU is an agreement that commits signatories to carry out all cost effective water BMPs for a period of 10 years.

These BMPs are the state standard for conservation and many of the state's largest urban water suppliers are signatories to the MOU. Valencia Water Company ("VWC") became a signatory in June of 2006 and in doing so, pledges a good faith effort to comply with the requirements of all BMPs where cost effective.

As of September 6th, 2009, CUWCC's 14 BMPs are now organized into five categories. Two categories, Utility Operations and Education, are "Foundational BMPs", because they are considered to be essential water conservation activities by any utility and are adopted for implementation by all signatories to the MOU as ongoing practices with no time limits. The remaining BMPs are "Programmatic BMPs" and are organized into Residential, Commercial, Industrial, and Institutional (CII), and Landscape categories.

Further, the CUWCC now allows BMP compliance under one of three methods; Traditional BMP's, Flex Track (allowing flexibility in the methods to achieve the specific

BMP savings goals) and Gallons Per Capita Day (GPCD) (Steering Committee approved the GPCD option June 11, 2009). These are relatively recent changes that have not yet been fully analyzed by VWC. Therefore, to simplify this reporting process, VWC will continue to refer to the BMP's by their old number.

The following is a brief description of VWC's conservation programs and practices that are currently in operation.

BMP 1 Water Survey Programs for Single and Multi Family Residential Customers

Summary of Program #1. VWC offers a Free Residential Water Audit Program that helps its customers identify areas where water use can be more efficient and conservation-oriented. To implement this program, VWC has retained the services of the consulting firm WaterWise Consulting, Inc. WaterWise contacts VWC's customers and offers complete indoor/outdoor water use surveys. The goal of the program is to provide customers with an understanding of where and how much water is being used on the property, identify inefficient water use, and offer monetary incentives for the replacement of high water use devices such as toilets and irrigation controllers. WaterWise will also offer surveys to all of VWC's registered Low Income customers. VWC spent \$60,140 for this program's contracted labor in 2010 and surveyed 238 single family homes and 0 multifamily homes. This program began February 1, 2007 and was active for all of 2010. VWC's goal is to survey 500 single family and multi family units per year. Funding for this program is through general rates.

BMP 2 Residential Plumbing Retrofits

Summary of Program #1. VWC has integrated this program into the Free Residential Water Audit Program. Retrofit items include low-flow showerheads distributed during special events such as Earth Day, and the River Rally. Retrofit items will be installed by WaterWise consultants per customer request, but are otherwise installed by the property owner. This program began February 1, 2007 and the modified version was active for all of 2010. VWC distributed 302 low-flow showerheads during 2010. Funding for this program is through general rates and from CLWA.

Summary of Program #2. VWC's Smart Irrigation Controller Distribution Program offers qualified customers a free Smart irrigation controller and weather monitor. The Smart controller determines the optimal amount of water to apply to a landscape based on different algorithms that take into consideration evapotranspiration (ET) rates of a region and other site specific factors such as soil type, soil moisture, slope, plant type, etc.

Only one Smart controller will be installed per site. The program is open to owners of single family residences. To qualify, applicants must be a VWC residential customer and meet certain irrigation and landscape area requirements. Additionally, qualified applicants must attend a company sponsored 3-hour seminar to learn conservation concepts and how to program and operate the Smart controllers.

Summary of Program #2(b). Beginning in late 2010, VWC offered Free Controller Installation for water customers that participated in the Residential Irrigation classes offered through CLWA. VWC will discontinue the current Smart Irrigation Controller

Distribution Program and will move to promote CLWA's program through our Free Installation incentive. This will allow our customers the benefit of the Controller and Installation while saving VWC the cost of the controller.

During 2010, VWC spent \$40,566 and installed 58 Controllers, 54 VWC Installation + Controller, and 4 Installation only with CLWA. Additionally, VWC currently has 99 controllers in stock that will be used to assist customers with irrigation management in 2011. Costs for this program are included in general rates.

BMP 3 System Water Audits, Leak Detection and Repair

Summary of Program. VWC annually reviews water purchases and production versus the sale of water to measure total system water losses. VWC utilizes the leak detection capability of its radio meters to identify leaks and notify customers of potential problems, and identified distribution system leaks are immediately repaired. VWC also operates an aggressive maintenance program that replaced approximately 600 aging water meters in 2010. As a result of the aggressive maintenance program, system losses have remained below the level requiring a major system wide audit. This program was conducted throughout 2009, 2010 and will continue in 2011. Funding for this program is provided through rates.

BMP 4 Metering With Commodity Rates for All Connections

Summary of Program. VWC customers are fully metered. There are no un-metered services within the customer base.

BMP 5 Large Landscape Conservation Programs

Summary of Program. VWC had retained the services of the consulting firm Resource Management Corporation to implement our strategy to target large water users in the Commercial/Industrial/Institutional mixed-use service category and offer water audits that identify ways that these customers can improve water efficiency outdoors as well as adding a component to identify savings and efficiencies for indoor consumption. Prior to 2010, VWC had conducted 102 mixed-use commercial and Large Landscape Audits (LLA).. VWC has been working closely with CLWA to provide Large Landscape Audits for approximately 8 accounts with 237 irrigation meters throughout the 2010 calendar year. Funding for this program was provided through rates prior to 2010, and is now funded through CLWA.

Summary of Program. Starting in 2008, as a condition of AB 1881, VWC began requiring separate water meters for non single family properties with landscape areas greater than 5,000 square feet as a condition of new water service for non single family homes. Although not required by the new law, VWC will also look for opportunities to convert existing customers with large landscapes to separate irrigation meters. During 2010, VWC converted 2 mixed-use services customers to separately meter their irrigation¹. To date, Valencia has installed 7 sub-meters to separately track irrigation use at its mixed use meter customers. This will enhance VWC's ability to implement irrigation water budgets in the future on large landscape areas. Funding for this program was provided by VWC.

¹ Costs for the sub meter installation will be reported in 2011's Schedule E3.

BMP 7 Public Information Programs

Summary of Program. VWC provides several informational outreach strategies to the public. Information on efficient water use is posted on the company's website, at its main office, and directly in customer water bills. Additionally, VWC representatives are present at local events to answer questions in person and distribute water conservation information and distribute low-flow retrofit devices. Funding for this program is provided through rates.

The Landscape Education Program is a community project provided by VWC's wholesaler, Castaic Lake Water Agency ("CLWA"). The program is an effort to increase water awareness in the Santa Clarita Valley ("SCV") and offers a classroom and garden setting for those who want to learn more about gardening and conservation. In addition, and free to the public, is a seven acre garden demonstrating irrigation systems, plants, and plant groupings that are appropriate to water-conserving landscapes in Southern California. Funding for this program is from CLWA.

These programs were provided to VWC's customers throughout 2010 and will continue to be provided in 2011.

BMP 8 School Education Programs

Summary of Program. VWC places high priority on educating children about the importance of protecting our local water resources. As evidence of this priority,

VWC has worked in cooperation with CLWA for several years to provide an education program for school-aged children (K-8th grade). The program administered by CLWA, at the Rio Vista Water Treatment Plant, is called School Education Program. It provides interactive student activities that present interesting and age-appropriate water treatment and conservation topics. Over 13,000 students are signed up each year. This program was provided to school-aged children of Valencia Water Customers throughout 2010 and will continue to be provided in 2011. Funding for this program is provided by CLWA.

BMP 9 Conservation Programs: Commercial, Industrial, and Institutional Accounts

Summary of Program. VWC had retained the services of the consulting firm Resource Management Corporation to provide a free water audit service to Commercial /Industrial/Institutional (“CII”) customers. Resource Management Corporation worked to improve water use efficiency in settings, such as restaurants, schools, hotels and manufacturing companies. A number of recommendations made by the consulting firm have been implemented. Recommendations included devices such as pre-rinse spray nozzles, efficient toilets and urinals, cooling tower conductivity controllers, high-efficiency clothes washers, irrigation clock management and the use of drought tolerant plant material. To date, VWC has conducted 124 CII water surveys/audits. Funding for this program was provided in rates. Beginning in 2010, Valencia continued our conservation efforts with CII customers by working in conjunction with CLWA to assess, update, or implement conservation measures for 14 water customers.

This program will be continued in 2011 and funded by CLWA.

BMP 11 Conservation Pricing

Summary of Program. VWC maintains a rate structure consistent with BMP 11's definition of conservation pricing. Approximately 70% of our metered service revenues are generated by the commodity charge. The price per unit is constant; therefore, the greater the consumption, the greater the cost to the customer. This rate structure was in effect throughout 2010 and will be modified February 1st, 2011 with tiered rates.

VWC implemented its Water Smart Allocations Program (WSA) to individually metered residential homes in December 2009 with no changes to rates. The WSA program is a fair and equitable method of providing residents with the amount of water calculated to efficiently meet their specific needs. Using extensive national research, local weather information and property specific landscape areas (calculated using publicly available aerial images), Valencia is able to provide its customers with the necessary knowledge regarding water conservation and water use efficiency. Coupled with tiered rates, or increasing price signals, the WSA program provides incentives for the efficient use of water by discouraging only the inefficient, excessive, and wasteful use of water.

Throughout 2010, VWC customers were able to review their water usage and understand how their current water use would impact their monthly cost of water. The early release of the program's parameter's also allowed our customers ample time to implement conservation measures prior to the release of the tiered rates. Throughout the year, many of our customers actively engaged in the program and participated in conservation programs in anticipation of the tiered rates.

During 2010 the Company spent \$45,373 for Information Technology support and the development of program (software) improvements. Additionally VWC spent \$13,784 on outreach efforts to inform our customers about the WSA program prior to the implementation of the tiered rates. The outreach efforts included mailers, information on the Valencia website and customer bills, meetings with focus groups, City Council members, Town Councils, and customers one on one at public events and WBIC classes. Funding for this was provided by Valencia Water Company.

BMP 12 Conservation Coordinator

Summary of Program. During 2010, Valencia Water Company added a Resource Conservation Manager position that was funded by Valencia Water Company. The duties of the resource conservation manager include, but are not limited to, residential coordination and comprehensive water demand/supply conservation program management, program development and implementation, annual program review, metric analysis and development, internal resource conservation activities, compliance with the 20% reduction in GPCD as defined in SBx7-7, and community leadership/relations pertaining to water conservation.

Additionally, VWC maintains an active residential conservation coordinator position to facilitate residential programs and educate customers on the benefits of conservation. Funding for this position is through general rates.

BMP 13 Water Waste Prohibitions

Summary of Program. VWC discourages the negligent or excessive use of water. VWC includes water waste prohibitions in its tariffs. The voluntary provisions are encouraged at all times. However, mandatory restrictions are enforced only during drought conditions.

BMP 14 Residential High Efficiency Toilet (HET) Replacement Program

Summary of Program # 1. VWC works in cooperation with CLWA to provide a highly visible toilet rebate program. The program provides rebates for the replacement of high water using toilets in homes built prior to 1992 (3.5 gallons per flush or greater) with toilets with 1.28 gallons per flush or less HETs. During 2010, 799 toilet rebates were issued, with 356 \$10.00 added incentives for a total cost of \$3,560 (\$10.00 incentive added to CLWA Rebate). VWC discontinued the \$10.00 incentive beginning June 30th, 2010. However, VWC customers can still receive a rebate for up to \$115 for the purchase and installation of a High Efficiency Toilet. Funding for this program is provided by VWC and CLWA.

Summary of Program #2. VWC also has its own replacement program. This program is offered to all residential customers and is designed to “fill the gaps” of the CLWA funded program. VWC’s toilet program provides rebates for the replacement of any toilet with 1.6 gallons per flush or greater with 1.28 gallons per flush HETs. This program is a supplement, and is not intended to replace CLWA’s toilet rebate program. Beginning June 30th, 2010, VWC reduced the rebate amount for ULFT replacements to a more cost

effective \$50.00 per installed HET. VWC spent \$40,315 for 401 rebates on this program.

Funding for this program is provided by VWC.

Schedule E- 4
Report on Affiliate Transactions

Affiliate includes all related companies including but not limited to Parent, Affiliates, and Subsidiaries.

INSTRUCTIONS:

* For those utilities with specifically authorized affiliate transaction rules, provide all information required by those rules.

See attached **Affiliated Transaction Report** in accordance with D.10-02-015 and the **Affiliated Transaction Rules Compliance Plan** for Rules Adopted in D.10-10-019.

* For those utilities with no specifically authorized affiliate transaction rules, or those utilities whose authorized affiliate transaction rules do not provide the following information, provide the following:

1. Summary of all transactions between regulated water utility and its affiliated companies for the previous calendar year. The summary shall include a description of each transaction and an accounting of all dollars associated with each transaction although each transaction need not be separately identified where multiple transactions occur in the same account. These transactions shall include:

- (a) services provided by regulated water utility to any affiliated company;
- (b) services provided by any affiliated company to regulated water utility;
- (c) assets (both tangible and intangible) transferred from regulated water utility to any affiliated company;
- (d) assets (both tangible and intangible) transferred from any affiliated company to regulated water utility;
- (e) employees transferred from regulated water utility to any affiliated company;
- (f) employees transferred from any affiliated company to regulated water utility; and
- (g) financing arrangements and transactions between regulated water utility and any affiliated company.

**FOR ALL WATER COMPANIES
SAFE DRINKING WATER BOND ACT/STATE REVOLVING FUND DATA**

Please provide the following information relating to each Safe Drinking Water Bond Act (SDWBA) or Safe Drinking Water State Revolving Fund loan surcharge collection for the calendar year. Please use one page per loan.

1. Current Fiscal Agent:

Name: Not Applicable

Address: _____

Phone Number: _____

Account Number: _____

Date Hired: _____

2. Total surcharge collected from customers during the 12 month reporting period:

\$ _____	Meter Size	No. of Metered Customers	Monthly Surcharge Per Customer
	3/4 inch	_____	_____
	1 inch	_____	_____
	1 1/2 inch	_____	_____
	2 inch	_____	_____
	3 inch	_____	_____
	4 inch	_____	_____
	6 inch	_____	_____
	Number of Flat Rate Customers	_____	_____
	Total	_____	_____

3. Summary of the bank account activities showing:

Balance at beginning of year	\$ _____
Deposits during the year	_____
Interest earned for calendar year	_____
Withdrawals from this account	_____
Balance at end of year	_____

4. Reason or Purpose of Withdrawal from this bank account:

**FOR ALL WATER COMPANIES
SAFE DRINKING WATER BOND ACT/STATE REVOLVING FUND DATA (Continued)**

5. Plant amounts included in Schedule A-1a, Account No. 101--Water Plant in Service which were funded using SDWBA or SRF funds:

Line No.	Acct. No.	Title of Account (a)	Balance Beginning of Year (b)	Plant Additions During Year (c)	Plant Retirements During Year (d)	Other Debits* or (Credits) (e)	Balance End of Year (f)
1		NON-DEPRECIABLE PLANT					
2	301	Intangible plant	Not Applicable				
3	303	Land					
4		Total non-depreciable plant					
5		DEPRECIABLE PLANT					
6	304	Structures					
7	307	Wells					
8	317	Other water source plant					
9	311	Pumping equipment					
10	320	Water treatment plant					
11	330	Reservoirs, tanks and sandpipes					
12	331	Water mains					
13	333	Services and meter installations					
14	334	Meters					
15	335	Hydrants					
16	339	Other equipment					
17	340	Office furniture and equipment					
18	341	Transportation equipment					
19		Total depreciable plant					
20		Total water plant in service					

FACILITIES FEES DATA

Please provide the following information relating to Facilities Fees for districts or subsidiaries servicing 2,000 or fewer connections for the calendar year. (Per D.91-04-068)

1. Trust Account Information:

Bank Name: Not Applicable
 Address: _____
 Account Number: _____
 Date Opened: _____

2. Facilities Fees collected for new connections during the calendar year:

A. Commercial

NAME	AMOUNT
	\$ _____
	\$ _____
	\$ _____
	\$ _____

B. Residential

NAME	AMOUNT
	\$ _____
	\$ _____
	\$ _____
	\$ _____

3. Summary of the bank account activities showing:

	AMOUNT
Balance at beginning of year	\$ _____
Deposits during the year	\$ _____
Interest earned for calendar year	\$ _____
Withdrawals from this account	\$ _____
Balance at end of year	\$ _____

4. Reason or Purpose of Withdrawal from this bank account:

DECLARATION

(PLEASE VERIFY THAT ALL SCHEDULES ARE ACCURATE AND COMPLETE BEFORE SIGNING)

I, the undersigned _____ **Officer**
Officer, Partner, or Owner (Please Print)

of _____ **Valencia Water Company**
Name of Utility

under penalty of perjury do declare that this report has been prepared by me, or under my direction, from the books, papers and records of the respondent; that I have carefully examined the same, and declare the same to be a complete and correct statement of the business and affairs of the above-named respondent and the operations of its property for the period of January 1, 2010, through December 31, 2010.

