



MATSON  
& ISOM

EAST PASADENA WATER COMPANY

**Pasadena, California**

INDEPENDENT ACCOUNTANTS'  
EXAMINATION REPORT

**January 1, 2012, through December 31, 2013**

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January 1, 2012, through December 31, 2013

*East Pasadena Water Company*

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MATSON  
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## INDEPENDENT ACCOUNTANTS' EXAMINATION REPORT

To the Board of Directors  
East Pasadena Water Company  
Pasadena, California

We have examined East Pasadena Water Company's (EPWC) compliance with 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 during the years ended December 31, 2013, and 2012. EPWC's management is responsible for compliance with those requirements. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; and, accordingly, included examining, on a test basis, evidence supporting EPWC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on EPWC's compliance with specified requirements.

In our opinion, EPWC complied, in all material respects, with the aforementioned requirements for the years ended December 31, 2013, and 2012.

This report is intended solely for the information and use of East Pasadena Water Company and the California Public Utilities Commission and is not intended to be, and should not be, used by anyone other than these specified parties.

*Matson and Isom*

December 19, 2014  
Chico, California

## EXECUTIVE SUMMARY

January 1, 2012, through December 31, 2013

*East Pasadena Water Company*

## EXECUTIVE SUMMARY

The examination addresses East Pasadena Water Company's (EPWC) compliance with the California Public Utilities Commission's (the Commission) expected adherence to the Water and Sewer Utilities Regarding Affiliate Transactions and the Use of Regulated Assets for Non-Tariffed Utility Services (the Rules) as adopted in Decision (D.) 10-10-019. Our procedures found that EPWC complied with all Rules except as summarized in the results section beginning on page 4.

## BACKGROUND

In October 2010, the Commission adopted D.10-10-019, which provided Class A and B water utilities with governing rules for affiliate transactions. These governing rules provide consistent and understandable adherence rules for all subject water and sewer utilities. The Commission stated in the Decision that the goal of these governing rules is to protect rate-payers, ensure financial health of the utility, and prevent anti-competitive behavior in the competitive marketplace. The Rules became effective June 30, 2011.

The Commission issued D.11-10-034 that amended D.10-10-019, which became effective October 20, 2011. The Commission also issued D.12-01-042 that amended D.11-10-034, which became effective January 30, 2012.

## EPWC CORPORATE STRUCTURE

EPWC is classified as a Class B Utility. EPWC is wholly owned by its parent company, California-Michigan Land and Water Company (Cal-Mich) and has an affiliate relationship through common ownership with MCWC, Inc. (MCWC) as shown below:

Company Name	Covered Affiliate Relationship	Primary Location	Applicability of Rules
California-Michigan Land and Water Company	Parent Company	626 South Lake Avenue, Ste. 206 Pasadena, CA 91106	Rule II.E.
MCWC, Inc.	Wholly-owned subsidiary of Cal-Mich and currently a non-active business entity	3725 Mountain View Avenue Pasadena, CA 91107	Rule II.E.

## **EXECUTIVE SUMMARY**

January 1, 2012, through December 31, 2013

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### **EPWC AFFILIATE TRANSACTIONS PROCEDURES / COMPLIANCE PLAN**

EPWC issued Affiliate Transactions Procedures / Compliance Plan effective September 25, 2013 (the Procedures), which reflects the current status of its efforts to comply with the Rules. EPWC's Procedures assign compliance responsibility to EPWC's Compliance Committee, which meets quarterly and reports to EPWC's Executive Committee.

The EPWC Compliance Committee is responsible for overall compliance and interpretations of the Rules and the application to particular transactions. The EPWC Compliance Committee will provide education, direction, and oversight of all matters pertaining to training and implementation of the Rules. The EPWC Compliance Committee will report to the EPWC Executive Committee, which will provide oversight and guidance to EPWC Compliance Committee as needed, which includes matters involving Rule interpretation and implementation. Furthermore, EPWC's legal and regulatory consultants will provide appropriate periodic reports to the EPWC Compliance Committee to help ensure compliance with the Rules and Procedures. The EPWC Compliance Committee shall consult with appropriate affiliate personnel to facilitate accurate and timely compliance with the Rules and Procedures.

### **EXAMINATION PURPOSE AND OBJECTIVE**

The purpose of this engagement is to comply with the requirements of Rule VIII.E., which requires each utility to engage an independent auditor biennially to verify compliance with the Rules. The Commission's guidance states that the first compliance verifications should begin in 2013 and are due by September 30 of the year in which the procedures are performed. EPWC obtained an extension of this due date.

### **SCOPE AND METHODOLOGY**

The Rules became effective June 30, 2011. The period covered by this report is January 1, 2012, through December 31, 2013. The procedures consist of management and staff interviews, observations, inspection of California Public Utility Commission required reports, source documents, and other evidential matter which supports EPWC's adherence to each applicable Rule.

### **RESULTS**

We noted exceptions to Rules IV.C., V.A., VII.E., and VIII.F. Further explanation of the results of our testing is included on pages 4 through 62.

**AFFILIATE TRANSACTION RULES, COMPLIANCE PLAN, EPWC PROCEDURES,  
TEST PROCEDURES AND RESULTS**

*East Pasadena Water Company*

January 1, 2012, through December 31, 2013

**RULE I. JURISDICTION AND APPLICABILITY**

<b>Rule</b>	<b>Compliance Plan</b>	<b>EPWC Procedures</b>	<b>Test Procedures and Results</b>
<p><b>I.A.</b> 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).</p>	<p>EPWC is a Class B water utility subject to Commission regulation and affirms that these Rules apply to it and its employees. EPWC maintains appropriate procedures and mechanisms to ensure compliance with these Rules, which are described in the body of this Plan.</p>	<p>Management will receive annual training on all the Rules. This will let management know the Rules with which EPWC must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.</p>	<p>Examined customer list. EPWC services 2,980 service connections and is properly classified as a Class B water utility, and these Rules apply to EPWC.</p> <p><b>No exceptions noted.</b></p>
<p><b>I.B.</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 related 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.</p>	<p>EPWC affirms that these Rules apply to transactions with its covered affiliates, as defined in Rule I.I.E. EPWC maintains appropriate procedures and mechanisms to ensure compliance with Rule I.B.</p>	<p>Management will receive annual training on all the Rules. This will let management know the Rules with which EPWC must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.</p> <p>EPWC maintains a current list of related entities.</p> <p>Further, EPWC will review this list annually and update it as appropriate. EPWC reserves the right to reclassify an affiliate as the activities or relationships of that affiliate dictate.</p>	<p>Interviewed management and staff and reviewed Board of Director’s meeting minutes noting Board members, staff, and external accountants were informed of the Rules on several occasions. Management maintains a list of affiliate entities, and staff have been trained to report any transactions between affiliated entities.</p> <p><b>No exceptions noted.</b></p>

**AFFILIATE TRANSACTION RULES, COMPLIANCE PLAN, EPWC PROCEDURES,  
TEST PROCEDURES AND RESULTS**

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<b>Rule</b>	<b>Compliance Plan</b>	<b>EPWC Procedures</b>	<b>Test Procedures and Results</b>
<p><b>I.C.</b> Utilities shall comply with all applicable State and Federal statutes, laws and administrative regulations.</p>	<p>EPWC affirms that, to the best of its knowledge and belief it is in compliance with all applicable State and Federal statutes, laws and administrative regulations to which it is subject.</p>	<p>Management will receive annual training on all the Rules. This will let management know the Rules with which EPWC must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.</p> <p>EPWC has adequate procedures, mechanisms and policies to comply with all applicable State and Federal statutes, laws and administrative regulations to which it is subject.</p> <p>Further, EPWC management and the Board of Directors keep abreast of current statutes, laws and regulations by attending seminars, reading periodicals, communications with outside legal counsel and external auditors and belonging to various industry groups. The requirements of new statutes, laws and regulations are implemented in EPWC's business processes as appropriate.</p>	<p>EPWC believes it is complying with existing laws as demonstrated by the reviews completed by state agencies with no significant deficiencies or change requests noted.</p> <p>We read the audited financial statements for 2012 and 2013 and noted that they are in accordance with generally accepted accounting principles.</p> <p>We reviewed 2012 and 2013 consumer confidence reports which reflected compliance with federal and state standards.</p> <p><b>No exceptions noted.</b></p>

