

GREAT OAKS WATER COMPANY  
REPORT ON EXAMINATION  
OF THE FINANCIAL INFORMATION  
ON THE ACQUISITION AND REORGANIZATION  
AND COMPLIANCE WITH AFFILIATE  
TRANSACTION RULES

DECEMBER 31, 2015

GREAT OAKS WATER COMPANY

DECEMBER 31, 2015

TABLE OF CONTENTS

	<u>Page Number</u>
Independent Accountant's Report .....	1
Executive Summary .....	2
Background .....	2
Audit Purpose and Objective .....	2
Audit Scope and Methodology .....	3
Results .....	3
Appendix A – Affiliate Transaction Rules .....	4-26
Appendix B – Schedule of Assets and Liabilities Transferred from Great Oaks Water Company to GOW Corporation .....	27

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**INDEPENDENT ACCOUNTANT'S REPORT**

To The Board of Directors  
Great Oaks Water Company

We have examined Great Oaks Water Company's financial information on the acquisition and reorganization and compliance with the Modified Rules for Water and Sewer Utilities Regarding Affiliate Transactions and the Use of Regulated Assets for Non-Tariffed Utility Services ("The Affiliate Transaction Rules") as of December 31, 2015, including financial information regarding assets, liabilities, and other tangible property distributed from Great Oaks Water Company to GOW Corporation. Management is responsible for the Great Oaks Water Company's compliance with those requirements. Our responsibility is to express an opinion on the Great Oaks Water Company's compliance and an opinion on the presentation of financial information 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 Great Oaks Water Company's compliance with those requirements and financial information regarding assets, liabilities, and any other tangible property distributed from Great Oaks Water Company to GOW Corporation 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 Great Oaks Water Company's compliance with specified requirements.

In our opinion, Great Oaks Water Company complied, in all material respects, with the requirements under the Affiliate Transaction Rules as of December 31, 2015, and in our opinion, the schedule of assets, liabilities, and other tangible property distributed from Great Oaks Water Company to GOW Corporation as of December 31, 2015, presents, in all material respects, the assets, liabilities, and other tangible property distributed from Great Oaks Water Company to GOW Corporation as of December 31, 2015, based upon the carrying values of those assets and liabilities on the books and records of Great Oaks Water Company prior to the distribution.

The accounting methods used for carrying values of assets and liabilities distributed to GOW Corporation at December 31, 2015, include fair market value for marketable securities, the cost method for notes, other receivables, land, and liabilities, and the cost method for rental real estate (the cash investment less cash payments received from property managers, but no recognition of increases or decreases due to net rental income or loss).

This report is intended solely for the information and use of management of Great Oaks 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.

PEASLEY, ALDINGER & O'BYMACHOW  
AN ACCOUNTANCY CORPORATION



Matt A. Peasley  
Certified Public Accountant

May 31, 2016

Great Oaks Water Company  
Examination of the Financial Information on the Acquisition  
and Reorganization and Compliance with the Affiliate  
Transaction Rules  
December 31, 2015

**EXECUTIVE SUMMARY:**

This examination addresses Great Oaks Water Company's compliance with the Modified Rules for Water and Sewer Utilities Regarding Affiliate Transactions and the Use of Regulated Assets for Non-Tariffed Utility Services (the Affiliate Transaction Rules) in regards to its Contribution Agreement and Plan of Reorganization including financial information regarding the assets, liabilities, and any other tangible property distributed from Great Oaks Water Company to its newly established parent corporation (GOW Corporation). Our examination found that Great Oaks Water Company complied with all the Affiliate Transaction Rules except for noncompliance with Rule IV.C and Rule VIII.D and partial noncompliance with Rule IV.A. The details of these noncompliance issues are shown in Appendix A.

Financial information regarding the assets, liabilities, and any other tangible property distributed from Great Oaks Water Company to GOW Corporation is based on the carrying values of those assets and liabilities on the books and records of Great Oaks Water Company prior to the distribution is shown on Appendix B. Our examination found that the financial information regarding assets, liabilities, and other tangible property distributed from Great Oaks Water Company to GOW Corporation is fairly stated based upon the carrying values of the assets, liabilities, and other property on the books and records of Great Oaks Water Company at December 31, 2015, prior to the distribution to GOW Corporation. Our examination did find that certain assets and liabilities that were transferred from Great Oaks Water Company to GOW Corporation at December 31, 2015, were not listed on Appendix B because they were not recorded on the books and records of Great Oaks Water Company prior to the transfer. These assets and liabilities consisted of two rental cash accounts of \$198,135 and \$67,207 (74% interest), respectively, and additional rental security deposits liabilities of \$21,290.