_____ **General Manager**
Title (Please Print)

Keith Abernethy
_____ Signature

_____ **(661) 294-0828**
Telephone Number

3/29/11
_____ Date

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VALENCIA WATER COMPANY
GO 103A CUSTOMER SERVICE PERFORMANCE MEASURES
2010 ANNUAL REPORT

	Goal	Year to				Comments
		Q1	Q2	Q3	Q4	
PHONE SYSTEM						
1(A) % Calls Answered in 30 seconds	> or = 80%	N/A	N/A	N/A	N/A	VWC does not employ an ACD system
1(B) Abandonment Rate	< or = 5%	N/A	N/A	N/A	N/A	VWC does not employ an ACD system
BILLING						
2(A) % Bills Rendered In 7 days	> or = 99.0%	100.0%	100.0%	100.0%	100.0%	
2(B) % of Inaccurate Bills Rendered	< or = 3.0%	0.0%	0.0%	0.0%	0.0%	
PAYMENTS						
2 (C) % of Payment Posting Errors	< or = 1.0%	0.16%	0.13%	0.14%	0.17%	0.15%
METER READING						
3(A) % Meters Not Read	< or = 3.0%	0.07%	0.02%	0.05%	0.04%	0.05%
WORK ORDER COMPLETION						
4(A) % of Scheduled Appointments Missed	< or = 5.0%	1.80%	1.85%	2.87%	2.59%	2.32%
4(B) % Customer Requested Scheduled Orders Missed	< or = 5.0%	1.4%	0.3%	0.9%	0.0%	0.6%
CAB COMPLAINTS						
5(A) % of Complaints to Utility from CAB	< or = 0.10%	0.00%	0.00%	0.00%	0.00%	0.00%

ANNUAL REPORT OF
VALENCIA WATER COMPANY
AFFILIATED TRANSACTIONS
2010

In accordance with Decision No. 10-02-015 and the associated Affiliated Transaction Rules, Valencia Water Company ("Valencia") hereby files its annual report of affiliated transactions for the year 2010.

A. Services Provided by Valencia to any Affiliated Company

1. Water Revenues: During 2010, Valencia sold water to affiliated companies in accordance with its Commission approved tariffs. The amount of water revenues from affiliated companies was \$554,863.

B. Services Provided by Affiliated Companies to Valencia

1. Inter-company Services: Valencia received services from its parent company pursuant to written contracts (attached):
 - General and Administrative services - \$58,200
 - Information Systems services - \$75,480
 - Federal and State Income Tax and Property Tax services - \$13,080
2. Employee Benefits: Valencia reimbursed its parent company for the cost of employee benefits provided to its employees during 2010 for medical, dental, and life insurance, long-term disability, employee savings and retirement plans. The amount represents a pass through of actual costs incurred by the parent, i.e., the employer's share of the benefit costs - \$371,878.
3. Board of Directors: Valencia paid \$14,000 for services provided by members of Valencia's Board of Directors that work for its parent or affiliated companies.
4. Risk Management: Valencia paid its parent \$53,409 for worker's compensation insurance and \$387,473 for general liability insurance for its fair share of the group policies held by the parent.
5. Miscellaneous Services: Valencia received other services from its parent company as follows:
 - GPS Survey of Valencia Water Meters - \$15,928

C. Assets Transferred between Valencia and any Affiliated Company

Valencia does not nor has it ever paid for easements from any affiliated companies to serve their projects or for Valencia funded projects that benefit all of its customers. Therefore, Valencia's rate base does not reflect any costs associated with these real estate interests.

1. Easements: Valencia recorded one (1) easement from affiliated companies for land rights to construct various water utility plant. Valencia did not pay its affiliates for this easement rights.
2. Fee Parcels: Valencia recorded zero (0) fee parcels from affiliated companies for land rights to construct various water utility plant.
3. Quit Claim Deeds: Valencia recorded one (1) quit claim deed to an affiliated company for an easement that is no longer necessary for utility service and to avoid the potential liability associated with this easement.

D. Employees Transferred between Valencia and any Affiliated Company

During 2010, one employee was transferred from Newhall Land, Valencia's parent company, to Valencia.

E. Financing Arrangements and Transactions Between Valencia and Any Affiliated Company

There were no financing arrangements between Valencia and its affiliated companies during 2010.

F. Transactions between Valencia and Affiliated Companies for Construction of Water Distribution Plant

In accordance with Rule 15, Valencia received \$263,608 from affiliated companies from deposits made to construct water distribution plants.

G. Dividends Paid

- Valencia paid \$14,798,735 in dividends to its parent company during 2010.

H. Intercompany Balances Outstanding

Valencia had the following balances related to affiliated transactions on its books as of December 31, 2010:

- Accounts Receivable (for water sales) - \$42,905
- Accounts Payable - \$0
- Dividends Payable - \$0
- CIAC - \$33,418,777
- Construction Deposits - \$248,224
- Common Stock - \$1,536,500
- Preferred Stock - \$1,200,000

Valencia Water Company



24631 Avenue Rockefeller • P.O. BOX 5904 • Valencia, CA 91385-5904
(661) 294-0828 • Fax (661) 294-3806

Letter of Authorization Exhibit A

Authorization Number: 2010-06
General Agreement Number: 1115
Name: Administrative Services

Account Number: 8963.09
Consultant: Newhall Land & Farming Co.

This letter constitutes Authorization under the above-reference Contract. All services performed under this Authorization shall be in accordance with the terms and conditions of such Contract.

The scope of work to be done under this Authorization is as follows: Provide financial accounting, treasury, risk management, legal, personnel, and other administrative services in accordance with attached memorandum dated 01/04/2010.

Compensation for services under this Authorization will be paid as follows: One twelfth of the annual fee shall be paid each month until December 31, 2010.

The maximum authorized for the service under this Authorization, including reimbursables, is \$58,200.00 (Fifty eight thousand two hundred dollars) and such amount shall not be exceeded without Company's prior written approval.

Services under this Authorization shall be commenced by January 1, 2010 and completed no later than December 31, 2010, but not before this contract has been executed by both parties.

Invoices must include the following information:

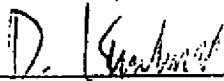
- Authorization Number
- General Agreement Number
- Account and/or Job Number
- Total invoiced to date for entire Authorization
- Description of work or services performed
- Total amount authorized hereunder

Please direct invoices and all questions regarding services to be done under this Authorization to Beverly Johnson, Valencia Water Company Controller.

If this Authorization is acceptable to you, please indicate your acceptance by signing both originals and returning both to our office. We will return an executed copy to you for your records.

NEWHALL LAND & FARMING, CO.

VALENCIA WATER COMPANY

By: 

By: 

Its: Donald L. Kimball
Executive Vice President

Its: President

Date: 1/12/10

Date: 1-14-10

Valencia Water Company



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(661) 294-0828 • Fax (661) 294-3806

Letter of Authorization Exhibit A

Authorization Number: 2010-04
General Agreement Number: 1115
Name: Information Systems Services

Account Number: 8963.09
Consultant: Newhall Land & Farming Co.

This letter constitutes Authorization under the above-reference Contract. All services performed under this Authorization shall be in accordance with the terms and conditions of such Contract.

The scope of work to be done under this Authorization is as follows: Provide information systems services in accordance with attached memorandum dated 01/04/2010.

Compensation for services under this Authorization will be paid as follows: One twelfth of the annual fee shall be paid each month until December 31, 2010.

The maximum authorized for the service under this Authorization, including reimbursables, is \$75,480.00 (Seventy five thousand four hundred eighty dollars) and such amount shall not be exceeded without Company's prior written approval.

Services under this Authorization shall be commenced by January 1, 2010 and completed no later than December 31, 2010, but not before this contract has been executed by both parties.

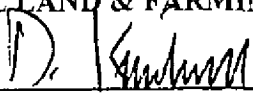
Invoices must include the following information:

- Authorization Number
- General Agreement Number
- Account and/or Job Number
- Total invoiced to date for entire Authorization
- Description of work or services performed
- Total amount authorized hereunder

Please direct invoices and all questions regarding services to be done under this Authorization to Beverly Johnson, Valencia Water Company Controller.

If this Authorization is acceptable to you, please indicate your acceptance by signing both originals and returning both to our office. We will return an executed copy to you for your records.

NEWHALL LAND & FARMING, CO.


By: 

Donald L. Kimball
Executive Vice President

Its: _____

Date: 1/12/10

VALENCIA WATER COMPANY

By: 

Its: President

Date: 1-14-10

Valencia Water Company



24631 Avenue Rockefeller • P.O. BOX 5904 • Valencia, CA 91385-5904
(661) 294-0828 • Fax (661) 294-3806

Letter of Authorization Exhibit A

Authorization Number: 2010-05

Account Number: 8963.09

General Agreement Number: 1115

Consultant: Newhall Land & Farming Co.

Name: Prepare and File 2009 Tax Returns

This letter constitutes Authorization under the above-reference Contract. All services performed under this Authorization shall be in accordance with the terms and conditions of such Contract.

The scope of work to be done under this Authorization is as follows: Prepare and file 2009 federal and state income and property tax returns and estimated tax payments in accordance with attached memorandum dated 01/04/2010.

Compensation for services under this Authorization will be paid as follows: One twelfth of the annual fee shall be paid each month until December 31, 2010.

The maximum authorized for the service under this Authorization, including reimbursables, is \$13,080.00 (thirteen thousand eighty dollars) and such amount shall not be exceeded without Company's prior written approval.

Services under this Authorization shall be commenced by January 1, 2010 and completed no later than December 31, 2010, but not before this contract has been executed by both parties.

Invoices must include the following information:

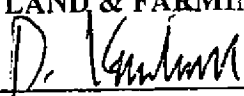
- Authorization Number
- General Agreement Number
- Account and/or Job Number
- Total invoiced to date for entire Authorization
- Description of work or services performed
- Total amount authorized hereunder

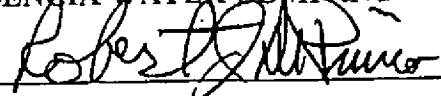
Please direct invoices and all questions regarding services to be done under this Authorization to Beverly Johnson, Valencia Water Company Controller.

If this Authorization is acceptable to you, please indicate your acceptance by signing both originals and returning both to our office. We will return an executed copy to you for your records.

NEWHALL LAND & FARMING, CO.

VALENCIA WATER COMPANY

By: 

By: 

Its: Donald L. Kimball
Executive Vice President

Its: President

Date: 1/12/10

Date: 1-14-10

DATE: March 15, 2011
TO: Files
FROM: Beverly Johnson
Controller
SUBJECT: 2010 Inter-company Services

Valencia Water Company's (Valencia) parent company, The Newhall Land and Farming Company (Newhall) and its affiliates, provide extensive services to Valencia on a routine basis as part of its normal business processes. Although Valencia is a wholly owned subsidiary of Newhall, transactions with Newhall for accounting, information systems, treasury, risk management, legal and all other services provided are transacted on an arm's length basis. Additionally, Valencia is only charged its fair share of the group's common costs. None the less, Valencia still benefits from the economies of scale that Newhall realizes by handling these services on a much larger scale than Valencia would on a standalone basis.

Valencia projects approximately \$147,000 per year for services to be received from Newhall employees, including finance professionals, various levels of accounting professionals and income tax professionals (several of which are CPAs), human resource professionals, and information systems experts. If Valencia were to obtain all of these services on its own, the cost would be far greater than \$147,000. We would incur not only the additional salary expense, but other expenses such as the associated employee benefits expense, costs for office space, office equipment and furniture. Without the sharing of personnel and costs, made possible only by the affiliation with Newhall, there would be no ability to receive such a wide range of services for only \$147,000 per year. This amount is consistent with the amount paid for intercompany services during 2009.

Following is a description of the services Valencia receives from Newhall and its affiliates:

1. Financial Accounting: Valencia is tied into Newhall's accounting system and receives the same services that all Newhall divisions receive, including:
 - Accounts payable control (i.e., verification of proper approvals) both before and after checks are cut. Cut, sign and mail all vendor checks (postage for checks included).
 - Cut, sign and mail all payroll checks (postage included)
 - Storage and retrieval of all accounting documents (all documents are imaged for online access and microfilmed for record retention)

- Fixed asset management and control
 - Project cost reporting
 - Write and maintain all company policies and procedures, updating as necessary for changes in the business environment
 - Negotiate fees for external auditors to ensure the company receives audit services at a competitive price.
2. Treasury: All financial services including:
- Cash management
 - Maintain banking relationships
 - Primary responsibility for all lending transactions (line of credit renewals, debt financing, etc.)
3. Income Tax:
- Calculate quarterly estimated tax payments
 - Prepare and file annual income tax return
 - Resolve property tax issues with LA County
 - Prepare and file Annual Return for Report of Employee Benefit Plans (for all employee benefit programs)
 - Consult and advise on all taxation issues as needed
4. Risk Management:
- Manage all insurance policies ensuring the company is adequately protected at competitive prices
 - Obtain lower insurance premiums for Valencia based on relationships with brokers and insurance companies
 - Handle filing of all insurance claims
 - Follow up and monitor all claims filed to ensure proper settlement
 - Implement and maintain Certificate of Insurance tracking program for all vendors.
 - Maintain complete safety program including quarterly inspections, providing safety training schedule to comply with OSHA requirements, provide safety training materials, and hold quarterly safety committee meetings to address safety related issues.
5. Personnel and payroll:
- Handle all human resource issues, including hiring, termination, disciplinary actions, leaves of absence, and all related documentation requirements.
 - Manage all employee benefit programs, including retirement plan, employee savings plan, life insurance, disability, medical / dental insurance, employee vacation and sick leave.
 - Provide all payroll related services including cutting payroll checks, payroll tax filings, employee W-2 forms, pre-tax employee benefit programs, paycheck direct deposit.

