

**Annual Report of California Water Service Company
to the California Public Utilities Commission**

ATTACHMENT D

**BIENNIAL AFFILIATE COMPLIANCE PLAN
OF
CALIFORNIA WATER SERVICE COMPANY (U-60-W)**

Affiliate Transaction Rules (D.10-10-019)

Effective June 30, 2011

(Submitted March 2019)

INTRODUCTION

In compliance with Rule VIII.C of the California Public Utilities Commission’s (“CPUC’s”) Rules for Water and Sewer Utilities Regarding Affiliate Transactions and the Use of Regulated Assets for Non-Tariffed Utility Services adopted in D.10-10-019, CALIFORNIA WATER SERVICE COMPANY (“Cal Water”) has prepared and files this 2018 Affiliate Rules Compliance Plan (“2018 Plan”), which reflects the current status of its efforts to comply with the Affiliate Transactions Rules (“Rules” or “ATRs”).

Cal Water submits the following Compliance Plan (“Plan”) to comply with the Affiliate Transaction Rules for Class A and B Water Companies adopted by the CPUC in D.10-10-019. Cal Water’s Plan includes a variety of procedures and mechanisms for implementation and compliance with these Rules, which when taken as a whole, will provide a comprehensive approach to ATRs compliance. Although not specifically described in the Plan, all Rules will be implemented by means of a combination of one or more of the following:

- Development and distribution of written policies and procedures;
- Education of, training for and communications to employees of Cal Water and Cal Water affiliates;
- Collection of company-wide records for required reports and reviews;
- Monitoring of affiliate transactions and overall compliance on a continuing basis; and
- Additional training and corrective actions as needed.

Cal Water’s Rates Department implements this Plan. The Rates Department is responsible for issuing periodic memoranda to Cal Water’s parent company, California Water Service Group (“CWS Group”), 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 Cal Water employees must do to ensure compliance with the Rules. Among the compliance tools that the Rates Department uses are: employee education and training; a document that describes certain policies and procedures governing affiliate transactions; preparing compliance reports for the Water Division, 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 Cal Water’s Plan (where applicable).

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

- (1) **Written policies** that are disseminated to employees of Cal Water and those subsidiaries that are governed by these Rules, and that describe these Rules and their obligations hereunder;

- (2) Employees of Cal Water who provide permitted corporate support or shared services, and who have access to non-public utility information, **will follow all written policies** regarding limitations on the use of non-public Cal Water information, and failure to observe these limitations will result in corporate discipline;
- (3) All support personnel, services, physical plant, equipment, supplies, and other overhead owned by and used by CWS Group **shall be charged** to CWS Group, as appropriate;
- (4) All corporate support services rendered by Cal Water 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 will be provided to the employees of Cal Water and affected affiliates;
- (6) Cal Water employee transfers to affiliates will be **tracked** by Cal Water 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/ GREG A. MILLEMAN

Greg A. Milleman
Vice President, California Rates
California Water Service 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).

Cal Water Compliance: As a Class A water utility subject to Commission regulation, Cal Water affirms that these Rules apply to it and its employees. Cal Water has appropriate procedures and mechanisms to ensure compliance with these Rules in place. Cal Water's training materials and resources 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.

Cal Water Compliance: Cal Water affirms that these Rules apply to transactions with its covered affiliates as discussed below. Cal Water reserves the right to reclassify an affiliate, with appropriate notice to the Commission, as the activities of that affiliate dictate.

Regulated Affiliates: Rule I.B specifically exempts from certain Rules any transactions between the utility and "an affiliated utility regulated by a state commission."

Accordingly, transactions between Cal Water and the following affiliates are **exempt from all of the Rules, with the exception that the following rules still apply:**

- ❖ Rule IV.B – requires the proper allocation of common costs, and prohibits cross-subsidies with Cal Water ratepayers; and
 - ❖ Rule X – rules for any non-tariffed products and services provided by Cal Water.
- (1) **Exempt: Hawaii Water Service Company** – a regulated utility that provides service to water and wastewater customers on the islands of Maui and Hawaii.
 - (2) **Exempt: New Mexico Water Service Company** – a regulated utility that provides service to water and wastewater customers in New Mexico.
 - (3) **Exempt: Washington Water Service Company** – a regulated utility that provides domestic water service in Washington State.