**BACKGROUND:**

On April 22, 2014, the shareholders of Great Oaks Water Company agreed to transfer all of their shares to GOW Corporation (a newly formed Wyoming corporation) in exchange for 100% of the common shares of GOW Corporation under the Contribution Agreement and Plan of Reorganization. As a result of the exchange, Great Oaks Water Company became a wholly owned subsidiary of GOW Corporation effective March 12, 2015. As part of the agreement, Great Oaks Water Company transferred certain assets and liabilities to GOW Corporation. Assets transferred included cash, marketable securities, loans and related receivables, rental real estate, and land held for investment. Liabilities transferred included rental security deposits. The reason for the transfer was to separate unregulated assets and liabilities from regulated assets and liabilities. The transfers described above were approved by the California Public Utilities Commission (Commission) on March 12, 2015, in Decision 15-03-006. Under terms of the Decision 15-03-006, the Commission has required an audit that shall include financial information and compliance with the Affiliate Transaction Rules, including financial information regarding the assets, liabilities, and any other tangible property distributed from Great Oaks Water Company to GOW Corporation under the Contribution Agreement.

The Affiliate Transaction Rules, as modified, were adopted by the Commission in Decision 11-10-034 effective October 20, 2011 (and subsequently amended by Decision 12-01-042 effective January, 30, 2012).

**AUDIT PURPOSE AND OBJECTIVE:**

The purpose of the audit is to comply with terms of Commission Decision 15-03-006 dated March 12, 2015, which approved the terms of the Contribution Agreement and Plan of Reorganization.

Great Oaks Water Company  
Examination of the Financial Information on the Acquisition  
and Reorganization and Compliance with the Affiliate  
Transaction Rules  
December 31, 2015

**AUDIT SCOPE AND METHODOLOGY:**

The audit included terms of the Contribution Agreement and Plan of Reorganization including the transfer of assets and liabilities from Great Oaks Water Company to GOW Corporation on December 31, 2015. The audit procedures included inspection of Great Oaks Water Company books and records, source documents, and annual reports, interviews with management, and review of Commission Decisions.

**RESULTS:**

We noted exceptions to the Affiliate Transaction Rule IV.A, Rule IV.C and Rule VIII.D, as explained in Appendix A. We noted assets transferred from Great Oaks Water Company to GOW Corporation that are not listed on Appendix B consisting of two rental cash accounts of \$198,135 and \$67,207 (74% interest), respectively. We also noted liabilities transferred from Great Oaks Water Company to GOW Corporation that are not listed on Appendix B consisting of additional rental security deposits liabilities of \$21,290.

## **RULE I – Jurisdiction and Applicability**

### **I.A.**

These Rules apply to all Class A and Class B California public utility water and sewer corporations or companies subject to regulations by the Commission.

#### Great Oaks Water Company (GOWC) Compliance:

GOWC affirms that the Rules for Water and Sewer Utilities Regarding Affiliate Transactions (Affiliate Transaction Rules) and the use of Regulated Assets for Non-Tariffed Utility Services apply to GOWC.

#### Peasley, Aldinger & O'Bymachow, An Accountancy Corporation (PAO) Conclusion:

We reviewed 2014 and 2015 Annual Reports to the Public Utilities Commission State of California (Annual Reports) of GOWC. Those reports listed active service connections in excess of 20,000 which classifies the utility under the Commission as a Class A Public Utility. Therefore, Affiliate Transaction Rules apply to GOWC.

### **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.

#### GOWC Compliance:

GOWC believes that Rule 1.B applies to the reorganization creating a newly organized parent and the transfer of assets and liabilities from GOWC to GOW Corporation (the Reorganization) due to the provision of services that relate to the use of water or sewer services. In particular, GOWC believes that the use of utility employees and officers in the transfer of assets from GOWC to GOW Corporation is covered under Rule I.B.

#### PAO Conclusion:

Our examination included the review of the Contribution Agreement and Plan of Reorganization that included the creation of new parent corporation (GOW Corporation) and the transfer of certain assets and liabilities from GOWC to GOW Corporation, and GOWC's Compliance Plan for Affiliate Transactions and the Use of Regulated Assets for Non-Tariffed Utility Services. We agree with GOWC that Rule 1.B applies to the transfer of assets from GOWC to its newly organized parent company GOW Corporation.

### **I.C.**

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

#### GOWC Compliance:

GOWC believes that it has and will comply with all applicable State and federal statutes, laws, and administrative regulations to which it is subject.

#### PAO Conclusion:

GOWC has confirmed to us during our examination that it believes that it has complied with all State and federal statutes, laws, and administrative regulations to which it is subject. During our examination, we did not observe any instances of noncompliance with State and federal statutes, laws, and administrative regulations.

**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.

GOWC Compliance:

GOWC believes that Rule I.D's meaning is that these Affiliate Transaction Rules supersede prior rules if the prior rules conflict with the Affiliate Transaction Rules.

PAO Conclusion:

Based upon our review of the Affiliate Transaction Rules, we believe that GOWC's understanding of Rule I.D is correct.

**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.

GOWC Compliance:

GOWC believes that Rule I.E's meaning is that existing rules will apply if an item currently addressed in existing rules is not addressed by the Affiliate Transaction Rules.