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<b>Rule</b>	<b>Compliance Plan</b>	<b>EPWC Procedures</b>	<b>Test Procedures and Results</b>
<p><b>I.D.</b> 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.</p>	<p>EPWC affirms that it is in compliance with all the Conditions of Approval and Affiliated Transaction Rules imposed by D.10-01-015 to the extent they do not conflict with the Rules.</p>	<p>Management will receive annual training on all the Rules. This will let management know the Rules with which EPWC must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.</p>	<p>Interviewed staff noting no utility-specific rules.</p> <p><b>No exceptions noted.</b></p>
<p><b>I.E.</b> 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.</p>	<p>EPWC affirms that it is in compliance with all the Conditions of Approval and Affiliated Transaction Rules imposed by D.10-01-015 to the extent they continue to comply.</p>	<p>Management will receive annual training on all the Rules. This will let management know the Rules with which EPWC must comply, as well as provide an annual reminder of the specific Rules.</p>	<p>Reviewed Rules and tariff schedules noting no utility-specific rules.</p> <p><b>No exceptions noted.</b></p>
<p><b>I.F.</b> 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.</p>	<p>EPWC 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.</p>	<p>Management will receive annual training on all the Rules. This will let management know the Rules with which EPWC must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.</p>	<p>Interviews with staff revealed no instances of non-compliance.</p> <p><b>No exceptions noted.</b></p>



**AFFILIATE TRANSACTION RULES, COMPLIANCE PLAN, EPWC PROCEDURES,  
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<b>Rule</b>	<b>Compliance Plan</b>	<b>EPWC Procedures</b>	<b>Test Procedures and Results</b>
<p><b>I.G.</b> 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.</p>	<p>EPWC is not a multi-state utility and therefore notes that Rule I.G does not apply to it.</p>	<p>Although Rule I.G is not currently applicable, EPWC's general approach to ensuring compliance with the Rules includes procedures to review the Rules on an annual and transactional basis in order to account for changing conditions.</p>	<p>Not applicable to EPWC.</p>
<p><b>I.H.</b> 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.</p>	<p>EPWC does not have any affiliates operating outside of California and notes that Rule I.H does not apply to it. EPWC will update its Plan if any affiliate entities in the future qualify for the exemption of Rule I.H.</p>	<p>Not applicable.</p>	<p>Not applicable to EPWC.</p>

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<b>Rule</b>	<b>Compliance Plan</b>	<b>EPWC Procedures</b>	<b>Test Procedures and Results</b>
<p><b>I.I.</b> 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.</p>	<p>EPWC affirms that, for its particular circumstances noted in EPWC Procedures (in the next column), application of these Rules, broadly interpreted, will protect consumer and ratepayer interests and will prevent anti-competitive conduct.</p>	<p>Management will receive annual training on all the Rules. This will let management know the Rules with which EPWC must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.</p> <p>EPWC notes the following information about itself and its affiliates;</p> <ol style="list-style-type: none"> <li>1. EPWC’s Board of Directors and management focus the Company and the small staff on regulated activities and do not pursue Non-Tariffed Products and Services.</li> <li>2. EPWC’s affiliates are in the land rental industry (residential and commercial).</li> </ol>	<p>Interviews with EPWC management and staff reflect an intent to protect consumer and ratepayer interests. Tests did not uncover any anti-competitive conduct.</p> <p><b>No exceptions noted.</b></p>

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**RULE II. DEFINITIONS**

<b>Rule</b>	<b>Compliance Plan</b>	<b>EPWC Procedures</b>	<b>Test Procedures and Results</b>
<p><b>II.A.</b> “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.</p>	<p>EPWC affirms these definitions and applies these definitions in the administration of its procedures, mechanisms and policies for ensuring compliance with these Rules.</p>	<p>Management will receive annual training on all the Rules. This will let management know the Rules with which EPWC must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.</p> <p>EPWC maintains a current list of its affiliates, as defined in Rules I.B and II.E, including for each affiliate a description of its purposes or activities and the applicability of the Rules pursuant to Rule I.B to the affiliates</p> <p>EPWC will update its Plan, and the list of affiliates in its Affiliate Transactions Procedures / Compliance Plan, if any changes occur, including if any new affiliates are created in the future.</p> <p>Further, EPWC will review this list annually and update it as appropriate. EPWC may reclassify a related company as an affiliate or as no longer being an affiliate as the activities of that company and its relationship with EPWC dictate.</p>	<p>Interviewed management and staff noting these definitions were included in the internal training.</p> <p><b>No exceptions noted.</b></p>

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<b>Rule</b>	<b>Compliance Plan</b>	<b>EPWC Procedures</b>	<b>Test Procedures and Results</b>
<p><b>II.B.</b> “Utility” (unless specified as a water utility) refers to all water utilities and sewer utilities regulated by the Commission.</p>	<p>See compliance noted for Rule II.A.</p>	<p>See procedures noted for Rule II.A.</p>	<p>See results noted for Rule II.A.</p>
<p><b>II.C.</b> “Water utility” refers to “all water utilities regulated by the Commission.”</p>	<p>See compliance noted for Rule II.A.</p>	<p>See procedures noted for Rule II.A.</p>	<p>See results noted for Rule II.A.</p>
<p><b>II.D.</b> "Sewer utility" refers to all sewer utilities regulated by the Commission.</p>	<p>See compliance noted for Rule II.A.</p>	<p>See procedures noted for Rule II.A.</p>	<p>See results noted for Rule II.A.</p>
<p><b>II.E.</b> “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.</p> <p>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.</p>	<p>See compliance noted for Rule II.A.</p>	<p>See procedures noted for Rule II.A.</p>	<p>See results noted for Rule II.A.</p>

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<b>Rule</b>	<b>Compliance Plan</b>	<b>EPWC Procedures</b>	<b>Test Procedures and Results</b>
<p><b>II.E. Continued</b></p> <p>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.</p> <p>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.</p> <p>For the purpose 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.</p>			

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<b>Rule</b>	<b>Compliance Plan</b>	<b>EPWC Procedures</b>	<b>Test Procedures and Results</b>
<p><b>II.F.</b> “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:</p> <p>1. <i>Direct Costs.</i> 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</p>	<p>EPWC affirms the definitions of Rule II and applies these definitions in the administration of its procedures, mechanisms and policies for enduring compliance with these Rules.</p>	<p>Management will receive annual training on all the Rules. This will let management know the Rules with which EPWC must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.</p>	<p>Interviewed management and staff noting these definitions were included in the internal training.</p> <p><b>No exceptions noted.</b></p>

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<b>Rule</b>	<b>Compliance Plan</b>	<b>EPWC Procedures</b>	<b>Test Procedures and Results</b>
<p><b>II.F. Continued</b></p> <p>2. <i>Direct Overhead Costs.</i> 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.</p>			

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<b>Rule</b>	<b>Compliance Plan</b>	<b>EPWC Procedures</b>	<b>Test Procedures and Results</b>
<p><b>II.F. Continued</b></p> <p>3. <i>Indirect Overhead Costs.</i> 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.”</p> <p>4. <i>Fully-loaded</i> (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.</p>			



