



GOLDEN STATE WATER COMPANY  
COMPLIANCE EXAMINATION  
2017-2018  
AFFILIATE TRANSACTION RULES



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## INDEPENDENT ACCOUNTANT'S REPORT

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We have examined Golden State Water Company's ("GSWC" or "Utilities") compliance with the Rules for Water and Sewer Utilities Regarding Affiliate Transactions and the Use of Regulated Assets for Non-Tariffed Utility Services ("the Rules") established, and as modified, by the California Public Utilities Commission ("CPUC"). Golden State Water Company's management is responsible for the Utility's compliance with those requirements. Our responsibility is to express an opinion on the Utility's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants in addition to Generally Accepted Government Auditing Standards (GAGAS) and, accordingly, included examining, on a test basis, evidence supporting Golden State Water Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether Golden State Water Company is in accordance with the Rules, in all material respects. An examination involves performing procedures to obtain evidence about the compliance of the Rules. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, Golden State Water Company complied, in all material respects, with the requirements under the Rules for the period January 1, 2017 through December 31, 2018.

This report is intended solely for the information and use of management of Golden State 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.

Sotomayor & Associates, LLP  
Pasadena, CA

July 18, 2019

## Executive Summary

The audit performed examined Golden State Water Company's ("GSWC") compliance with the California Public Utilities Commission's ("Commission") directives regarding its Rules for Water and Sewer Utilities Regarding Affiliate Transactions and the Use of Regulated Assets for Non-Tariffed Utility Services ("Rules"). Our examination found that GSWC complied with all Rules.

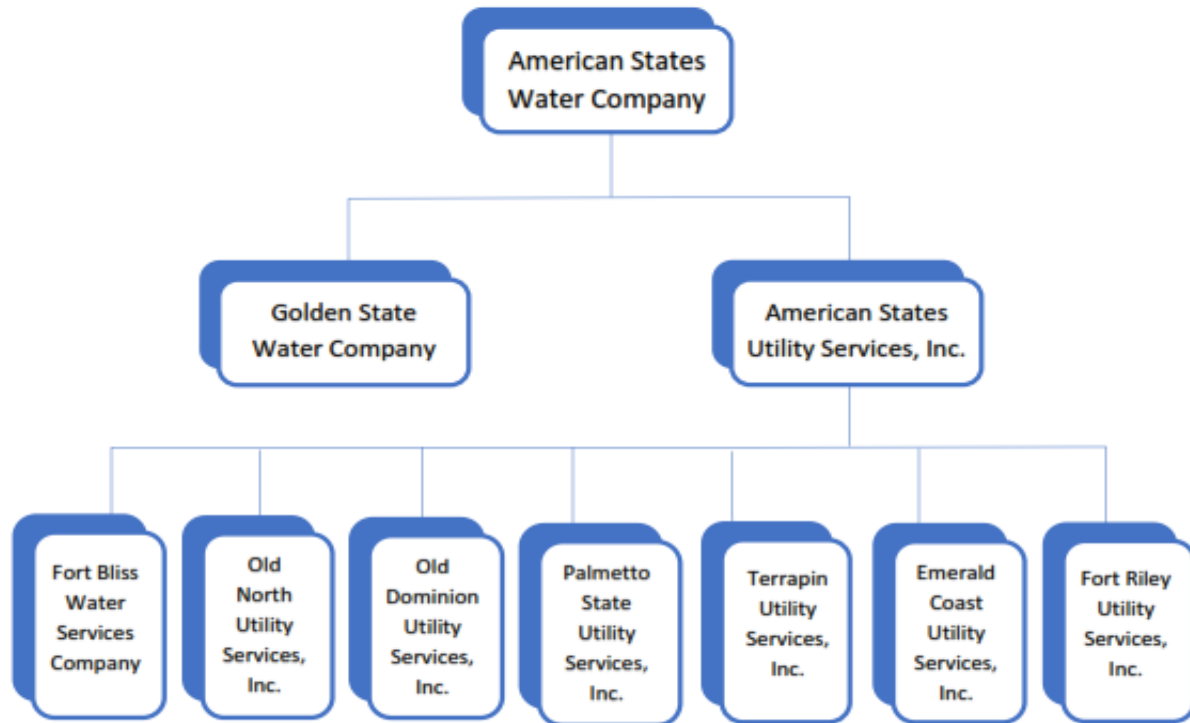
## Background

In October of 2010, the Commission adopted Decision ("D.") 10-10-019, which provided Class A and B water utilities with a set of rules governing affiliate transactions and the provision of non-tariffed products and services. The Rules were subsequently modified in 2011 under D.11-10-034 and in 2012 under D.12-01-042. Beforehand some water utilities were operating under Commission affiliate transaction rules designed primarily for the establishment of holding companies. The Commission adopted the Rules to provide "consistent and understandable rules for all subject water and sewer utilities". The Commission further stated that "our newly adopted rules address our goals of protecting ratepayers, ensuring the financial health of the utility, and preventing anti-competitive behavior in the competitive marketplace".

The Rules went into effect on June 30, 2011. Rules V.C and V.D. subsequently went into effect on November 30, 2011. Under the Rules, biennial independent audits are required, with the fourth audit for the years ending December 31, 2017 and 2018 due to the Commission on September 30, 2019. The fifth audit will be for years ending December 31, 2019 and 2020, which will be due to the Commission on September 30, 2021.

GSWC is wholly owned by its parent company, American States Water Company ("AWR"). Through another wholly owned subsidiary, American States Utility Services, Inc. ("ASUS"), AWR also provides operations, maintenance and construction management services for water and wastewater systems located on military bases throughout the country under 50-year privatization contracts with the U.S. government. Subsidiaries of ASUS include Fort Bliss Water Services Company, Terrapin Utility Services, Inc., Old Dominion Utility Services, Inc., Palmetto State Utility Services, Inc., Old North Utility Services, Inc., Emerald Coast Utility Service, Inc., and Fort Riley Utility Services, Inc.

Below is a condensed organizational chart that reflects the main companies involved with this examination:



After adoption of the Rules, but prior to their implementation, GSWC took numerous steps to help ensure compliance with the Rules. For example, GSWC established the Affiliate Transactions Rules - Internal Procedures to guide employees towards compliance with the Rules.