PAO Conclusion:

Based upon our review of the Affiliate Transaction Rules, we believe that GOWC's understanding of Rule I.E is correct.

**I.F.**

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

GOWC Compliance:

GOWC believes that meaning of Rule I.F is that the Affiliate Transaction 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.

PAO Conclusion:

Based upon our review of the Affiliate Transaction Rules, we believe that GOWC's understanding of Rule I.F is correct.

**I.G.**

A California utility which 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.

GOWC Compliance:

GOWC asserts that it is not a multi-state utility and, therefore, Rule I.G does not apply to GOWC.

PAO Conclusion:

Based on our review of Company Annual Reports and discussions with management confirmed that GOWC provides utility services entirely within the State of California. Therefore, Rule I.G does not apply to GOWC.

**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.

GOWC Compliance:

GOWC believes that GOW Corporation is considered the "parent company" or "parent" of GOWC because GOW Corporation owns the regulated utility. GOW Corporation has real estate investments and rental operations outside the State of California and transactions between GOW Corporation and GOWC do not substantially affect the utility's operations and the operating costs inside of California.

PAO Conclusion:

We have concluded that based on our examination of records and confirmation with management that GOW Corporation's rental operations, lending activities, and land investment activities operate outside the State of California and that their operations do not substantially affect GOWC's operations.

**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.

GOWC Compliance:

GOWC affirms Rule I.I means that the Affiliate Transaction Rules are to be interpreted broadly.

PAO Conclusion:

Based upon our review of the Affiliate Transaction Rules, we believe that GOWC's understanding of Rule I.I is correct.

**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.

#### **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.** Directs 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 “costs 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 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 or 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 items of value such as a good, service, information or money between a utility and one or more if its affiliates.

**II.H. "Property"**

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

**II.I. "Real Property"**

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

**II.J. "Customer"**

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

**II.K. "Customer information"**

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

**II.L. "Cross-subsidy"**

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

GOWC Compliance:

GOWC affirms the definitions of Rule II.A through II.L.

PAO Conclusion:

GOWC has confirmed to us its agreement of the definitions in Rule II.A through II.L. Our review of the Affiliate Transaction Rules and review of the reorganization agreement agrees with the definition of affiliate and parent corporation.

**RULE III – Utility Operations and Service Quality**

**III.A.**

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.

GOWC Compliance:

GOWC believes that the Reorganization does not diminish water utility resources in a manner that would result in a degradation of the reliability, efficiency, adequacy, or cost of service or an adverse impact on customer service. Also, GOWC does not believe that the Reorganization would divert management attention in a way that would result in such degradation. GOWC does not believe that the Reorganization will impair the utility's ability to fulfill its obligation to serve or to operate in a prudent and efficient manner.

PAO Conclusion:

Our examination of the Reorganization included a review of reorganization agreement, prior Annual Reports to the Public Utilities Commission State of California (Annual Report), evidence of ownership of real property transferred, and GOWC accounting documents. Assets transferred to GOW Corporation consisted of assets and liabilities not related to the operation of the utility including cash, marketable securities, loans and related receivable amounts, land, rental real property, and security deposit liabilities. Any transfer out of cash or investments that could be liquidated and used in the operations of a utility diminishes the water utility resources. We believe that the Reorganization does not diminish water utility resources in a manner that would result in a degradation of the reliability, efficiency, adequacy, or cost of service or an adverse impact on customer service, nor will it impair the utility's ability to fulfill its obligation to serve or to operate in a prudent and efficient manner. Since the assets transferred consist of relatively passive type investment and cash, we believe that it is unlikely that the Reorganization would divert management attention in a way that would result in degradation of utility service explained above.

**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 which 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.

GOWC Compliance:

GOWC does not believe the Reorganization will include items described in Rule III.B Items 1. through 9.

PAO Conclusion:

After we reviewed the Rule III.B and the reorganization agreement, we do not believe that the Reorganization includes any item described in Rule III.B items 1. through 9.

**III.C.**

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

GOWC Compliance:

GOWC does not believe the Reorganization will include any item described in Rule III.C.

PAO Conclusion:

After we reviewed the Rule III.C and the reorganization agreement, we do not believe that the Reorganization includes any item described in Rule III.C.

**RULE IV – Separation**

**IV.A.**

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

GOWC Compliance:

GOWC affirms that it has policies and procedures in place to maintain and that it maintains its accounting records in accordance with GAAP, the Commission's Uniform System of Accounts, Commission decisions and resolutions, and the Public Utilities Code.

PAO Conclusion:

We reviewed the audited financial statements of GOWC for the year ended December 31, 2012, the last year that the Company's financial statements were audited. The audit reported that the financial statements were presented in conformity with GAAP. GOWC has confirmed to us that they believe that they maintain its accounting records in accordance with GAAP, the Commission's Uniform System of Accounts, Commission decisions and resolutions, and the Public Utilities Code. We reviewed the Company's books as of December 31, 2015, and confirmed that GOWC uses the Uniform System of Accounts for Class A Water Utilities, however, we found that rental properties did not include net rental income earned as an increase in assets in conformity with GAAP.