- Monitor and enforce court orders received for employee wage garnishment for child support, medical insurance, child care, or other court ordered wage garnishments.
 - Management training programs – onsite and offsite training for leadership, coaching, ethics, etc.
 - Write and maintain all personnel policies and procedures
6. Information Systems: Provide services related to information systems, including:
- Consult and advise on complex system issues such as network storage requirements and system backup issues.
 - Provide virus scanning and security protection on all incoming electronic files, and respond when viruses do infect the system.
 - Provide assistance with all system implementations, such as accounting system implementation and upgrades, cash processing system implementation and upgrades, etc. System implementations and upgrades typically involve major effort and coordination between Newhall's I/S and accounting departments, for which Valencia receives full benefit at generally no cost and very few labor hours.
 - Maintain e-mail system
 - Manage data storage and recovery systems
 - Provide network administrator to deal with network issues

Occasionally, Newhall may perform a larger scale special project that goes beyond the scope of the normal services provided. For such projects, Newhall will then bill Valencia additional charges based on the employee hours dedicated to that specific project.

The economies of scale Valencia realizes by being part of Newhall's programs is not easily quantifiable. However, this inherent savings is passed on to the ratepayers through reduced expenses, which would otherwise be higher. For example, Valencia's insurance policies were recently updated (December 2009) in order to take advantage of new insurance programs that provide enhanced coverages, including enterprise-level earthquake and casualty coverages that include broader definitions for earthquake claims, such as underground wells and piping. We would have had difficulty obtaining a comparably priced insurance policy on a stand alone basis. Additionally, the benefit of being part of a larger organization is reflected in lower costs for health care coverage provided to employees, as well as various other employee benefits programs. These are examples of the types of services Valencia receives from Newhall which are not easily quantifiable.

Legal Services:

Newhall and their affiliates provide these legal services to Valencia at no cost:

- Advise on all matters with potential legal ramifications, including contract negotiations, vendor insurance requirements, personnel matters, current litigation,

corporate and regulatory compliance issues, and any other legal matters as needed.

- Monitors all lawsuits and claims
- Negotiates lower legal fees and expenses based on its relationship with legal firms (i.e., firms are required to use only approved vendor for copying services, firms are prohibited from charging for faxes, etc.)
- The legal services provided to Valencia are extremely critical due to the various lawsuits in which Valencia is involved (e.g., litigation regarding pinhole leaks in pipes, perchlorate litigation, Water Management Program litigation, Urban Water Management Plan litigation, potential for unfounded toxic tort liability claims).

California Public Utilities Commission
Affiliate Transaction Rules
Compliance Plan
Valencia Water Company (342-W)

For Rules Adopted in D.10-10-019
June 30, 2011

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1. INTRODUCTION

1.1. Background

The California Public Utilities Commission (“Commission”) adopted Rules for Water and Sewer Utilities Regarding Affiliate Transactions and the Use of Regulated Assets for Non-Tariffed Utility Services in D.10-10-019. Rule VIII.C of D.10-10-019 requires each Class A and B water utility to develop a compliance plan consisting of specific mechanisms and procedures (hereinafter referred to as “procedures”) to comply with the new Affiliate Transactions Rules (“Rules” or “ATRs”). The Plan is to be filed with the water utility’s Annual Report to the Commission.

In accordance with Rule VIII.C of D.10-10-019, VALENCIA WATER COMPANY (“VALENCIA”) has prepared its 2011 Affiliate Transaction Rules Compliance Plan (the “Plan”). In preparing its Plan, VALENCIA considered two main goals¹ of D.10-10-019: to prevent utilities from gaining competitive advantages and to prevent utilities from subsidizing affiliate costs with utility operations.

1.2. Compliance Procedures

VALENCIA’s Plan reflects the current compliance status and the appropriate procedures and mechanisms to comply with the Rules. The Plan includes a variety of procedures for implementation and compliance with these Rules and provides a comprehensive approach to ATRs compliance. On a broad scale, the Plan contains the following procedures:

- (1) VALENCIA will provide its management with annual training on the Plan, the Rules and the procedures;
- (2) VALENCIA will provide the senior management of VALENCIA’s parent, The Newhall Land and Farming Company (A California Limited Partnership) (“NEWHALL”) with annual notice of the Rules in a presentation format;
- (3) VALENCIA will provide its affiliates’ senior management with annual notice of the Rules via U.S. mail;
- (4) Valencia’s senior management will review the Plan annually, and make appropriate updates;
- (5) VALENCIA will collect all relevant records necessary to complete required reporting and reviews;
- (6) VALENCIA’s Controller will review, on an annual basis, all shared corporate support, goods and services, and allocation of common costs from NEWHALL in order to ensure consistency with the Plan;

¹ The goals of these Rules as stated in pertinent part of D10-10-019 at Findings of Fact 1 and Conclusion of Law 2 is that these affiliated transaction and non-tariffed product and services rules should be applied uniformly to all similar water and sewer utilities, that cross-subsidy of affiliates by the utilities should be prevented, and that anti-competitive behaviors of the utility, if any, should be prevented.

- (7) VALENCIA's senior management will review all non-recurring or new transactions with affiliates to ensure compliance with these Rules;
- (8) VALENCIA's Senior Vice President – Administration will review the Rules, on an annual basis, to determine whether modifications to the Plan are required to meet changing regulatory or operational conditions; and
- (9) VALENCIA will report annually to its Board of Directors on current year compliance with the Plan, any Plan modifications, and its Affiliated Transaction Report. Several members of VALENCIA's Board of Directors are also part of senior management of NEWHALL, and therefore such annual report will be delivered to certain members of NEWHALL's senior management.

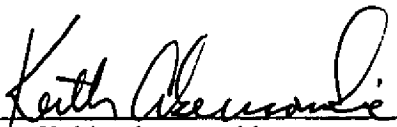
1.3. Operational Considerations


The new Rules were designed by the Commission primarily for circumstances where the water utility is the primary company among a group of affiliated business entities ("Business Group") and/or the water utility is involved in non-regulated business activities. This is not the case for VALENCIA and its affiliates. Accordingly, in order to appropriately tailor its Plan, VALENCIA considered its own unique circumstances, and the relevance of each of the Rules in light of these circumstances. VALENCIA considered the following factors, each a circumstance unique to its operations that tends to minimize the potential for a violation of the Rules, in tailoring effective procedures responsive to the Commission's newly adopted Rules:

- VALENCIA is a small Class A water company with approximately 30,000 connections and thirty-eight (38) employees. The staff is split between nine (9) in management and twenty-nine (29) workers. Annual revenues are approximately \$25 million;
- VALENCIA's Board of Directors and management focus the company and its small staff on regulated activities and do not pursue Non-Tariffed Products and Services;
- VALENCIA does not have any subsidiaries;
- VALENCIA is a wholly-owned subsidiary of NEWHALL;
- NEWHALL formed VALENCIA to serve land developments in the Santa Clarita Valley;
- VALENCIA's affiliates are all in the land development industry (residential and commercial);
- VALENCIA is at the bottom of the ownership structure of its Business Group as shown on Attachment A;
- VALENCIA is not the primary company of the Business Group; and
- VALENCIA's net assets and annual financial contribution are of minor significance to the Business Group.

The undersigned verify their belief that the specific procedures documented in the Plan are adequate to ensure that VALENCIA is not utilizing its parent company or any of its affiliates not covered by these Rules as a conduit to circumvent any of these Rules.

Valencia Water Company,
a California corporation

By: 
Name: Keith Abercrombie
Title: General Manager

By: 
Name: Greg Milleman
Title: Senior Vice President - Administration

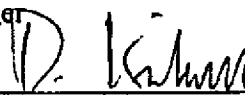
The Newhall Land and Farming Company
(A California Limited Partnership), a
California Limited Partnership

By: NWHL GP LLC, a Delaware limited
liability company, its General Partner

By: LandSource Holding Company, LLC,
a Delaware limited liability company, its
Sole Member

By: Newhall Land Development, LLC, a
Delaware limited liability company, its
Sole Member

By: Newhall Holding Company, LLC, a
Delaware limited liability company, its
Manager

By: 
Name: Don Kimball
Title: Executive Vice President –
Operations and Financial Affairs and
Secretary

2. COMPLIANCE PROCEDURES

In the following pages, each Rule is restated from D.10-10-019 in bold type. Following each Rule, or portion thereof, is a statement acknowledging and affirming the applicability of, and Valencia's compliance with, the Rule; a description of the procedures VALENCIA has implemented in order to comply with the Rule, and other information VALENCIA has determined is pertinent to its evaluation and assessment of the Rule and its corresponding procedures, which may include considerations of its business practices and corporate structure, existing Commission rules and regulations, and specific Commission decisions applicable to VALENCIA and its affiliates.

Affiliate Transaction Rules Applicable to Class A and B Water Utilities

2.1. RULE I. Jurisdiction and Applicability

I.A.

These Rules apply to all Class A and Class B California public utility water and sewer corporations or companies subject to regulation by the California Public Utilities Commission (Commission).

VALENCIA Compliance: VALENCIA is a Class A water utility subject to Commission regulation and affirms that these Rules apply to it and its employees. VALENCIA maintains appropriate procedures and mechanisms to ensure compliance with these Rules, which are described in the body of this Plan.

VALENCIA Procedure: Management will receive annual training on all the Rules. This will let management know the Rules with which VALENCIA must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.

I.B.

These Rules apply to transactions between a Commission-regulated utility and another affiliated entity that is engaged in the provision of products that use water or sewer services or the provision of services that relate to the use of water or sewer services, including the utility's parent company, and to the utility's use of regulated assets for non-tariffed utility services, unless specifically modified or exempted by the Commission. Transactions between a Commission-regulated utility and an affiliated utility regulated by a state regulatory commission (whether the utility is located in California or elsewhere) are exempt from these Rules, except for provisions of Rule IV.B and Rule X.

VALENCIA Compliance: VALENCIA affirms that these Rules apply to transactions with its covered affiliates, as defined in Rule II.E. VALENCIA maintains appropriate procedures and mechanisms to ensure compliance with Rule I.B.

VALENCIA Procedure: Management will receive annual training on all the Rules. This will let management know the Rules with which VALENCIA must comply, as well as provide an annual

reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.

VALENCIA's affiliates are in the land development industry (residential and commercial). The homes and businesses created by entities related to VALENCIA will require and use water, both in the development phase and by the ultimate occupants. According to Rule I.B., the development of land into homes and businesses is a "provision of products that use water," resulting in the related entities being classified as affiliates subject to these Rules.

VALENCIA maintains a current list of related entities, and Attachment B contains a list of all affiliates of VALENCIA, as defined in Rules I.B and II.E, and for each affiliate a description of its purposes or activities, and the applicability of the Rules pursuant to Rule I.B to the affiliates.

Further, VALENCIA will review this list annually and update it as appropriate. VALENCIA reserves the right to reclassify an affiliate as the activities or relationships of that affiliate dictate.

I.C.

Utilities shall comply with all applicable State and Federal statutes, laws and administrative regulations.

VALENCIA Compliance: VALENCIA affirms that, to the best of its knowledge and belief, it is in compliance with all applicable State and Federal statutes, laws and administrative regulations to which it is subject.

VALENCIA Procedure: Management will receive annual training on all the Rules. This will let management know the Rules with which VALENCIA must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.

VALENCIA has adequate procedures, mechanisms and policies to comply with all applicable State and Federal statutes, laws and administrative regulations to which it is subject.

Further, VALENCIA management and the Board of Directors keep abreast of current statutes, laws and regulations by attending seminars, reading periodicals, communications with outside legal counsel and external auditors and belonging to various industry groups. The requirements of new statutes, laws and regulations are implemented in VALENCIA's business processes as appropriate.

I.D.

Existing Commission rules for each utility and its parent company continue to apply except to the extent they conflict with these Rules. In such cases, these Rules supersede prior rules and guidelines, provided that nothing herein shall preclude (1) the Commission from adopting other utility-specific guidelines; or (2) a utility or its parent company from adopting other utility-specific guidelines, with advance Commission approval through Decision or Resolution. In the case of ambiguity regarding whether a conflict exists, there shall be a rebuttable presumption that these Rules apply.

VALENCIA Comment: In D.10-02-015, the Commission approved a Transfer of Indirect Control of Valencia Water Company. By its decision, the Commission imposed upon VALENCIA and its affiliates certain Conditions of Approval of Transfer of Control (Appendix B) and Affiliated Interest Transaction Rules (Appendix C). Very similar Conditions of Approval and Affiliated Transaction Rules, with substantially the same content, were originally imposed on VALENCIA and its affiliates in 2004 by D.04-01-051 approving an earlier transfer of indirect control of VALENCIA with one exception. The exception is that D.10-02-015 included the following Condition of Approval 18:

18. Valencia shall comply with the Affiliated Interest Transaction Rules set out in Appendix C to this decision, *subject to modification by a final decision in Rulemaking 09-04-012, Commission Rulemaking to develop standard rules for the use of regulated assets for non-tariff services of water utilities.*

The final decision in R.09-04-012 was D.10-10-019, by which the Commission adopted the present Rules.

VALENCIA Compliance: VALENCIA affirms that it is in compliance with all the Conditions of Approval and Affiliated Transaction Rules imposed by D.10-02-015 to the extent they do not conflict with the Rules.

VALENCIA Procedure: Management will receive annual training on all the Rules. This will let management know the Rules with which VALENCIA must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.

Further, VALENCIA has compared D.10-02-015 rules to the D.10-10-019 Rules and identified the following D.10-02-015 rules as being in conflict with, and therefore superseded by, the D.10-10-019 Rules: D.10-02-015, Appendix C, Rules 1,2,3,4,5,6,7, 11, 12 and 15 (addressing access to officers, employees, books and records, the annual report, issuance of debt for affiliates, accounting, allocation of common costs, unregulated operations, transfer of employees, the pricing of services between Valencia and its affiliated companies and confidentiality). All other rules specified in D.10-02-015, Appendices B and C, either are consistent with or in addition to the D.10-10-019 Rules or are no longer effective because they related only to direct effects of the transfer of indirect control authorized by D.10-02-015.

I.E.

Where these Rules do not address an item currently addressed in a utility's existing rules imposed by this Commission, which govern that utility's transactions with its affiliate(s) or its use of regulated assets for non-tariffed utility services, the existing utility-specific rules continue to apply for that item only.

VALENCIA Comment: As noted above, the Commission imposed various Conditions of Approval and Affiliated Transactions Rules in its approval of a Transfer of Indirect Control of Valencia Water Company in D.10-02-015.

VALENCIA Compliance: VALENCIA affirms that it is in compliance with all the Conditions of Approval and Affiliated Transaction Rules imposed by D.10-02-015 to the extent they continue to apply.

VALENCIA Procedure: Management will receive annual training on all the Rules. This will let management know the Rules with which VALENCIA must comply, as well as provide an annual reminder of the specific Rules.

Further, VALENCIA's senior management will annually review the specific Conditions of Approval (Appendix B) and Affiliated Transaction Rules (Appendix C) from D.10-02-015 that continue to apply for VALENCIA and its affiliates to ensure continuing compliance. Attachment C contains Appendices B and C from D.10-02-015.

I.F.

These Rules do not preclude or stay any form of civil relief, or rights or defenses thereto, that may be available under state or federal law.

VALENCIA Compliance: VALENCIA affirms that these Rules do not preclude or stay any form of civil relief, or rights or defenses thereto, that may be available under state or federal law.

