

San Jose Water Company

(U-168-W)

2012 Annual Report

Compliance Filing as Required by the “Rules for Water and Sewer Utilities Regarding Affiliate Transactions and the Use of Regulated Assets for Non-Tariffed Utility Services” as Authorized in Decision 11-10-034

San Jose Water Company  
(U-168-W)  
2012 Annual Report  
Supplement

**As required by Affiliate Transactions and Non-Tariffed Products and Services Rule IV.C<sup>1</sup>, San Jose Water Company hereby provides a list of all shared directors and officers between the utility and its affiliates.**

Shared Directors

Name	Title	SJW Corp.	San Jose Water Company	SJW Land Company	SJWTX, Inc.	Texas Water Alliance Limited
Katharine Armstrong	Director	X	X	X	X	X
Walter J. Bishop	Director	X	X	X		X
Mark L. Cali	Director	X	X	X		
Douglas R. King	Director	X	X	X		
Ronald B. Moskovitz	Director	X	X	X		
George E. Moss	Director	X	X	X	X	X
W. Richard Roth	President, Chief Executive Officer and Chairman of the Board	X	X	X	X	X
Rober A. Van Valer	Director	X	X	X	X	X

Shared Officers

Name	Title	SJW Corp.	San Jose Water Company	SJW Land Company	SJWTX, Inc.	Texas Water Alliance Limited
J.P. Lynch	Chief Financial Officer and Treasurer	X	X	X	X	X
S. Papazian	Corporate Secretary and Attorney	X	X	X	X	X
W.R. Roth	President, Chief Executive Officer and Chairman of the Board	X	X	X	X	X

<sup>1</sup>On October 20th, 2011 the California Public Utilities Commission issued Decision (“D.”) 11-10-034 – Modified Rules for Water and Sewer Utilities Regarding Affiliate Transactions and the Use of Regulated Assets for Non-Tariffed Utility Services.

San Jose Water Company  
(U-168-W)

Affiliate Transaction  
Compliance Plan  
Effective June 30, 2011

For Rules Adopted in the California Public Utilities Commission's  
Decision No.11-10-034

March 31, 2013

## INTRODUCTION

This Compliance Plan (“Plan”) is provided as required in the California Public Utilities Commission’s Rules for water and Sewer Utilities Regarding Affiliate Transactions and the Use of Regulated Assets for Non-Tariffed Utility Services as adopted in Decision (D.) 11-10-034, issued on October 25<sup>th</sup>, 2011. Specifically, this Plan is submitted in compliance with Rule VIII.C which requires that each utility include a compliance plan biennially as part of their annual report to the Commission. SJWC’s Plan includes a variety of procedures and mechanisms for implementation and compliance with the Affiliate Transaction Rules (“Rules” or “ATR”), which when taken as a whole, will provide a comprehensive approach to ATRs compliance. Although not specifically described in the Plan, all Rules are implemented by means of a combination of one or more of the following:

- Development and distribution of an Affiliated Transactions Procedures (“ATP”) document;
- Education, training for and communications to employees of SJWC and SJWC affiliates;
- Collection of companywide records for required reports and reviews;
- Monitoring affiliate transactions and overall compliance on a continuing basis; and
- Additional training and corrective actions as needed

SJWC’s Regulatory Affairs Department is responsible for the implementation of this Plan. The Regulatory Affairs Department is responsible for issuing periodic memoranda to SJW Corp. and its subsidiaries governed by these Rules. These memoranda outline the importance of complying with the Rules and may include corporate policy statements. The policy statements clearly articulate what SJWC employees must do to ensure compliance with the Rules. Among the compliance tools that the Regulatory Affairs Department will use are: employee education and training; a document that describes certain policies and procedures governing affiliate transactions; preparing compliance reports for the Commission’s Division of Water & Audits, as prescribed; and ongoing internal reviews of compliance with the ATRs.

In the following pages, each Rule is shown in bold type. Following each Rule, in normal type, is SJWC’s Plan (where applicable).

SJWC has in place the following specific mechanisms and procedures to fully implement these Rules:

- (1) A SJWC Affiliated Transactions Procedures document, which is disseminated to employees of SJWC and those subsidiaries that are governed by these Rules. This document describes the employees’ obligations under these Rules. A copy of this document is provided as an attachment to this Compliance Plan;

- (2) Employees of SJWC, who provide permitted corporate support or shared services and who have access to non-public utility information, are required to sign a statement that they are aware of, have read and will follow all written policies regarding limitations on the use of non-public Utility information and that failure to observe these limitations in the future will result in subjecting them to corporate discipline policies. A copy of this document is provided with this Compliance Plan;
- (3) All support personnel, services, physical plant, equipment, supplies, and other overhead owned by and used by SJW Corp are charged to SJW Corp., as appropriate;
- (4) All corporate support services rendered by SJWC's employees to affiliates shall be charged to the affiliates receiving the services in accordance with the affiliate transactions procedures;
- (5) Periodic training and reminders regarding the Rules are provided to the employees of SJWC and affected affiliates; and
- (6) Any SJWC employee transfers for ratemaking purposes to affiliates are tracked by SJWC to ensure that they conform to the Rules.

The undersigned verify the adequacy of these specific mechanisms 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.



/S/ W. RICHARD ROTH  
W. Richard Roth  
President and Chief Executive Officer  
SJW Corp.



/S/ PALLE L. JENSEN  
Palle L. Jensen  
Senior VP, Regulatory Affairs  
San Jose Water Company

## **Affiliate Transaction Rules Applicable to Class A and B Water Utilities**

### **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).**

*SJWC Compliance: As a Class A water utility subject to Commission regulation, SJWC affirms that these Rules apply to it and its employees. SJWC maintains appropriate procedures and mechanisms to ensure compliance with these Rules. Further, SJWC's training materials and resources specifically reference the respective compliance requirements associated with each rule.*

#### **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.**

*SJWC Compliance: SJWC affirms that these Rules apply to transactions with its affiliates, as defined in Rule 1.E. SJWC maintains appropriate procedures and mechanisms to ensure compliance with Rule I.B. Attachment A contains a list of all affiliates of SJWC, as defined in Rule I.E, and for each affiliate a description of its purposes or activities, and the applicability of the Rules to the affiliates. SJWC reserves the right to reclassify an affiliate as the activities of that affiliate may dictate.*

#### **I.C**

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

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

#### **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.**

SJWC Compliance: SJWC's affirms that where ambiguity may exist with any existing rules, the Rules adopted by the Commission in D.10-10-019 will prevail.