**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.

GOWC Compliance:

GOWC does not believe the Reorganization included any common costs to be allocated between GOWC and GOW Corporation.

PAO Conclusion:

After we reviewed the Rule IV.B and the reorganization agreement, we do not believe that the Reorganization included any costs to be allocated between GOWC and GOW Corporation.

#### **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).

#### GOWC Compliance:

GOWC did not list shared directors and officers of GOWC and GOW Corporation in its annual report as required under Rule IV.C and therefore, has not complied with this rule. GOWC will be filing an amendment to its annual report to list the single shared officer and director between GOWC and its parent company GOW Corporation. This information was previously provided to the Commission in Application (A.) 14-04-035.

#### PAO Conclusion:

We reviewed the 2015 Annual Report and did not find a list of shared directors and officers of GOWC and GOW Corporation listed in the Report. We inquired with GOWC regarding shared directors and officers. GOWC response was the John W. S. Roeder was the only shared director and shared officer at December 31, 2015. However, since the shared director and officer list was not included in the 2015 Annual Reports, we believe that GOWC has not complied with Rule IV.C.

#### **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.

#### GOWC Compliance:

GOWC has not transferred or temporarily assigned any employees from GOWC to GOW Corporation regarding the Reorganization. A GOWC employee prepared financial information for GOW Corporation on a one-time basis to ensure accuracy in the financial reporting of the reorganization. GOWC did not use non-public proprietary utility information gained from the utility in a discriminatory or exclusive fashion to the benefit of the parent company.

#### PAO Conclusion:

We reviewed the Rule IV.D, the reorganization agreement, and confirmation from GOWC management. We did not find that the Reorganization included the transfer or temporary assignment of any employees from GOWC to GOW Corporation. GOWC has incidentally used temporary executive employees in the Reorganization, however, we noted no use of non-public proprietary utility information gained from the utility in a discriminatory or exclusive fashion to the benefit of the affiliate. Therefore, Rule IV.D does not apply to the Reorganization.

#### **IV.E.**

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

#### **IV.E.1**

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

#### GOWC Compliance:

GOWC has not transferred or temporarily assigned any employees from GOWC to GOW Corporation regarding the Reorganization. There has been no movement of employees between the utility and its parent company associated with the reorganization.

PAO Conclusion:

We reviewed the Rule IV.E.1, the reorganization agreement, and confirmation from GOWC management, we did not find that the Reorganization included the transfer or temporary assignment of any employees from GOWC to GOW Corporation. Therefore, Rule IV.E.1 does not apply to the Reorganization.

**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.

GOWC Compliance:

GOWC has not transferred or temporarily assigned any employees from GOWC to GOW Corporation as part of the Reorganization. There has been no movement of employees between the utility and its parent company associated with the reorganization. Rule IV.E.2 does not apply to the Reorganization.

PAO Conclusion:

We reviewed the Rule IV.E.2, the reorganization agreement, and confirmation from GOWC management. We did not find that the Reorganization included the transfer or temporary assignment of any employees from GOWC to GOW Corporation. Therefore, Rule IV.E.2 does not apply to the Reorganization.

**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.

GOWC Compliance:

GOWC has recorded and documented time spent by any GOWC employees on matters related to the reorganization in accord with the requirements of Commission Decision (D.) 12-10-045, Ordering Paragraph 2 and GOWC's Compliance Plan for Affiliate Transactions and the Use of Regulated Assets for Non-Tariffed Utility Services.

PAO Conclusion:

We reviewed the Rule IV.E.3, the reorganization agreement, commission decisions, and confirmation from GOWC management. We do not believe that the Reorganization included the use of any employees on a temporary or intermittent basis from GOWC to GOW Corporation. Therefore, Rule IV.E.3 does not apply to the Resolution.

## **RULE V – Shared Corporate Support**

### **V.A.**

A utility, its parent company, or a separate affiliate created solely to perform corporate support services may share with its affiliates joint corporate oversight, governance, support systems, and personnel as further specified in the 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.

#### GOWC Compliance:

GOWC believes that its parent corporation was not created to solely perform corporate support services. Therefore, it believes that Rule V. does not apply to the Reorganization.

#### PAO Conclusion:

Our examination included reading Rule V.A and the reorganization agreement, and discussions with management. Rule V.A applies to the creation of a parent corporation or affiliate solely to perform corporate support services. In the case of GOWC, the Reorganization was for the purpose of separating nonutility activities (investment and rental activities) from utility activities. Therefore, Rule V.A does not apply to the Reorganization.