VALENCIA Procedure: Management will receive annual training on all the Rules. This will let management know the Rules with which VALENCIA must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.

I.G.

A California utility that is also a multi-state utility and subject to the jurisdiction of other state regulatory commissions, may file an application with this Commission, served on all parties to this proceeding and its most recent general rate case, requesting a limited exemption from these Rules or a part thereof, for transactions between the utility solely in its capacity serving its jurisdictional areas wholly outside of California, and its affiliates if such out-of-state operations do not substantially affect the utility's operations and the operating costs inside California. The applicant has the burden of proof.

VALENCIA Compliance: VALENCIA is not a multi-state utility and therefore notes that Rule I.G does not apply to it.

VALENCIA Procedure: Although Rule I.G. is not currently applicable, VALENCIA's general approach to ensuring compliance with the Rules includes procedures to review the Rules on an annual and transactional basis in order to account for changing conditions. Please see Section 1.2 of the Introduction (p. 3) for VALENCIA's general approach to ensure compliance with the Rules.

I.H.

A California utility's affiliates that operate entirely outside of California are exempt from Rule III.B and Rule III.C of these Rules, for transactions between the utility and such affiliates, if the affiliates' operations do not substantially affect the utility's operations and the operating costs inside California.

VALENCIA Compliance: VALENCIA does not have any affiliates operating outside of California and notes that Rule I.H does not apply to it.

VALENCIA Procedure: Although Rule I.H. is not currently applicable, VALENCIA will update its Plan if any affiliate entities in the future qualify for the exemption of Rule I.H.

I.I.

These Rules shall be interpreted broadly, to effectuate the Commission's stated objectives of protecting consumer and ratepayer interests and, as an element thereof, preventing anti-competitive conduct.

VALENCIA Compliance: VALENCIA affirms that, for its particular circumstances noted below, application of these Rules, broadly interpreted, will protect consumer and ratepayer interests and will prevent anti-competitive conduct.

VALENCIA Procedure: Management will receive annual training on all the Rules. This will let management know the Rules with which VALENCIA must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.

VALENCIA notes the following information about itself and its affiliates;

1. VALENCIA's Board of Directors and management focus the Company and the small staff on regulated activities and do not pursue Non-Tariffed Products and Services;
2. VALENCIA's affiliates are in the land development industry (residential and commercial); and
3. VALENCIA is not the primary company in its Business Group.

2.2. RULE II. Definitions

II.A. "Parent company" or "parent"

"Parent company" or "parent" is the entity, including a holding company or corporation, that owns, or has substantial operational control (as defined in Rule II.E) of, the regulated utility.

VALENCIA Comment: Use of the term parent company or parent in this Plan refers to NEWHALL unless the context indicates otherwise.

II.B. "Utility"

"Utility" refers to all water utilities and sewer utilities regulated by the Commission.

VALENCIA Comment: Use of the term utility in this Plan refers to VALENCIA unless the context indicates otherwise.

II.C. "Water Utility"

"Water Utility" refers to all water utilities regulated by the Commission.

II.D. "Sewer utility"

"Sewer utility" refers to all sewer utilities regulated by the Commission.

II.E. "Affiliate"

"Affiliate" means any entity whose outstanding voting securities are more than 10 percent owned, controlled, directly or indirectly, by a utility, by its parent company, or by any subsidiary of either that exerts substantial operational control.

For purposes of these Rules, "substantial operational control" includes, but is not limited to, the possession, directly or indirectly of the authority to direct or cause the direction of the management or policies of a company. A direct or indirect voting interest of more than 10 percent by the utility in an entity's company creates a rebuttable presumption of substantial operational control.

For purposes of these Rules "affiliate" includes the utility's parent company, or any company that directly or indirectly owns, controls, or holds the power to vote more than 10 percent of the outstanding voting securities of a utility or its parent company.

Regulated subsidiaries of a utility, the revenues and expenses of which are subject to regulation by the Commission and are included by the Commission in establishing rates for the utility, are not included within the definition of affiliate for the purpose of these Rules. However, these Rules apply to all interactions any such regulated subsidiary has with other affiliated unregulated entities covered by these Rules.

VALENCIA Comment: As shown on Attachment A, VALENCIA does not have any regulated or non-regulated subsidiaries. VALENCIA's parent company, NEWHALL has only two other subsidiaries, Tournament Players Club at Valencia ("TPC"), and The Newhall Land and Farming

Company, Inc. ("Newhall, Inc."). TPC and Newhall, Inc. are affiliates under these Rules because TPC and Newhall, Inc. are owned and controlled by VALENCIA's parent company, NEWHALL. In accordance with Rule II.E, VALENCIA has determined that the following related entities shown on Attachment A, in addition to NEWHALL, TPC, and Newhall, Inc., are defined as affiliates of VALENCIA due to their indirect ownership or control: LandSource Holding Company, LLC; NWHL GP LLC; Newhall Land Development, LLC; Newhall Intermediary Holding Company, LLC; Newhall Holding Company, LLC; and Lennar Homes of California, Inc. An organization chart showing the ownership relationships among these affiliates and related entities, which was included as Appendix A to D.10-02-015 approving the most recent transfer of control over VALENCIA, is provided as Attachment A to this Plan, but does not include Newhall, Inc., which was formed at a later date as a direct subsidiary of NEWHALL. Information about each of these affiliates is provided in Attachment B to this Plan. Related entities directly or indirectly owning more than 10% of Newhall Holding Company, LLC or Lennar Homes of California, Inc., including some indirectly owning more than 10% of VALENCIA, are not included in Attachment B because of the remoteness of their relationships to VALENCIA and the extremely low probability of any transaction subject to the Rules occurring between VALENCIA and any of them.

VALENCIA Compliance: VALENCIA affirms these definitions and applies these definitions in the administration of its procedures, mechanisms and policies for ensuring compliance with these Rules.

VALENCIA Procedure: Management will receive annual training on all the Rules. This will let management know the Rules with which VALENCIA must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.

VALENCIA maintains a current list of its affiliates, as defined in Rules I.B and II.E, Attachment B provides that list, including for each affiliate a description of its purposes or activities and the applicability of the Rules pursuant to Rule I.B to the affiliates.

VALENCIA will update its Plan, and the list of affiliates in Attachment B, if any changes occur, including if any new affiliates are created in the future.

Further, VALENCIA will review this list annually and update it as appropriate. VALENCIA may reclassify a related company as an affiliate or as no longer being an affiliate as the activities of that company and its relationship with VALENCIA dictate.

II.F. "Costs"

"Costs" are used in these Rules to refer to the total expenses assigned or allocated to different projects or activities through the utility's and parent company's accounting systems. Cost categories include:

- 1. *Direct Costs.* Direct costs are costs that can be clearly identified to specific projects or activities because the resource in question, or some measurable portion of that resource, has been dedicated to the project or activity. An example would be the hours of a worker's time spent on the effort, materials**

purchased and used specifically on that effort, or the proportion of a machine's hours dedicated to the effort.

2. ***Direct Overhead Costs.*** For organizations that produce multiple outputs, direct overhead costs are the common costs of a subset of the organization, such as supervisors and support staff of a division not assigned or traceable to specific projects, or machinery shared among a subset of the company's projects. Such overhead costs require allocation to specific projects through proxies and methodologies designed to accurately reflect the particular production aspects of each project; e.g., some processes are more capital-intensive than others and need less supervision input. Allocation methodologies for direct overhead costs can make use of several factors, often activity-based and often using "cost causation" as one of the principles in their design.
3. ***Indirect Overhead Costs.*** Indirect overhead costs are functions that affect the entire organization, such as the headquarters building, the Chief Executive Officer and Chief Financial Officer, General Counsel and associated legal support, personnel departments, security for this building or these offices, shareholder and public relations, insurance, depreciation, advertising, and similar functions. These are real costs of the organization and must be allocated to the ongoing projects and activities to determine the total cost of each. These are also sometimes called "General Overhead Costs."
4. ***Fully-loaded*** (also known as fully-allocated) costs. Fully-loaded (or fully-allocated) costs refer to the total cost of a project or activity, which is the sum of Direct, Direct Overhead, and Indirect Overhead costs, as defined in Rule H.F.1, 2 and 3.

II.G. "Transaction"

"Transaction" means any transfer of an item of value such as a good, service, information or money between a utility and one or more of its affiliates.

II.H. "Property"

"Property" refers to any right or asset, tangible or intangible, to which an entity has legal or equitable title.

II.I. "Real Property"

"Real property" refers to any interest in real estate including leases, easements, and water rights.

II.J. "Customer"

"Customer" means any person, firm, association, corporation or governmental agency supplied or entitled to be supplied with water, wastewater, or sewer service for compensation by a utility.

II.K. "Customer information"

"Customer information" means non-public information and data specific to a utility customer which the utility acquired or developed in the course of its provision of utility services.

II.L. "Cross-subsidy"

"Cross-subsidy" means the unauthorized over-allocation of costs to captive ratepayers resulting in under-allocation of costs to a utility affiliate.

VALENCIA Compliance: VALENCIA affirms the definitions of Rule II and applies these definitions in the administration of its procedures, mechanisms and policies for ensuring compliance with these Rules.

VALENCIA Procedure: Management will receive annual training on all the Rules. This will let management know the Rules with which VALENCIA must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.

2.3. RULE III. Utility Operations and Service Quality

III.A.

A utility shall not allow transactions with affiliates to diminish water utility staffing, resources, or activities in a manner that would result in degradation of the reliability, efficiency, adequacy or cost of utility service or an adverse impact on customer service. Utility management attention shall not be diverted to such transactions in a way that would result in such degradation. The utility's parent and affiliates shall not acquire utility assets at any price if such transfer of assets would impair the utility's ability to fulfill its obligation to serve or to operate in a prudent and efficient manner.

VALENCIA Compliance: VALENCIA maintains appropriate procedures and mechanisms to ensure compliance with Rule III.A.

VALENCIA Procedure: Management will receive annual training on all the Rules. This will let management know the Rules with which VALENCIA must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.

All transactions with affiliates will be reviewed and approved by VALENCIA management and, if significant, by VALENCIA's Board of Directors.

This Rule has limited relevance for VALENCIA as VALENCIA typically only enters into transactions with its affiliates to provide services covered by its tariffs (water service and main line extensions) or where NEWHALL provides services to VALENCIA (discussed under Rule VI.F.) or land rights to VALENCIA at zero cost (discussed under Rule VI).

Further, VALENCIA's ongoing compliance with General Order 103-A precludes the possibility of degradation of the reliability, efficiency, adequacy, or cost of utility service (in particular, Section II of GO 103-A, Standards of Service, "requires that each utility shall operate its system so as to deliver reliable, high quality service to its customers at reasonable cost" and that "each water utility shall ensure that it complies with the [California Dept. of Public Health's] permit requirements and all applicable drinking water regulations").

Further, VALENCIA's ongoing compliance with Public Utilities Code Section 851 prohibits VALENCIA from selling, leasing, assigning, mortgaging or otherwise disposing of, or encumbering utility assets in such a manner as to impair the utility's ability to fulfill its obligation to serve or to operate in a prudent and efficient manner.

III.B

Except as otherwise provided by these Rules, a utility shall not

1. Provide leads to its affiliates;

VALENCIA Compliance: VALENCIA affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule III.B.1.

VALENCIA Procedure: Management will receive annual training on all the Rules. This will let management know the Rules with which VALENCIA must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.

This Rule has limited relevance for VALENCIA as VALENCIA does not offer Non-Tariffed Products and Services. VALENCIA's affiliates are in the land development industry (residential and commercial), and VALENCIA is not the primary company in its Business Group.

2. Solicit business on behalf of its affiliates;

VALENCIA Compliance: VALENCIA affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule III.B.2.

VALENCIA Procedure: Management will receive annual training on all the Rules. This will let management know the Rules with which VALENCIA must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.

This Rule has limited relevance for VALENCIA as VALENCIA does not offer Non-Tariffed Products and Services, VALENCIA's affiliates are in the land development industry (residential and commercial), and VALENCIA is not the primary company in its Business Group.

3. Acquire information on behalf of or to provide to its affiliates;

VALENCIA Compliance: VALENCIA affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule III.B.3.

VALENCIA Procedure: Management will receive annual training on all the Rules. This will let management know the Rules with which VALENCIA must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.

This Rule has limited relevance for VALENCIA as VALENCIA does not offer Non-Tariffed Products and Services, VALENCIA's affiliates are in the land development industry (residential and commercial), and VALENCIA is not the primary company in its Business Group.

4. Share market analysis reports or any other types of proprietary or non-publicly available reports, including but not limited to market, forecast, planning or strategic reports, with its affiliates, except that a utility may share such information with a parent under the condition that the parent does not share the information with any other entity;

VALENCIA Compliance: VALENCIA affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule III.B.4.

VALENCIA Procedure: Management will receive annual training on all the Rules. This will let management know the Rules with which VALENCIA must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.

This Rule has limited relevance for VALENCIA as VALENCIA does not offer Non-Tariffed Products and Services, VALENCIA's affiliates are in the land development industry (residential and commercial), and VALENCIA is not the primary company in its Business Group.

VALENCIA interprets the non-specific references to "...forecasts, planning or strategic reports..." in this Rule in accordance with D.10-10-019 page 46 that states, "Our general concern is that the ratepayers should not be required to pay for utility assets which are then used for the benefit of utility affiliates and to the detriment of competitors to these affiliates." Further, Rule V expressly permits a utility and its parent company to share with affiliates "joint corporate oversight, governance, and support services." Therefore, VALENCIA understands that it is permitted to provide its direct and indirect owner affiliates with forecasts, planning or strategic reports for their use in providing corporate oversight, governance, and support services for VALENCIA.

VALENCIA further interprets this Rule to exclude any information that an employee might otherwise legally disclose to others after termination of employment.

5. Request authorization from its customers to pass on customer information exclusively to its affiliates;

VALENCIA Compliance: VALENCIA affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule III.B.5.

VALENCIA Procedure: Management will receive annual training on all the Rules. This will let management know the Rules with which VALENCIA must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.

This Rule has limited relevance for VALENCIA as VALENCIA does not offer Non-Tariffed Products and Services, VALENCIA's affiliates are in the land development industry (residential and commercial), and VALENCIA is not the primary company in its Business Group.

6. Give the appearance that the utility speaks on behalf of its affiliates; or

VALENCIA Compliance: VALENCIA affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule III.B.6.

VALENCIA Procedure: Management will receive annual training on all the Rules. This will let management know the Rules with which VALENCIA must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.

This Rule has limited relevance for VALENCIA as VALENCIA does not offer Non-Tariffed Products and Services, VALENCIA's affiliates are in the land development industry (residential and commercial), and VALENCIA is not the primary company in its Business Group.

7. Represent that, as a result of the affiliation with the utility, its affiliates or customers of its affiliates will receive any different treatment by the utility than the treatment the utility provides to other, unaffiliated companies or their customers.

VALENCIA Compliance: VALENCIA affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule III.B.7.

VALENCIA Procedure: Management will receive annual training on all the Rules. This will let management know the Rules with which VALENCIA must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.

This Rule has limited relevance for VALENCIA as VALENCIA does not offer Non-Tariffed Products and Services, except for serving affiliate real estate developments.