Also prior to implementation of the Rules, GSWC provided training to GSWC and affiliate employees. GSWC provided on site employee training beginning June 2011 and started providing online training beginning 2018. GSWC continued to provide training to GSWC and affiliate employees, including Call Center employees, after implementation of the Rules, and during the audit period. GSWC has continued its compliance efforts during 2017 and 2018.

#### Audit Purpose and Objective

Rule VIII.E, requires the utility to engage an independent auditor and if a certain threshold is met, to verify that the utility is in compliance with the Rules. The purpose of this audit is to comply with this requirement. The fourth audit report is due to the Commission by September 30, 2019.

## Audit Scope and Methodology

The audit period covered by this report is January 1, 2017 through December 31, 2018. The fieldwork consisted of interviews, research, data analysis, observations and sample testing, conducted in various locations which included visits to the GSWC headquarters and regional office in San Dimas, CA between May 8, 2019 and May 9, 2019. Appendix A1 of this report describes the methodology used to determine GSWC's compliance with each Rule.

## Audit Findings and Conclusions

Appendix A1 details the findings and conclusions for each Rule, which consists of sub-rules that provide the specific criteria. In response to Rule VIII.C, GSWC prepared a compliance plan, which describes their comprehensive procedures to help ensure compliance with the Rules. We have provided GSWC's 2019 Compliance Plan dated March 25, 2019 as the criteria for each sub-rule, followed by Sotomayor's conclusions and comments.

## Appendix A1 – Audit Methodology, Findings, and Conclusions

### RULE I – Jurisdiction and Applicability

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

#### GSWC Compliance Plan:

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

GSWC notes that many of these Rules are identical or very similar in nature to its Holding Company Rules adopted by Commission Decision 98-06-068, which GSWC has been in compliance with since 1998.

Based on its participation in the proceeding leading up to these rules and the applicability of its Holding Company Rules, GSWC has interpreted these rules to the best of its knowledge.

Sotomayor Conclusion: Golden State Water Company serves greater than 10,000 connections and is therefore classified as a Class A Utility.

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

#### GSWC Compliance Plan:

GSWC’s affiliate, American States Utility Services Inc. (“ASUS”) is a California corporation that operates water and wastewater systems on military bases outside of California, under 50-year contracts with the U.S. government, and is regulated by the Public Utilities Commission in each state where it provides water and/or wastewater service; and therefore is exempt under Rule I.B.

Bear Valley Electric Service, Inc. (BVES Inc.) was incorporated in the State of California as a subsidiary of GSWC on December 12, 2018. By definition, BVES Inc. is an affiliate of GSWC. The BVES Inc. entity was formed for the purpose of executing a reorganization plan that would transfer the electric utility operations at Bear Valley Electric Service Division (BVES) to BVES Inc. The transfer of operations is contingent upon approval by the CPUC. After all necessary regulatory approvals, GSWC will transfer the electric assets and liabilities currently in the BVES Division of GSWC to BVES Inc. in exchange for BVES Inc. stock. GSWC would then contribute

all of the shares it owns of BVES Inc. to AWR, resulting in BVES Inc. becoming a separate subsidiary of AWR. BVES Inc. currently does not conduct any utility operations and is, therefore, exempt from the affiliate transaction rules under I.B. as it does not engage in the provision of products that use water or sewer services or the provision of services that relate to the use of water or sewer services. Further, after implementation of the reorganization plan, GSWC and BVES Inc. would both be Commission-regulated affiliates. Accordingly, the affiliate transaction rules would be applicable only to provisions of Rule IV.B and Rule X. Any other transactions between GSWC and BVES Inc. would remain exempt from the affiliate transaction rules.

GSWC maintains appropriate procedures and mechanisms to ensure compliance with Rule IV.B and Rule X. Further, GSWC maintains a current list of covered affiliates, as defined in Rule II.E., and for each affiliate a description of its purposes or activities, and the applicability of the Rules to the affiliates. See Appendix A for a list of GSWC's affiliates. GSWC reserves the right to reclassify an affiliate as the activities of that affiliate dictate.

Sotomayor Conclusion: GSWC is in compliance with Rule I.B. During the examination, we performed inquiries and observations of GSWC management. We also reviewed the organizational chart for GSWC and American States Water Company ("AWR") as a whole to understand the structure of the related affiliates, including the regulated affiliates and the "Covered Affiliates". Transactions with covered affiliates mainly include transactions with AWR and American States Utility Services, Inc. ("ASUS"). Based on our review of the rules and discussions with GSWC management, it was determined that the Rules apply to GSWC's transactions with these affiliates. ASUS, a California corporation, operates water and wastewater systems of military bases outside of California only. Regulated businesses would be regulated by the respective utilities commission governing the state in which each does business.

Rule I.C. – Utilities shall comply with all applicable State and Federal statutes, laws and administrative regulations.

GSWC Compliance Plan:

GSWC affirms that it is in compliance with all applicable State and Federal statutes, laws and administrative regulations to which it is subject.

Sotomayor Conclusion: GSWC's Internal Audit Department has reported no serious deficiencies. We reviewed their annual financial audits conducted by their Independent Registered Public Accounting Firm for 2017 and 2018 and found that each year GSWC received an unqualified opinion that the financial statements presented fairly the financial position of the company. Additionally, we confirmed through multiple observations and interviews that GSWC's statement of compliance in Rule I.C is accurate.

Rule I.D – Existing Commission rules for each utility and its parent company continue to apply except to the extent they conflict with these Rules. In such cases, these Rules supersede prior rules and guidelines, provided that nothing herein shall preclude (1) the Commission from adopting other utility-specific guidelines; or (2) a utility or its parent company from adopting other utility-specific guidelines, with advance Commission approval through Decision or Resolution. In the



case of ambiguity regarding whether a conflict exists, there shall be a rebuttable presumption that these Rules apply.

GSWC Compliance Plan:

GSWC notes that its Holding Company Rule 14 allowed debt of the holding company or affiliates to be guaranteed by the utility with prior approval by the Commission. ATR VII.D forbids the debt of the holding company or affiliates to be guaranteed by the utility.

Rule VII.F adopts Holding Company Rules 12, 13, 15 and 16. Holding Company Rule 15 requires approval of issuance of holding company or affiliate debt if guaranteed by the Utility yet ATR VII.D forbids the debt of the holding company to be guaranteed by the utility. This appears to be a conflict.

GSWC will continue to abide by ATR VII.D.

Sotomayor Conclusion: Based on the review of GSWC's existing rules, Appendix B of GSWC's Compliance Plan dated March 25, 2019 and after review of the Rules, it has been determined that GSWC's interpretation of the Rules is correct.