### **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.

#### GOWC Compliance:

GOWC affirms that it has adequate procedures to comply with Rule V. B in its Compliance Plan for Affiliate Transactions and the Use of Regulated Assets for Non-Tariffed Utility Services (the Compliance Plan). In particular, the Compliance Plan documents the procedures for reimbursing the utility for services of GOWC used by corporate affiliates. Also, the Reorganization did not include the transfer of confidential information from the utility (GOWC) to GOW Corporation (other than confidential information regarding the property transferred).

#### PAO Conclusion:

Our examination included reading Rule V.B, the reorganization agreement, and the Compliance Plan, and discussions with management. Rule V.B prohibits the transfer of confidential information from the utility to the affiliate as part of shared corporate support. The Reorganization does not involve the transfer of confidential information of the utility except for any confidential information related to the investments (land, rental properties, notes, and marketable securities).

### **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.

#### GOWC Compliance:

GOWC affirms that it may share the services listed in Rule V.C.

#### PAO Conclusion:

Our examination included reading Rule V.C and discussions with management. We are in agreement with GOWC regarding Rule V.C that it may share the services listed in Rule V.C.

**V.D.**

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

GOWC Compliance:

GOWC affirms that it may not share the services listed in Rule V.D.

PAO Conclusion:

Our examination included reading Rule V.C and discussions with management. We are in agreement with GOWC regarding Rule V.C that it may not share the services listed in Rule V.D.

**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.

GOWC Compliance:

GOWC believes that the Reorganization did not include the transfer of goods and services from GOWC that are offered on the open market. Rule VI.A does not apply to the Reorganization.

PAO Conclusion:

Our examination included reading Rule VI.A and the reorganization agreement, and discussions with management. Rule VI.A applies to transfers from the utility to its affiliates of goods and services offered by the utility on the open market. If the utility offers such goods and services on the open market, those goods and services will be priced at fair market value. However, we agree with GOWC that Rule VI.A does not apply to Reorganization because the transfer does not involve goods and services that are offered on the open market.

**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.

GOWC Compliance:

GOWC believes that Rule VI.B does not apply to the Reorganization because the transaction does not involve any transfer from GOW Corporation to GOWC.

PAO Conclusion:

Our examination included reading Rule VI.B, the reorganization agreement, and the Compliance Plan, and discussions with management. Rule VI.B requires that transfer from an affiliate to the utility of goods and services offered by the affiliate on the open market be priced at no more than fair market value. The Reorganization does not involve any transfer from GOW Corporation to GOWC. Therefore, we agree with GOWC that Rule VI.B does not apply to the transfer of assets from GOWC to GOW Corporation.

**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.



**GOWC Compliance:**

GOWC believes that Rule VI.C does not apply to the Reorganization because the transaction does not involve any transfer of goods or services for which the price is regulated by a state agency.

**PAO Conclusion:**

Our examination included reading Rule VI.C, the reorganization agreement, and the Compliance Plan, and discussions with management. Rule VI.C requires that for the transfer of goods and services for which the price is regulated by a state agency, that price shall be deemed to be fair market value. Since the Reorganization does not involve any transfer of goods or services for which the price is regulated by a state agency, we agree with GOWC that Rule VI.C does not apply to the Reorganization.

**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 by law.

**GOWC Compliance:**

GOWC believes that Rule VI.D does not apply to the Reorganization because the transaction does not involve any goods or services produced, purchased or developed to be offered on the open market by the utility.

**PAO Conclusion:**

Our examination included reading Rule VI.D, the reorganization agreement, and the Compliance Plan, and discussions with management. Rule VI.D requires that goods and services produced, purchased or developed to be offered in the open market by the utility shall be provided to the utility's affiliates and unaffiliated companies on a nondiscriminatory basis. The Reorganization does not involve any transfer of goods or services on the open market. Therefore, we agree with GOWC that Rule VI.D does not apply to the transfer of assets from GOWC to GOW Corporation.

**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 costs plus 5% of direct labor cost.

**GOWC Compliance:**

The Reorganization does not include goods and services not produced, purchased or developed to be offered in the open market by the utility. Rule VI.E does not apply to the transaction.

**PAO Conclusion:**

Our examination included reading Rule VI.E, the reorganization agreement, and the Compliance Plan, and discussions with management. Rule VI.E required that 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. We agree with GOWC that the Reorganization is not a transaction described in Rule VI.E. Therefore, Rule VI.E does not apply to the Reorganization.

**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.

**GOWC Compliance:**

GOWC believes that Rule VI.F does not apply to the Reorganization because the transaction does not involve any transfer from GOW Corporation to GOWC.

PAO Conclusion:

Our examination included reading Rule VI.F, the reorganization agreement, and the Compliance Plan, and discussions with management. Rule VI.F requires that transfer from the affiliate to the utility of goods and services not produced, purchased or developed to be offered on the open market shall be priced at the lower of fully loaded cost or fair market value. The Reorganization does not involve any transfer from GOW Corporation to GOWC. Therefore, we agree with GOWC that Rule VI.F does not apply to the transfer of assets from GOWC to GOW Corporation.