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<b>Rule</b>	<b>Compliance Plan</b>	<b>EPWC Procedures</b>	<b>Test Procedures and Results</b>
<p><b>II.G.</b> “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.</p>	<p>EPWC affirms the definitions of Rule II and applies these definitions in the administration of its procedures, mechanisms and policies for enduring compliance with these Rules.</p>	<p>Management will receive annual training on all the Rules. This will let management know the Rules with which EPWC must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.</p> <p>EPWC maintains a current list of its affiliates, as defined in Rules I.B and II.E, including for each affiliate a description of its purposes or activities and the applicability of the Rules pursuant to Rule I.B to the affiliates.</p> <p>EPWC will update its procedures, and the list of affiliates, if any changes occur, including if any new affiliates are created in the future.</p>	<p>Interviewed management and staff noting these definitions were included in the internal training.</p> <p><b>No exceptions noted.</b></p>
<p><b>II.H.</b> “Property” refers to any right or asset, tangible or intangible, to which an entity has legal or equitable title.</p>	<p>See compliance noted for Rule II.G.</p>	<p>See procedures noted for Rule II.G.</p>	<p>See results noted for Rule II.G.</p>
<p><b>II.I.</b> "Real property" refers to any interest in real estate including leases, easements, and water rights.</p>	<p>See compliance noted for Rule II.G.</p>	<p>See procedures noted for Rule II.G.</p>	<p>See results noted for Rule II.G.</p>

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<b>Rule</b>	<b>Compliance Plan</b>	<b>EPWC Procedures</b>	<b>Test Procedures and Results</b>
<p><b>II.J.</b> “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.</p>	<p>See compliance noted for Rule II.G.</p>	<p>See procedures noted for Rule II.G.</p>	<p>See results noted for Rule II.G.</p>
<p><b>II.K.</b> “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.</p>	<p>See compliance noted for Rule II.G.</p>	<p>See procedures noted for Rule II.G.</p>	<p>See results noted for Rule II.G.</p>
<p><b>II.L.</b> “Cross-subsidy” means the unauthorized over-allocation of costs to captive ratepayers resulting in under-allocation of costs to a utility affiliate.</p>	<p>See compliance noted for Rule II.G.</p>	<p>See procedures noted for Rule II.G.</p>	<p>See results noted for Rule II.G.</p>

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**RULE III. UTILITY OPERATIONS AND SERVICE QUALITY**

<b>Rule</b>	<b>Compliance Plan</b>	<b>EPWC Procedures</b>	<b>Test Procedures and Results</b>
<p><b>III.A.</b> A Utility shall not allow transactions with affiliates to diminish water utility staffing, resources, or activities in a manner that would result in degradation of the reliability, efficiency, adequacy, or cost of utility service or an adverse impact on customer service. Utility management attention shall not be diverted to such transactions in a way that would result in such degradation. The utility’s parent and affiliates shall not acquire utility assets at any price if such transfer of assets would impair the utility’s ability to fulfill its obligation to serve or to operate in a prudent and efficient manner.</p>	<p>EPWC maintains appropriate procedures and mechanisms to ensure compliance with Rule III.A.</p>	<p>Management will receive annual training on all the Rules. This will let management know the Rules with which EPWC must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.</p> <p>All transactions with affiliates will be reviewed and approved by EPWC management and, if significant, by EPWC’s Board of Directors.</p> <p>Further EPWC’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.</p> <p>Further, EPWC’s ongoing compliance with Public Utilities Code Section 851 prohibits EPWC from selling, leasing, assigning, mortgaging or otherwise disposing of, or encumbering utility assets in such a manner as to impair the utility’s ability to fulfill its obligation to serve or to operate in a prudent and efficient manner.</p>	<p>During our interviews and test work, we noted a limited number of transactions with affiliates. We did not note any transactions with affiliates that have, or would lead to, diminished EPWC staffing, resources, or activities in a manner that would result in degradation of the reliability, efficiency, adequacy, or cost of EPWC service, or an adverse impact on customer service.</p> <p>We interviewed management and staff to ensure that EPWC needs are a priority and that affiliate transactions would not lead to a detriment of EPWC or its customers.</p> <p>We scanned the transactions recorded in the asset accounts; there were no transfers of assets between EPWC and its affiliates. If assets are purchased to support an affiliate, the affiliate pays for the asset directly.</p> <p><b>No exceptions noted.</b></p>

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<p><b>III.B.</b> Except as otherwise provided by these Rules, a utility shall not:</p> <ol style="list-style-type: none"> <li>1. Provide leads to its affiliates;</li> <li>2. Solicit business on behalf of its affiliates;</li> <li>3. Acquire information on behalf of or to provide to its affiliates;</li> <li>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;</li> <li>5. Request authorization from its customers to pass on customer information exclusively to its affiliates;</li> <li>6. Give the appearance that the utility speaks on behalf of its affiliates; or</li> </ol>	<p>EPWC affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule III.B.1 through III. B. 9.</p> <p>At this time, EPWC does not have any non-profit affiliates, as described in Rule III.B.9.</p>	<p>Management will receive annual training on all the Rules. This will let management know the Rules with which EPWC must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.</p> <p>This Rule has limited relevance for EPWC as EPWC does not offer Non-Tariffed Products and Services.</p> <p>As this Rule pertains to serving affiliates' real estate developments (III.B.7), EPWC notes that it is complying with the Commission directive. Further EPWC complies with Public Utilities Code Section 453 which requires that no public utility shall make or grant any preference or advantage to any person or corporation, not subject any person or corporation to any prejudice or disadvantage.</p>	<p>Interviewed management and staff to ensure that there were no solicitations, leads, or sharing of confidential information with affiliates, or any other activities listed in Rules III.B.1 through III.B.9.</p> <p>EPWC has shared management with its parent company, so information will be known by both entities. We did not note any use of information to benefit the parent company.</p> <p>Reviewed EPWC website noting no marketing or solicitation on behalf of any affiliate.</p> <p><b>No exceptions noted.</b></p>

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<p><b>III.B. Continued</b></p> <p>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.</p> <p>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.</p> <p>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.</p>			

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<p><b>III.C.</b> 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.</p>	<p>EPWC affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule III.C.</p>	<p>Management will receive annual training on all the Rules. This will let management know the Rules with which EPWC must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.</p> <p>This Rule has limited relevance for EPWC as EPWC does not offer Non-Tariffed Products and Services.</p> <p>As this Rule pertains to serving affiliates' real estate developments, EPWC notes that it already complies with Public Utilities Code Section 453 which requires that no public utility shall make or grant any preference or advantage to any person or corporation, not subject any person or corporation to any prejudice or disadvantage.</p>	<p>Interviewed management and staff and noted no situations in which customer or utility information, services, or unused capacity/supply was offered to affiliates during the period under examination.</p> <p><b>No exceptions noted.</b></p>

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**RULE IV. SEPARATION**

<b>Rule</b>	<b>Compliance Plan</b>	<b>EPWC Procedures</b>	<b>Test Procedures and Results</b>
<p><b>IV.A.</b> 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.</p>	<p>EPWC affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule IV.A</p>	<p>Maintains accounting records in accordance with Generally Accepted Accounting Principles, the Commission’s Uniform System of Accounts, relevant Commission decisions and resolutions, and that its accounting records are consistent with the provisions in Public Utility Code Sections. Utility accounting records are available for review upon Commission request.</p> <p>EPWC files its Annual Report to the Commission based on the Uniform System of Accounts.</p> <p>EPWC has its financial statements audited for compliance with Generally Accepted Accounting Principles by independent accountants on an annual basis.</p>	<p>Obtained copies of the December 31, 2013, and 2012, audited financial statements noting they were in accordance with generally accepted accounting principles. We also reviewed EPWC’s chart of accounts to confirm EPWC adopted the Commission’s Uniform System of Accounts.</p> <p><b>No exceptions noted.</b></p>