Affiliates outside of California that do not substantially affect Cal Water’s operations or operating costs: Under Rule I.H, an affiliate that “operates entirely outside of California,” and whose “operations do not substantially affect the utility’s operations and the operating costs in California” are exempt two provisions in these Rules. Accordingly, transactions between Cal Water and the following affiliate **are subject to all of the Rules, except that they are exempt from the following provisions:**

- ❖ Rule III.B – identifies specific activities related to affiliates that Cal Water may not engage in, including: providing leads to affiliates; soliciting business for affiliates; acquiring information to provide to affiliates; sharing non-public reports on strategic business matters; asking customers to allow sharing of information that will only go to affiliates; appearing to speak on behalf of affiliates, and; representing that an affiliate will get preferential treatment from the utility due to the affiliate relationship.
- ❖ Rule III.C – requires that any customer information, utility information, unused capacity, or unused supply that is provided to an affiliate also be offered to similarly-situated market participants in a timely, non-discriminatory manner.

- (1) **Limited exemption: HWS Utility Services (“HWSUS”)** – an unregulated company in Hawaii that provides unregulated waste and wastewater services. All Rules except Rules III.B and III.C apply to this affiliate.

Other Affiliates: all Rules apply to transactions with the following Cal Water affiliates.

- (1) **California Water Service Group (“CWS Group”)** – Cal Water’s holding company, and the parent company for all affiliates listed here.
- (2) **CWS Utility Services (“CWSUS”)**: an unregulated company that owns real property in California.

I.C.

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

Cal Water Compliance: Cal Water affirms that it is 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.

Cal Water Compliance: Cal Water affirms that existing Commission rules for Cal Water and CWS Group continue to apply except to the extent that they conflict with these Rules.

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.

Cal Water Compliance: In D.97-12-011, the Commission approved Cal Water's current holding company structure. Attachment A to that decision contained a Settlement Agreement with certain requirements. Requirements from that Settlement Agreement that are not addressed by these Rules include the following:

From Section IV. Annual Report

A. The annual consolidated financial statements of the Holding Company as reported on Form 10K to the Securities and Exchange Commission. The Utility shall also provide workpapers that reconcile the Holding Company's Form 10K filing with the Holding Company's, the Utility's and each affiliate's general ledgers for the previous calendar year.

From Section IV. Annual Report

C. A copy of all periodic reports filed with the Securities and Exchange Commission during the previous year.

Section V. Capital Requirements

The capital requirements of the Utility shall be given first priority by the Utility and the Holding Company's boards of directors.

VI. Capital Structure Of The Utility

The Utility shall maintain a balanced capital structure consistent with that determined to be reasonable by the Commission in its most recent decision on the Utility's capital structure and, to the extent the Commission determines that the Utility has not maintained a reasonable capital structure, the Holding Company shall provide or cause to be provided equity capital to restore such capital structure.

IX. Dividend Policy

The dividend policy of the Utility will continue to be established by the Utility's board of directors as though the Utility were a stand-alone utility company

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.

Cal Water Compliance: Cal Water 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.

Cal Water Compliance: Cal Water notes that Rule I.G does not apply to it.

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.

Cal Water Compliance: See the discussion under Rule I.B.

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.

Cal Water Compliance: Cal Water 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 otherwise) 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.

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.

[Cal Water Compliance: Cal Water affirms that applies all of the above 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 Utility’s 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.

[Cal Water Compliance: Cal Water maintains appropriate procedures and mechanisms to ensure compliance with Rule III.A. Further, Cal Water’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, or its successor’s] permit requirements and all applicable drinking water regulations”). Finally, Cal Water’s compliance with Public Utilities Code Section 851 precludes the acquisition 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;

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

Cal Water has a policy stated in its affiliated company transactions procedures that Cal Water employees will not provide any leads to affiliates that fall under the applicability of this Rule. Those affiliates falling under the applicability of this Rule are specifically identified to Cal Water employees.

Cal Water notes that compliance with this Rule is one-way in nature. That is, affiliates are not prohibited from providing leads to Cal Water, especially with respect to potential acquisitions of water or sewer systems that may ultimately be regulated by the Commission.

Cal Water 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 purchase.

2. Solicit business on behalf of its affiliates;

Cal Water Compliance: Cal Water affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule III.B.2. Cal Water has a policy stated in its affiliated company transactions procedures that Cal Water employees will not solicit business on behalf of affiliates that fall under the applicability of this Rule. Cal Water issues periodic communications to its employees and affiliates governed by these Rules directing them to comply with this Rule. Cal Water provides training, as necessary, to its employees.