**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.

GOWC Compliance:

GOWC believes that Rule VI.G does not apply to Reorganization because the transaction does not involve any transfer from GOWC to GOW Corporation at fair market value.

PAO Conclusion:

Our examination included reading Rule VI.G, the reorganization agreement, and the Compliance Plan, and discussions with management. Rule VI.G requires that the utility 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. The Reorganization does not involve any transfer of goods and services from GOWC to GOW Corporation at fair market value. Therefore, we agree with GOWC that Rule VI.G does not apply to the Reorganization.

**RULE VII – Financial Health of the Utility**

**VII.A.**

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

GOWC Compliance:

GOW Corporation will provide GOWC with adequate capital to fulfill all of its service obligations prescribed by the Commission.

PAO Conclusion:

Our examination included reading Rule VII.A, reading Decision 15-03-006 dated March 12, 2015, and discussions with management. Decision 15-03-006 adopted a settlement agreement between GOWC, GOW Corporation, and the Office of Ratepayer Advocates of the Public Utilities Commission of the State of California. In Section 2.2.18 of the settlement agreement GOW Corporation has agreed to ensure that GOWC has adequate capital to fulfill all its public utility service obligations. Therefore, we believe that GOWC has complied with Rule VII.A.

**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 bond of the parent, another affiliate, and/or the utility, and shall include with such notice the complete report of the issuing bond rating agency.

GOWC Compliance:

GOWC believes that Rule VII.B does not apply to the Reorganization because GOW Corporation is not publicly traded.

PAO Conclusion:

GOWC has confirmed to us that GOW Corporation is not a publicly traded company. (Our understanding of a company that is "publicly traded" is a company that has issued its stock that is traded in a public market). Our review of the reorganization agreement called for the transfer of shares of GOWC held by its shareholders to GOW Corporation in exchange for all of the outstanding shares of GOW Corporation. The shareholders of GOWC prior to the Reorganization, were John W. S. Roeder and The John W.S. Roeder Continuing Trust as shown on the Annual Reports. The Reorganization exchanged the shares of GOW Corporation with shares held by the previous shareholders, none of which would be considered publicly traded. Therefore, we agree with GOWC, that Rule VII.B does not apply to the Reorganization.

**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.

GOWC Compliance:

GOWC believes that the creation of GOW Corporation did not adversely impact the utility's operations and provision of service. GOWC transferred assets to GOW Corporation that were not used as utility assets. Assets transferred included cash, marketable securities, land, rental real estate, and loans and related receivables. Since the assets transferred by GOWC to GOW Corporation were not used by GOWC in its utility operations, the transfer should not adversely impact the utility operations.

PAO Conclusion:

Our examination included reading Rule VII.C and the reorganization agreement, reviewing 2014 and 2015 Annual Reports, and discussions with management. Rule VII.C requires that the creation of the new affiliate should not adversely impact utility operations and provision of service. Transfer of investment type assets should not adversely impact utility operations and provision of service since those assets were not being used for those purposes in the past.

**VII.D.**

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

GOWC Compliance:

GOWC believes that since GOW Corporation has no debt, Rule VII.D does not apply to the Reorganization.

PAO Conclusion:

Our examination included reading Rule VII.D and the reorganization agreement, the Company's accounting books, and discussions with management. The Reorganization included no debt guaranteed or secured by the utility. Therefore, Rule VII.D does not apply to Reorganization.

**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 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).

GOWC Compliance:

GOWC believes that Rule VII.E does not apply to the Reorganization because GOWC did not have a parent company at the time the Rule was adopted, therefore, no Tier III advice letter was required.

PAO Conclusion:

Our examination included reading Rule VII.E and the reorganization agreement, and discussions with management. Rule VII.E requires that 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 date of the Modified Decision Regarding Petition for Modification of Decision 10-10-019 (Modified Decision) was October 20, 2011. Three months from the date of the Modified Decision was January 20, 2012. GOWC did not have a parent company on October 20, 2011 or during the period October 20, 2011 through January 20, 2012. Since GOWC did not have a parent company at times listed under Rule VII.E, we agree with GOWC that Rule VII.E does not apply to the Reorganization.

**VII.F.**

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

GOWC Compliance:

GOWC believes that Rule VII.F does not apply to the Reorganization because the Rule only applies to California Water Service Company or Golden State Water Company.

PAO Conclusion:

Our examination included reading Rule VII.F. Rule VII.F describe rules that apply to companies other than GOWC. Therefore, we agree with GOWC that Rule VII.F does not apply to the Reorganization.

**RULE VIII – Regulatory Oversight**

**VIII.A.**

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

GOWC Compliance:

GOWC confirms that the officers and employees of the utility and its affiliated companies (if any) shall be available to appear and testify in any proceeding before the Commission involving the utility.