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

GSWC Compliance Plan:

GSWC notes that the following Holding Company Rules are not specifically addressed in the Affiliate Transaction Rules:

11. Capital Requirements. The capital requirements of the Utility shall be given first priority by the Utility's board of directors and, consistent with its fiduciary responsibilities, by the holding company's board of directors, as well.

20. Unregulated Operations And Transfer Of Employees.

d. The Utility shall endeavor to transfer to its affiliates any employee whose primary responsibility is to conduct unregulated operations, taking into consideration the Utility's obligations to any such employee, its obligations under any contract with its unions or others, and the cost of providing comparable terms of employment.

23. Transfer Of Intangible Assets And Goods From The Utility. Any transfer without monetary consideration of any intangible asset or good from the Utility to any affiliate shall be priced at cost or fair market value, whichever is higher, if the asset or good is currently, or was at any time, included in the Utility's ratebase, including (a) any asset or good booked to plant held for future use that is currently, or was at any time, included in the Utility's ratebase or (b) any asset or good to which the Utility's ratepayers have contributed any carrying or operating cost. Any gain resulting from the transfer of any such asset or good shall be allocated in accordance with applicable provisions of the Public Utilities Code and

policies of the Commission. Absent any change in the applicable policy of the Commission or provision of the Public Utilities Code, all gain from the transfer of any such asset or good without monetary consideration shall be allocated to ratepayers.

24. For the purposes of this Settlement, intangible assets and goods shall mean all intellectual property (whether such property constitutes patents, trademarks, service marks, copyrights, or any other intellectual property).

GSWC will continue to abide by these Holding Company Rules.

Sotomayor Conclusion: Based on the review of GSWC's existing rules, Appendix B of the GSWC's Compliance Plan dated March 25, 2019, and after review of the Rules, it has been determined that GSWC's interpretation of the Rules is correct.

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

GSWC Compliance Plan:

GSWC 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.

Sotomayor Conclusion: Based on our observations and testing, GSWC affirms this Rule and is in compliance.

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

GSWC Compliance Plan:

GSWC is not a multi-state utility and therefore, Rule I.G does not apply to GSWC.

Sotomayor Conclusion: Based on our observations and inquiries, Rule I.G. does not apply to GSWC since it only operates as a regulated utility within the state of California.

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

GSWC Compliance Plan:

GSWC's affiliate, ASUS, operates water and wastewater on military bases outside of California and is regulated by the Public Utilities Commission in each state where it provides water and/or wastewater service. GSWC provides Corporate Support for ASUS and ASUS pays GSWC for services rendered as determined in GSWC's most recent GRC Decision. Further, as noted in Rule I.H, ASUS' operations do not substantially affect the utility's operations and therefore, GSWC considers ASUS exempt under Rule I.H, from Rule III.B and Rule III.C.

Sotomayor Conclusion: Based on our observations and inquiries, although ASUS is a California corporation, most of its operations are not within California and, therefore, their operations do not substantially affect GSWC's costs within the state of California.

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

GSWC Compliance Plan:

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

Sotomayor Conclusion: GSWC affirms this Rule. Based on our observations and inquiries with multiple levels of personnel, it was determined that GSWC has affirmed to this Rule.

RULE II – Definitions

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

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

II.B. "Utility"

"Utility" (unless specified as a water utility) refers to all water utilities and sewer utilities regulated by the Commission.

II.C. "Water utility"

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

II.D. "Sewer utility"

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

II.E. "Affiliate"

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

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

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

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

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

GSWC Compliance Plan:

GSWC affirms and applies these definitions in the administration of its procedures, mechanisms and policies for ensuring compliance with these rules. See Appendix A for a list of GSWC’s affiliates.

Investment management companies that acquire more than 10% of AWR’s outstanding shares are considered affiliates of the Utility. However, GSWC does not engage in any affiliate transactions with these companies. Refer to GSWC’s response to Rule VIII.D in this Compliance Plan.

Bear Valley Electrics Services (BVES) is a division of GSWC and not an affiliate of the Utility. For purposes of these Rules, the ATRs apply to BVES when providing services to GSWC’s Affiliates.

Bear Valley Electric Service, Inc. (BVES Inc.) is a subsidiary and an affiliate of GSWC. For purposes of these Rules, the ATRs do not apply as BVES Inc. does not engage in the provision of products that use water or sewer services or the provision of services that relate to the use of water or sewer services. Refer to GSWC’s response to Rule I.B. in this Compliance Plan.

This rule excludes the following entities from the definition of affiliate, with which GSWC has business relationships, and over which it exercises some degree of influence or control:

- American River (Folsom rights)
- Central Basin Municipal Water District
- Central Basin Water Association
- Central Basin Water Rights Panel
- Central Coast Water Authority
- Chino Basin Watermaster

Covina Irrigating Company  
East Orange County Water District  
Groundwater Sustainability Commission (San Luis Obispo Valley Groundwater Basin)  
Joint Management Committee of the Alamitos Barrier Project  
Los Osos Basin Management Committee  
Main San Gabriel Basin Watermaster  
Metropolitan Water District of Southern California  
Mojave Basin Watermaster  
Mojave Water Agency  
Municipal Water District of Orange County  
Nipomo Community Service District  
Nipomo Mesa Management Area  
Orange County Water District  
Pomona Valley Protection Association  
Regional Water Authority (Sacramento)  
Sacramento Central Groundwater Authority  
Sacramento Groundwater Authority  
San Gabriel Basin Water Quality Authority  
San Gabriel Valley Protection Association  
San Gabriel Valley Water Association  
Six Basin Watermaster  
Southeast Water Coalition Joint Powers Authority  
Three Valleys MWD - Miramar Plant  
Twitchell Management Authority  
Water Replenishment District  
West Basin Municipal Water District  
West Basin Water Association  
West Basin Water Rights Panel  
West End Consolidated Water Company  
Yolo County Flood Control and Water Conservation District

and additionally, all joint powers authorities, watermaster boards, public-private partnerships, groundwater basin management authorities, and/or mutual water companies that GSWC may enter into or conduct transactions with and any other entities as listed under the definition of “affiliate”.

#### II.F. “Costs”

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

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

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

#### II.G. "Transaction"

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

#### II.H. "Property"

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

#### II.I. "Real Property"

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

#### II.J. "Customer"

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

#### II.K. "Customer information"

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

#### II.L. "Cross-subsidy"

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

GSWC Compliance Plan:

GSWC affirms these definitions and applies these definitions in the administration of its procedures, mechanisms and policies for ensuring continuous compliance with these rules.