#### **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.**

SJWC Compliance: SJWC will continue to comply with Commission rules for the valuation of land transferred from SJWC to the affiliated land company (SJW Land) as authorized in D.90-10-037. This valuation methodology is outlined in SJWC's ATP document.

#### **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.**

SJWC Compliance: SJWC 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.

#### **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.**

SJWC Compliance: Rule I.G is not applicable to SJWC.

#### **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.**

SJWC Compliance: The following affiliates and subsidiaries of SJWC that operate outside of California are exempt from Rules III.B and III.C: Texas Water Alliance Limited.

#### **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.**

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

## **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.

### **II.B “Utility”**

“Utility” (unless specified as a SJWC) refers to all water utilities and sewer utilities regulated by the Commission.

### **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.

For the purposes of this Rule, “affiliate” shall not include a mutual water company, a joint powers authority, other governmental or quasi-governmental agency or authority, a public/private partnership, a watermaster board, a water basin association, or a groundwater management authority in which a utility participates or in which a utility is a member or shareholder.



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

## **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 II.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.**

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

## **RULE III. Utility Operations and Service Quality**

### **III.A**

**A utility shall not allow transactions with affiliates to diminish SJWC 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.**

*SJWC Compliance: SJWC maintains appropriate procedures and mechanisms to ensure compliance with Rule III.A. Further, SJWC’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, SJWC’s compliance with Public Utilities Code Section 851 precludes the sale of 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;**

SJWC Compliance: SJWC affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule III.B.1. Compliance with this Rule is one-way in nature. That is, affiliates are not prohibited from providing leads to SJWC, especially with respect to potential acquisitions of water or sewer systems that may ultimately become regulated by the Commission.

SJWC further notes that a utility advising its parent (which is an affiliate under the current definition) of a possible purchase of water or sewer system (e.g., a mutual water company) is not considered a lead if ultimately it is the utility and not the parent that is going to make the acquisition.

**2. Solicit business on behalf of its affiliates;**

SJWC Compliance: SJWC affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule III.B.2. SJWC will issue periodic communications to its employees and affiliates governed by these Rules directing them to comply with this Rule. SJWC will provide training, as necessary, to its employees.

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

SJWC Compliance: SJWC affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule III.B.3. With the exception noted in Rule III.B.8 and above regarding water or sewer system acquisition leads from the utility to its parent as being applicable here – that is, SJWC is permitted to acquire information on behalf of, or provide information to, its parent regarding a potential water or sewer system acquisition – SJWC will issue periodic communications to its employees and affiliates governed by these Rules directing them to comply with this Rule. SJWC will provide training, as necessary, to its employees.

**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;**

SJWC Compliance: SJWC affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule III.B.4. With the exceptions noted in Rule III.B.8 and above regarding water or sewer system acquisition leads from the utility to its parent, or information regarding same being supplied to its parent, as being applicable here – that is, SJWC is permitted to share proprietary or non-public reports or analyses of a potential water or sewer system acquisition with its parent. SJWC will provide training, as necessary, and will issue periodic communications to its employees and affiliates governed by these Rules directing them to comply with this Rule.

SJWC interprets this Rule to exclude any information that an employee might otherwise legally disclose to others after termination of employment. Further, corporate governance and corporate support services covered by Rule V are expressly permitted.

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

SJWC Compliance: With the exception noted in Rule III.B.8, SJWC affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule III.B.5. Under these procedures, information will be released with the specified customer's explicit written consent.

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

SJWC Compliance: SJWC affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule III.B.6. SJWC will provide training, as necessary, and will issue periodic communications to its employees and affiliates governed by these Rules directing them to comply with this Rule.

**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.**

SJWC Compliance: SJWC affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule III.B.7. SJWC will provide training, as necessary, and will issue periodic communications to its employees and affiliates governed by these Rules directing them to comply with this Rule.

**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.**

SJWC Compliance: SJWC acknowledges the exceptions provided for in Rule III.B.8.

**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.**

SJWC Compliance: SJWC interprets the deadline in this rule as being June 30, 2011 to seek any necessary exemption.

### **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.**

SJWC Compliance: SJWC affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule III.C. SJWC will issue a communication to its employees and to its affiliates governed by these Rules directing them to comply with Rule III.C. Further, if it offers customer or utility information, services or unused capacity to an affiliate governed by these Rules, it will make such information available to all similarly situated market participants on the company's web site.

## **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.**

SJWC Compliance: SJWC interprets the applicability of this Rule according to whether the utility (or its Parent) is publicly traded or privately owned. Accordingly, SJWC affirms that it maintains its 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 314 and 701. Utility accounting records are available for review upon Commission request. SJW Corp financial statements and SJWC financial statements are audited for compliance 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.**

SJWC Compliance: SJWC affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule IV.B. SJWC applies Rule II.F’s definitions to its compliance with Rule IV.B. All such allocations and costs are reviewed and approved in each of SJWC’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).**

SJWC Compliance: SJWC affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule IV.B. SJWC will provide a list of all shared directors and officers between the utility and its affiliates in its Annual Report to the Commission after the effective date of these Rules, and in the supporting documentation for its general rate case applications.

SJWC’s ATP document specifies that no later than 30 days following a change to the list of shared directors and officers, SJWC shall notify the Director of the Division of Water and Audits and the Director of the Division of Ratepayer Advocates of the change(s).

### **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.**

SJWC Compliance: SJWC will provide training to employees transferred or temporarily assigned to affiliates that fall under the applicability of this Rule, specifying that the employees

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:**

##### **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.**

SJWC Compliance: SJWC interprets this Rule as being applicable to permanent physical movement only, and it affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule IV.E.1. SJWC will include this information in its Annual Report to the Commission after the effective date of these Rules.

##### **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.**

SJWC Compliance: SJWC affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule IV.E.2. SJWC will include this information in its Annual Report to the Commission after the effective date of these Rules. SJWC's ATP document provides guidance for compliance with this Rule. The current version of the ATP document is available to the Commission upon request. These procedures may be updated periodically and issued by SJWC's affiliate rules compliance officer.

##### **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.**

SJWC Compliance: SJWC affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule IV.E.3. SJWC will include this information in its Annual Report to the Commission after the effective date of these Rules. SJWC's ATP document provides guidance for compliance with this Rule. The current version of the ATP document is available to the Commission upon request. These procedures may be updated periodically and issued by SJWC's affiliate rules compliance officer.

## **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.**

SJWC Compliance: SJWC's ATP document states that the portion of the fully loaded costs of shared corporate services that benefits SJW Corp and/or affiliates shall be charged to SJW Corp and/or affiliates. SJWC interprets this rule as permitting allocations pursuant to existing practice, previous GRC decisions, etc.