As this Rule pertains to serving affiliates' real estate developments, VALENCIA notes that it is accustomed to complying with the Commission directive in D10.02-015 (Decision Approving a Transfer of Indirect Control of Valencia Water Company), not to grant preference to an affiliate's real estate development. Condition of Approval No.17 (Appendix B) states:

17. Valencia may not grant preferences to an affiliated firm's real estate development when evaluating whether Valencia can or will extend water service to the development.

Further, VALENCIA already complies with Public Utilities Code Section 453 which requires that no public utility shall make or grant any preference or advantage to any person or corporation, nor subject any person or corporation to any prejudice or disadvantage.

8. Provisions 3, 4 and 5 of Rule III.B shall not apply to utility affiliates that are non-profit and whose sole purpose is to serve the functions of regulated utilities, the parents of regulated utilities, governmental or non-profit entities, including non-profit affiliates of regulated utilities.

VALENCIA Compliance: VALENCIA acknowledges the exceptions provided for in Rule III.B.8 but at this time does not have any non-profit affiliates.

- 9. Utilities may file an Advice Letter seeking an exemption to Rule III.B.8 within ninety days of the effective date of the Commission decision adopting these rules, requesting that a non-profit affiliate subject to Rule III.B.8 be allowed to serve the functions of other affiliates, as long as those other affiliates provide no more than five per cent of the annual revenues of the non-profit affiliate.**

VALENCIA Compliance: VALENCIA interprets the deadline in this rule as being June 30, 2011, but at this time does not have any non-profit affiliates.

III.C.

Except as provided for elsewhere in these rules, if a utility provides customer or utility information, services, or unused capacity or supply to an affiliate, it must offer such customer or utility information, services, or unused capacity or supply to all similarly situated market participants in a non-discriminatory manner, which includes offering on a timely basis.

VALENCIA Compliance: VALENCIA affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule III.C.

VALENCIA Procedure: Management will receive annual training on all the Rules. This will let management know the Rules with which VALENCIA must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.

This Rule has limited relevance for VALENCIA as VALENCIA does not offer Non-Tariffed Products and Services, except for serving affiliate real estate developments.

As this Rule pertains to serving affiliates' real estate developments, VALENCIA notes that it is accustomed to complying with the Commission directive in D.10-02-015 (Decision Approving a Transfer of Indirect Control of Valencia Water Company). Condition of Approval No.17 (Appendix B) which states that VALENCIA may not to grant preference to an affiliate's real estate development as follows:

17. Valencia may not grant preferences to an affiliated firm's real estate development when evaluating whether Valencia can or will extend water service to the development.

Further, VALENCIA's already complies with Public Utilities Code Section 453 which requires that no public utility shall make or grant any preference or advantage to any person or corporation, nor subject any person or corporation to any prejudice or disadvantage.

2.4. RULE IV. Separation

IV.A

The utility shall maintain accounting records in accordance with Generally Accepted Accounting Principles, the Commission's Uniform System of Accounts, Commission decisions and resolutions, and the Public Utilities Code.

VALENCIA Compliance: VALENCIA affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule IV.A.

VALENCIA Procedure: Maintains accounting records in accordance with Generally Accepted Accounting Principles, the Commission's Uniform System of Accounts, relevant Commission decisions and resolutions, and that its accounting records are consistent with the provisions in Public Utility Code Sections. Utility accounting records are available for review upon Commission request.

VALENCIA files its Annual Report to the Commission based on the Uniform System of Accounts.

VALENCIA has its financial statements audited for compliance with Generally Accepted Accounting Principles by independent accountants on an annual basis.

IV.B

The utility, its parent and other affiliated companies shall allocate common costs among them in such a manner that the ratepayers of the utility shall not subsidize any parent or other affiliate of the utility.

VALENCIA Compliance: VALENCIA affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule IV.B.

VALENCIA Procedure: Management will receive annual training on all the Rules. This will let management know the Rules with which VALENCIA must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.

VALENCIA's specific procedures to allocate common costs and services for corporate support are discussed under Rule V and Rule VI.F. All costs from VALENCIA's affiliates are listed in the annual Affiliated Transaction Report and are reviewed and approved by the Commission in each of VALENCIA's general rate cases.

IV.C

The utility shall list all shared directors and officers between the utility and its affiliates in its annual report to the Commission. Not later than 30 days following a change to this list, the utility shall notify the Director of the Division of Water and Audits and the Director of the Division of Ratepayer Advocates of the change(s).

VALENCIA Compliance: VALENCIA affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule IV.C.

VALENCIA Procedure: Management will receive annual training on all the Rules. This will let management know the Rules with which VALENCIA must comply, as well as provide an annual reminder of the specific Rules. Senior management will review the Rules more frequently in order to comply with the specified 30 day notice for a change to the list.

This Rule has limited relevance for VALENCIA as VALENCIA does not offer Non-Tariffed Products and Services, VALENCIA's affiliates are in the land development industry (residential and commercial), and VALENCIA is not the primary company in its Business Group.

Additionally there are only five (5) shared directors and officers between VALENCIA and NEWHALL and the compensation of the shared officers is fully funded by NEWHALL. VALENCIA compensates each of its directors (including shared directors) a minimal amount for their services on the Board of VALENCIA.

A list of shared directors and officers is shown on Attachment D. VALENCIA will also provide a list of all shared directors and officers between the utility and its affiliates in its Annual Affiliated Transaction Report to the Commission.

VALENCIA will include appropriate supporting documentation in its general rate case applications for any portion of costs (as defined in Rule II.F.) related to shared officers and directors requested to be recovered in general rates.

IV.D

Employees transferred or temporarily assigned from the utility to an affiliate shall not use non-public, proprietary utility information gained from the utility in a discriminatory or exclusive fashion to the benefit of the affiliate to the detriment of unaffiliated competitors.

VALENCIA Compliance: VALENCIA affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule IV.D.

VALENCIA Procedure: Management will receive annual training on all the Rules. This will let management know the Rules with which VALENCIA must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.

Employee movement discussed in Rule IV.D and IV.E has limited relevance for VALENCIA because VALENCIA's employees are not temporarily assigned to affiliates and rarely transfer to

affiliates. Present senior management of VALENCIA dates back to the early 1990's and since that time no more than five (5) employees have transferred to affiliates.

However, if an employee does transfer or is temporarily assigned to an affiliate, VALENCIA will provide training to that employee specifying that the employee shall not use non-public, proprietary utility information gained from the utility in a discriminatory or exclusive fashion to the benefit of the affiliate to the detriment of unaffiliated competitors.

IV.E

All employee movement between a utility and its affiliates, as defined in Rule I.B, shall be consistent with the following provisions:

This Rule has limited relevance for VALENCIA for the reasons detailed under the discussion at Rule IV.D above.

Further, VALENCIA does not offer Non-Tariffed Products and Services. VALENCIA's affiliates are in the land development industry (residential and commercial), and VALENCIA is not the primary company in its Business Group.

IV.E.1

A utility shall track and report to the Commission all employee movement between the utility and affiliates, consistent with Rule VIII.F.

VALENCIA Compliance: VALENCIA interprets this Rule as being applicable to permanent movement only, and it affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule IV.E.1.

VALENCIA Procedure: Management will receive annual training on all the Rules. This will let management know the Rules with which VALENCIA must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules

VALENCIA includes this information in its Annual Affiliated Transaction Report to the Commission.

IV.E.2

When an employee of a utility is transferred, assigned, or otherwise employed by the affiliate, the affiliate shall make a one-time payment to the utility in an amount equivalent to 15% of the employee's base annual compensation. All such fees paid to the utility shall be accounted for in a separate memorandum account to track them for future ratemaking treatment on an annual basis, or as otherwise necessary to ensure that the utility's ratepayers receive the fees. This transfer payment provision does not apply to clerical workers.

VALENCIA Compliance: VALENCIA affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule IV.E.2.

VALENCIA Procedure: Management will receive annual training on all the Rules. This will let management know the Rules with which VALENCIA must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules

VALENCIA will charge affiliates as required by this Rule for employee movement to an affiliate, open a memorandum account to record the funds received, and include this information in its Annual Report to the Commission (Schedule E-1 Balancing and Memorandum Accounts) and in its next general rate case proceeding.

IV.E.3

Utility employees may be used on a temporary or intermittent basis (less than 30% of an employee's chargeable time in any calendar year) by affiliates only if:

- a. All such use is documented, priced and reported in accordance with these Rules and existing Commission reporting requirements, except that when the affiliate obtains the services of a non-executive employee, compensation to the utility shall be priced at a minimum of the greater of fully loaded cost plus 5% of direct labor cost, or fair market values. When the affiliate obtains the services of an executive employee, compensation to the utility shall be priced at a minimum of the greater of fully loaded cost plus 15% of direct labor cost, or fair market value;**
- b. Utility needs for utility employees always take priority over any affiliate requests;**
- c. No more than 10% of full time equivalent utility employees may be on loan at a given time;**
- d. Utility employees agree, in writing, that they will abide by these Rules; and**
- e. Affiliate use of utility employees shall be conducted pursuant to a written agreement approved by the appropriate utility and affiliate officers.**

VALENCIA Compliance: VALENCIA affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule IV.E.3.

VALENCIA Procedure: Management will receive annual training on all the Rules. This will let management know the Rules with which VALENCIA must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules

VALENCIA will obtain a written agreement executed by both parties and charge an affiliate as required by this Rule for temporary employee use by the affiliate. This information will be included in VALENCIA's Annual Affiliated Transaction Report to the Commission as services provided by a utility to an affiliate.

VALENCIA will also provide training on the Rules to employees if they are ever temporarily assigned to affiliates that fall under the applicability of this Rule. Employees will also be required to confirm in writing that they will abide by the Rules.

2.5. RULE V. Shared Corporate Support

V.A.

A utility, its parent company, or a separate affiliate created solely to perform corporate support services may share with its affiliates joint corporate oversight, governance, support systems, and personnel as further specified in these Rules. Any shared support shall be priced, reported and conducted in accordance with these Rules as well as other applicable Commission pricing and reporting requirements.

VALENCIA Compliance: VALENCIA affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule V.A.

VALENCIA Procedure: Management will receive annual training on all the Rules. This will let management know the Rules with which VALENCIA must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules

VALENCIA's Controller reviews the allocation of common cost charges from NEWHALL at the start of each financial year to ensure that VALENCIA is only charged for its appropriate share of the costs and that costs allocated from NEWHALL comply with the Rules.

When the Controller of VALENCIA questions the amount charged to the utility for an affiliate's goods and services, the utility's senior management will be notified, as will the applicable affiliate Controller for review and resolution of the transaction in accordance with these Rules.

VALENCIA will report all its affiliated transactions discussed under RULE V in its Annual Affiliated Transaction Report to the Commission as transactions between a utility and its affiliates.

VALENCIA Comment: VALENCIA only shares common costs with NEWHALL. The common costs allocated from NEWHALL are for the employer portion of employee benefits for medical, dental, life insurance, long term disability, employee savings (401k), retirement plans and liability insurance. The amount represents a pass through of actual costs incurred by NEWHALL for VALENCIA's employees or VALENCIA's portion of the insurance premiums.

NEWHALL provides VALENCIA additional services for corporate support that are not "produced or developed to be offered on the open market." These services are discussed under Rule VI.F.

V.B.

Corporate support shall not be shared in a manner that allows or provides a means for the transfer of confidential information from the utility to the affiliate, creates the opportunity for preferential treatment or unfair competitive advantage, leads to customer confusion, or creates significant opportunities for cross-subsidy of affiliates. The restriction on transfer of confidential information from the utility to the affiliate does not apply to corporate support, shared services and access to capital.

VALENCIA Compliance: VALENCIA affirms that it has adequate procedures, mechanisms, and policies in place to comply with Rule V.B.

VALENCIA Procedure: Management will receive annual training on all the Rules. This will let management know the Rules with which VALENCIA must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules

VALENCIA Comment: VALENCIA notes that Rule V.B states that the restriction on transfer of confidential information from the utility to the affiliate does not apply to corporate support, shared services and access to capital.

Further, the portion of this Rule consisting of, *“provides a means for the transfer of confidential information from the utility to the affiliate, creates the opportunity for preferential treatment or unfair competitive advantage, leads to customer confusion”* is of limited relevance for VALENCIA as VALENCIA does not offer Non-Tariffed Products and Services, VALENCIA’s affiliates are in the land development industry (residential and commercial), and VALENCIA is not the primary company in its Business Group.

V.C.

Examples of services that may be shared include: corporate governance and oversight, payroll, taxes, shareholder services, insurance, financial reporting, financial planning and analysis, corporate accounting, corporate security, human resources (compensation, benefits, employment policies), employee records, regulatory affairs, lobbying, legal, and pension management.

VALENCIA Compliance: VALENCIA affirms that the services listed in Rule V.C can be shared between VALENCIA, NEWHALL and all covered affiliates.

VALENCIA Procedure: Management will receive annual training on all the Rules. This will let management know the Rules with which VALENCIA must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules

NEWHALL provides VALENCIA additional services for corporate support that are not “produced or developed to be offered on the open market.” These services are discussed under Rule VI.F.

V.D.

Examples of services that may not be shared include: engineering, hedging and financial derivatives and arbitrage services, water or sewage for resale, water storage capacity, purchasing of water distribution systems, and marketing.

VALENCIA Compliance: VALENCIA affirms that the services listed in Rule V.D cannot be shared between VALENCIA, NEWHALL and all covered affiliates.

VALENCIA Procedure: Management will receive annual training on all the Rules. This will let management know the Rules with which VALENCIA must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.

2.6. RULE VI. Pricing of Goods and Services between the Utility and Its Affiliate(s)

To the extent that these Rules do not prohibit the transfer of goods and services between a utility and its affiliates:

VI.A.

Transfers from the utility to its affiliates of goods and services offered by the utility on the open market will be priced at fair market value.

VALENCIA Comment: The only services offered by VALENCIA on the open market are listed in VALENCIA's tariffs.

VI.B

Transfers from an affiliate to the utility of goods and services offered by the affiliate on the open market shall be priced at no more than fair market value.

VALENCIA Comment: VALENCIA's affiliates are in the land development industry.

VI.C.

For goods or services for which the price is regulated by a state agency, that price shall be deemed to be the fair market value, except that in cases where more than one state commission regulates the price of goods or services, this Commission's pricing provisions govern.

VALENCIA Comment: The Commission approves the prices for goods and services in VALENCIA's tariffs; therefore, VALENCIA's tariffed rates are deemed to be fair market value. There are no other state commissions that set pricing for VALENCIA.

VI.D.

Goods and services produced, purchased or developed to be offered on the open market by the utility shall be provided to the utility's affiliates and unaffiliated companies on a nondiscriminatory basis, except as otherwise required or permitted by these Rules or applicable law.

VALENCIA Comment: The only services offered by VALENCIA on the open market are listed in VALENCIA's tariffs.

VI.E.

Transfers from the utility to its affiliates of goods and services not produced, purchased or developed to be offered on the open market by the utility shall be priced at fully allocated cost plus 5% of direct labor cost.

VALENCIA Comment: Transfers from VALENCIA to its affiliates of goods and services not produced, purchased or developed to be offered on the open market would be uncommon.

VI.F.

Transfers from an affiliate to the utility of goods and services not produced, purchased or developed to be offered on the open market by the affiliate shall be priced at the lower of fully loaded cost or fair market value.