Sotomayor Conclusion: GSWC implements and consistently applies these definitions in the GSWC “Affiliate Transaction Rules Compliance Plan” dated March 25, 2019.

RULE III – Utility Operations and Service Quality

III.A. – A utility shall not allow transactions with affiliates to diminish GSWC 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.

GSWC Compliance Plan:

GSWC maintains appropriate procedures and mechanisms to ensure compliance with Rule III.A. Further, GSWC’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”). Furthermore, GSWC’s compliance with Public Utilities Code Section 851 precludes the acquisition of utility assets in such a manner as to impair the utility’s ability to fulfill its obligation to serve or to operate in a prudent and efficient manner.

In addition, GSWC notes that Rule III.A is similar to GSWC’s Holding Company Rules 20 b and c; see Appendix B. GSWC has been in compliance with its Holding Company Rules since 1998 and continues to be.

Sotomayor Conclusion: Based on observations and interviews with multiple levels of personnel, it was noted that GSWC and affiliates are maintained and managed as separate entities. There is no degradation of utility service or impact to customer service related to the affiliates.

III.B. – Except as otherwise provided by these Rules, a utility shall not

1. Provide leads to its affiliates;
2. Solicit business on behalf of its affiliates;
3. Acquire information on behalf of or to provide to its affiliates;

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;
5. Request authorization from its customers to pass on customer information exclusively to its affiliates;
6. Give the appearance that the utility speaks on behalf of its affiliates; or
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.
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.
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.

GSWC Compliance Plan:

As noted in compliance to Rule I.H; GSWC's affiliate, ASUS, operates water and wastewater systems outside of California and is regulated by the Public Utilities Commission in each state where it provides water and/or wastewater service. GSWC provides Corporate Support for ASUS and ASUS pays GSWC for services rendered as determined in GSWC's most recent GRC Decision. Further, ASUS' operations do not substantially affect the utility's operations and therefore, is exempt from Rule III.B.

Sotomayor Conclusion: GSWC's affiliate operates water and wastewater systems outside of California and is regulated by the Public Utilities Commission in each state where it provides water and/or wastewater service. Based on observations and interviews of employees throughout the organization, review of training materials and procedures, the Company appears to be in compliance with all elements of Rule III.B.

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



GSWC Compliance Plan:

As noted in compliance to Rule I.H; GSWC's affiliate, ASUS, operates water and wastewater systems outside of California and is regulated by the Public Utilities Commission in each state where it provides water and/or wastewater service. GSWC provides Corporate Support for ASUS and ASUS pays GSWC for services rendered as determined in GSWC's most recent GRC Decision. Further, ASUS' operations do not substantially affect the utility's operations and therefore, is exempt from Rule III.C.

Sotomayor Conclusion: GSWC's affiliate operates water and wastewater systems outside of California and is regulated by the Public Utilities Commission in each state where it provides water and/or wastewater service. Based on observations and interviews with multiple levels of personnel, and documentation obtained, it was noted that GSWC is in compliance as it does not provide customer or utility information, services, unused capacity or supply to its affiliates except as provided for elsewhere in the Rules. GSWC provides information to the Service Company for shared corporate services as authorized by Rules III.B.9 and V.

RULE IV – Separation

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

GSWC Compliance Plan:

As a Registrant with the Securities and Exchange Commission ("SEC"), GSWC affirms that it maintains its accounting records in accordance with Generally Accepted Accounting Principles, the Commission's Uniform System of Accounts, relevant Commission decisions and resolutions, and that its accounting records are consistent with the provisions in Public Utility Code Sections 314 and 701. Utility accounting records are available for review upon Commission request. American States Water Company financial statements and GSWC financial statements are audited by their independent accountants on an annual basis.

Furthermore, GSWC notes that Rule IV.A. is similar to GSWC's Holding Company Rule 18; see Appendix B. GSWC has been in compliance with its Holding Company Rules since 1998 and continues to do so.

Sotomayor Conclusion: Review of the audited annual financial reports for years 2017 and 2018 confirmed that Generally Accepted Accounting Principles were applied. GSWC's parent, AWR, is a publicly traded company. GSWC also holds public debt and therefore is a Registrant with the Securities and Exchange Commission ("SEC"). We also reviewed the Commission's Uniform System of Accounts and GSWC's Chart of Accounts and confirmed that GSWC uses the Commission's Uniform System of Accounts.

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

GSWC Compliance Plan:

GSWC affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule IV.B. GSWC applies Rule II.F's definitions to its compliance with Rule IV.B. All such costs are reviewed and approved in each of GSWC's general rate cases.

Furthermore, GSWC notes that Rule IV.B. is similar to GSWC's Holding Company Rule 19; see Appendix B. GSWC has been in compliance with its Holding Company Rules since 1998 and continues to do so.

Sotomayor Conclusion: By reviewing account records, Commission agreements, and guidance for charging common costs to affiliates, it was determined that GSWC maintains an adequate method for allocating common costs. As approved by the CPUC during GSWC's general rate case, GSWC applied 16% of corporate support to affiliates during 2017 and 2018.

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

GSWC Compliance Plan:

GSWC affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule IV.C. GSWC provides a list of all shared directors and officers between the utility and its affiliates in its Annual Report to the Commission. GSWC affirms that it will notify the Director of the Division of Water and Audits and the Director of the Public Advocates Office no later than 30 days following a change to the list of shared directors and officers.

Sotomayor Conclusion: During the examination, the listings of shared directors and officers and Commission filings were obtained to test for compliance. Based on this documentation and conversations with management, it was observed that there was no change in the list of shared directors and officers during the years 2017 and 2018.

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

GSWC Compliance Plan:

GSWC provides training to employees transferred or temporarily assigned to affiliates that fall under the applicability of this Rule, specifying that the employees shall not use non-public, proprietary utility information gained from the utility in a discriminatory or exclusive fashion to the benefit of the affiliate to the detriment of unaffiliated competitors.

Sotomayor Conclusion: During the examination, multiple interviews of GSWC employees were conducted, training materials were reviewed, and training completion reports were obtained. Training has emphasized the importance of not sharing propriety information. Employees have a firm understanding of this Rule.

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

Rule IV.E.1 – A utility shall track and report to the Commission all employee movement between the utility and affiliates, consistent with Rule VIII.F.