### **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.**

SJWC Compliance: SJWC interprets this Rule such 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. The provision of corporate support services will not provide a means for the transfer of confidential non-public Utility information from the Utility to an affiliate that would create the opportunity for preferential treatment or unfair competitive advantage, lead to customer confusion, or create significant opportunities for cross-subsidy of affiliates.

### **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, engineering, water or sewage for resale, water storage capacity, and purchasing of water distribution systems.**

**SJWC Compliance:** SJWC affirms that all of the services listed in Rule V.C can be shared between SJWC, its parent company (if applicable) and all affiliates.

#### **V.D**

**Examples of services that may not be shared include: hedging and financial derivatives and arbitrage services, and marketing.**

**SJWC Compliance:** SJWC affirms that all of the services listed in Rule V.D cannot be shared between SJWC, its parent company (if applicable) and all affiliates.

### **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.**

#### **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.**

#### **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.**

#### **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.**

#### **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.**

#### **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.**



## **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.**

SJWC Compliance for Rules VI.A, VI.B, VI.C, VI.D, VI.E, VI.F, and VI.G: SJWC maintains appropriate procedures and mechanisms to ensure compliance with these Rules. SJWC’s Accounting Department is responsible for ensuring that transfers are calculated and recorded appropriately. When the Accounting Department questions the amount charged for the utility’s goods and services, the utility’s affiliate compliance officer will be notified, as will the affected affiliate for review of the transaction.

Further, with respect to Rule VI.G, SJWC interprets the surrogate for fair market value as a preference for “shall be priced at fully allocated cost plus 5% of direct labor cost.” Often, employee transfers will be done on an emergency basis where time to ascertain “fair market value” is not available. Accordingly, SJWC will employ the formula in Rule VI.E, and it will interpret this approach as being consistent with the definitions in Rule II.F.

## **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.**

SJWC Compliance: SJWC maintains appropriate procedures and mechanisms to ensure compliance with Rule VII.A. SJWC’s Accounting Department 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. Such estimates are reported regularly to the Commission in general rate cases, cost of capital proceedings and in applications for financing.

### **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.**

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

### **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.**

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

#### **VII.D**

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

SJWC Compliance: SJWC maintains appropriate procedures and mechanisms to ensure compliance with Rule VII.D. SJWC interprets this rule as being applicable to debt issued by the parent on behalf of a non-regulated affiliate, not if the parent is issuing debt on behalf of the utility or another Commission-regulated affiliate.

#### **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).**

SJWC Compliance: Pursuant to the conditions stated in the letter from Commission Executive Director Paul Clanon to CWA Attorney Jose E. Guzman, Jr., dated December 9, 2010, SJWC filed its Tier III advice letter on March 31, 2011, demonstrating its compliance with Rule VII.E.

#### **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.**

SJWC Compliance: This Rule is not applicable to SJWC.

### **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.**

SJWC Compliance: SJWC maintains appropriate procedures and mechanisms to ensure compliance with Rule VIII.A. SJWC will continue to make the officers and employees of the utility and its affiliates available to testify before the Commission, as necessary or required, consistent with the provisions of Public Utility Code Section 314.

## **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.**

*SJWC Compliance: SJWC maintains appropriate procedures and mechanisms to ensure compliance with Rule VIII.B. SJWC will continue to make its books and records available for examination by the Commission and its staff, consistent with the provisions of Public Utility Code Section 314.*

## **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, (2) 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.**

*SJWC Compliance: SJWC filed its initial compliance plan with the Commission on March 31, 2011. SJWC maintains appropriate procedures and mechanisms to ensure compliance with Rule VIII.C. SJWC's Regulatory Department is responsible for maintaining and updating this compliance plan. If changes are determined to be necessary to ensure compliance, this plan will be revised and updated as needed. SJWC maintains a current list of applicable affiliates of the utility, which is attached to this document as Attachment A. Further, SJWC affirms that this plan complies with Rule VIII.C, and that the appropriate procedures and mechanisms are detailed in its Affiliate Transactions Procedures document.*

#### **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 an information-only filing, as provided for in Rule 6.1 of General Order 96-B, 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. If the utility requests that the affiliate transactions rules not be applied to the new affiliate, in lieu of an information-only filing, the utility shall file a Tier 2 advice letter making such a request, including an explanation of why these Rules should not apply to the new affiliate.

*SJWC Compliance: SJWC maintains appropriate procedures and mechanisms to ensure compliance with Rule VIII.D. SJWC will notify the Commission of the creation of any new affiliate not later than 60 days after the creation of such an affiliate by an information-only filing with the Director of the Commission's Division of Water and Audits, with service on the Director of the Division of Ratepayer Advocates. The filing will demonstrate how SJWC will implement these Rules with respect to the new affiliate. SJWC notes that its compliance will comport with the discussion in Rule II.E of this plan.*

#### **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.

*SJWC Compliance: SJWC will comply with this Rule, as stated, and will cooperate with the Commission's independent auditor, as well as the Division of Water & Audits during the audit.*

#### **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.

SJWC Compliance: SJWC maintains appropriate procedures and mechanisms to ensure compliance with Rule VIII. F. SJWC affirms that after the effective date of these Rules, as part of its Annual Report to the Commission, it will submit an affiliate transactions 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. With respect to Rule VIII.F.8, SJWC interprets this rule as being applicable to those affiliates and affiliate transactions covered in Rule 1B.

## **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.

SJWC Compliance: SJWC affirms compliance with Rule IX.

## **RULE X Provision of Non-tariffed Products and Services (NTP&S)**

### **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.

SJWC Compliance: SJWC will comply with all provisions of Rule X. SJWC will file a Report on Non-Tariffed Products and Services annually with its Annual Report to the Commission after the effective date of these Rules.