VALENCIA Comment: VALENCIA has annual contracts with NEWHALL to provide administrative, information systems and tax services. These contracts were entered into in 1994. The contracts are submitted with the annual affiliated transaction report. These contracts have been reviewed by the Commission, approved and found reasonable in several General Rate Cases.

VI.G.

The utility shall develop a verifiable and independent appraisal of fair market value for any goods or services that are transferred to any affiliated company at fair market value under these Rules. The Commission's staff shall have access to all supporting documents used in the development of the fair market value. If sufficient support for the appraisal of fair market value does not exist to the reasonable satisfaction of the Commission's staff, the utility shall hire an independent consultant acceptable to the Commission staff to reappraise the fair market value for these transactions.

VALENCIA Compliance for Rules VI.A, VI.B, VI.C, VI.D, VI.E, VI.F, and VI.G: VALENCIA maintains appropriate procedures and mechanisms to ensure compliance with Rule VI.

VALENCIA's Procedure: Management will receive annual training on all the Rules. This will let management know the Rules with which VALENCIA must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.

VALENCIA's Controller is responsible for ensuring that the prices of goods and services transferred to its affiliates are calculated according to Rule VI. Presently this consists of

ensuring compliance with the rates and rules in VALENCIA'S tariffs and quitclaiming land rights for property no longer used and useful.

- a. VALENCIA quitclaims land rights back to NEWHALL at zero cost if the land right is no longer used and useful and the land right was originally acquired from NEWHALL at zero cost (see discussion below on acquiring at zero cost).

VALENCIA's Controller is responsible for ensuring that the prices of goods and services received from its affiliates are calculated according to Rule VI. Presently this consists of contracted services and land rights.

- a. VALENCIA contracts with NEWHALL for general and administrative services, information system services, and income tax services. The contracted services are reviewed annually to ensure the services are priced appropriately. The related contracts are submitted with the annual affiliated transaction report. These contracts have been reviewed by the Commission, approved and found reasonable in several General Rate Cases.
- b. VALENCIA acquires land rights (easements and fee title) to property owned by NEWHALL for utility facilities at zero cost.

VALENCIA will report all its affiliated transactions discussed under RULE VI in its Annual Affiliate Transaction Report to the Commission as transactions between a utility and its affiliates.

When the Controller questions the amount charged to the utility for an affiliate's goods and services, the utility's senior management will be notified, as will the applicable affiliate Controller for review and resolution of the transaction in accordance with these Rules.

Further, with respect to Rule VI.D, VALENCIA's compliance with Public Utilities Code Section 453 requires that no public utility shall make or grant any preference or advantage to any person or corporation, nor subject any person or corporation to any prejudice or disadvantage.

Further, with respect to Rule VI.G, VALENCIA notes that the only goods and services offered by VALENCIA on the open market are listed in VALENCIA's tariffs, and therefore Rule VI.C governs the determination of the fair market value of those goods and services, and the requirements of Rule VI.G are generally inapplicable to VALENCIA.

If VALENCIA were to offer goods and services on the open market that are not governed by Rule VI.C, then for purposes of the application of Rule VI.G VALENCIA interprets the surrogate for fair market value as "shall be priced at fully allocated cost plus 5% of direct labor cost" (as provided in Rule VI.E), and it will interpret this approach as being consistent with the definitions in Rule II.F.

2.7. RULE VII. Financial Health of the Utility

VII.A.

The parent shall provide the utility with adequate capital to fulfill all of its service obligations prescribed by the Commission.

VALENCIA Compliance: VALENCIA maintains appropriate procedures and mechanisms to ensure compliance with Rule VII.A.

VALENCIA Procedure: Management will receive annual training on all the Rules. This will let management know the Rules with which VALENCIA must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.

VALENCIA's Controller maintains the utility's long-term capital investment estimates, as well as the utility's estimate of capital needed to meet its investment capital requirements. The long term estimates of capital needed are periodically submitted to the Commission for review and approval in VALENCIA's tri-annual Cost of Capital proceeding, its tri-annual General Rate Case proceeding and less frequent applications (pursuant to Articles 5 and 6 of the California Public Utilities Code) to issue stocks, bonds, notes or other indebtedness.

Further, VALENCIA and its affiliates are already complying with the Commission's directive in D.10-02-015 (Decision Approving a Transfer of Indirect Control of Valencia Water Company), Condition of Approval No.3 (Appendix B) which requires VALENCIA's affiliates to ensure VALENCIA is adequately capitalized as follows:

3. All owners, direct and indirect, of Newhall Land and Farming Company shall ensure that Valencia has adequate capital to fulfill all of its public utility service obligations. The term "capital" encompasses "money and property with which a company carries on its corporate business; a company's assets, regardless of source, utilized for the conduct of the corporate business and for the purpose of deriving gains and profits; and a company's working capital," and is not limited to mean only "equity capital, infrastructure investment, or any other term that does not include, simply, money or working cash."
Decision 02-01-039, Findings of Fact 5 and 6, 2002 Cal. PUC LEXIS 5 *57.

VII.B.

If the parent is publicly traded, the utility shall notify the Director of the Commission's Division of Water and Audits and the Director of the Division of Ratepayer Advocates in writing within 30 days of any downgrading to the bonds of the parent, another affiliate, and/or the utility, and shall include with such notice the complete report of the issuing bond rating agency.

VALENCIA Compliance: VALENCIA maintains appropriate procedures and mechanisms to ensure compliance with Rule VII.B and affirms that it will comply, as required.

VALENCIA Procedure: Management will receive annual training on all the Rules. This will let management know the Rules with which VALENCIA must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.

VII.C.

The creation of a new affiliate by the parent or another affiliate shall not adversely impact the utility's operations and provision of service.

VALENCIA Compliance: VALENCIA maintains appropriate procedures and mechanisms to ensure compliance with Rule VII.C and affirms that the creation of any new affiliate by NEWHALL or another affiliate will not adversely affect the utility's operations and provision of service.

VALENCIA Procedure: Management will receive annual training on all the Rules. This will let management know the Rules with which VALENCIA must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.

VALENCIA will provide annual notice of the Rules, including Rule VII.C, to senior management of NEWHALL in a presentation and to senior management of its affiliates via U.S. mail to ensure compliance.

This Rule has limited relevance for VALENCIA as VALENCIA does not offer Non-Tariffed Products and Services. VALENCIA's affiliates are in the land development industry (residential and commercial), and VALENCIA is not the primary company in its Business Group.

VALENCIA and its affiliates are already complying with the Commission's directive in D.10-02-015 (Decision Approving a Transfer of Indirect Control of Valencia Water Company), Condition of Approval No.16 (Appendix B), which requires that VALENCIA's affiliates take no action that would impair VALENCIA's operations as follows:

16. Affiliated companies of Valencia shall take no actions that would impair Valencia's ability to fulfill its public utility obligation to serve or to operate in a prudent and efficient manner.

Additional mitigating control: If the operations of an entity (affiliated or not) adversely impact VALENCIA operations and provision of service it will come to the attention of management in the normal course of business, and VALENCIA's management will research the cause of the negative impact to its operations. If the cause is a newly created affiliated entity, VALENCIA will notify NEWHALL and the appropriate affiliates so that they may take the necessary actions to be in compliance with Commission rules and conditions.

VII.D.

Debt of the utility's parent or other affiliates shall not be issued or guaranteed or secured by the utility.

VALENCIA Compliance: VALENCIA maintains appropriate procedures and mechanisms to ensure compliance with Rule VII.D.

VALENCIA Procedure: Management will receive annual training on all the Rules. This will let management know the Rules with which VALENCIA must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.

VALENCIA already complies with Section 851 of the California Public Utilities Code, which requires Commission approval prior to encumbering utility assets.

Further, VALENCIA and its affiliates are already complying with the CPUC order in D10-02-015 (Decision Approving a Transfer of Indirect Control of Valencia Water Company), Affiliated Interest Transaction Rules No.4 (Appendix C) which requires that VALENCIA not issue debt for its affiliates without Commission approval as follows:

4. *Issuance of Debt for Affiliated Companies.* Debt of Valencia's affiliated companies shall not be issued or guaranteed by Valencia without prior approval by the Commission.

VII.E.

Financial Separation. Within three months of the effective date of the decision adopting these Rules, each utility with a parent company shall file a Tier III advice letter proposing provisions that are sufficient to prevent the utility from being pulled into the bankruptcy of its parent company. The process specified by the Advice Letter Filing shall include a verification that the provisions have been implemented and signed by the utility's senior management (e.g., the Chief Executive Officer, Chief Financial Officer, and General Counsel).

VALENCIA Compliance: Pursuant to the conditions stated in a letter from Commission's Executive Director Paul Clanon to CWA Attorney Jose E. Guzman, Jr., dated December 9, 2010, VALENCIA filed a Tier III advice letter before March 31, 2011, demonstrating its compliance with Rule VII.E. The advice letter contains a listing of separateness provisions to prevent VALENCIA from being pulled into the bankruptcy of NEWHALL and is pending approval by the Commission.

VALENCIA Procedure: Management will receive annual training on such separateness provisions as approved by the Commission. This will let management know the separateness provisions with which VALENCIA must comply, as well as provide an annual reminder of the specific separateness provisions.

VALENCIA will provide annual notice of the separateness provision as approved by the Commission to senior management of NEWHALL in a presentation to ensure compliance.

VII.F.

Rules VI, VII, VIII(B) and VIII(C) adopted in Decision 97-12-011 (applicable to California Water Service Company), and Rules 12, 13, 15 and 16 adopted in Decision 98-06-068 (applicable to Golden State Water Company), continue in effect for those companies only.

VALENCIA Compliance: VALENCIA notes that Rule II.F does not apply to it.

2.8. RULE VIII Regulatory Oversight

VIII.A

The officers and employees of the utility and its affiliated companies shall be available to appear and testify in any proceeding before the Commission involving the utility. If, in the proper exercise of the Commission staff's duties, the utility cannot supply appropriate personnel to address the staff's reasonable concerns, then the appropriate staff of the relevant utility affiliated companies including, if necessary, its parent company, shall be made available to the Commission staff.

VALENCIA Compliance: VALENCIA maintains appropriate procedures and mechanisms to ensure compliance with Rule VIII.A.

VALENCIA Procedure: Management will receive annual training on all the Rules. This will let management know the Rules with which VALENCIA must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.

VALENCIA will continue to make its officers and employees and its covered affiliates available to testify before the Commission, as necessary or required, consistent with the provisions of Public Utility Code Section 314.

Further, VALENCIA and its affiliates are already complying with the Commission's directive in D.10-02-015 (Decision Approving a Transfer of Indirect Control of Valencia Water Company), Affiliated Interest Transaction Rules No.1 (Appendix C) which requires that the officers and employees of VALENCIA and its affiliates be available to testify as follows:

1. *Access to Officers and Employees.* The officers and employees of Valencia and its affiliated companies shall be available to appear and testify in any proceeding before the Commission involving Valencia. If in the proper exercise of Commission staff's duties, Valencia cannot supply appropriate personnel to address staff's reasonable concerns, then the appropriate staff of the relevant Valencia affiliated companies shall be made available to staff.

VIII.B

The utility and its affiliated companies shall provide the Commission, its staff, and its agents with access to the relevant books and records of such entities in connection with the exercise by the Commission of its regulatory responsibilities in examining any of the costs sought to be recovered by the utility in rate proceedings or in connection with a transaction or transactions between the utility and its affiliates. The utility shall continue to maintain its books and records in accordance with all Commission rules. The utility's books and records shall be maintained and housed available in California.

VALENCIA Compliance: VALENCIA maintains appropriate procedures and mechanisms to ensure compliance with Rule VIII.B.

VALENCIA Procedure: Management will receive annual training on all the Rules. This will let management know the Rules with which VALENCIA must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.

VALENCIA will continue to make its books and records open for examination by the Commission and its staff, consistent with the provisions of Public Utility Code Section 314.

Further, VALENCIA and its affiliates are already complying with a requirement very similar to Rule VIII.B, pursuant to the Commission's directive in D.10-02-015 (Decision Approving a Transfer of Indirect Control of Valencia Water Company), Affiliated Interest Transaction Rules No.2 (Appendix C) which requires that the books and records of VALENCIA and its affiliates be available for review as follows:

2. Access To Books and Records. Valencia and its affiliated companies will provide the Commission, its staff, and its agents with access to the relevant books and records of such entities in connection with the exercise by the Commission of its regulatory responsibilities.

VIII.C.

Compliance Plans. Each utility shall include a compliance plan as part of its annual report, starting in 2011 with the 2010 annual report and biennially thereafter. The compliance plan shall include:

- 1. A list of all affiliates of the utility, as defined in Rule II.D, and for each affiliate a description of its purposes or activities, and whether the utility claims that Rule I.B makes any portion of these Rules applicable to the affiliate;**
- 2. A description of the procedures in place to assure compliance with these Rules; and**
- 3. A description of both the specific mechanisms and the procedures that the utility and parent company have in place to assure that the utility is not utilizing the parent company or any of its affiliates not covered by these Rules as a conduit to circumvent**

any of these Rules in any respect. The description shall address, but shall not be limited to (a) the dissemination of information transferred by the utility to an affiliate covered by these Rules, (b) the provision of services to its affiliates covered by these Rules or (c) the transfer of employees to its affiliates covered by these Rules in contravention of these Rules. A corporate officer from the utility and parent company shall verify the adequacy of these specific mechanisms and procedures to ensure that the utility is not utilizing the parent company or any of its affiliates not covered by these Rules as a conduit to circumvent any of these Rules.

VALENCIA Compliance: VALENCIA maintains appropriate procedures and mechanisms to ensure compliance with Rule VIII.C.

VALENCIA filed its initial Plan executed by the appropriate officers of VALENCIA and NEWHALL in its 2010 Annual Report to the Commission. The procedures in place to assure compliance with these Rules are included in the Plan.

VALENCIA's Senior Vice President - Administration is responsible for maintaining and updating this Plan. The Plan will be reviewed annually as part of the annual training of VALENCIA's management. If changes are determined to be necessary to ensure compliance, this plan will be revised and updated annually or as needed.

VALENCIA maintains a current list of its affiliates, as defined by the Rules, which is attached to this document as Attachment B.

VIII.D

New Affiliates. Upon the creation of a new affiliate, the utility shall immediately notify the Commission of its creation, as well as posting notice of this event on its web site. No later than 60 days after the creation of this affiliate, the utility shall file a Tier 3 advice letter with the Director of the Commission's Division of Water and Audits, with service on the Director of the Division of Ratepayer Advocates. The advice letter shall state the affiliate's purpose or activities and whether the utility claims these Rules applicable to the new affiliate, and shall include a demonstration to the Commission that there are adequate procedures in place that will assure compliance with these Rules. The advice letter may include a request, including supporting explanation, that the affiliate transaction rules not be applied to the new affiliate.

VALENCIA Compliance: VALENCIA maintains appropriate procedures and mechanisms to ensure compliance with Rule VIII.D.

VALENCIA Procedure: Management will receive annual training on all the Rules. This will let management know the Rules with which VALENCIA must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.

VALENCIA will provide annual notice of the Rules, including Rule VIII.D, to senior management of NEWHALL in a presentation and to senior management of its affiliates via U.S. mail to ensure compliance

VALENCIA will be notified when one of its affiliates, including NEWHALL, creates a new business entity that qualifies as an affiliate of VALENCIA pursuant to Rule II.E. This excludes any entity that might be a related party to VALENCIA, but that is not included in the definition of an affiliate pursuant to Rule II.E.