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

Cal Water Compliance: Cal Water 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, Cal Water is permitted to acquire information on behalf of or provide information to its parent regarding a potential water or sewer system purchase – Cal Water issues periodic communications to its employees and affiliates governed by these Rules directing them to comply with this Rule. Cal Water provides 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;

Cal Water Compliance: Cal Water 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, Cal Water is permitted to share proprietary or non-public reports or analyses of a potential water or sewer system acquisition with its parent. Cal Water provides training, as necessary, and issues periodic communications to its employees and affiliates governed by these Rules directing them to comply with this Rule.

Cal Water 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;

Cal Water Compliance: With the exception noted in Rule III.B.8, Cal Water 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 either with the specified customer's explicit written consent, or the use of a Standard Customer Information Release Form.

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

Cal Water Compliance: Cal Water affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule III.B.6. Cal Water provides training, as necessary, and issues 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.

Cal Water Compliance: Cal Water affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule III.B.7. Cal Water provides training, as necessary, and issues 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.

Cal Water Compliance: Cal Water does not have any non-profit affiliates, but 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.

Cal Water Compliance: Cal Water does not have any non-profit affiliates, but acknowledges the exemption provided for in Rule III.B.9.

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.

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

Cal Water Compliance: Cal Water interprets the applicability of this Rule according to whether the utility (or its Parent) is publicly traded or privately owned. Accordingly, Cal Water 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 the Public Utilities Code, particularly Public Utilities Code Sections 314 and 701. Utility accounting records are available for review upon Commission request. CWS Group financial statements and Cal Water 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.

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

Cal Water Compliance: Cal Water affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule IV.B. Cal Water provides a list of all shared directors and officers between the utility and its affiliates in its Annual Report to the Commission, and in the supporting documentation for its general rate case applications.

Cal Water's affiliate transactions procedures document specifies that no later than 30 days following a change to the list of shared directors and officers, Cal Water shall notify the Director of the Division of Water and Audits (or its successor) and the Director of the Division of Ratepayer Advocates (or its successor) 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.

Cal Water Compliance: Cal Water provides 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.

Cal Water Compliance: Cal Water interprets this Rule as being applicable to permanent movement only, and it affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule IV.E.1. Cal Water includes this information in its Annual Report to the Commission. Cal Water's affiliate transactions procedures documents provide guidance for compliance with this Rule.

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.

Cal Water Compliance: Cal Water affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule IV.E.2. Cal Water includes this information in its Annual Report to the Commission. Cal Water's affiliate transactions procedures documents provide guidance for compliance with this Rule.

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.**

Cal Water Compliance: Cal Water affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule IV.E.3. Cal Water includes this information in its Annual Report to the Commission. Cal Water's affiliate transactions procedures documents provide guidance for compliance with this Rule.

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.

Cal Water Compliance: Cal Water's affiliate transactions procedures documents state that the portion of the fully loaded costs of shared corporate services that benefits CWS Group and/or affiliates shall be charged to CWS Group and/or affiliates. Cal Water interprets this rule as permitting allocations pursuant to existing practice and previous GRC decisions.

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.

Cal Water Compliance: Cal Water notes that the California Water Association's Petition for Modification of D.10-10-019, filed March 25, 2011, addresses the inherent contradiction in the first and last sentence of this Rule V.B, and proposes a solution. Accordingly, Cal Water 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 does not provide a means for the transfer of confidential non-public Cal Water information from Cal Water 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.

Cal Water Compliance: Cal Water affirms that all of the services listed in Rule V.C can be shared between Cal Water, its parent company, and all covered affiliates.

V.D.

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

Cal Water Compliance: Cal Water's affiliated transactions procedures include a list of services that cannot be shared.

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.

Cal Water Compliance for Rules VI.A, VI.B, VI.C, VI.D, VI.E, VI.F, and VI.G: Cal Water maintains appropriate procedures and mechanisms to ensure compliance with Rule VI.A. Cal Water’s Accounting Department is responsible for ensuring that transfers between affiliates are calculated and recorded appropriately. When the Accounting Department questions the amount charged for the utility’s goods or services, Cal Water and a representative of the affected affiliate will review the transaction to ensure compliance with these Rules.

Further, with respect to Rule VI.G, Cal Water 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 there isn’t time to ascertain “fair market value.” Accordingly, Cal Water employs 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.

Cal Water Compliance: Cal Water maintains appropriate procedures and mechanisms to ensure compliance with Rule VII.A. Cal Water's Finance 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.

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.

Cal Water Compliance: As a publicly traded company, Cal Water maintains appropriate procedures and mechanisms to ensure compliance with Rule VII.B and affirms that it complies, 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.