**ATTACHMENT A**  
**San Jose Water Company Affiliates**

<b>Entity Name</b>	<b>Entity's Line of Business</b>	<b>Primary Location of Entity</b>	<b>Rule I.B Affiliate</b>
SJW Corp	Parent company	San Jose, CA	Yes
San Jose Water Company	Public water utility serving more than one million residents in the Silicon Valley area	San Jose, CA	Yes
SJW Land Company	Owner of commercial buildings and other undeveloped land	San Jose, CA	No
SJWTX, Inc. doing business as Canyon Lake Water Service Company (CLWS)	Public utility in the business of providing water service to approximately 30,000 people in the Canyon Lake area of Texas. Regulated by the Texas Commission on Environmental Quality	Canyon Lake, TX	No
Texas Water Alliance Limited (TWAL)	Undertaking activities that are necessary to develop a water supply project in Texas	Austin, TX	Yes. TWAL operates entirely outside of California and thus is exempt from Rules III.B and III.C

San Jose Water Company  
Affiliate Transaction Compliance Plan  
Attachment B  
Affiliated Transactions Procedures

San Jose Water Company  
(U-168-W)

Affiliated Transactions Procedures  
Effective June 30, 2011

For Rules Adopted in the California Public Utilities Commission's  
Decision No.11-10-034

## **SUMMARY**

These Affiliated Transactions Procedures document San Jose Water Company's ("SJWC") practices for transactions between San Jose Water Company and affiliates as prescribed in the California Public Utilities Commission's ("Commission") Rules for Water and Sewer Utilities Regarding Affiliate Transactions and the Use of Regulated Assets for Non-Tariffed Utility Services ("Rules") adopted in Commission Decision No. ("D.")11-10-034.

### **COMPLIANCE RESPONSIBILITY**

The Regulatory Affairs Department is responsible for overall compliance and interpretation of the Rules and their application to particular transactions and for issuing these procedures. The Accounting Department is responsible for ensuring that accounting processes and controls are established to comply with the regulations interpreted by the Regulatory Affairs Department.

### **PURPOSE OF PROCEDURES**

These procedures have been developed to ensure that SJWC meets the reporting and accounting requirements of the Commission as provided in the Rules. These procedures apply to SJWC's transactions with affiliates.

### **MONITORING AND CONTACTS**

There are two groups responsible for the adherence to and application of affiliate transactions: 1) Regulatory Affairs Department and 2) Accounting Department

The Regulatory Affairs Department is responsible for overall compliance and interpretation of the Rules and their application to particular transactions covered by the Rules. The Regulatory Affairs Department provides education, direction and oversight of all matters pertaining to training and implementation of the Rules. The Accounting Department is responsible for ensuring that accounting processes and controls are established to comply with the regulations interpreted by the Regulatory Affairs Department.

### **EMPLOYEE REVIEW**

The Regulatory Affairs Department is responsible for ensuring that all appropriate employees at SJWC receive a copy of these procedures and fully understand how to comply with the Rules.

## I. OVERVIEW

The purpose of these procedures is to provide rules and standards to help ensure compliance with regulatory, accounting and pricing requirements related to transactions between SJWC and an affiliate. All transactions, including the flow of information, provision of goods or services and the transfer of employees or assets, shall be conducted in accordance with these policies.

These procedures are official for SJWC and are to be adhered to by all employees. Any employee who violates this policy may be subject to disciplinary action up to and including dismissal. For detailed guidance on specific affiliate transactions, the Regulatory Affairs department should be consulted. Anyone who is aware of any transaction that is not permitted under this policy should immediately report that transaction to their supervisor and/or the Regulatory Affairs Department.

SJWC employees who will participate in affiliated company transactions must sign an Acknowledgement of Affiliate Transaction Procedures document stating that they are aware of, have read and will follow the SJWC Affiliate Transaction Procedures and that failure to observe these procedures may result in disciplinary action.

SJWC employees must continue to comply with the SJW Corp Code of Ethical Business Conduct, Confidentiality Policy, and any other company and corporate codes and policies.

## II. DEFINITIONS

**“Rules”** – Rules for Water and Sewer Utilities Regarding Affiliate Transaction and the Use of Regulated Assets for Non-Tariffed Utility Services as provided in Commission D. 10-10-019, Appendix A.

**“Parent company”** or **“Parent”** - The parent company for SJWC is SJW Corp.

**“Affiliate”** - 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 the 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 the 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 or a utility or its parent company.

For the purposes of this Rule, “affiliate” shall not include a mutual water company, a joint powers authority, other governmental or quasi-governmental agency or authority, a public/private partnership, a watermaster board, a water basin association, or a

groundwater management authority in which a utility participates or in which a utility is a member or shareholder.

**“Rule I.B Affiliate”** – an affiliated entity that engages 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 parent company SJW Corp.

At the current time, Rule I.B affiliates to SJWC include the following entities:

SJW Corp

Texas Water Alliance Limited (“TWA”)

**“Non-Rule I.B Affiliate”** – an affiliated entity that does not engage 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; or, an affiliated utility regulated by a state regulatory commission (whether the utility is located in California or elsewhere).

At the current time, Non-Rule I.B affiliates to SJWC include the following entities:

SJW Land

SJW TX, Inc. (doing business as Canyon Lake Water Service Company)

**“Costs”** - used in the 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:

5. *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.
6. *Direct Overhead Costs.* 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.
7. *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.”

8. *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 above.

**“Transaction”** - 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.

**“Property”** - any right or asset, tangible or intangible, to which an entity has legal or equitable title.

**“Real property”** - any interest in real estate including leases, easements, and water rights.

**“Customer”** - 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.

**“Customer information”** - 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.

**“Cross-subsidy”** - any over-allocation of costs to customers resulting in under-allocation of costs to a utility affiliate.

### III. SHARED CORPORATE SUPPORT SERVICES

Corporate support shall not be shared in a manner that allows or provides a means for the transfer of confidential information from SJWC to any Rule I.B Affiliate, creates the opportunity for preferential treatment or unfair competitive advantage, leads to customer confusion, or creates significant opportunities for cross-subsidy of Rule I.B 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.

- A. Some examples of Corporate Support Services that may be shared with Rule I.B Affiliates include:

- Corporate governance and oversight
- Payroll
- Taxes
- Shareholder services
- Insurance
- Financial reporting
- Financial planning and analysis
- Corporate accounting
- Corporate security
- Human resources
- Employee records
- Regulatory affairs
- Lobbying



- Legal
- Pension management
- Engineering
- Water or sewage for resale
- Water storage capacity
- Purchasing of water distribution systems

B. Some examples of Corporate Support Services that may not be shared with Rule I.B Affiliates include:

- Hedging and financial derivatives of arbitrage services
- Marketing

C. Corporate Support Services that may be shared with Non-Rule I.B Affiliates:

- All Corporate Support Services may be shared between the Utility and Non-Rule I.B Affiliates

D. Transfer pricing of Shared Corporate Support Services:

- Transfers from SJWC to all Affiliates shall be priced at fully-loaded cost

#### **IV. TRANSFER PRICING OF NON-CORPORATE SUPPORT SERVICES**

A. Transfer pricing of Non-Corporate Support Services to Rule I.B Affiliates

- For non-executive employees compensation to the utility shall be priced at a minimum of fully loaded cost plus 5% of direct labor cost, or fair market value
- For executive employees compensation to the utility shall be priced at a minimum of fully loaded costs plus 15% of direct labor cost, or fair market value
- When an employee of SJWC is allocated to a Rule I.B Affiliate for more than 30% of that employee's chargeable time in a calendar year for non-shared corporate support services that employee shall be considered assigned to the affiliate for ratemaking purposes and 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.