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<b>Rule</b>	<b>Compliance Plan</b>	<b>EPWC Procedures</b>	<b>Test Procedures and Results</b>
<p><b>IV.B</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.</p>	<p>EPWC affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule IV.B.</p>	<p>Management will receive annual training on all the Rules. This will let management know the Rules with which EPWC must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.</p> <p>EPWC's specific procedures to allocate common costs and services for corporate support are discussed under Rule V and Rule VI.F. All costs from EPWC's affiliates are listed in the annual Affiliated Transaction Report and are reviewed and approved by the commission in each of EPWC's general rate cases.</p>	<p>Reviewed EPWC's Affiliate Transactions Procedures / Compliance Plan dated September 25, 2013, noting that procedures are adequate with mechanisms and policies in place to comply with Rule IV.B.</p> <p>The parent company has a separate office location with all office expenses paid directly by the affiliate; therefore, no portion of EPWC's general offices expenses are allocated to affiliates.</p> <p>We noted a common cost of insurance and discussed the allocation method between EPWC and affiliates noting it is reasonable. The allocation will be reviewed again during 2014 and updated as necessary.</p> <p>Corporate support related to the allocation of executive and administrative salary costs are discussed further in Rule V.</p> <p><b>No exceptions noted.</b></p>



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<p><b>IV.C</b> 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).</p>	<p>EPWC affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule IV.C.</p>	<p>Management will receive annual training on all the Rules. This will let management know the Rules with which EPWC must comply, as well as provide an annual reminder of the specific Rules. Senior management will review the Rules more frequently in order to comply with the specified 30 day notice for a change to the list.</p> <p>This Rule has limited relevance for EPWC as EPWC does not offer Non-Tariffed Products and Services.</p> <p>Additionally there are only five (5) shared directors and officers between EPWC and Cal-Mich and the compensation of the shared officers is funded by Cal-Mich and EPWC. EPWC compensates each of its directors (including shared directors) a minimal amount for their services on the Board of EPWC. A list of shared directors and officers is shown on Exhibit A of the Affiliate Transaction Procedures / Compliance Plan. EPWC will also provide a list of all shared directors and officers between the utility and its affiliates in its Annual Affiliated Transaction Report to the Commission. EPWC will include appropriate supporting documentation in its general rate case applications for any portion of costs (as defined in Rule II.F.) related to shared officers and directors requested to be recovered in general rates.</p>	<p>Examined Board of Directors’ meeting minutes for EPWC and parent company noting five shared directors and four shared officers; three of the four officers are also directors. The shared directors and officers did not change during 2012 or 2013.</p> <p>The shared list of directors and officers was not included in the annual affiliate transaction report for 2012. The 2013 report has not been filed as of the date of this report.</p> <p><b>Exception noted:</b></p> <p>The shared list of directors and officers was not included in the annual affiliate transaction report for 2012. The 2013 affiliate transaction report has not been filed as of the date of this report.</p> <p><u>Shared Directors:</u> Anton C. Garnier Anita Garnier Dennis Callaghan Tres Petmecky Max Ramberg</p> <p><u>Shared Officers:</u> President – Anton C. Garnier Chief Financial Officer – Dennis Callaghan Vice President, Real Estate – Max Ramberg Vice President and Corporate Secretary (Parent) / Vice President and General Manager (EPWC) - Lawrence Morales</p>

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<b>Rule</b>	<b>Compliance Plan</b>	<b>EPWC Procedures</b>	<b>Test Procedures and Results</b>
<p><b>IV.D</b> 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.</p>	<p>EPWC affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule IV.D.</p>	<p>Management will receive annual training on all the Rules. This will let management know the Rules with which EPWC must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.</p> <p>Employee movement discussed in Rule IV.D and IV.E has limited relevance for EPWC because EPWC's employees are not temporarily assigned to affiliates and do not transfer to affiliates. Present senior management of EPWC dates back to the early 2000's and since that time no employees have transferred to affiliates. However, if an employee does transfer or is temporarily assigned to an affiliate, EPWC will provide training to that employee specifying that the employee shall not use non-public, proprietary utility information gained from the utility in a discriminatory or exclusive fashion to the benefit of the affiliate to the detriment of unaffiliated competitors.</p>	<p>Interviewed management and staff noting no employees had been transferred or temporarily assigned to affiliates.</p> <p>Examined payroll report for parent company noting one employee is a shared executive as further described in Rule V.</p> <p><b>No exceptions noted.</b></p>

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<b>Rule</b>	<b>Compliance Plan</b>	<b>EPWC Procedures</b>	<b>Test Procedures and Results</b>
<p><b>IV.E.</b> All employee movement between a utility and its affiliates, as defined in Rule I.B, shall be consistent with the following provisions: (See IV.E.1 - IV.E.3)</p>			
<p><b>IV.E.1</b> A utility shall track and report to the Commission all employee movement between the utility and affiliates, consistent with Rule VIII.F.</p>	<p>EPWC 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.</p>	<p>Management will receive annual training on all the Rules. This will let management know the Rules with which EPWC must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.</p> <p>EPWC includes this information in its Annual Affiliated Transaction Report to the Commission.</p>	<p>Reviewed payroll reports and interviewed management and staff noting no employee movements between EPWC and any affiliate during 2012 or 2013.</p> <p><b>No exceptions noted.</b></p>

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<b>Rule</b>	<b>Compliance Plan</b>	<b>EPWC Procedures</b>	<b>Test Procedures and Results</b>
<p><b>IV.E.2</b> 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.</p>	<p>EPWC affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule IV.E.2.</p>	<p>Management will receive annual training on all the Rules. This will let management know the Rules with which EPWC must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.</p> <p>EPWC will charge affiliates as required by this Rule for employee movement to an affiliate, open a memorandum account to record the funds received and include this information in its Annual Report to the Commission (Schedule E-1 Balancing and Memorandum Accounts) and in its next general rate case proceeding.</p>	<p>Reviewed payroll reports and interviewed management and staff noting no employees were transferred in either 2012 or 2013; therefore, the 15% one-time payment is not applicable.</p> <p><b>No exceptions noted.</b></p>

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<b>Rule</b>	<b>Compliance Plan</b>	<b>EPWC Procedures</b>	<b>Test Procedures and Results</b>
<p><b>IV.E.3</b> 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:</p>	<p>EPWC affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule IV.E.3.</p>	<p>Management will receive annual training on all the Rules. This will let management know the Rules with which EPWC must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.</p> <p>EPWC will obtain a written agreement executed by both parties and charge an affiliate as required by this Rule for temporary employee use by the affiliate. This information will be included in EPWC's Annual Affiliated Transaction Report to the Commission as services provided by a utility to an affiliate.</p>	<p>Interviewed management and staff noting no employees were temporarily or intermittently assigned to affiliates.</p> <p>Management's policy is to obtain outside contractors rather than assign EPWC employees to an affiliate. If this policy changed, or if there was a special circumstance and an employee was assigned to an affiliate, EPWC has procedures in place to comply with Rule IV.E.3.</p> <p><b>No exceptions noted.</b></p>

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<p><b>IV.E.3 Continued</b></p> <p>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;</p> <p>b. Utility needs for utility employees always take priority over any affiliate requests;</p> <p>c. No more than 10% of full time equivalent utility employees may be on loan at a given time;</p>			

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<p><b>IV.E.3 Continued</b></p> <p>d. Utility employees agree, in writing, that they will abide by these Rules; and</p> <p>e. Affiliate use of utility employees shall be conducted pursuant to a written agreement approved by the appropriate utility and affiliate officers.</p>			

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**RULE V. SHARED CORPORATE SUPPORT**