GSWC Compliance Plan:

GSWC 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. GSWC includes this information in its Annual Report to the Commission. GSWC's Affiliate Transactions Procedures document provides guidance for compliance with this Rule. The current version of the Affiliate Transactions Procedures document is available to the Commission upon request. These procedures may be updated periodically and issued by GSWC's affiliate rules compliance officer.

Furthermore, GSWC notes that Rule IV.E.1 is similar to GSWC's Holding Company Rules 10 C and D; see Appendix B. GSWC has been in compliance with its Holding Company Rules since 1998 and continues to do so.

Sotomayor Conclusion: During the examination, documentation was obtained to validate the only employee transfer noted on the Annual Report of Affiliate Transactions for 2018. There was one employee transferred from GSWC to ASUS to fill in a vacancy in the Executive Department in 2018. We reviewed and examined the documentation of the employee movements. The records were consistent with the reporting to the Commission. Therefore, GSWC is in compliance with Rule IV.E.1.

Rule IV.E.2 – When an employee of a utility is transferred, assigned, or otherwise employed by the affiliate, the affiliate shall make a one-time payment to the utility in an amount equivalent to 15% of the employee's base annual compensation. All such fees paid to the utility shall be accounted for in a separate memorandum account to track them for future ratemaking treatment on an annual basis, or as otherwise necessary to ensure that the utility's ratepayers receive the fees. This transfer payment provision does not apply to clerical workers.

GSWC Compliance Plan:

GSWC affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule IV.E.2. GSWC interprets "clerical workers" as non-professional employees without specific utility-related skills including office assistant, key data operator, receptionist and secretary<sup>3</sup>. Base annual compensation includes an employee's wages, salary, bonuses, commissions, all other cash compensation, health care packages, pension benefits, stock options, and all other noncash benefits. GSWC includes this information in its Annual Report to the Commission. GSWC's Affiliate Transactions Procedures document provides guidance for compliance with this Rule. The current version of the Affiliate Transactions Procedures document is available to the Commission upon request. These procedures may be updated periodically and issued by GSWC's affiliate rules compliance officer.

Sotomayor Conclusion: There was one employee transferred from GSWC to ASUS to fill in a vacancy in the Executive Department in 2018. We reviewed and examined the documentation of the employee movements. The transfer was considered clerical. Therefore, GSWC was not required to pay for the one-time payment. GSWC complied with this Rule.

Rule IV.E.3 – Utility employees may be used on a temporary or intermittent basis (less than 30% of an employee’s chargeable time in any calendar year) by affiliates only if:

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

GSWC Compliance Plan:

GSWC affirms that it has adequate procedures, mechanisms and policies in place to comply with Rule IV.E.3. GSWC includes this information in its Annual Report to the Commission. GSWC’s Affiliate Transactions Procedures document provides guidance for compliance with this Rule. The current version of the Affiliate Transactions Procedures document is available to the Commission upon request. These procedures may be updated periodically and issued by GSWC’s affiliate rules compliance officer.

Because of the cost and difficulty associated with developing or obtaining the fair market value (“FMV”) of an employee’s time, when the use of an employee is determined to be infrequent, less than 5% of an employee’s chargeable time in any calendar year, GSWC will charge the Affiliate in compliance with Rules IV.B. and VI.E. to ensure that the utility does not cross- subsidize the affiliate and forego an FMV determination.

Sotomayor Conclusion: Based on observations and inquiries of management, it was noted that although GSWC authorizes temporary or intermittent use of its employees by affiliates, there were no direct services provided by GSWC to ASUS in 2017 and 2018. The only transfer in 2018 was permanent. The Company is in compliance with Rule IV.E.3.

## RULE V – Shared Corporate Support

Rule V.A. – A utility, its parent company, or a separate affiliate created solely to perform corporate support services may share with its affiliates joint corporate oversight, governance, support

systems, and personnel as further specified in these Rules. Any shared support shall be priced, reported and conducted in accordance with these Rules as well as other applicable Commission pricing and reporting requirements.

### GSWC Compliance Plan:

GSWC's Affiliate Transactions Procedures document states that the portion of the fully loaded costs of shared corporate services that benefits American States Water Company and/or affiliates shall be charged to American States Water and/or affiliates. GSWC interprets this rule as permitting allocations pursuant to existing practice, previous GRC decisions, etc. to the extent allocations are in compliance with Rule IV.B.

Furthermore, GSWC provides Shared Corporate Support to its Affiliate Company, ASUS. Shared Corporate Support is allocated in Compliance with Rule IV.B. as determined in GSWC's most recent GRC Decision.

Sotomayor Conclusion: Based on documentation and transactions reviewed, it was noted that corporate shared services provided by the Service Company are accurately reported and fully allocated under Rule IV.B.

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

### GSWC Compliance Plan:

GSWC interprets this Rule such that the restriction on transfer of confidential information from the utility to the affiliate does not apply to corporate support, shared services and access to capital. The provision of corporate support services will not provide a means for the transfer of confidential non-public Utility information from the Utility to an affiliate that would create the opportunity for preferential treatment or unfair competitive advantage, lead to customer confusion, or create significant opportunities for cross-subsidy of affiliates.

Sotomayor Conclusion: Based on our review of transactions and inquiries of management, GSWC upholds that the restriction on the transfer of confidential information does not apply to shared corporate services. We agree with the conclusion reached in D.10-10-019, which states "*It is reasonable to allow water and sewer utilities to share non-public or proprietary information with their affiliates for the limited purposes of shared corporate services, as long as there are sufficient limits on other sharing of nonpublic or proprietary information*".

Rule V.C. – Examples of services that may be shared include: corporate governance and oversight, payroll, taxes, shareholder services, insurance, financial reporting, financial planning and analysis, corporate accounting, corporate security, human resources (compensation, benefits, employment policies), employee records, regulatory affairs, lobbying, legal, and pension management, engineering, water or sewage for resale, water storage capacity, and purchasing of water distribution systems.

GSWC Compliance Plan:

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

Sotomayor Conclusion: During our examination, it was noted that GSWC provides a number of shared corporate services to affiliates, which fit the parameters of Rule V.C. and are provided for and paid for in accordance with Rules IV.B. and Rule V.A.

Rule V.D. – Examples of services that may not be shared include: hedging and financial derivatives and arbitrage services, and marketing.