B. Transfer pricing of Non-Corporate Support Services to Non-Rule I.B Affiliates

- For all employees compensation to the utility shall be priced at fully loaded cost

## V. TRANSFER OF ASSETS

Assets include tangible and intangible, real and personal property. Assets also include rights to use assets (including intellectual property or other intangible assets) through leases, licenses, or other arrangements.

Examples of assets include:

Real property:

- ❖ Land
- ❖ Buildings
- ❖ Improvements
- ❖ Easements
- ❖ Other real property rights

Personal Property:

- ❖ Automobiles
- ❖ Power operated equipment
- ❖ Computer hardware
- ❖ Furniture
- ❖ Materials and supplies

Intangible Assets:

- ❖ Licenses
- ❖ Franchises

### A. Valuation of land transfers

Real property transfers of land to affiliates which is no longer used and useful in ratebase shall be valued based on the procedure authorized by the Commission in D.90-10-037, as follows:

- a) If the value of the land to be transferred exceeds \$500,000, obtain three independent appraisals from MAI-certified appraisers. The average of the values set forth in the three appraisals would be deemed to be the value of the land for purposes of determining the transfer price.
- b) If the value of the land to be transferred is \$250,000 or more but less than \$500,000, SJWC will obtain two independent appraisals from MAI-certified appraisers. The average of the values set forth in the two appraisals will be deemed to be the value of land for purposes of determining the transfer price.
- c) If the value of the land to be transferred is more than \$5,000 but less than \$250,000, SJWC will obtain one independent appraisal from an MAI-certified

appraiser. The value set forth in the appraisal will be deemed to be the value of the land for purposes of determining the transfer price.

- d) If the value of the land to be transferred is \$5,000 or less, SJWC can use any reasonable valuation method to determine the value of the land for purposes of determining the transfer price.

B. Valuation of non-real property assets

Non-real property assets having a net book value equal to or less than \$250,000 may be priced at net book value. All non-real property assets having a net book value greater than \$250,000 must be priced at an appraised fair market value.

**VI. TRANSFER OF GOODS AND SERVICES BETWEEN UTILITY AND AFFILIATES**

A. Transfers of goods and services between utility and Rule I.B Affiliates

- a) Transfers from the utility to its affiliates of goods and services offered on the open market will be priced at fair market value.
- 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.
- c) 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 the Rules or applicable law.
- d) 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.
- e) 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.

B. Transfer of goods and services between utility and Non-Rule I.B Affiliates

- a) Transfers from the utility to its affiliates of goods and services will be priced at fair market value.
- b) Transfers from affiliates to the utility of goods and services will be priced at fair market value.

C. Fair market valuation of goods and services

- a) 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 and services, the Commission's pricing provisions govern.
- b) For goods or services for which the price is not regulated by a state agency, the fair market value shall be based a determination of the transaction price for the particular goods or services on the open market, or an independent appraisal of fair market value.

**VII. UTILITY OPERATIONS AND SERVICE QUALITY**

A. Except as otherwise provided by the Rules, SJWC shall not:

- a) Provide leads to affiliates (this restriction applies only to SJW Corp.);
- b) Solicit business on behalf of affiliates (this restriction applies only to SJW Corp.);
- c) Acquire information on behalf of or to provide to affiliates (this restriction does not currently apply to any affiliates);
- d) 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 affiliates (this restriction does not currently apply to any affiliates);
- e) Request authorization from customers to pass on customer information exclusively to affiliates (this restriction does not currently apply to any affiliates);
- f) Give the appearance that the utility speaks on behalf of affiliates (this restriction applies only to SJW Corp.);
- g) 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 to other, unaffiliated companies or their customers (this restriction applies only to SJW Corp.);

B. If SJWC provides customer or utility information, services, or unused capacity or supply to a Rule I.B Affiliate (except that TWA is exempted from this Rule), 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.

- C. Restriction on transfer of confidential information from SJWC to affiliates does not apply to corporate support, shared services and access to capital.

## **VIII. INTERNAL CONTROLS & AUDITING**

Commencing in 2013, and biennially thereafter, SJWC 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 SJWC 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 SJWC is in compliance with the Rules. SJWC shall submit the audit report to the Commission's 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 audits shall be at shareholders expense.

## **IX. REGULATORY REPORTING**

- A. SJWC shall list all shared directors and officers between SJWC 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 Water and Audits and the Director of the Division of Ratepayer Advocates of this change.
- B. SJWC 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, (2) 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.

C. SJWC will submit a report each year by March 31st 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. 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.

D. SJWC 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.



San Jose Water Company  
Affiliate Transaction Compliance Plan  
Attachment C  
Acknowledgement of Compliance with  
Affiliated Transaction Procedures



San Jose Water Company  
Acknowledgement of Compliance with the Affiliate Transaction Procedures

I acknowledge that I have reviewed, understand and will comply with, the San Jose Water Company Affiliated Transactions Procedures document. I acknowledge I will continue to comply with the SJW Corp. Code of Ethical Business Conduct, SJW Corp. Confidentiality Policy, and any other company and corporate codes and policies. If I have any questions or concerns regarding these Procedures I will contact the Vice President of Regulatory Affairs.

\_\_\_\_\_  
Employee's Name (please print)

\_\_\_\_\_  
Employee's Signature

\_\_\_\_\_  
Today's Date

**San Jose Water Company  
(U-168-W)  
2012 Annual Report  
Supplement**

**Modified Rules for Water and Sewer utilities Regarding Affiliate Transaction and the Use of Regulated Assets for Non-Tariffed Utility Services (“Rules”), as adopted in Decision 11-10-034, Rule VIII.F Annual Affiliate Transactions Report**

As provided in the biennial San Jose Water Company (“SJWC”) Affiliate Transaction Compliance Plan provided with the 2010 Annual Report in compliance with Rule VIII.C the following table lists San Jose Water Company Affiliates and whether they fall under the provisions of Rule I.B.