PAO Conclusion:

We inquired with management and received confirmation that they would make all officers and employees of GOWC and officers and employees of affiliates (if any) available to appear and testify in any proceeding before the Commission involving the utility.

**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.

GOWC Compliance:

GOWC confirms that access to the books and records of the utility and affiliated companies will be provided to the Commission, its staff, and its agents in connection with the exercise of the Commission's regulatory responsibilities. GOWC also confirms that it will maintain its books and records in accordance with all Commission rules and that its books and records will be maintained and housed available in its California offices.

PAO Conclusion:

Management confirmed to us based on our inquiry that access to the books and records of the utility and affiliated company would be made available to the Commission, its staff, and its agents in connection with the exercise of the Commission's regulatory responsibilities. Management also confirmed to us that it will maintain its books and records in accordance with all Commission rules at its offices in California. All books and records that were used during our examination were located at GOWC offices in San Jose, California.

**VIII.C.**

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

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

GOWC Compliance:

GOWC has included a compliance plan as part of its Annual Report to the Public Utilities Commission State of California including items 1. through 3. of Rule VIII.C.

PAO Conclusion:

Our examination included review of the Annual Reports to the Public Utilities Commission State of California for the year ended December 31, 2014 and for the year ended December 31, 2015. Those reports included a compliance plan including information required in items 1. through 3. of Rule VIII.C.

**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 transaction 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.

GOWC Compliance:

Full and complete disclosure of the formation of GOW Corporation was provided to the Commission in A.14-04-035, fulfilling all obligations under this rule. To the extent this was an issue, it should have been raised in the proceedings on A.14-04-035. No such issue was raised.

PAO Conclusion:

Our examination included reading Rule VIII.D, the reorganization agreement, Application 14-04-035, and CPUC decisions regarding Application 14-04-035. Rule VIII.D requires upon 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 website, and that no later than 60 days after the creation of a new affiliate, the utility shall file an information-only filing, as provided for in Rule 6.1 of General Order 96-B of the CPUC, with the Director of the Commission's Division of Water and Audits, with service on the Director of the Division of Ratepayer Advocates. Management of GOWC believes that filing Application 14-04-035 which was made within 60 days of the creation of the affiliate fulfills the obligations under Rule VIII.D. It is unclear to us whether making such a filing removes GOWC's obligations described in Rule VIII.D. Therefore, except if the filing of Application 14-04-035 has removed GOWC's obligations described in Rule VIII.D, GOWC has not complied with Rule VIII.D.

**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.

GOWC Compliance:

GOWC confirms its responsibility to have independent audits performed under the conditions of Rule VIII.E. GOWC believes, however, that Rule VIII.E does not apply to the Reorganization.

PAO Conclusion:

We inquired with management regarding its responsibility to have audits performed under the conditions of Rule VIII.E. We agree that Rule VIII.E does not apply to the Reorganization.

#### **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 the affiliate company which may have germane utility regulation 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.

#### GOWC Compliance:

GOWC confirms its responsibility to submit a report that includes a summary of all transactions between the GOWC and GOW Corporation by March 31 each year for the previous calendar year. GOWC filed an Affiliate Transaction Report on March 31, 2016, included with its Annual Report to the Public Utilities Commission State of California for the year ended December 31, 2015, and believes that it has complied with Rule VIII.F.

#### PAO Conclusion:

We reviewed the GOWC Report on Affiliate Transactions included in its 2015 Annual Report to the Public Utilities Commission State of California. Our review determined that the report included the information required by Rule VIII.F items 1. through 9., except for accrued interest and other receivables amounting to \$47,182 and a 74% interest in rental operations account in Bend Oregon of \$62,207.

#### **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.

#### GOWC Compliance:

GOWC confirms that it will individually mark records of a confidential nature as "Confidential". GOWC confirms that the Reorganization contained no information marked as "Confidential".

PAO Conclusion:

We inquired with management regarding its responsibility to mark certain records as "Confidential". Per our inquiry with management, no records have been marked as "confidential" in regards to the Reorganization.

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

**X.A.**

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

GOWC Compliance:

GOWC confirms that new products and services will be offered through affiliates except as provided in these rules. GOWC also confirms that no new products or services have been offered as the result of the Reorganization.

PAO Conclusion:

Our examination included the review of ownership documents of assets transferred to GOW Corporation and inquiry with management regarding the use of such assets. Most of the assets have been held as passive investments or as real estate rental activity. We noted no new products or services offered as the result of the Reorganization.

**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.

GOWC Compliance:

GOWC believes that the Reorganization did not add or change any products or services described in 1 through 3. None of the assets transferred to GOW Corporation were acquired for the purpose of and is necessary and useful in providing tariffed utility services.



PAO Conclusion:

Our examination included reviewing documents related to the ownership of assets that were transferred to GOW Corporation. Those assets included cash, marketable securities, loans receivable, land, and buildings used as rental property. None of the properties were of the type that would be used in operating the utility that is located in San Jose, California.