GSWC Compliance Plan:

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

Sotomayor Conclusion: During our examination, we reviewed training materials and communication issued to employees regarding this portion of the Rule. Based on observations and inquiries obtained from personnel, it was determined that shared corporate services do not include hedging and financial derivatives and arbitrage services, and marketing.

**RULE VI – Pricing of Goods and Services between the Utility and Its Affiliate(s)**

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

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

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

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

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

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

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

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

GSWC Compliance Plan for Rules VI (VI.A - VI.G):

GSWC notes that Rule VI. is similar to GSWC’s Holding Company Rules 21, 23, 24, 26, 27, and 28; see Appendix B. GSWC has been in compliance with its Holding Company Rules since 1998 and continues to do so.

GSWC maintains appropriate procedures and mechanisms to ensure compliance with Rule VI.A. GSWC’s Controller is responsible for ensuring that transfers are calculated and recorded appropriately. When the Controller questions the amount charged for the utility’s goods or services, the utility’s Vice President of Regulatory Affairs will be notified, as will the affected affiliate for review of the transaction.

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

Furthermore, GSWC notes that Rule VI.G is similar to GSWC’s Holding Company Rules 22 and 25; see Appendix B. GSWC has been in compliance with its Holding Company Rules since 1998 and continues to do so.

Sotomayor Conclusion: GSWC is in compliance with Rule VI. Shared corporate services were allocated 16% to the affiliates, which was approved by the CPUC in GSWC’s general rate case proceeding. Testing of transactions, review of documentation and observations and inquiries from personnel have revealed that GSWC has adequate procedures in place to ensure compliance with Rule VI.

## RULE VII – Financial Health of the Utility

### GSWC Compliance Plan:

GSWC notes that Rule VII. is similar to GSWC's Holding Company Rules 11-16; see Appendix B. GSWC has been in compliance with its Holding Company Rules since 1998 and continues to do so.

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

### GSWC Compliance Plan:

GSWC maintains appropriate procedures and mechanisms to ensure compliance with Rule VII.A. GSWC's Vice President – Finance, Treasurer and Assistant Secretary 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.

Furthermore, GSWC notes that Rule VII.A. is similar to GSWC's Holding Company Rule 12; see Appendix B. GSWC has been in compliance with its Holding Company Rules since 1998 and continues to do so.

Sotomayor Conclusion: The Parent company does not provide long-term capital to the utility. All long-term borrowings are in the name of Golden State Water Company. Periodically, the parent company, AWR, may draw funds from a line of credit facility. During these periods, AWR borrows under this facility and provides funds to its wholly owned subsidiaries, including GSWC, in support of their current operations. We analyzed the ratios of GSWC's parent company, AWR and GSWC based on the National Regulatory Research Institute Distress Classification Model for water utilities and it was determined that they are in good financial health conditions.

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

### GSWC Compliance Plan:

GSWC's parent, AWR, is a publicly traded company. GSWC also holds public debt and is therefore a Registrant with the SEC. GSWC maintains appropriate procedures and mechanisms to ensure compliance with Rule VII.B and affirms that it will comply, as required.

Sotomayor Conclusion: Documentation was reviewed and inquiries were obtained to determine that GSWC has complied with Rule VII.B. GSWC's parent, AWR, is a publicly traded company. GSWC also holds public debt and therefore is a Registrant with the SEC. There were no bond downgrades during 2017 or 2018.

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



GSWC Compliance Plan:

GSWC's parent, AWR, is a publicly traded company, and GSWC maintains appropriate procedures and mechanisms to ensure compliance with Rule VII.C., and affirms that the creation of any new affiliate by GSWC or its parent will not adversely affect the utility's operations and provision of service.

Sotomayor Conclusion: GSWC is in compliance with Rule VII.C. Per discussion with GSWC, proper documentation was filed with the Commission for all new affiliates created in 2017 and 2018. Documentation was obtained to support this process.

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

GSWC Compliance Plan

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

Furthermore, GSWC notes that Rule VII.D. is similar to GSWC's Holding Company Rule 14; see Appendix B. GSWC has been in compliance with its Holding Company Rules since 1998 and continues to do so. Holding Company Rule 14 allowed debt of the holding company or affiliates to be guaranteed by the utility with prior approval by the Commission. ATR VII.D. forbids the debt of the holding company or affiliates to be guaranteed by the utility. GSWC will abide by ATR VII.D.

Sotomayor Conclusion: During the examination, we reviewed GSWC's audit report to determine whether there was any debt guarantee by GSWC of the parents or any affiliates. We also confirmed with management that GSWC has not guaranteed any debt of the parents or affiliates. GSWC has complied with Rule VII.D.

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

GSWC Compliance Plan:

Pursuant to the conditions stated in the letter from Commission Executive Director Paul Clanon to CWA Attorney Jose E. Guzman, Jr., dated December 9, 2010, GSWC filed its Tier III advice letter on March 31, 2011, demonstrating its compliance with Rule VII.E. The Commission approved Golden State Water Company's Advice Letter No. 1443-W, regarding the compliance Rule VII.E, financial separation, in accordance with Resolution W-4984 with an effective date of August 14, 2014.

Sotomayor Conclusion: On September 8, 2014, the Commission approved Golden State Water Company's Advice Letter No. 1443-W, filed on April 1, 2011, regarding the compliance filing per Decision 10-10-019, Rule VII.E. The CPUC did not direct GSWC to make any changes to its ring-fencing plans, which we infer that the utilities commission was satisfied with the Plan.

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

GSWC Compliance Plan:

GSWC affirms that the stated Rules 12, 13, 15 and 16 in Decision 98-06-068 continue in effect. GSWC notes ATR VII.D. forbids the debt of the holding company to be guaranteed by the utility. This appears to be in contradiction with Holding Company Rule 15. GSWC will abide by ATR VII.D.

Sotomayor Conclusion: The holding company issued no new debt in 2017 and 2018. GSWC is in compliance with Rule VII.F.

**RULE VIII – Regulatory Oversight**

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

GSWC Compliance Plan:

GSWC maintains appropriate procedures and mechanisms to ensure compliance with Rule VIII.A. GSWC will continue to make the officers and employees of the utility and its covered affiliates available to testify before the Commission, as necessary or required, consistent with the provisions of Public Utility Code Section 314 and Decision 98-06-068.

Furthermore, GSWC notes that Rule VIII.A. is similar to GSWC's Holding Company Rule 8; see Appendix B. GSWC has been in compliance with its Holding Company Rules since 1998 and continues to do so.