VALENCIA will notify the Commission of the creation of any new affiliate as defined in Rule II.E. Not later than 60 days after the creation of an applicable affiliate, the utility shall file a Tier 3 advice letter with the Director of the Commission's Division of Water and Audits, with service on the Director of the Division of Ratepayer Advocates, demonstrating how VALENCIA will implement these Rules with respect to the new affiliate. VALENCIA notes that its compliance will comport with the discussion in Rule II.E of this plan.

This Rule has limited relevance for VALENCIA as VALENCIA does not offer Non-Tariffed Products and Services. VALENCIA's affiliates are in the land development industry (residential and commercial), and VALENCIA is not the primary company in its Business Group.

Further, VALENCIA and its affiliates are already complying with the Commission's directive in D.10-02-015 (Decision Approving a Transfer of Indirect Control of Valencia Water Company), Condition of Approval No.16 (Appendix B), which requires that VALENCIA's affiliates take no action that would impair VALENCIA's operations as follows:

16. Affiliated companies of Valencia shall take no actions that would impair Valencia's ability to fulfill its public utility obligation to serve or to operate in a prudent and efficient manner.

Lastly, the creation of an entity (affiliated or not) that interacts with VALENCIA's operations and the provision of utility service will come to the attention of management in the normal course of business. VALENCIA management will research whether any such entity constitutes a newly-created affiliated entity as defined by the Rules and notify the Commission accordingly.

VIII.E

Independent Audits. Commencing in 2013, and biennially thereafter, the utility shall have an audit performed by independent auditors if the sum of all unregulated affiliates' revenue during the last two calendar years exceeds 5% of the total revenue of the utility and all of its affiliates during that period. The audits shall cover the last two calendar years which end on December 31, and shall verify that the utility is in compliance with these Rules. The utility shall submit the audit report to the Director of the Division of Water and Audits and the Director of the Division of Ratepayer Advocates no later than September 30 of the year in which the audit is performed. The Division of Water and Audits shall post the audit reports on the Commission's web site. The audits shall be at shareholder expense.

VALENCIA Compliance: VALENCIA will comply with this Rule, as stated, and have an independent audit performed to verify its compliance with these Rules.

VALENCIA Procedure: Management will receive annual training on all the Rules. This will let management know the Rules with which VALENCIA must comply, as well as provide an annual

reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.

VALENCIA will contract with an independent auditor in 2013 to audit its compliance with the Rules for the years 2011 and 2012. The audit will use the Plan for the procedures VALENCIA follows to be in compliance with the Rules. The completed audit will be submitted to the Commission.

VIII.F.

Annual Affiliate Transaction Reports. Each year, by March 31, the utility shall submit a report to the Director of the Division of Water and Audits and the Director of the Division of Ratepayer Advocates that includes a summary of all transactions between the utility and its affiliated companies for the previous calendar year. The utility shall maintain such information on a monthly basis and make such information available to the Commission's staff upon request. The summary shall include a description of each transaction and an accounting of all costs associated with each transaction although each transaction need not be separately identified where multiple transactions occur in the same account (although supporting documentation for each individual transaction shall be made available to the Commission staff upon request). These transactions shall include the following:

1. Services provided by the utility to the affiliated companies;
2. Services provided by the affiliated companies to the utility;
3. Assets transferred from the utility to the affiliated companies;
4. Assets transferred from the affiliated companies to the utility;
5. Employees transferred from the utility to the-affiliated companies;
6. Employees transferred from the-affiliated companies to the utility;
7. The financing arrangements and transactions between the utility and the affiliated companies;
8. Services provided by and/or assets transferred from the parent holding company to affiliate company which may have germane utility regulations impacts; and
9. Services provided by and/or assets transferred from affiliated company to the parent holding company which may have germane utility regulation impacts.

VALENCIA Compliance: VALENCIA maintains appropriate procedures and mechanisms to ensure compliance with Rule VIII. F.

VALENCIA Procedure: Management will receive annual training on all the Rules. This will let management know the Rules with which VALENCIA must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.

VALENCIA's Controller has established procedures to account for, in a timely manner, all transactions between VALENCIA and its affiliates. These procedures are primarily general ledger and billing systems account coding. The affiliated transactions are included in the Annual Affiliated Transaction Report.

Additionally, when preparing the annual report, the Controller will contact NEWHALL for applicable information related to Rule VIII.F.8 and F.9.

Valencia interprets Rule VIII.F.8 and F.9 as applying to those affiliates within the scope of Rules I.B and II.E, and in view of the goals of these Rules. As stated in D10-10-019, Finding of Fact 1 and Conclusion of Law 2, the Commission's goals for this proceeding are that cross-subsidy of affiliates by the utilities and anti-competitive behavior of the utilities, if any, should be prevented. Valencia understands the references in Rule VIII.F.8 and F.9 to "germane utility regulation impacts" as relating to the Commission's concerns about cross-subsidy and anti-competitive behavior by the utilities, and will identify reportable transactions accordingly.

2.9. RULE IX. Confidentiality

Any records or other information of a confidential nature furnished to the Commission pursuant to these Rules that are individually marked Confidential are not to be treated as public records and shall be treated in accordance with P. U. Code § 583 and the Commission's General Order 66-C, or their successors.

VALENCIA Compliance: VALENCIA affirms compliance with Rule IX.

2.10. RULE X. Provision of Non-Tariffed Products and Services (NTP&S)

VALENCIA Compliance: VALENCIA's Board of Directors and management focus the Company and its small staff on regulated activities and do not pursue Non-Tariffed Products and Services. Therefore, VALENCIA notes that Rule X has limited relevance to it.

VALENCIA Procedure: Management will receive annual training on all the Rules. This will let management know the Rules with which VALENCIA must comply, as well as provide an annual reminder of the specific Rules. If VALENCIA starts to offer NTP&S, it will develop appropriate procedures to comply with all provisions of Rule X.

VALENCIA continues to report no NTP&S on the Excess Capacity and Non-Tariffed Service schedule in its Annual Report to the Commission.

X.A

Except as provided for in these rules, new products and services shall be offered through affiliates.

X.B.

A utility may only offer on the open market the following products and services:

1. Existing products and services offered by the utility pursuant to tariff;
2. New products and services that are offered on a tariffed basis; and
3. Products and services that are offered on a non-tariffed basis (NTP&S) and that meet the following conditions:
 - a) The NTP&S utilizes a portion of the excess or unused capacity of a utility asset or resource;
 - b) Such asset or resource has been acquired for the purpose of and is necessary and useful in providing tariffed utility services;
 - c) The involved portion of such asset or resource may only be used to offer the product or service on a non-tariffed basis without adversely affecting the cost, quality or reliability of tariffed utility products and services;
 - d) The products and services can be marketed with minimal or no incremental ratepayer capital, minimal or no new forms of liability or business risk being incurred by utility ratepayers, and no undue diversion of utility management attention; and
 - e) The utility's offering of the NTP&S does not violate any California law, regulation, or Commission policy regarding anticompetitive practices.

X.C.

Revenues. Gross revenue from NTP&S projects shall be shared between the utility's shareholders and its ratepayers. In each general rate case, NPT&S revenues shall be determined and shared as follows:

1. Active NTP&S projects: 90% shareholder and 10% ratepayer.
2. Passive NTP&S projects: 70% shareholder and 30% ratepayer.
3. A utility shall classify all NTP&S as active or passive according to the table below. For a new NTP&S not listed in the table, which requires approval by the Commission by advice letter pursuant to Rule X.G, an "active" project requires a shareholder investment of at least \$125,000. Otherwise the new NTP&S shall be classified as passive. No costs recoverable through rates shall be counted toward the \$125,000 threshold.

4. Revenues received that are specified in a contract as pass-through of costs, without any mark-up, shall be excluded when determining revenue sharing. If an advice letter is required pursuant to Rule X.G, the utility shall specify in the advice letter any items other than postage, power, taxes, and purchased water for which it proposes pass-through treatment and must obtain Commission approval for such treatment.
5. For those utilities with annual Other Operating Revenue (OOR) of \$100,000 or more, revenue sharing shall occur only for revenues in excess of that amount. All NTP&S revenue below that level shall accrue to the benefit of ratepayers.
6. For those utilities with annual OOR below \$100,000, there shall be no sharing threshold, and ratepayers shall accrue all benefits for non-tariffed products and services.

X.D.

Cost Allocation. All costs, direct and indirect, including all taxes, incurred due to NTP&S projects shall not be recovered through tariffed rates. These costs shall be tracked in separate accounts and any costs to be allocated between tariffed utility services and NTP&S shall be documented and justified in each utility's rate case. More specifically, all incremental investments, costs, and taxes due to non-tariffed utility products and services shall be absorbed by the utility shareholders, i.e., not recovered through tariffed rates.

X.E.

Annual Report of NTP&S Projects. Each utility shall include information regarding its NTP&S projects in its Annual Reports, including but not be limited to the following:

1. A detailed description of each NTP&S activity;
2. Whether and why it is classified active or passive;
3. Gross revenue received;
4. Revenue allocated to ratepayers and to shareholders, as established in the company's current general rate case;
5. A complete identification of all regulated assets used in the transaction;
6. A complete list of all employees (by position) that participated in providing the non-tariffed service, with amount of time spent on provision of the service;
7. If the NTP&S has been classified as active through advice letter submission, provide the number of the advice letter and the authorizing Resolution; and
8. If the NTP&S did not require approval through advice letter, provide the date notice was given to the Commission.

X.F.

When a utility initiates the offering of NTP&S that are designated as active or passive in the table below, the utility shall provide notice of such activity by letter to the Director of the Division of Water and Audits and the Program Manager of the Division of Ratepayer Advocates-Water Branch, within 30 days of instituting such activity.

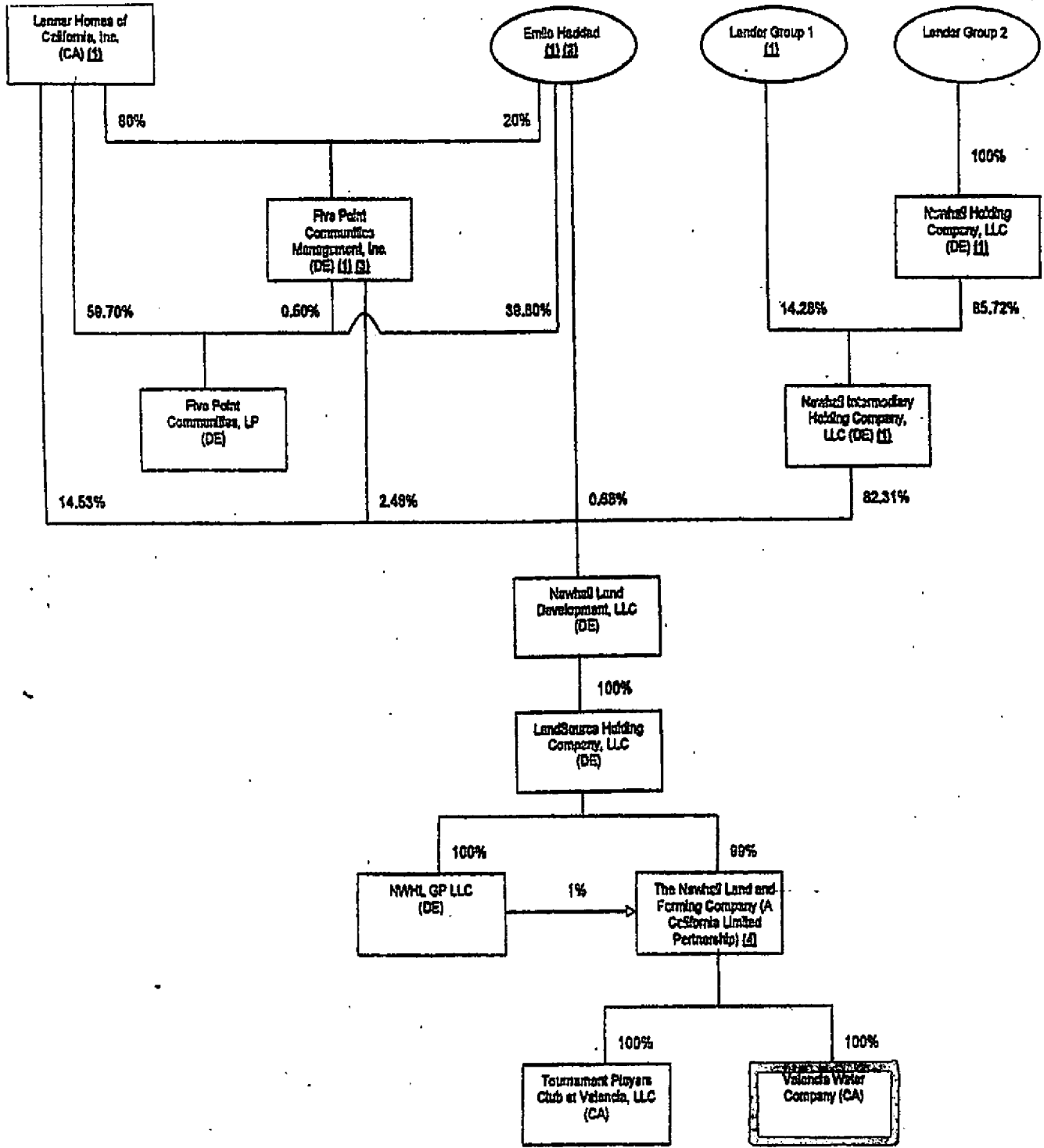
X.G.

Provision of New NTP&S. Any water or sewer utility that proposes to engage in the provision of new NTP&S not included in the table below, using the excess capacity of assets or resources reflected in the utility's revenue requirement, and which are proposed to be classified as active as described herein, shall file a Tier 3 advice letter (see Resolution ALJ-202) with the Director of the Division of Water and Audits seeking Commission approval. The advice letter shall be served on the service list for Rulemaking 09-04-012 and the service list for the utility's current or most recent general rate case. The advice letter shall contain the following:

1. A full description of the proposed NTP&S, including, without limitation, the identity of parties served (if known), revenue and cost forecasts, and the term of any contract to be employed.
2. A description of the accounting method to be used to allocate the incremental costs between tariffed services and caused by the NTP&S.
3. Copies of all operative documents for the proposed service.
4. A detailed description of any items other than postage, power, taxes, and purchased water for which the utility proposes pass-through treatment for purposes of calculating revenue sharing.
5. Complete identification of all utility regulated assets and personnel resources that will be used in the proposed transaction. Identify the particular excess capacity (or capacities) asset or resource to be used to provide the NTP&S.
6. A complete list of all employees that will participate in providing the service, with an estimate of the amount of time each will spend.
7. A showing that the proposed NTP&S may be offered without adversely affecting the cost, quality, or reliability of the utility services.
8. A showing of how the NTP&S will be marketed with minimal or no incremental ratepayer capital, minimal or no new forms of liability or business risk, and no undue diversion of utility management attention.
9. A showing of how the NTP&S does not violate any law, regulation, or Commission policy regarding anti-competitive practices.
10. A justification for classifying the NTP&S as active. The utility shall demonstrate that there is or will be incremental shareholder investment above \$125,000.