**X.C.**

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

1. Active NTP&S projects: 90% shareholder and 10% ratepayer.
2. Passive NTP&S projects: 70% shareholder and 30% ratepayer.
3. A utility shall classify all NTP&S as active or passive according to the table below. For a new NTP&S not listed in the table, which requires approval by the Commission by advice letter pursuant to Rule X.G, an "active" project requires a shareholder investment of at least \$125,000. Otherwise the new NTP&S shall be classified as passive. No costs recoverable through rates shall be counted toward the \$125,000 threshold.
4. Revenues received that are specified in a contract as pass-through of costs, without any mark-up, shall be excluded when determining revenue sharing. If an advice letter is required pursuant to Rule X.G, the utility shall specify in the advice letter any items other than postage, power, taxes, and purchased water for which it proposed 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.

GOWC Compliance:

GOWC believes that the Reorganization did not create revenues as described in Rule X.C.

PAO Conclusion:

Our examination noted no creation of revenues due to the Reorganization described in Rule X.C.

**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.

GOWC Compliance:

Subsection 2.2.16 of the Settlement Agreement approved and adopted in D.15-03-006 provides:

2.2.16 No costs of any kind associated with the reorganization are or will be requested from or otherwise passed on to GOWC ratepayers. Ratepayers will be exempt from any additional costs incurred by GOWC arising from the reorganization. Any expenses incurred in relation to the proceedings on A.14-04-035 (including, but not limited to taxes, outside legal expenses, and travel costs) shall be accounted for as non-utility expenses and shall not be included in the recorded base of any account included in the calculation of revenue requirement for future general rate cases.

GOWC and GOW Corporation have complied with this provision of the Settlement Agreement.

PAO Conclusion:

During our examination and review of D15-03-006, management of GOWC confirmed to us that costs of the Reorganization shall not be recovered through tariffed rates. Costs related to the Reorganization are to be reimbursed at fully allocated costs.

**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 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.

GOWC Compliance:

GOWC confirms its reporting responsibility under Rule X.E, but believes that there is nothing to report under Rule X.E as a result of the reorganization.

PAO Conclusion:

Based upon our examination there is no reporting responsibility under Rule X.E for the Reorganization.

**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.

GOWC Compliance:

GOWC confirms its responsibility to report items under Rule X.F., but believes that there is nothing to report under Rule X.F. as a result of the reorganization.

PAO Conclusion:

Based on our examination, Rule X.F does not apply to the Reorganization.

**X.G.**

**Provision of New NTP&S.** Any water or sewer utility that proposed 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, 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.

GOWC Compliance:

GOWC believes that Rule X.G does not apply to the Reorganization.

PAO Conclusion:

Based on our examination, Rule X.G does not apply to the Reorganization.

GREAT OAKS WATER COMPANY  
SCHEDULE OF ASSETS AND LIABILITIES TRANSFERRED FROM  
GREAT OAKS WATER COMPANY TO GOW CORPORATION  
DECEMBER 31, 2015

APPENDIX B

ASSETS TRANSFERRED:

Cash \$ 1,480,000

Marketable Securities:

Held through Waddell & Reed (Mutual Funds) 7,287,814  
Held through Waddell & Reed (MAPLatitude Account) 1,030,518  
Held through Wells Fargo Advisors 3,002,110

Notes Receivable:

DA Builders LLC and Drew & Megan Benson 198,743  
Hale-Campbell LLC 1,250,562  
DA Builders and LBKine Holdings, LLC - (Monticello Lots, 75 - 78, 81, and 82) 635,993  
DA Builders and LBKine Holdings, LLC - (Monticello Lots) 3,604,000  
Thomas J. and Mia L. Oller 129,474  
Regal Center, LLC 2,200,000  
Roeder Holdings (02/04/15) 500,000  
Roeder Holdings (11/09/10) 716,966  
Roeder Holdings (12/31/10) 838,296  
Hale-Campbell LLC (Lots 1, 4, and 16) 306,314

Other Receivables:

Interest 47,182  
Other 700

Land:

73 Acres, Payette, Idaho 115,696  
80 Acres, Boise, Idaho 64,194  
9 Acres, Lake Hazel, Idaho 79,501  
DBSI Cavanaugh V, Meridan, Idaho 512,779  
1,083 Acres - S. Orchard Access Rd, Boise, Idaho 444,391

Rental Real Estate (Land and Buildings):

Old Elks Building, 70 NW Newport Ave., Bend, Oregon (74%)  
(Net of Accumulated Depreciation of \$87,350) 1,424,490  
Trinity Centre Commercial Buildings, 2312 & 2340 E. Trinity Mills,  
Carrollton, Texas (Net of Accumulated Depreciation of \$202,221) 2,082,377

TOTAL ASSETS TRANSFERRED \$ 27,952,100

LIABILITES TRANSFERRED:

Rental Security Deposits \$ 15,006

TOTAL LIABILITES TRANSFERRED \$ 15,006