<b>Rule</b>	<b>Compliance Plan</b>	<b>EPWC Procedures</b>	<b>Test Procedures and Results</b>
<p><b>V.A.</b> 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.</p>	<p>EPWC affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule V.A.</p>	<p>Management will receive annual training on all the Rules. This will let management know the Rules with which EPWC must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.</p> <p>EPWC's Controller reviews the allocation of common cost charges from Cal-Mich at the start of each financial year to ensure that EPWC is only charged for its appropriate share of the costs and that costs allocated from Cal-Mich comply with the Rules. When the Controller of EPWC questions the amount charged to the utility for an affiliate's goods and services, the utility's senior management will be notified, as will the applicable affiliate Controller for review and resolution of the transaction in accordance with these Rules. EPWC will report all its affiliated transactions discussed under Rule V in its Annual Affiliated Transaction Report to the Commission as transactions between a utility and its affiliates.</p>	<p>Selected a sample of shared corporate support and traced to supporting documentation or management's rationale of the allocation.</p> <p>We noted that a portion of the Vice-President's salary is paid directly by the parent company. We examined the total compensation paid by EPWC and the parent company noting that 17.4% of the Vice-President's total compensation is paid directly by the parent company. Though there wasn't a time study to reflect the actual amount of time spent performing duties for each company, based on discussions with the Vice-President, the allocation to the parent company appears to be in excess of the amount required by the Rules.</p> <p>Based on discussions with management and staff, we noted an EPWC employee who is providing corporate support for the parent company by performing accounting duties such as processing deposits and bill payments. The employee estimates an average of three to five hours per month is spent completing these duties. This time was not being tracked for reimbursement to EPWC; however, this has been corrected.</p> <p><b>Exception noted:</b></p> <p>The parent company receives accounting services as part of shared corporate support. EPWC has not been reimbursed for these services in accordance with Rule V.A. discussed with management. This was an oversight and has been corrected.</p>



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<p><b>V.B.</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.</p>	<p>EPWC affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule V.B.</p>	<p>Management will receive annual training on all the Rules. This will let management know the Rules with which EPWC must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.</p>	<p>Interviewed staff to ensure that confidentiality is a priority between EPWC and its affiliates. Shared corporate support is provided to affiliates in a manner that does not allow confidential information to be compromised, or allow for non-compliance with this Rule.</p> <p><b>No exceptions noted.</b></p>

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<b>Rule</b>	<b>Compliance Plan</b>	<b>EPWC Procedures</b>	<b>Test Procedures and Results</b>
<p><b>V.C.</b> 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, pension management, engineering, water or sewage for resale, water storage capacity, and purchasing of water distribution systems.</p>	<p>EPWC affirms that the services listed in Rule V.C can be shared between EPWC, Cal-Mich and all covered affiliates.</p>	<p>Management will receive annual training on all the Rules. This will let management know the Rules with which EPWC must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.</p>	<p>Reviewed EPWC’s Affiliate Transaction Procedures / Compliance Plan, Exhibit B issued September 25, 2013, noting the list of adopted permissible corporate support services, which are in compliance with the allowable services listed in this Rule.</p> <p>During our interviews and testing, we did not note any services entered into which were not included in this Rule. Shared services are also discussed in Rule IV.B and V.A.</p> <p><b>No exceptions noted.</b></p>
<p><b>V.D.</b> Examples of services that may not be shared include: hedging and financial derivatives and arbitrage services, and marketing.</p>	<p>EPWC affirms that the services listed in Rule V.D cannot be shared between EPWC, Cal-Mich and all covered affiliates.</p>	<p>Management will receive annual training on all the Rules. This will let management know the Rules with which EPWC must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.</p>	<p>Reviewed EPWC’s Affiliate Transaction Procedures / Compliance Plan, Exhibit C, noting that the list of adopted non-permissible corporate support services are in compliance with this Rule.</p> <p>During our interviews and testing, we did not note any services entered into which were included in this Rule.</p> <p><b>No exceptions noted.</b></p>

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**RULE VI. PRICING OF GOODS AND SERVICES BETWEEN THE UTILITY AND ITS AFFILIATE(S)**

<b>Rule</b>	<b>Compliance Plan</b>	<b>EPWC Procedures</b>	<b>Test Procedures and Results</b>
<p>To the extent that these Rules do not prohibit the transfer of goods and services between a utility and its affiliates:</p> <p><b>VI.A.</b> 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.</p>	<p>For Rules VI.A, VI.B, VI.C, VI.D, VI.E, VI.F, and VI.G; EPWC maintains appropriate procedures and mechanism to ensure compliance with Rule VI.</p>	<p>Management will receive annual training on all the Rules. This will let management know the Rules with which EPWC must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.</p> <p>EPWC's Controller is responsible for ensuring that the prices of goods and services transferred to its affiliates are calculated according to Rule VI. Presently this consists of ensuring compliance with the rates and rules in EPWC's tariffs.</p> <p>EPWC will report all its affiliated transactions discussed under Rule VI in its Annual Affiliate Transaction Report to the Commission as transactions between a utility and its affiliates.</p> <p>When the Controller questions the amount charged to the utility for an affiliate's goods and services, the utility's senior management will be notified, as will the applicable affiliate Controller for review and resolution of the transaction in accordance with these Rules.</p>	<p>Reviewed general ledger details, check registers, and related invoices between EPWC and parent company noting goods and services were priced in accordance with Rule VI.A through VI.G.</p> <p>EPWC issues utility usage bills to the parent company, which are priced in the same manner as non-affiliate customers.</p> <p>In response to Rule VI.B, the parent company rents land to EPWC. We reviewed comparable lots and average square foot prices noting the amount paid to the parent company is less than fair market value.</p> <p><b>No exceptions noted.</b></p>

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<b>Rule</b>	<b>Compliance Plan</b>	<b>EPWC Procedures</b>	<b>Test Procedures and Results</b>
<b>VI.B</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.	See compliance noted for Rule VI.A.	See procedures noted for Rule VI.A.	See results of tests noted for Rule VI.A.

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<b>Rule</b>	<b>Compliance Plan</b>	<b>EPWC Procedures</b>	<b>Test Procedures and Results</b>
<p><b>VI.C.</b> 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.</p>	<p>See compliance noted for Rule VI.A.</p>	<p>See procedures noted for Rule VI.A.</p>	<p>See results of tests noted for Rule VI.A.</p>
<p><b>VI.D.</b> 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.</p>	<p>See compliance noted for Rule VI.A.</p>	<p>See procedures noted for Rule VI.A.</p>	<p>See results of tests noted for Rule VI.A.</p>
<p><b>VI.E.</b> 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.</p>	<p>See compliance noted for Rule VI.A.</p>	<p>See procedures noted for Rule VI.A.</p>	<p>See results of tests noted for Rule VI.A.</p>
<p><b>VI.F.</b> 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.</p>	<p>See compliance noted for Rule VI.A.</p>	<p>See procedures noted for Rule VI.A.</p>	<p>See results of tests noted for Rule VI.A.</p>

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<b>Rule</b>	<b>Compliance Plan</b>	<b>EPWC Procedures</b>	<b>Test Procedures and Results</b>
<p><b>VI.G.</b> The utility shall, as required in Rule VIII.E, 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.</p>	<p>See compliance noted for Rule VI.A.</p>	<p>See procedures noted for Rule VI.A.</p>	<p>See results of tests noted for Rule VI.A.</p>

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**RULE VII. FINANCIAL HEALTH OF THE UTILITY**