- 11. A statement that all risks incurred through this proposed NTP&S project shall be borne by the utility's shareholders.**
- 12. A description of the market served by the proposed NTP&S project, a list or description of the current incumbents in that market, and an analysis of how the utility's entry into the market will affect the market's competitiveness. Include in this analysis a description of how the utility will guard against using anti-competitive pricing in this market.**
- 13. Any other information, opinions, or documentation that might be relevant to the Commission's consideration of the NTP&S**

Attachment A: Valencia Water Company Ownership Structure



(END OF APPENDIX A)

Attachment B: VALENCIA AFFILIATES

Affiliate Name	Affiliate's Line of Business	Primary Location of Affiliate	Applicability of Rule I.B
Lennar Homes of California, Inc., a California corporation ¹	Acquisition, development, operation, leasing and disposition of real estate.	Aliso Viejo, CA	YES
Newhall Holding Company, LLC, a Delaware limited liability company ²	Holding company with indirect subsidiaries that include Parent and Valencia and other subsidiaries with businesses that include acquisition, development, operation, leasing and disposition of real estate	Valencia, CA	YES
Newhall Intermediary Holding Company, LLC, a Delaware limited liability company	Holding company with indirect subsidiaries that include Parent and Valencia and other subsidiaries with businesses that include acquisition, development, operation, leasing and disposition of real estate	Valencia, CA	Yes
Newhall Land Development, LLC, a Delaware limited liability company formerly known as LandSource	Holding company with indirect subsidiaries that include Parent and Valencia and other subsidiaries with businesses that include	Valencia, CA	YES

¹ Related entities directly or indirectly owning more than 10% of Lennar Homes of California, Inc., and indirectly, more than 10% of VALENCIA, are not listed in Attachment B because of the remoteness of their relationships to VALENCIA and the extremely low probability of any transaction subject to the Rules occurring between VALENCIA and any of them.

² Related entities directly or indirectly owning more than 10% of Newhall Holding Company, LLC, and in some cases, indirectly more than 10% of VALENCIA, are not listed in Attachment B because of the remoteness of their relationships to VALENCIA and the extremely low probability of any transaction subject to the Rules occurring between VALENCIA and any of them.

Communities Development, LLC	acquisition, development, operation, leasing and disposition of real estate		
NWHL GP LLC, a Delaware limited liability company	General partner of Parent	Valencia, CA	YES
LandSource Holding Company, LLC, a Delaware limited liability company	Holding company with indirect subsidiaries that include Parent and Valencia and other subsidiaries with businesses that include acquisition, development, operation, leasing and disposition of real estate	Valencia, CA	YES
The Newhall Land and Farming Company (A California Limited Partnership), a California limited partnership (the Parent of Valencia)	Acquisition, development, operation, leasing and disposition of real estate	Valencia, CA	YES
Tournament Players Club at Valencia, LLC, a California limited liability company	Membership-based golf facility	Valencia, CA	YES
The Newhall Land and Farming Company, Inc., a Delaware corporation	General contractor activities	Valencia, CA	YES

Attachment C: Appendix B and C of D.10-02-019

APPENDIX B
Conditions of Approval of Transfer of Control

1. The transfer of control shall have no effect on the Commission's authority over Valencia Water Company's (Valencia) provision of public utility service to the public.

2. Valencia shall comply with all applicable California and federal laws and administrative regulations.

3. All owners, direct and indirect, of Newhall Land and Farming Company shall ensure that Valencia has adequate capital to fulfill all of its public utility service obligations. The term "capital" encompasses "money and property with which a company carries on its corporate business; a company's assets, regardless of source, utilized for the conduct of the corporate business and for the purpose of deriving gains and profits; and a company's working capital," and is not limited to mean only "equity capital, infrastructure investment, or any other term that does not include, simply, money or working cash."

Decision 02-01-039, Findings of Fact 5 and 6, 2002 Cal. PUC LEXIS 5 *57.

4. Valencia shall continue to maintain its books and records in accordance with all Commission rules. Valencia's books and records shall be maintained and housed in California.

5. The transfer of control may not adversely affect Valencia policies with respect to service to customers, employees, operations, financing, accounting, capitalization, rates, depreciation, maintenance, or other matters relating to the public interest or utility operations.

6. There shall be no adverse impact on customer service as a result of the transaction. All owners, direct and indirect, of Newhall Land and Farming

Company shall maintain Valencia's commitment to high quality public utility water service and community involvement.

7. Valencia shall maintain its business headquarters in California together with fully operational local offices as appropriate to maintain the high quality of customer service and community involvement. Valencia shall not close any of its offices as a result of this transaction.

8. Valencia shall maintain or improve its practices and policies for addressing the ammonium perchlorate pollution plume in Valencia's groundwater source.

9. The transfer of control shall not result in changes to the existing management and officers of Valencia.

10. Operational control of Valencia shall continue to be exercised by Valencia's board of directors and management.

11. There shall be no changes in any existing union agreement as a result of the transaction. All collective bargaining agreements will be honored.

12. No additional layer of management overhead may be allocated to Valencia as a result of the transaction. Newhall Land and Farming Company and its upstream owners' costs may not be included in Valencia's revenue requirement absent a compelling demonstration of benefit to Valencia and its customers.

13. None of the outstanding debt owed and recorded as liabilities on the regulated books of Valencia may be adversely affected by the transfer of control. There shall be no changes in the income statement, balance sheet or financial position of Valencia used for ratemaking purposes as a result of the transfer of control.

14. The ratepayers of Valencia shall not incur, directly or indirectly, any transaction costs or other liabilities or obligations arising from the transfer of control. Valencia shall not incur any additional indebtedness, issue any

additional securities, or pledge any assets to finance any part of the transfer of indirect control.

15. All transaction-related costs, including external advisors, early termination costs, and change in control payments as a result of the transfer of control, shall not be "pushed down" to Valencia or otherwise reflected in Valencia's accounting records used for ratemaking purposes, and there shall be no attempt to recover such costs in any future rate proceeding.

16. Affiliated companies of Valencia shall take no actions that would impair Valencia's ability to fulfill its public utility obligation to serve or to operate in a prudent and efficient manner.

17. Valencia may not grant preferences to an affiliated firm's real estate development when evaluating whether Valencia can or will extend water service to the development.

18. Valencia shall comply with the Affiliated Interest Transaction Rules set out in Appendix C to this decision, subject to modification by a final decision in Rulemaking 09-04-012, Commission Rulemaking to develop standard rules for the use of regulated assets for non-tariff services of water utilities.

(END OF APPENDIX B)

APPENDIX C

Affiliated Interest Transaction Rules

These Affiliated Interest Transaction Rules set forth the practices to be observed by Valencia Water Company (Valencia), subject to modification by a final decision in Rulemaking 09-04-012, Commission's rulemaking to develop standard rules for the use of regulated assets for non-tariff services of water utilities.

Definitions:

Affiliated company or companies: all entities that are under direct or indirect common ownership or control with Valencia, including any holding companies.

Cost: all fully allocated capital and expense amounts including all management, administration, overhead, and indirect allocations.

Property: any right or thing to which an entity has legal or equitable title.

Real Property: any interest in real estate including leases, easements, and water rights.

1. *Access to Officers and Employees*. The officers and employees of Valencia and its affiliated companies shall be available to appear and testify in any proceeding before the Commission involving Valencia. If in the proper exercise of Commission staff's duties, Valencia cannot supply appropriate personnel to address staff's reasonable concerns, then the appropriate staff of the relevant Valencia affiliated companies shall be made available to staff.
2. *Access To Books and Records*. Valencia and its affiliated companies will provide the Commission, its staff, and its agents with access to the relevant books and records of such entities in connection with the exercise by the Commission of its regulatory responsibilities.
3. *Annual Report*. Valencia shall file with the Commission each year, and include in all general rate case filings, a report that includes a summary of all transactions between Valencia and its affiliated companies for the previous calendar year. Valencia shall maintain such information on a monthly basis and make such information available to the Commission's staff upon request. To the extent not covered by an existing affiliated transaction agreement, the summary shall include a complete description of each transaction and an accounting of all costs associated with each transaction although each transaction need not be separately identified where multiple transactions occur in the same account. These transactions shall include (a) services provided by Valencia to any affiliated company; (b) services provided by any affiliated company to Valencia; (c) assets transferred from Valencia to any affiliated company; (d) assets transferred from any affiliated company, to Valencia; (e) employees transferred from Valencia to any affiliated company; (f) employees transferred from any affiliated company to Valencia; and (g) financing arrangements and transactions between Valencia and any affiliated company.
4. *Issuance of Debt for Affiliated Companies*. Debt of Valencia's affiliated companies shall not be issued or guaranteed by Valencia without prior approval by the Commission.

5. *Accounting.* Valencia shall maintain its accounting records in accordance with Generally Accepted Accounting Principles and, where appropriate, the Commission's Uniform System of Accounts.

6. *Allocation of Common Costs.* Valencia and each of its affiliated companies shall allocate costs between them in such a manner that ratepayers of Valencia will not subsidize any affiliate of Valencia. Valencia shall include and explain its methodology in its general rate case filings.

7. *Unregulated Operations and Transfer of Employees.*

a. Valencia shall not use its employees or officers to provide unregulated services if such use would adversely affect Valencia or its ratepayers.

b. To the extent Valencia chooses to use its employees or officers to provide unregulated services, Valencia shall carefully account for all such employee and officer time. In each general rate case application, Valencia shall submit a report showing all such employee and officer time on an annual basis for each year since the last general rate case.

c. Valencia shall not use its property to sell unregulated goods if such use would adversely affect Valencia or its ratepayers.

d. To the extent Valencia chooses to use its property to sell unregulated goods, Valencia shall carefully account for all such property use and tabulate the fully allocated cost. In each general rate case application, Valencia shall submit a report showing all such use on an annual basis for each year since the last general rate case.

8. *Transfer Of Property Other Than Real Property From Valencia.* All transfers of property other than real property or payment of dividends from Valencia to any affiliated company shall be in writing and priced at the higher of cost or fair market value. Valencia shall record any revenue resulting from the transfer of any such property in a memorandum account for further disposition by the Commission.

9. Valencia shall develop a verifiable and independent appraisal of fair market value for any property that is transferred to any affiliate under Paragraph 8 above. The Commission's staff will have access to all supporting documents used in the development of the fair market value.

10. *Transfers Of Property Other than Real Property to Valencia.* All transfers of any property other than real property to Valencia from any affiliated company shall be in writing and priced at the lower of cost or fair market value. Valencia shall obtain and retain sufficient cost data from the affiliate to support the price charged. Valencia shall obtain explicit Commission authorization prior to including the costs or expenses of any such property in its revenue requirement or rate base.

11. *Pricing Of Services From Valencia To Affiliated Companies.* All services provided by Valencia to an affiliated company shall either be pursuant to a Commission-approved tariff or be in writing and priced to recover all costs associated with such service that have been included in Valencia's revenue requirement for its last general rate case.

12. *Pricing Of Services From Affiliated Companies To Valencia.* Except for common costs allocated in the manner described in Paragraph 6, all services provided by an affiliate to Valencia

shall be pursuant to a written services agreement. All services provided by the affiliate shall be priced at the lower of the affiliate's incremental cost to provide the service or the fair market value of the service. Copies of all such service agreements shall be included in all general rate case filings and shall also include a full accounting of all services forecasted for the test year including the affiliated company's cost analysis and supporting documentation.

13. *Transfers of Real Property from Valencia to an Affiliate.* Valencia shall not transfer to an affiliate any real property necessary or useful in its provision of public utility service to the public. Valencia shall obtain Commission authorization prior to transferring to an affiliate any real property that was at any time included in Valencia's rate base.

14. *Transfers of Real Property from an Affiliate to Valencia.* Valencia shall not include in its rate base or revenue requirement the costs or expenses associated with any real property obtained from an affiliate, except for fees and costs paid to third parties incidental to obtaining and recording title to real property, absent a Commission decision specifically approving the acquisition and adopting specific ratemaking treatment.

15. *Confidentiality.* Any records or other information of a confidential nature furnished to the Commission pursuant to these Rules that are individually marked confidential are not to be treated as public records and shall be treated in accordance with Public Utilities Code Section 583 and the Commission's General Order 66-C.

16. *Physical Separation of Valencia from Affiliated Companies.* To the greatest extent feasible, Valencia shall maintain its offices, facilities, and employees in locations physically separate from affiliated companies. Where such separation is not feasible, Valencia shall create and implement stringent management and accounting policies to ensure that Valencia's public utility functions are not affected by the proximity of the affiliates, and that all affiliate costs are paid by the affiliate.

(END OF APPENDIX C)

ATTACHMENT D: Listing of Shared Directors and Officers

Donald L. Kimball is VALENCIA's Vice President of Finance and a member of VALENCIA's Board of Directors. Mr. Kimball is also the Executive Vice President – Operations and Financial Affairs and Secretary of Newhall Holding Company, LLC, a Delaware limited liability company that is the Manager of Newhall Land Development, LLC, a Delaware limited liability company that is the sole member of LandSource Holding Company, LLC, a Delaware limited liability company that is the sole member of NWHL GP LLC, a Delaware limited liability company that is the general partner of The Newhall Land and Farming Company (A California Limited Partnership), a California limited partnership that is the parent company under the Rules and sole shareholder of VALENCIA.

Steven D. Zimmer is a Vice President of VALENCIA and a member of VALENCIA's Board of Directors. He is also the Executive Vice President – Entitlements and Forward Planning and Assistant Secretary of Newhall Holding Company, LLC, a Delaware limited liability company that is the Manager of Newhall Land Development, LLC, a Delaware limited liability company that is the sole member of LandSource Holding Company, LLC, a Delaware limited liability company that is the sole member of NWHL GP LLC, a Delaware limited liability company that is the general partner of The Newhall Land and Farming Company (A California Limited Partnership), a California limited partnership that is the parent company under the Rules and sole shareholder of VALENCIA.

Gregory H. McWilliams is a member of VALENCIA's Board of Directors. Mr. McWilliams is also the President of Newhall Holding Company, LLC, a Delaware limited liability company that is the Manager of Newhall Land Development, LLC, a Delaware limited liability company that is the sole member of LandSource Holding Company, LLC, a Delaware limited liability company that is the sole member of NWHL GP LLC, a Delaware limited liability company that is the general partner of The Newhall Land and Farming Company (A California Limited Partnership), a California limited partnership that is the parent company under the Rules and sole shareholder of VALENCIA.

Mark A. Subbotin is a member of VALENCIA's Board of Directors. Mr. Subbotin is also the Vice President–Planning and Community Development of Newhall Holding Company, LLC, a Delaware limited liability company that is the Manager of Newhall Land Development, LLC, a Delaware limited liability company that is the sole member of LandSource Holding Company, LLC, a Delaware limited liability company that is the sole member of NWHL GP LLC, a Delaware limited liability company that is the general partner of The Newhall Land and Farming Company (A California Limited Partnership), a California limited partnership that is the the parent company under the Rules and sole shareholder of VALENCIA.

Robert B. Brazel is a member of VALENCIA's Board of Directors. Mr. Brazel is also Vice President–Land Development of Newhall Holding Company, LLC, a Delaware limited liability company that is the Manager of Newhall Land Development, LLC, a Delaware limited liability

company that is the sole member of LandSource Holding Company, LLC, a Delaware limited liability company that is the sole member of NWHL GP LLC, a Delaware limited liability company that is the general partner of The Newhall Land and Farming Company (A California Limited Partnership), a California limited partnership that is the parent company under the Rules and sole shareholder of VALENCIA.