<b>Entity Name</b>	<b>Entity’s Line of Business</b>	<b>Primary Location of Entity</b>	<b>Rule I.B Affiliate</b>
SJW Corp	Parent company	San Jose, CA	Yes
San Jose Water Company	Public water utility serving more than one million residents in the Silicon Valley area	San Jose, CA	Yes
SJW Land Company	Owner of commercial buildings and other undeveloped land	San Jose, CA	No
SJWTX, Inc. doing business as Canyon Lake Water Service Company (CLWS)	Public utility in the business of providing water service to approximately 20,000 people in the Canyon Lake area of Texas. Regulated by the Texas Commission on Environmental Quality	Canyon Lake, TX	No
Texas Water Alliance Limited (TWA)	Undertaking activities that are necessary to develop a water supply project in Texas	Austin, TX	Yes. TWAL operates entirely outside of California and thus is exempt from Rules III.B and III.C

**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;**

Services provided to SJW Corp.: Administrative services related to raising capital, conducting shareholder meetings, conducting board meetings, conducting earnings calls, parent company level work with financial auditors, parent company financial statement preparation, SEC filings, financial analysis, tax preparation and filing, etc.

A study is performed annually to determine the allocation of expenses from SJWC to SJW Corp. for services provided. This includes an allocation expenses related to labor, travel & entertainment, vehicle usage, maintenance, auditing and SOX fees, costs of being a publicly traded company, and property and liability insurance. Additionally, SJWC allocates expenses associated with SJWC's administrative office including building depreciation expenses, property taxes, janitorial & landscaping services, and gas & electric. Finally, SJWC allocates expenses for PCs and computer equipment depreciation and accounting system depreciation. While this allocation study is performed on an annual basis the actual allocations occur on a monthly basis. See Attachment A for a list of the monthly transactions for 2012.

Services provided to TWA: None

**2. Services provided by the affiliated companies to the utility;**

None

**3. Assets transferred from the utility to the affiliated companies;**

None

**4. Assets transferred from the affiliated companies to the utility;**

None

**5. Employees transferred from the utility to the-affiliated companies;**

None

**6. Employees transferred from the-affiliated companies to the utility;**

None

**7. The financing arrangements and transactions between the utility and the affiliated companies;**

An inter-company loan agreement by and between SJW Corp., SJWC, SJW TX, Inc., SJW Land Company, and TWA governs financing arrangements and transactions between the utility and affiliated companies.

Transactions between SJWC and SJW Corp.:

Date	Transfer from SJWC to SJW Corp	Transfer from SJW Corp to SJWC
1/31/2012	4,000,000	
2/22/2012	750,000	
2/24/2012	40,000	

2/27/2012	1,200,000	
2/29/2012	50,000	
3/19/2012	50,000	
3/31/2012	8,291,000	
4/19/2012	150,000	
4/30/2012	150,000	
5/29/2012	1,350,000	
6/12/2012	50,000	
6/27/2012	1,338,000	
6/30/2012		1,900,000
7/20/2012		500,000
8/29/2012	75,000	
9/28/2012	490,000	
11/29/2012	1,400,000	
12/31/2012	361,000	

Transactions between SJWC and TWA: None

**8. Services provided by and/or assets transferred from the parent holding company to affiliate company which may have germane utility regulations impacts; and**

None

**9. Services provided by and/or assets transferred from affiliated company to the parent holding company which may have germane utility regulation impacts.**

None

END OF DOCUMENT

San Jose Water Company

(U-168-W)

Affiliate Transactions and NTP&S Rule VIII.F  
Compliance

Attachment A

Document Company	GL Date	Description	Actual Amount	JE Explanation	Remark
00100	1/31/2012	DEPRECIATION EXPENSE	-7,062.00	JV 44A Trans to SJW Corp	Trans exp to SJW Corp
00100	1/31/2012	PURCHASED POWER	-701.00	JV 44A Trans to SJW Corp	Trans exp to SJW Corp
00100	1/31/2012	ADMIN & GENERAL EXP TRANS	-113,196.00	JV 44A Trans to SJW Corp	Trans exp to SJW Corp
00100	2/29/2012	DEPRECIATION EXPENSE	-7,062.00	JV 44A Trans to SJW Corp	Trans exp to SJW Corp
00100	2/29/2012	PURCHASED POWER	-701.00	JV 44A Trans to SJW Corp	Trans exp to SJW Corp
00100	2/29/2012	ADMIN & GENERAL EXP TRANS	-113,196.00	JV 44A Trans to SJW Corp	Trans exp to SJW Corp
00100	3/31/2012	DEPRECIATION EXPENSE	-7,062.00	JV 44A Trans to SJW Corp	Trans exp to SJW Corp
00100	3/31/2012	PURCHASED POWER	-701.00	JV 44A Trans to SJW Corp	Trans exp to SJW Corp
00100	3/31/2012	ADMIN & GENERAL EXP TRANS	-113,196.00	JV 44A Trans to SJW Corp	Trans exp to SJW Corp
00100	4/30/2012	DEPRECIATION EXPENSE	-7,062.00	JV 44A Trans to SJW Corp	Trans exp to SJW Corp
00100	4/30/2012	PURCHASED POWER	-701.00	JV 44A Trans to SJW Corp	Trans exp to SJW Corp
00100	4/30/2012	ADMIN & GENERAL EXP TRANS	-113,196.00	JV 44A Trans to SJW Corp	Trans exp to SJW Corp
00100	5/31/2012	DEPRECIATION EXPENSE	-7,062.00	JV 44A Trans to SJW Corp	Trans exp to SJW Corp
00100	5/31/2012	PURCHASED POWER	-701.00	JV 44A Trans to SJW Corp	Trans exp to SJW Corp
00100	5/31/2012	ADMIN & GENERAL EXP TRANS	-113,196.00	JV 44A Trans to SJW Corp	Trans exp to SJW Corp
00100	6/30/2012	DEPRECIATION EXPENSE	11,255.00	JV 6-44A G&A XFER TO CORP	TRUE UP G&A XFER TO CORP
00100	6/30/2012	DEPRECIATION EXPENSE	-4,811.00	JV 44A Trans to SJW Corp	Trans exp to SJW Corp
00100	6/30/2012	PURCHASED POWER	1,757.00	JV 6-44A G&A XFER TO CORP	TRUE UP G&A XFER TO CORP
00100	6/30/2012	PURCHASED POWER	-350.00	JV 44A Trans to SJW Corp	Trans exp to SJW Corp
00100	6/30/2012	ADMIN & GENERAL EXP TRANS	352,730.00	JV 6-44A G&A XFER TO CORP	TRUE UP G&A XFER TO CORP
00100	6/30/2012	ADMIN & GENERAL EXP TRANS	-42,650.00	JV 44A Trans to SJW Corp	Trans exp to SJW Corp
00100	7/31/2012	DEPRECIATION EXPENSE	-4,811.00	JV 44A Trans to SJW Corp	Trans exp to SJW Corp
00100	7/31/2012	PURCHASED POWER	-350.00	JV 44A Trans to SJW Corp	Trans exp to SJW Corp
00100	7/31/2012	ADMIN & GENERAL EXP TRANS	-42,650.00	JV 44A Trans to SJW Corp	Trans exp to SJW Corp
00100	8/31/2012	DEPRECIATION EXPENSE	-4,811.00	JV 44A Trans to SJW Corp	Trans exp to SJW Corp
00100	8/31/2012	PURCHASED POWER	-350.00	JV 44A Trans to SJW Corp	Trans exp to SJW Corp
00100	8/31/2012	ADMIN & GENERAL EXP TRANS	-42,650.00	JV 44A Trans to SJW Corp	Trans exp to SJW Corp
00100	9/30/2012	DEPRECIATION EXPENSE	-4,811.00	JV 44A Trans to SJW Corp	Trans exp to SJW Corp
00100	9/30/2012	PURCHASED POWER	-350.00	JV 44A Trans to SJW Corp	Trans exp to SJW Corp
00100	9/30/2012	ADMIN & GENERAL EXP TRANS	-42,650.00	JV 44A Trans to SJW Corp	Trans exp to SJW Corp
00100	10/31/2012	DEPRECIATION EXPENSE	-4,811.00	JV 44A Trans to SJW Corp	Trans exp to SJW Corp
00100	10/31/2012	PURCHASED POWER	-350.00	JV 44A Trans to SJW Corp	Trans exp to SJW Corp
00100	10/31/2012	ADMIN & GENERAL EXP TRANS	-42,650.00	JV 44A Trans to SJW Corp	Trans exp to SJW Corp
00100	11/30/2012	DEPRECIATION EXPENSE	-4,811.00	JV 44A Trans to SJW Corp	Trans exp to SJW Corp
00100	11/30/2012	PURCHASED POWER	-350.00	JV 44A Trans to SJW Corp	Trans exp to SJW Corp
00100	11/30/2012	ADMIN & GENERAL EXP TRANS	-42,650.00	JV 44A Trans to SJW Corp	Trans exp to SJW Corp
00100	12/31/2012	DEPRECIATION EXPENSE	-4,811.00	JV 44A Trans to SJW Corp	Trans exp to SJW Corp
00100	12/31/2012	PURCHASED POWER	-350.00	JV 44A Trans to SJW Corp	Trans exp to SJW Corp
00100	12/31/2012	ADMIN & GENERAL EXP TRANS	-42,650.00	JV 44A Trans to SJW Corp	Trans exp to SJW Corp
	<b>Grand Total</b>		<b>-573,730.00</b>		