Sotomayor Conclusion: GSWC officers and employees are available to appear before the CPUC and have done so in the past. GSWC is in compliance with Rule VIII.A.

Rule VIII.B. – The utility and its affiliated companies shall provide the Commission, its staff, and its agents with access to the relevant books and records of such entities in connection with the exercise by the Commission of its regulatory responsibilities in examining any of the costs sought to be recovered by the utility in rate proceedings or in connection with a transaction or transactions between the utility and its affiliates. The utility shall continue to maintain its books and records in

accordance with all Commission rules. The utility's books and records shall be maintained and housed available in California.

GSWC Compliance Plan:

GSWC maintains appropriate procedures and mechanisms to ensure compliance with Rule VIII.B. GSWC 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 and Decision 98-06-068.

Furthermore, GSWC notes that Rule VIII.B. is similar to GSWC's Holding Company Rule 9; see Appendix B. GSWC has been in compliance with its Holding Company Rules since 1998 and continues to do so.

Sotomayor Conclusion: During the examination, we requested access to the relevant books and records in order to complete observations and testing under this Rule. These records were maintained in San Dimas, CA. GSWC is in compliance with Rule VIII.B.

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

1. A list of all affiliates of the utility, as defined in Rule II.E, and for each affiliate a description of its purposes or activities, and whether the utility claims that Rule I.B makes any portion of these Rules applicable to the affiliate;
2. A description of the procedures in place to assure compliance with these Rules; and
3. A description of both the specific mechanisms and the procedures that the utility and parent company have in place to assure that the utility is not utilizing the parent company or any of its affiliates not covered by these Rules as a conduit to circumvent any of these Rules in any respect. The description shall address, but shall not be limited to (a) the dissemination of information transferred by the utility to an affiliate covered by these Rules, (b) the provision of services to its affiliates covered by these Rules or (c) the transfer of employees to its affiliates covered by these Rules in contravention of these Rules. A corporate officer from the utility and parent company shall verify the adequacy of these specific mechanisms and procedures to ensure that the utility is not utilizing the parent company or any of its affiliates not covered by these Rules as a conduit to circumvent any of these Rules.

GSWC Compliance Plan:

GSWC will continue submitting its compliance plan biennially to the Commission with its Annual Report. GSWC maintains appropriate procedures and mechanisms to ensure compliance with Rule VIII.C. GSWC's Regulatory Affairs Department is responsible for maintaining and updating this compliance plan. If changes are determined to be necessary to ensure compliance, this plan will be revised and updated annually or as needed. GSWC maintains a current list of applicable affiliates of the utility, which is attached to this document as Appendix A. Further, GSWC affirms that this plan complies with Rule VIII.C, and that the appropriate procedures and mechanisms are detailed in its Affiliate Transactions Procedures document.

Sotomayor Conclusion: During the examination, we determined that the 2019 compliance plan filed with the Commission contained the information required in items 1 through 3. GSWC is in compliance with Rule VIII.C.

Rule VIII.D. – New Affiliates. Upon the creation of a new affiliate, the utility shall immediately notify the Commission of its creation, as well as posting notice of this event on its web site. No later than 60 days after the creation of this affiliate, the utility shall file an information-only filing,

as provided for in Rule 6.1 of General Order 96-B, with the Director of the Commission’s Division of Water and Audits, with service on the Director of the Division of Ratepayer Advocates. The advice letter shall state the affiliate’s purpose or activities and whether the utility claims these Rules are applicable to the new affiliate, and shall include a demonstration to the Commission that

there are adequate procedures in place that will assure compliance with these Rules. The advice letter may include a request, including supporting explanation, that the affiliate transaction rules not be applied to the new affiliate. If the utility requests that the affiliate transactions rules not be applied to the new affiliate, in lieu of an information-only filing, the utility shall file a Tier 2 advice letter making such a request, including an explanation of why these Rules should not apply to the new affiliate.

GSWC Compliance Plan:

GSWC maintains appropriate procedures and mechanisms to ensure compliance with Rule VIII.D. GSWC will notify the Commission of the creation of any new affiliate. No later than 60 days after the creation of an applicable affiliate, the utility shall file an information-only filing, as provided for in Rule 6.1 of General Order 96-B, with the Director of the Commission’s Division of Water and Audits, with service on the Director of the Public Advocates Office, demonstrating how GSWC will implement these Rules with respect to the new affiliate. In lieu of an information-only filing, GSWC will file a tier 2 advice letter if an exemption of the ATRs is being requested. GSWC notes that its compliance will comport with the discussion in Rule II.E. of this plan. Occasionally, an investment management company acquires more than 10% of AWR’s outstanding shares. Rule II.E defines these management companies as Affiliates of the Utility. Since no affiliate transactions occur between the investment management companies and the Utility, GSWC has timely filed a tier 2 advice letter requesting a conditional waiver from the Commission. To date, the Commission has approved GSWC’s previous advice letters to exempt Rules VII.B (bond downgrading), VIII.A (access to officers and employees), VIII.B (access to books and records) and VIII.D (creation of new affiliates) with respect to these investment management companies. GSWC will continue to file a tier 2 advice letter upon knowledge of an investment management company acquiring more than 10% of AWR’s outstanding shares.

Sotomayor Conclusion: During the examination, we discussed with management and personnel about the process followed for notification of the creation of new affiliates. We obtained the 2017 and 2018 documentation sent to the Commission to notify them of the new affiliates. There were two new affiliates established during the years 2017 and 2018; Fort Riley Utility Services, Inc. and Bear Valley Electric Service, Inc. An information-only filing was filed for Fort Riley Utility Services, Inc. and an Application was filed for Bear Valley Electric Service, Inc. by GSWC with

the CPUC within the stipulated 60 days of creation of the new affiliates. Therefore, it is concluded that GSWC is in compliance with Rule VIII.D.

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

GSWC Compliance Plan:

GSWC will continue to comply with this Rule, as stated, and will cooperate with the independent audit firm, as well as the Division of Water & Audits during the audit. GSWC will continue to submit its independent audit report biennially to the Director of the Division of Water and Audits and the Public Advocates Office, with its first report having been submitted on September 30, 2013, and biennially thereafter.

Sotomayor Conclusion: Sotomayor & Associates performed the required audit for the period January 1, 2017 to December 31, 2018.