Cal Water Compliance: As a publicly traded company, Cal Water maintains appropriate procedures and mechanisms to ensure compliance with Rule VII.C and affirms that the creation of any new affiliate by Cal Water 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.

Cal Water Compliance: Cal Water maintains appropriate procedures and mechanisms to ensure compliance with Rule VII.D. Cal Water interprets this rule as being applicable to debt issued by the parent on behalf of a non-regulated affiliate, not when 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).

Cal Water 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, Cal Water filed its Tier III advice letter on or before March 31, 2011, demonstrating its compliance with Rule VII.E. The Commission approved Advice Letter 2030-A in Resolution W-4984.

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.

Cal Water affirms that the stated Rules VI, VII, VIII.B and VIII.C in Attachment A to D.97-12-011 continue in effect.

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.

Cal Water Compliance: Cal Water maintains appropriate procedures and mechanisms to ensure compliance with Rule VIII.A. Cal Water will continue to make the officers and employees of the utility and its covered affiliates available to testify before the Commission, as necessary or required, consistent with the provisions of Public Utilities Code Section 314 and D.97-12-011.

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.

Cal Water Compliance: Cal Water maintains appropriate procedures and mechanisms to ensure compliance with Rule VIII.B. Cal Water will continue to make its books and records open for examination by the Commission and its staff, consistent with the provisions of Public Utilities Code Section 314 and D.97-12-011.

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.**

Cal Water Compliance: Cal Water has filed compliance plans with the Commission biennially since March 2011.

Cal Water maintains appropriate procedures and mechanisms to ensure compliance with Rule VIII.C. Cal Water's Rates Department is responsible for maintaining and updating this Compliance Plan. Cal Water maintains a current list of applicable affiliates of the utility as identified in its discussion of Rule I.B. Further, Cal Water affirms that this plan complies with Rule VIII.C, and that the appropriate procedures and mechanisms are detailed in its affiliate transactions procedures documents.

VIII.D

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

Cal Water Compliance: Cal Water maintains appropriate procedures and mechanisms to ensure compliance with Rule VIII.D. Cal Water will notify the Commission of the creation by the utility or its parent of any new affiliate. Not later than 60 days after the creation of an applicable affiliate, the utility shall file a Tier 3 advice letter with the Director of the Commission's Division of Water and Audits (or its successor), with service on the Director of the Division of Ratepayer Advocates (or its successor), demonstrating how Cal Water will implement these Rules with respect to the new affiliate. Cal Water 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.

Cal Water Compliance: If and when the requirements of this Rule are triggered by Cal Water's activities, Cal Water will comply with this Rule as stated, and will cooperate with the Commission's independent auditor, as well as the Division of Water & Audits (or its successor) during any such 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.

Cal Water Compliance: Cal Water maintains appropriate procedures and mechanisms to ensure compliance with Rule VIII. F. Cal Water affirms that, as part of its Annual Report to the Commission, it submits an affiliate transactions report to the Director of the Division of Water and Audits (or its successor) and the Director of the Division of Ratepayer Advocates (or its successor) 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, Cal Water 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.

Cal Water Compliance: Cal Water 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, NTP&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.

Cal Water Compliance: As detailed in the annual report on NTP&S projects that Cal Water submits concurrently with its Annual Report to the Commission, Cal Water has several contracts for unregulated services. All incremental costs attributable to the contracts have been allocated to unregulated accounts, and 10% or 30% of the gross revenues associated with the contracts, as appropriate, have been allocated to ratepayers. The cost allocation and revenue-sharing aspects of these contracts have been consistently reviewed and approved in Cal Water's general rate cases, most recently in [A.15-07-015](#), resulting in [D.16-12-042](#).

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.**

[Cal Water Compliance: Cal Water complies with all provisions of Rule X and files a Report on Non-Tariffed Products and Services every year with its Annual Report to the Commission.](#)

VERIFICATION

I, Greg A. Milleman, declare and say that I am an officer, to wit, Vice President, California Rates, of California Water Service Company, a California corporation. I make this verification on behalf of said corporation that I know the contents of the corporation's Compliance Plan, submitted to the California Public Utilities Commission in compliance with Rule VII.C of the Commission's Affiliate Transaction Rules (D.10-10-019), as modified, and that these provisions have been implemented by the corporation.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on March 28, 2019, in Torrance, California.

/s/ GREG A. MILLEMAN

Greg A. Milleman
Vice President, California Rates
California Water Service Company