**San Jose Water Company  
(U-168-W)  
2012 Annual Report  
Supplement**

**Modified Rules for Water and Sewer utilities Regarding Affiliate Transaction and the Use of Regulated Assets for Non-Tariffed Utility Services (“Rules”), as adopted in Decision 11-10-034, Rule X.E Annual Report of NTP&S Projects**

**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;**

**Billing Contract with the City of San Jose**

In 2005 the City of San Jose sought bids for billing services - EBill, EPay, Bill Print, Mail and Remittance Processing from 2006 to 2011. However, SJWC was unable to meet the City's requirements for EBill, EPay, Bill Print and Mail, but exceeded the billing services requirement for Remittance Processing. Therefore, SJWC prepared a billing services bid with Kubra, Inc., as prime contractor, and SJWC as billing services subcontractor for Remittance Processing. All risks related to this contract are borne by the shareholders of the Company.

**Telecommunication Antenna Leases**

The Company is leasing antenna space to telecommunication companies on various water tanks. Although the number of contracts varies, currently the company has 31 of these contracts. The contracts are usually for a period of five years, and may or may not be renewed as telecommunication technology continues to evolve. All risks related to this contract are borne by the shareholders of the Company.

**Backflow Testing Service for the South Bay Water Recycling Program**

In order to prevent the contamination of the potable water system the State of California requires, pursuant to Title 22 of the California Code of Regulations, that any location receiving both potable water and recycled water be subject to a comprehensive inspection by an AWWA certified Cross Connection Specialist. This service, and a shut down test (per UPC Appendix J), must be performed before recycled water can be permitted on site, and every four years after that. The Company's AWWA certified Cross Connection Specialists provides this service to the South Bay Water Recycling Program (“SBWRP”).

**City of Cupertino Water System Lease**

In October 1997 SJWC was awarded a 25-year lease to operate and maintain the City of Cupertino water system located adjacent (contiguous) to the Company's regulated service area. The City of Cupertino system, which is operationally interconnected to the SJWC system, provides potable water service to approximately 4,100 customers. Pursuant to the lease agreement the Company will receive all the water rate revenue generated within

the City of Cupertino system. In return the Company is responsible for all system upgrades to be completed during the 25-year lease period. Pursuant to the lease agreement SJWC's rates were phased-in over a three year period ending in 2000. However, the rates in the City of Cupertino are ultimately subject to the approval of the City Council.

**Maintenance and Miscellaneous Services for the City of San Jose Municipal Water System**

In March 2003 the San Jose City Council authorized the City of San Jose to enter into a 10-year agreement with SJWC for repair and maintenance services, valve exercising services and some miscellaneous services. In accordance with D.00-07-018 the maintenance and valve exercising services contract is classified as "Active", resulting in an allocation of 10% to the ratepayers from the contract.

**Meter Shop Testing Service**

SJWC provides meter testing and repair services to outside water utilities. The intent of the program is to offer outside agencies an inexpensive alternative to full meter replacement. We serve on average 6 water utilities per year.

**2. Whether and why it is classified active or passive;**

The following designations are based on the "Designation of Active and Passive NTP&S Water and Sewer Utility Projects" table provided in D.11-10-034, page A-16.

**Billing Contract with the City of San Jose**

Category – Customer Account Management Services; Designation - Active

**Telecommunication Antenna Leases**

Category – Use of General Facilities; Designation - Passive

**Backflow Testing Service for the South Bay Water Recycling Program**

Category – Operation and Maintenance Contracts; Designation - Active

**City of Cupertino Water System Lease**

Category – Operation and Maintenance Contracts; Designation - Active

**Maintenance and Miscellaneous Services for the City of San Jose Municipal Water System**

Category – Operation and Maintenance Contracts; Designation - Active

**Meter Shop Testing Service**

Category – Meter Services; Designation - Active

**3. Gross revenue received;**

\$4,505,925



- 4. Revenue allocated to ratepayers and to shareholders, as established in the company's current general rate case;**

Revenue allocated to ratepayers = \$456,044 per D.09-11-032. SJWC does not allocate revenue to shareholders in the general rate case.

