

ALISAL WATER CORPORATION

A California Corporation
dba ALCO WATER SERVICE

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April 7, 2016

Rami Kahlon, Director
Division of Water and Audits
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

**RE: California Public Utilities Commission Affiliate Transaction Compliance
Affiliate Transactions Rule Biennial Report for Years Ending December 31, 2014
and December 31, 2015**

Dear Mr. Kahlon,

Alisal Water Corporation, dba Alco Water Service ("Alco"), utility #W-206, is in receipt of your letter dated March 25, 2016, in regards to an audit report due by September 30, 2015, pursuant to Decision (D.)11-10-034, Appendix A, Rule VIII, Section VIII.E, which states:

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.

Additionally, your March 25, 2016 letter states that the Commission is requesting that "all Class A and B water and sewer whose sum of all unregulated affiliates' revenue during calendar years 2013 and 2014 were less than or equal to 5% of the total revenue of the utility and all of its affiliates during that period send DWA and the Office of Ratepayer Advocates a letter stating that the sum of all unregulated affiliates' revenue during calendar years 2013 and 2014 did not exceed the 5% threshold."

Alco has been answering these questions and submitting information to the Commission pursuant to Decision (D.) 1010019, adopted October 14, 2010, Sections VIII.C, VIII.E and VIII.F, as ultimately modified by D.1201042 dated January 31, 2012 annually in its Affiliate Transaction Compliance report for the Affiliate Transactions Rule to the Commission,

specifically to the Director of the Division of Water And Audits, with a courtesy copy to the Director of the Office of Ratepayer Advocates. Attached to this correspondence are Alco's report dated March 31, 2014, which covered the year ending December 31, 2013, Alco's report dated March 31, 2015, which covered the year ending December 31, 2014, and Alco's report dated March 30, 2016, which covered the years ending December 31, 2014 and December 31, 2015.

In response to your March 25, 2016 letter, Alco will answer the questions regarding years 2013 and 2014 with the information previously provided in the above-referenced attached reports.

Alco has no parent company nor affiliate transactions that trigger the 5% total revenue threshold. Alco has no affiliates, as defined in Rule II.D from D.1010019, which was subsequently modified by D.1201042 as Rule II.E, except that pursuant to D.1205003, the Commission deemed, as of May 10, 2012, individual Adcock family members as affiliates but, excepting therefrom, the employment of individual Adcock family members is not an affiliate transaction. Additionally, Adcock family members who receive and pay for utility services under the standard tariffs do not constitute affiliates nor are the utility services affiliate transactions. Finally, D.1205003 provides that the compensation to Adcock family members employed by Alco is excluded from the audit trigger, see Ordering Paragraph 2.

This definition of the Adcock family as affiliates and the conditions thereon are addressed in D.1205003, at Section 3, Discussion, Page 6, which states, in pertinent part:

Adcock family members are deemed to be an affiliate.³ This would be the only modification to Rule II applicable to Alco. We note that no Adcock family member would be viewed as a "parent" company of Alco for purposes of the Affiliate Transaction Rules;

D.1205003 continues, at Page 6, in the Discussion section and at Footnotes 2 and 3 on that page:

Consistent with the intent of the Affiliate Transaction Rules, Adcock family members may receive and pay for services under the standard tariffs applicable to any other customer. These would not be reportable transactions.

² *As noted elsewhere, Adcock family members and any other companies that they may own or control are only deemed to be affiliates. As currently structured Alco has no parent company under the meaning of the Affiliate Transaction Rules.*

³ *As a beginning point, we define an "Adcock family member" as any member of the Adcock family who owns or controls, directly or indirectly, more than 10% of Alco's outstanding voting securities, and that individual's parents, siblings, children, grandchildren, and/or any spouse of any of the above. Currently, Patricia Adcock owns 100% of Alco's voting shares. We further note that any family member who has no transactions with Alco has no reporting obligation. In fact, it is Alco's obligation to report its transactions with Adcock family members. As noted elsewhere, if Alco has a transaction with an Adcock family member, then*

the family member must only make available financial records applicable to that transaction.

D.1205003 continues, at Page 8, in the Discussion section:

With respect to this rule there are no modifications except to exclude compensation of Adcock family members employed by Alco from the audit trigger.

D.1205003 also states, at Page 9, Section 4, Conclusion:

Whenever Adcock family members work for Alco that employment in itself is not an affiliate transaction.

And, at Page 11, Finding of Facts Section, Finding of Facts #6 and #7, D.1205003 states:

- 6. Employment of an Adcock family member by Alco is not itself an affiliate transaction.*
- 7. Adcock family members who have no transactions with the company are not affiliates.*

D.1205003, Ordering Paragraph number 2, states, in pertinent part:

The Tier 3 Advice Letter requirement previously imposed on Alisal Water Corporation, doing business as Alco Water Service (Alco), is replaced with application of the Commission's existing Affiliate Transaction Rules for water companies and which already applies to Alco, but are modified as follows for commercial transactions between Alco and Adcock family members:

- i) All Adcock family members and any companies owned by Adcock family members that have transactions with Alco are deemed to be affiliate companies of Alco and are subject to the Affiliate Transaction Rules. Employment of an Adcock family member by Alco is not considered to be an affiliate transaction.*
- iv) Pursuant to Rule VIII. D, the only time changes within the Adcock family need to be reported by Alco is whenever a new Adcock family member enters into a transaction with Alco. No other changes to the Adcock family structure are reportable.*
- v) Pursuant to Rule VIII.E, we exclude the compensation of Adcock family members employed by Alco from this Rule's audit trigger*

Because Alco has had no affiliate transactions, necessarily, the sum of all "unregulated affiliates' revenue during calendar years 2013 and 2014 were less than or equal to 5% of the total revenue of the utility and all of its affiliates during that period". Therefore Alco has had no audits performed by independent auditors for affiliate transactions pursuant to D.1110034.

In the future, Alco will provide biennial notification to the Commission pursuant to D.1110034 when the sum of all "unregulated affiliates' revenue during calendar years 2013 and 2014 were less than or equal to 5% of the total revenue of the utility and all of its affiliates during that period".

If you have any questions or require additional information, please do not hesitate to contact me at (831) 424-0441.

Sincerely,



Thomas R. Adcock
President

TRA/ams

enclosures

cc: Elizabeth Echols, Director
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