<b>Rule</b>	<b>Compliance Plan</b>	<b>EPWC Procedures</b>	<b>Test Procedures and Results</b>
<p><b>VII.A.</b> The parent shall provide the utility with adequate capital to fulfill all of its service obligations prescribed by the Commission.</p>	<p>EPWC maintains appropriate procedures and mechanisms to ensure compliance with Rule VII.A.</p>	<p>Management will receive annual training on all the Rules. This will let management know the Rules with which EPWC must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.</p> <p>EPWC’s Controller maintains the utility’s long-term capital investment estimates, as well as the utility’s estimate of capital needed to meet its investment capital requirements, its General Rate Case proceeding and less frequent applications (pursuant to Articles 5 and 6 of the California Public Utilities Code) to issue stocks, bonds, notes or other indebtedness. Further EPWC and its affiliates are already complying with the Commission’s directive in D.10-02-015 (Decision Approving a Transfer of Indirect Control of East Pasadena Water Company), Condition of Approval No. 3(Appendix B) which requires EPWC’s affiliates to ensure EPWC is adequately capitalized as follows:</p> <p>All owners, direct and indirect of California-Michigan Land and Water Company shall ensure that EPWC has adequate capital to fulfill all of its public utility service obligations. The term “capital” encompasses “money and property with which a company carries on its corporate business; a company’s assets, regardless of source, utilized for the conduct of the corporate business and for the purpose of deriving gains and profits; and a company’s working capital,” and is not limited to mean only “equity capital, infrastructure investment or any other term that does not include, simply, money or working cash”. Decision 02-01-039, Findings of Fact 5 and 6, 2002 Cal. PUC LEXIS 5*57.H22.</p>	<p>Interviewed management and examined the audited financial statements noting the parent company provides EPWC with adequate capital to fulfill all of its service obligations.</p> <p>EPWC projects capital requirements and the parent company provides additional capital, as needed. If funds are needed by EPWC on a short-term basis (less than one year), funds will transfer from the parent company through an inter-company account and be repaid periodically. If funds are needed on a long-term basis (longer than one year), EPWC management will seek CPUC approval for terms and interest rate, and repayments will be made accordingly.</p> <p><b>No exceptions noted.</b></p>

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<p><b>VII.B.</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.</p>	<p>EPWC maintains appropriate procedures and mechanisms to ensure compliance with Rule VII.B. and affirms that it will comply, as required.</p>	<p>Management will receive annual training on all the Rules. This will let management know the Rules with which EPWC must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.</p>	<p>Not applicable, EPWC is not publically traded.</p>
<p><b>VII.C.</b> The creation of a new affiliate by the parent or another affiliate shall not adversely impact the utility's operations and provision of service.</p>	<p>EPWC maintains appropriate procedures and mechanisms to ensure compliance with Rule VII.C and affirms that the creation of any new affiliate by Cal-Mich or another affiliate will not adversely affect the utility's operations and provisions of service.</p>	<p>Management will receive annual training on all the Rules. This will let management know the Rules with which EPWC must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules. EPWC will provide annual notice of the Rules including Rule VII.C to senior management of Cal-Mich in a presentation and to senior management of its affiliates via U.S. mail to ensure compliance.</p> <p>This Rule has limited relevance for EPWC as EPWC does not offer Non-Tariffed Products and Services.</p>	<p>Interviewed management and staff; there are no ongoing plans to create a new affiliate. However, if there were plans, they would review the Rules carefully and ensure the new affiliate was created without adversely impacting EPWC.</p> <p><b>No exceptions noted.</b></p>



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<b>Rule</b>	<b>Compliance Plan</b>	<b>EPWC Procedures</b>	<b>Test Procedures and Results</b>
<p><b>VII.D.</b> Debt of the utility’s parent or other affiliates shall not be issued or guaranteed or secured by the utility.</p>	<p>EPWC maintains appropriate procedures and mechanisms to ensure compliance with Rule VII.D.</p>	<p>Management will receive annual training on all the Rules. This will let management know the Rules with which EPWC must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules. EPWC already complies with Section 851 of the California Public Utilities Code, which requires Commission approval prior to encumbering utility assets.</p>	<p>Inquired of management and staff and reviewed audited financial statements for year ended December 31, 2013, and 2012, noting the only commercial debt held by EPWC is a line of credit.</p> <p>Examined line of credit agreement and correspondence from the Vice President of the bank noting a line of credit agreement referencing EPWC and the parent company as co-borrowers. The line of credit is not guaranteed.</p> <p><b>No exceptions noted.</b></p>
<p><b>VII.E.</b> 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).</p>	<p>EPWC filed a Tier III advice letter August 2, 2013 demonstrating its compliance with Rule VII.E. The advice letter contains a listing of separateness provisions to prevent EPWC from being pulled into a bankruptcy of Cal-Mich. EPWC did not file an advice letter prior to March 31, 2011 pursuant to the Affiliate Rules because EPWC initially believed it did not fall under the provisions of D.10-10-019.</p>	<p>Management will receive annual training on such separateness provisions as approved by the Commission. This will let management know the separateness provisions with which EPWC must comply, as well as provide an annual reminder of the specific separateness provisions.</p>	<p>We obtained a copy of the Tier III advice letter number 79, dated August 2, 2013. The letter appears to contain complete information; however, it was not filed in accordance with the timeline specified in this Rule.</p> <p><b>Exception noted:</b></p> <p>The Tier III advice letter was not filed within three months of the effective date of the decision adopting these Rules. The advice letter was filed on August 2, 2013, once management realized that these Rules were applicable to EPWC.</p>

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<b>Rule</b>	<b>Compliance Plan</b>	<b>EPWC Procedures</b>	<b>Test Procedures and Results</b>
<p><b>VII.F.</b> 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.</p>	<p>Not applicable.</p>	<p>Not applicable.</p>	<p>Not applicable to EPWC.</p>

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**RULE VIII. REGULATORY OVERSIGHT**

<b>Rule</b>	<b>Compliance Plan</b>	<b>EPWC Procedures</b>	<b>Test Procedures and Results</b>
<p><b>VIII.A.</b> 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.</p>	<p>EPWC maintains appropriate procedures and mechanism to ensure compliance with Rule VIII.A.</p>	<p>Management will receive annual training on all the Rules. This will let management know the Rules with which EPWC must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules. EPWC will continue to make its officers and employees and its covered affiliates available to testify before the Commission, as necessary or required consistent with the provisions of Public Utility Code Section 314. Further, EPWC and its affiliates are already complying with the Commission’s directive in D.10-02-015 (Decision Approving a Transfer of Indirect control of East Pasadena Water Company), Affiliated Interest Transaction Rules No. 1 (Appendix C) which requires that the officers and employees of EPWC and its affiliates be available to testify as follows:</p> <ol style="list-style-type: none"> <li>1. 1. Access to Officers and Employees. The officers and employees of EPWC and its affiliated companies shall be available to appear and testify in any proceeding before the Commission involving EPWC. If in the proper exercise of Commission staff’s duties, EPWC cannot supply appropriate personnel to address staff’s reasonable concerns, then the appropriate staff of the relevant EPWC affiliated companies shall be made available to staff.</li> </ol>	<p>Interviewed management and staff who state they are dedicated to appearing before the Commission as needed.</p> <p><b>No exceptions noted.</b></p>

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<b>Rule</b>	<b>Compliance Plan</b>	<b>EPWC Procedures</b>	<b>Test Procedures and Results</b>
<p><b>VIII.B.</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.</p>	<p>EPWC maintains appropriate procedures and mechanism to ensure compliance with Rule VIII.B.</p>	<p>Management will receive annual training on all the Rules. This will let management know the Rules with which EPWC must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules. EPWC will continue to make its books and records open for examination by the Commission and its staff, consistent with the provisions of Public Utility Code Section 314.</p> <p>Access to Books and Records. EPWC and its affiliated companies will provide the Commission, its staff, and its agents with access to the relevant books and records of such entities in connection with the exercise by the Commission of its regulatory responsibilities.</p>	<p>During the course of this examination, EPWC provided all of the requested books and records. These books and records were maintained and stored in East Pasadena, California. The maintenance of the records was reported under Rule IV.A.</p> <p>Based on interviews with management and staff, books and records will be provided to Commission upon request.</p> <p><b>No exception noted.</b></p>