- 5. A complete identification of all regulated assets used in the transaction;**

SJWC does not separately track assets used in the provision of NTP&S.

- 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;**

See Attachment A.

- 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**

None

- 8. If the NTP&S did not require approval through advice letter, provide the date notice was given to the Commission.**

SJWC has not initiated any new NTP&S since the effective date of the Rules.

END OF DOCUMENT

San Jose Water Company

(U-168-W)

Affiliate Transactions and NTP&S Rule X.E Compliance

Attachment A

**CITY OF SAN JOSE BILLING CONTRACT**

Title	Hours Worked	Gross Pay
Billing Clerk	139	4180
Sr. Billing Clerk	7	220
<b>TOTAL</b>	146.00	4,400.00

**CITY OF SAN JOSE MAINTENANCE & MISC. SERVICES CONTRACT**

Distribution System Worker	28	1260
Distribution System Worker	47	1420
Crewleader F	160	8820
Distribution System Worker	14	420
Crewleader A	46	1730
Sr. DS Support worker	9	370
DS Truck Operator II	53	1880
Service Inspector Swing	7	230
Crewleader A	65	2540
Crewleader A	25	1000
Sr. DS Support worker	29	960
DS Truck Operator I	164	5700
Crewleader R	71	2720
Crewleader A	50	1900
Distribution System Inspector	25	940
DS Laborer	64	1930
Crewleader F	87	4350
Crewleader F	7	250
Distribution System Inspector	17	420
Sr. DS Worker	42	1520
DS Worker	60	1850
Sr. DS Worker	84	3350
DS Office Supervisor	600	23530
Distribution System Inspector	27	1060
Crewleader H	5	140
DS Worker	44	1310
Distribution System Inspector	12	410
Cross Connection Inspector	25	1490
Distribution System Inspector	17	440
Distribution System Inspector	11	750
DS Worker	30	950
DS Worker	91	3160
Crewleader C	40	1860
System Operator Swing	8	280
Crewleader A	82	3110
Distribution System Inspector	5	170
DS Truck Operator I	37	1260
Distribution System Supervisor	12	500
Sr. Cross Connection Inspector	42	2540
Crewleader A	57	2190
Distribution System Inspector	23	950
Crewleader B - swing	33	1560
Concrete Crewleader	134	4730
DS Worker II	19	610
DS Worker II	52	1810
DS Worker	84	2560
DS Worker II	22	660

DS Worker II	39	1230
DS Worker II	89	4100
Distribution System Inspector	76	2730
DS Worker	103	5310
DS Worker	65	2060
DS Worker	48	1450
DS Worker	28	830
DS Worker	90	4510
DS Worker swing	16	430
DS Worker	53	1580
DS Worker	64	1950
Ops Inspector	29	780
DS Laborer	47	1220
DS Worker	47	1260
DS Worker	74	2120
DS Worker	170	9870
DS Worker	24	640
DS Worker	8	190
DS Worker	73	2170
DS Worker	35	890
DS Worker	17	370
DS Worker	40	1190
DS Worker	14	330
DS Worker	47	1060
DS Worker	12	300
DS Laborer	33	840
DS Laborer	41	1020
DS Laborer	1	30
<b>TOTAL</b>	<b>4,049.00</b>	<b>154,050.00</b>

**METER TESTING**

Meter Mechanic	10	340
Meter Mechanic	66	2230
Meter Mechanic	24	810
Meter Shop Supervisor	16	540
Meter Mechanic	23	780
<b>TOTAL</b>	<b>139.00</b>	<b>4,700.00</b>

**CUPERTINO O&M CONTRACT**

Service Inspector A	17	570
Water Conservation Inspector	36	1140
Service Inspector A	23	760
Service Inspector A	2	70
Service Inspector Swing	5	180
Senior Service Inspector	3	100
Meter Reader	12	380
Meter Reader	27	860
Meter Reader	7	220
Meter Reader	12	380
Meter Reading Coordinator	6	200
Meter Reader	6	190
Meter Reader	6	190
Meter Reader	12	380
Meter Reader	16	510
Meter Reader	18	470

<b>Water Conservation Inspector</b>	<b>2</b>	<b>50</b>
<b>Crewleader A</b>	<b>33</b>	<b>1260</b>
<b>Crewleader A</b>	<b>10</b>	<b>380</b>
<b>Crewleader E Swing</b>	<b>25</b>	<b>960</b>
<b>DS Worker</b>	<b>11</b>	<b>330</b>
<b>DS Worker</b>	<b>18</b>	<b>420</b>
<b>DS Worker</b>	<b>19</b>	<b>520</b>
<b>Ops Inspector</b>	<b>8</b>	<b>220</b>
<b>DS Laborer</b>	<b>16</b>	<b>370</b>
<b>DS Worker</b>	<b>15</b>	<b>380</b>
<b>DS Worker</b>	<b>8</b>	<b>160</b>
<b>DS Worker</b>	<b>8</b>	<b>240</b>
<b>DS Laborer</b>	<b>8</b>	<b>240</b>
<b>DS Worker II</b>	<b>5</b>	<b>230</b>
<b>DS Worker</b>	<b>9</b>	<b>150</b>
<b>DS Worker</b>	<b>5</b>	<b>270</b>
<b>Distribution System Inspector</b>	<b>48</b>	<b>1700</b>
<b>Distribution System Inspector</b>	<b>8</b>	<b>270</b>
<b>Crewleader F</b>	<b>1</b>	<b>40</b>
<b>DS Laborer</b>	<b>5</b>	<b>150</b>
<b>Crewleader F</b>	<b>12</b>	<b>410</b>
<b>SR DS Worker</b>	<b>5</b>	<b>180</b>
<b>DS worker</b>	<b>7</b>	<b>230</b>
<b>Crewleader C</b>	<b>8</b>	<b>320</b>
<b>DS Worker</b>	<b>8</b>	<b>200</b>
<b>DS Worker</b>	<b>8</b>	<b>130</b>
<b>DS Worker</b>	<b>8</b>	<b>190</b>
<b>0</b>	<b>11</b>	<b>230</b>
<b>DS Laborer</b>	<b>3</b>	<b>60</b>
<b>DS Worker</b>	<b>2</b>	<b>50</b>
<b>Cross Connection Inspector</b>	<b>21</b>	<b>820</b>
<b>Cross Connection Inspector</b>	<b>49</b>	<b>1810</b>
<b>Cross Connection Inspector</b>	<b>24</b>	<b>1110</b>
<b>Sr. Cross Connection Inspector</b>	<b>145</b>	<b>6200</b>
<b>TOTAL</b>	<b>781.00</b>	<b>26,880.00</b>