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

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

GSWC Compliance Plan:

GSWC maintains appropriate procedures and mechanisms to ensure compliance with Rule VIII. F. GSWC affirms that, as part of its Annual Report to the Commission, it will continue to submit an affiliate transactions report to the Director of the Division of Water and Audits and the Director of the Public Advocates Office that includes a summary of all transactions between the utility and its affiliated companies for the previous calendar year. With respect to Rule VIII.F.8, GSWC interprets this rule as being applicable to those affiliates and affiliate transactions covered in Rule I.B., and it affirms that the applicable services provided by, and/or assets transferred from, the parent holding company to the affiliate company will be included in the affiliate transactions report.

Furthermore, GSWC notes that Rule VIII.F., except for items 8 and 9, is similar to GSWC's Holding Company Rule 10; see Appendix B. GSWC has been in compliance with its Holding Company Rules since 1998 and continues to do so.

Sotomayor Conclusion: During the examination, we reviewed copies of the 2017 and 2018 affiliate transaction reports and determined that the reports contained the information required in items 1 through 9.

RULE IX – Confidentiality

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

GSWC Compliance Plan:

GSWC affirms compliance with Rule IX.

Furthermore, GSWC notes that Rule IX is similar to GSWC's Holding Company Rule 30; see Appendix B. GSWC has been in compliance with its Holding Company Rules since 1998 and continues to do so.

Sotomayor Conclusion: To confirm that GSWC properly indicates confidential information, we performed the following:

- Discussed Rule IX with GSWC executive management
- Examined GSWC's training materials offered to all personnel
- Examined GSWC's compliance plan
- Examined documentation provided to the Commission in accordance with a number of filings made under the Rules. We verified that any proprietary information provided to the Commission was identified as confidential information.

GSWC complies with Rule IX by properly indicating appropriate information as confidential.

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

GSWC Compliance Plan:

GSWC notes that this is a change from GSWC's Holding Company Rules, which required that all unregulated businesses be conducted by one of GSWC's unregulated affiliates.

In Decision 10-10-019, Ordering Paragraph 5 states: "Notwithstanding Paragraph 20 of the Settlement adopted by Decision 98-06-068 and attached thereto, Golden State Water Company may offer non-tariffed products and services consistent with the rules in Appendix A."

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

Sotomayor Conclusion: Based on documentation reviewed and discussions with management, GSWC initiated a new marketing agreement with Home Emergency Insurance Solutions (HEIS) during 2018. HEIS provides coverages to GSWC's customers for unexpected service line repairs. Due to the indirect involvement of the marketing materials, the NTP&S activity is classified as passive. The agreements in place dictate the payments to be made to GSWC by HEIS based on the number of coverages sold. Based on documentation reviewed, all other current NTP&S items have been offered for many years. GSWC is in compliance with Rule X.A.

X.B. – A utility may only offer on the open market the following products and services:

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

Sotomayor Conclusion: See discussion under Rule X.A. Based on the above, GSWC is in compliance with Rule X.B.

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

1. Active NTP&S projects: 90% shareholder and 10% ratepayer.
2. Passive NTP&S projects: 70% shareholder and 30% ratepayer.
3. A utility shall classify all NTP&S as active or passive according to the table below. For a new NTP&S not listed in the table, which requires approval by the Commission by advice letter pursuant to Rule X.G, an “active” project requires a shareholder investment of at least \$125,000. Otherwise the new NTP&S shall be classified as passive. No costs recoverable through rates shall be counted toward the \$125,000 threshold.
4. Revenues received that are specified in a contract as pass-through of costs, without any mark-up, shall be excluded when determining revenue sharing. If an advice letter is required pursuant to Rule X.G, the utility shall specify in the advice letter any items other than postage, power, taxes, and purchased water for which it proposes pass-through treatment and must obtain Commission approval for such treatment.
5. For those utilities with annual Other Operating Revenue (OOR) of \$100,000 or more, revenue sharing shall occur only for revenues in excess of that amount. All NTP&S revenue below that level shall accrue to the benefit of ratepayers.
6. For those utilities with annual OOR below \$100,000, there shall be no sharing threshold, and ratepayers shall accrue all benefits for non-tariffed products and services.

Sotomayor Conclusion: During the examination, we obtained documentation to support the billing method used for NTP&S revenues and allocation of NTP&S revenue to shareholders and ratepayers. GSWC offers three types of NTP&S items; billing services (active), antenna leases (passive) and a marketing agreement (passive) with Home Emergency Insurance Solutions. Based on the review of annual reports filed with the CPUC, GSWC’s general rate case and documents received, the revenues were properly allocated in 2017 and 2018. Therefore, GSWC is in compliance with Rule X.C.

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



Sotomayor Conclusion: During the examination, we noted that costs incurred due to NTP&S projects for 2017 and 2018 were reported in the Annual Report of NTP&S. Therefore, GSWC is in compliance with Rule X.D for 2017 and 2018.

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

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

Sotomayor Conclusion: During our examination, we reviewed copies of the 2017 and 2018 Annual Report of NTP&S Projects. The Company has complied with Rule X.E.

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

Sotomayor Conclusion: There was one new NTP&S initiated during the 24 months ended December 31, 2018. We obtained the filing sent to the Commission to notify them of the new NTP&S. GSWC provided the required notification within 30 days of instituting the activity. Therefore, GSWC is in compliance with Rule X.F.

Rule X.G. – Provision of New NTP&S. Any water or sewer utility that proposes to engage in the provision of new NTP&S not included in the table below, using the excess capacity of assets or resources reflected in the utility's revenue requirement, and which are proposed to be classified as active as described herein, shall file a Tier 3 advice letter (see Resolution ALJ-202) with the Director of the Division of Water and Audits seeking Commission approval. The advice letter shall

be served on the service list for Rulemaking 09-04-012 and the service list for the utility's current or most recent general rate case. The advice letter shall contain the following:

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

13. Any other information, opinions, or documentation that might be relevant to the Commission's consideration of the NTP&S.

GSWC Compliance Plan:

GSWC will comply with all provisions of Rule X. In accordance with Rule X.E, GSWC will submit a Report on Non-Tariffed Products and Services with its Annual Report of Affiliated Entities to the Commission.

Sotomayor Conclusion: Based on our discussions with GSWC management, in addition to the existing NTP&S items that have been provided for many years, there was one new NTP&S activity initiated during the 24 months ended December 31, 2018. Since the new NTP&S activity is classified as passive, it is concluded that GSWC is in compliance with Rule X.G.