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<b>Rule</b>	<b>Compliance Plan</b>	<b>EPWC Procedures</b>	<b>Test Procedures and Results</b>
<p><b>VIII.C.</b> 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:</p> <ol style="list-style-type: none"> <li>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 and portion of these Rules applicable to the affiliate;</li> <li>2. A description of the procedures in place to assure compliance with these Rules; and</li> </ol>	<p>EPWC maintains appropriate procedures and mechanism to ensure compliance with Rule VIII.C.</p>	<p>EPWC filed its initial Plan executed by the appropriate officers of EPWC AND Cal-Mich Advice Letter # 79 in its 2010 Annual Report to the Commission. The procedures in place to assure compliance with these Rules are included in the Plan. EPWC's Vice President &amp; General Manager is responsible for maintaining and updating this Plan. The Plan will be reviewed annually as part of the annual training of EPWC's management. If changes are determined to be necessary to ensure compliance, this plan will be revised and updated annually or as needed. EPWC maintains a current list of its affiliates, as defined by the Rules, which is attached to the document as Affiliate Transaction Procedures / Compliance Plan.</p>	<p>We examined EPWC's Affiliate Transactions Procedures / Compliance Plan noting the Plan was submitted to CPUC on September 25, 2013.</p> <p><b>No exception noted.</b></p>

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<p><b>VIII.C. Continued</b></p> <p>3. A description of both the specific mechanisms and the procedures that the utility and parent company have in place to assure that the utility is not utilizing the parent company or any of its affiliates not covered by these Rules as a conduit to circumvent any of these Rules in any respect. The description shall address, but shall not be limited to (a) the dissemination of information transferred by the utility to an affiliate covered by these Rules, (b) the provision of services to its affiliates covered by these Rules or (c) the transfer of employees to its affiliates covered by these Rules in contravention of these Rules. A corporate officer from the utility and parent company shall verify the adequacy of these specific mechanisms and procedures to ensure that the utility is not utilizing the parent company of any of its affiliates not covered by these Rules as a conduit to circumvent any of these Rules.</p>			

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<p><b>VIII.D.</b> 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.</p>	<p>EPWC maintains appropriate procedures and mechanism to ensure compliance with Rule VIII.D.</p>	<p>Management will receive annual training on all the Rules. This will let management know the Rules with which EPWC must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules. EPWC will provide annual notice of the Rules, including Rule VIII.D, to senior management of Cal-Mich in a presentation and to senior management of its affiliates via U.S. mail to ensure compliance. EPWC will be notified when one of its affiliates, including Cal-Mich, creates a new business entity that qualifies as an affiliate of EPWC pursuant to Rule II.E. This excludes any entity that might be a related party to EPWC, but that is not included in the definition of an affiliate pursuant to Rule II.E.</p> <p>EPWC will notify the Commission of the creation of any new affiliate as defined in Rule II.E. Not later than 60 days after the creation of an applicable affiliate, the utility shall file a Tier 3 advice letter with the Director of the Commission’s Division of Water and Audits, with service on the Director of the Division of Ratepayer Advocates, demonstrating how EPWC will implement these Rules with respect to the new affiliate. EPWC notes that its compliance will comport with the discussion in Rule II.E of this plan.</p> <p>This Rule has limited relevance for EPWC as EPWC does not offer Non-Tariffed Products and Services.</p>	<p>Interviewed management and staff noting there are no ongoing plans to create a new affiliate and there was no evidence that a new affiliate was created during 2012 and 2013. If a new affiliate were to be created, the applicability of these Rules would be analyzed and the proper filings would not be submitted timely.</p> <p><b>No exceptions noted.</b></p>

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<b>Rule</b>	<b>Compliance Plan</b>	<b>EPWC Procedures</b>	<b>Test Procedures and Results</b>
<p><b>VIII.E</b> 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.</p>	<p>EPWC will comply with this Rule, as stated, and have an independent audit performed to verify its compliance with these Rules.</p>	<p>Management will receive annual training on all the Rules. This will let management know the Rules with which EPWC must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.</p> <p>EPWC will contract with an independent auditor in 2014 to audit its compliance with the Rules for the years 2012 and 2013. The audit will use the Plan for the procedures EPWC follows to be in compliance with the Rules. The completed audit will be submitted to the Commission.</p>	<p>The first audit was due to be submitted no later than September 30, 2013. EPWC received an extension for this filing requirement.</p> <p>EPWC engaged Matson and Isom, independent auditors, to complete the examination in accordance with the extended timeline.</p> <p><b>No exceptions noted.</b></p>



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<p><b>VIII.F.</b> 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:</p> <ol style="list-style-type: none"> <li>1. Services provided by the utility to the affiliated companies;</li> <li>2. Services provided by the affiliated companies to the utility;</li> </ol>	<p>EPWC will comply with this Rule, as stated, and have an independent audit performed to verify its compliance with these Rules.</p>	<p>Management will receive annual training on all the Rules. This will let management know the Rules with which EPWC must comply, as well as provide an annual reminder of the specific Rules. Additionally, these Rules will be referenced in connection with any non-recurring transactions with related entities to ensure compliance with these Rules.</p> <p>EPWC'S Controller has established procedures to account for, in a timely manner, all transactions between EPWC and its affiliates. These procedures are primarily general ledger and billing systems account coding. The affiliated transactions are included in the Annual Affiliated Transaction Report.</p> <p>Additionally, when preparing the annual report, the Controller will contact Cal-Mich for applicable information related to Rule VIII.F.8 and VIII.F.9.</p>	<p>Interviewed management and staff and examined accounting records for affiliate transactions as discussed in the results of Rules IV.B and V.A.</p> <p>The annual affiliate transaction report (ATR) for 2012 was submitted October 21, 2013. Examined 2012 annual ATR noting report did not list all transactions between EPWC and the parent company.</p> <p><b>Exceptions noted:</b></p> <p>The 2012 ATR was not submitted by the March 31, 2013, deadline; and the 2013 ATR has not been submitted as of the date of this report.</p> <p>Based on interviews with management and test work, we noted affiliate transactions were inadvertently omitted from the ATR. In order to identify affiliate transactions, reports were generated of all checks written and all transfers posted where the payee was an affiliate. We also reviewed transactions posted to the inter-company receivable and discussed affiliate transactions with the independent external auditor. A schedule of the affiliate transactions is presented on page 49.</p>

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<p><b>VIII.F. Continued</b></p> <p>3. Assets transferred from the utility to the affiliated companies;</p> <p>4. Assets transferred from the affiliated companies to the utility;</p> <p>5. Employees transferred from the utility to the—affiliated companies;</p> <p>6. Employees transferred from the affiliated companies to the utility;</p> <p>7. The financing arrangements and transactions between the utility and the affiliated companies;</p> <p>8. Services provided by and/or assets transferred from the parent holding company to affiliate company which may have germane utility regulations impacts; and</p> <p>9. Services provided by and/or assets transferred from affiliated company to the parent holding company which may have germane utility regulation impacts.</p>			

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Affiliate transactions identified during the years ended December 31, 2013, and 2012, are presented in the following schedule:

December 31	Cal-Mich (Parent)		EPWC	
	2012	2013	2012	2013
<b>EXPENSES INCURRED FROM AFFILIATE</b>				
Executive salaries	\$ 25,135	\$ 30,392	\$ -	\$ -
Insurance	6,480	6,480	-	-
Interest	-	-	45,155	45,083
Rent	-	-	30,000	30,000
Tariffed water and service charge	3,348	4,441	-	-
<b>Total Expenses Incurred</b>	<b>\$ 34,963</b>	<b>\$ 41,313</b>	<b>\$ 75,155</b>	<b>\$ 75,083</b>
<b>CAPITAL FUNDING</b>				
Cash (Paid) received	\$ (330,000)	\$ -	\$ 330,000	\$ -
<b>INTER-COMPANY RECEIVABLE (PAYABLE)</b>	<b>\$ 288,655</b>	<b>\$ 145,602</b>	<b>\$ (288,655)</b>	<b>\$ (145,602)</b>
<b>NOTE RECEIVABLE (PAYABLE)</b>				
Note 1: Monthly installments of \$3,331, including 6% interest, through December 2014	\$ 75,148	\$ 38,697	\$ (75,148)	\$ (38,697)
Note 2: Monthly installments of \$9,673, including 5.25% interest, through December 2021	\$ 825,549	\$ 751,043	\$ (825,549)	\$ (751,043)

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**RULE IV. CONFIDENTIALITY**

<b>Rule</b>	<b>Compliance Plan</b>	<b>EPWC Procedures</b>	<b>Test Procedures and Results</b>
<p><b>IX.</b> 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.</p>	<p>EPWC affirms compliance with Rule IX.</p>	<p>None.</p>	<p>Interviewed management and staff, and reviewed policies and procedures, noting EPWC’s intent to maintain confidentiality of certain information.</p> <p><b>No exceptions noted.</b></p>

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**RULE X. PROVISION OF NON-TARIFFED PRODUCTS AND SERVICES (NTP&S)**

<b>Rule</b>	<b>Compliance Plan</b>	<b>EPWC Procedures</b>	<b>Test Procedures and Results</b>
<p><b>X.A</b> Except as provided for in these rules, new products and services shall be offered through affiliates.</p>	<p>EPWC’s Board of Directors and management focus the Company and its small staff on regulated activities and do not pursue Non-Tariffed Products and Services. Therefore, EPWC notes that Rule X has limited relevance to it.</p>	<p>Management will receive annual training on all the Rules. This will let management know the Rules with which EPWC must comply, as well as provide an annual reminder of the specific Rules. If EPWC starts to offer NTP&amp;S, it will develop appropriate procedures to comply with all provisions of Rule X.</p>	<p>Interviewed EPWC management and staff noting no NTP&amp;S. Through review of the Annual Report and other documentation during this examination, nothing came to our attention which would cause us to believe that EPWC is providing NTP&amp;S which were not disclosed to us.</p> <p><b>No exceptions noted.</b></p>
<p><b>X.B.</b> A utility may only offer on the open market the following products and services:</p>	<p>See compliance noted for Rule X.A.</p>	<p>See procedures noted for Rule X.A.</p>	<p>Not applicable. See results of tests noted for Rule X.A.</p>

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<p><b>X.B. Continued</b></p> <ol style="list-style-type: none"> <li>1. Existing products and services offered by the utility pursuant to tariff;</li> <li>2. New products and services that are offered on a tariffed basis; and</li> <li>3. Products and services that are offered on a non-tariffed basis (NTP&amp;S) and that meet the following conditions:                             <ol style="list-style-type: none"> <li>a) The NTP&amp;S utilizes a portion of the excess or unused capacity of a utility asset or resource;</li> <li>b) Such asset or resource has been acquired for the purpose of and is necessary and useful in providing tariffed utility services;</li> </ol> </li> </ol>			

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<p><b>X.B. Continued</b></p> <p>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;</p> <p>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</p> <p>e) The utility's offering of the NTP&amp;S does not violate any California law, regulation, or Commission policy regarding anticompetitive practices.</p>			

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<p><b>X.C. Revenues.</b> Gross revenue from NTP&amp;S projects shall be shared between the utility’s shareholders and its ratepayers. In each general rate case, NPT&amp;S revenues shall be determined and shared as follows:</p> <ol style="list-style-type: none"> <li>1. Active NTP&amp;S projects: 90% shareholder and 10% ratepayer.</li> <li>2. Passive NTP&amp;S projects: 70% shareholder and 30% ratepayer.</li> <li>3. A utility shall classify all NTP&amp;S as active or passive according to the table below. For a new NTP&amp;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&amp;S shall be classified as passive. No costs recoverable through rates shall be counted toward the \$125,000 threshold.</li> </ol>	<p>See compliance noted for Rule X.A.</p>	<p>See procedures noted for Rule X.A.</p>	<p>Not applicable. See results of tests noted for Rule X.A.</p>



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<p><b>X.C. Continued</b></p> <p>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.</p> <p>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&amp;S revenue below that level shall accrue to the benefit of ratepayers.</p>			

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<p><b>X.C. Continued</b></p> <p>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.</p>			
<p><b>X.D. Cost Allocation.</b> All costs, direct and indirect, including all taxes, incurred due to NTP&amp;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&amp;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.</p>	<p>See compliance noted for Rule X.A.</p>	<p>See procedures noted for Rule X.A.</p>	<p>Not applicable. See results of tests noted for Rule X.A.</p>

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<p><b>X.E.</b> Annual Report of NTP&amp;S Projects. Each utility shall include information regarding its NTP&amp;S projects in its Annual Reports, including but not be limited to the following:</p> <ol style="list-style-type: none"> <li>1. A detailed description of each NTP&amp;S activity;</li> <li>2. Whether and why it is classified active or passive;</li> <li>3. Gross revenue received;</li> <li>4. Revenue allocated to ratepayers and to shareholders, as established in Company's current general rate case;</li> <li>5. A complete identification of all regulated assets used in the transaction;</li> </ol>	<p>See compliance noted for Rule X.A.</p>	<p>See procedures noted for Rule X.A.</p>	<p>Not applicable. See results of tests noted for Rule X.A.</p>

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<p><b>X.E. Continued</b></p> <p>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;</p> <p>7. If the NTP&amp;S has been classified as active through advice letter submission, provide the number of the advice letter and the authorizing Resolution; and</p> <p>8. If the NTP&amp;S did not require approval through advice letter, provide the date notice was given to the Commission.</p>			
<p><b>X.F.</b> When a utility initiates the offering of NTP&amp;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.</p>	<p>See compliance noted for Rule X.A.</p>	<p>See procedures noted for Rule X.A.</p>	<p>Not applicable. See results of tests noted for Rule X.A.</p>

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<p><b>X.G.</b> Provision of New NTP&amp;S. Any water or sewer utility that proposes to engage in the provision of new NTP&amp;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:</p> <ol style="list-style-type: none"> <li>1. A full description of the proposed NTP&amp;S, including, without limitation, the identity of parties served (if known), revenue and cost forecasts, and the term of any contract to be employed.</li> </ol>	<p>See compliance noted for Rule X.A.</p>	<p>See procedures noted for Rule X.A.</p>	<p>Not applicable. See results of tests noted for Rule X.A.</p>

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<p><b>X.G. Continued</b></p> <p>2. A description of the accounting method to be used to allocate the incremental costs between tariffed services and caused by the NTP&amp;S.</p> <p>3. Copies of all operative documents for the proposed service.</p> <p>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.</p> <p>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&amp;S.</p>			

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<p><b>X.G. Continued</b></p> <p>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.</p> <p>7. A showing that the proposed NTP&amp;S may be offered without adversely affecting the cost, quality, or reliability of the utility services.</p> <p>8. A showing of how the NTP&amp;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.</p> <p>9. A showing of how the NTP&amp;S does not violate any law, regulation, or Commission policy regarding anti-competitive practices.</p>			

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<p><b>X.G. Continued</b></p> <p>10. A justification for classifying the NTP&amp;S as active. The utility shall demonstrate that there is or will be incremental shareholder investment above \$125,000.</p> <p>11. A statement that all risks incurred through this proposed NTP&amp;S project shall be borne by the utility's shareholders.</p> <p>12. A description of the market served by the proposed NTP&amp;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.</p> <p>13. Any other information, opinions, or documentation that might be relevant to the Commission's consideration of the NTP&amp;S.</p>			