ATTACHMENT 1

SETTLEMENT AGREEMENT BETWEEN DEL ORO WATER COMPANY AND THE OFFICE OF RATEPAYER ADVOCATES

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Application of Del Oro Water Company (U 61 W) to Review the Reasonableness of Its General Office, Affiliate Transactions, and Non-Tariffed Goods and Services, as Required by Resolution W-4954	Application No. 13-12-002 (Filed December 2, 2013)

SETTLEMENT AGREEMENT BETWEEN DEL ORO WATER COMPANY AND THE OFFICE OF RATEPAYER ADVOCATES

I. TERMS AND CONDITIONS – GENERAL

1.1 This Settlement Agreement ("Settlement") is entered into by and between Del Oro Water Company, Inc. ("DOWC") and the Office of Ratepayer Advocates ("ORA") of the California Public Utilities Commission ("Commission"). DOWC and ORA are referred to jointly herein as the "Parties" or singularly as a "Party."

1.2 This Settlement shall become effective and binding on the Parties as of the date it is fully executed by all Parties ("Effective Date"). The Settlement will not, however, resolve the issues before the Commission in A. 13-12-002 unless, and until, it is adopted by the Commission.

1.3 This Settlement resolves all outstanding issues that are currently before the Commission in Application 13-12-002.

1.4 The Parties agree that (except as otherwise stated herein) the Commission's adoption of this Settlement should not be construed as an admission or waiver by any Party regarding any fact, matter of law, or issue thereof that pertains to the subject of this Settlement. In accordance with the Commission's Rules of Practice and Procedure (hereinafter "Rule"), Rule

12.5, the Parties intend that the Commission's adoption of this Settlement be binding on each Party, including its legal successors, predecessors, assigns, partners, joint ventures, shareholders, members, representatives, agents, attorneys, parent or subsidiary companies, affiliates, officers, directors, and/or employees. Adoption of this Settlement does not constitute approval of, or establish precedent regarding, any principle in any future proceeding. Nor does adoption of this Settlement bind any Party with respect to a future proceeding except with respect to the terms and conditions set forth herein, including as provided in Sections 1.13 and 1.14.

1.5 The Parties agree that no Party to this Settlement, or any Parties' legal successors, predecessors, assigns, partners, joint ventures, shareholders, members, representatives, agents, attorneys, parent or subsidiary companies, affiliates, officers, directors, and/or employees thereof, assumes any personal liability as a result of this Settlement.

1.6 The Parties agree that the Commission has primary jurisdiction over any interpretation, enforcement, or remedy pertaining to this Settlement. No Party may bring an action pertaining to this Settlement in any local, State, or Federal court, or administrative agency, without having first exhausted its administrative remedies at the Commission.

1.7 If any Party fails to perform its respective obligations under this Settlement, the other Party may come before the Commission to pursue a remedy including enforcement.

1.8 The Parties agree that this Settlement is an integrated agreement and the provisions of the Settlement are not severable. Therefore, if the Commission rejects, conditions or purports to modify any term or portion of this Settlement, the Parties shall convene a conference within fifteen (15)

days thereof and engage in good faith negotiations to determine whether some or all of the remainder of the Settlement is acceptable to the Parties. In the event an agreement is reached, all Parties must consent in writing to any changes or the Settlement is void. If the Parties cannot agree to resolve any issue raised by the Commission's actions within sixty (60) days of their conference, this Settlement shall be deemed to be rescinded, the Parties shall be released from any obligation, representation, or condition set forth in this Settlement, including their obligation to support this Settlement, and the Parties shall be restored to their positions prior to having entered into this Settlement. If the Commission does not issue a decision approving this Settlement in its entirety and without modification or condition within eighteen (18) months from the Effective Date, this Settlement will be automatically rescinded, the Parties shall be released from any obligation, representation, or condition set forth in this Settlement, including their obligation to support this Settlement, and the Parties shall be restored to their positions prior to having entered into this Settlement. Following the rescission of this Settlement, the Parties may pursue any action they deem appropriate.

1.9 The Parties acknowledge and stipulate that they are agreeing to this Settlement freely, voluntarily, and without any fraud, duress, or undue influence by any other Party. Each Party hereby states that it has read and fully understands its rights, privileges, and duties under this Settlement, including each Party's right to discuss this Settlement with its legal counsel, and has exercised those rights, privileges, and duties to the extent deemed necessary.

1.10 The Parties have determined that this Settlement is in their best interests, and more cost-effective than undertaking the expenses, delays, and

uncertainties of further litigation. In executing this Settlement, each Party declares that the terms and conditions herein are reasonable, consistent with the law, and in the public interest. Therefore, the Parties jointly request that the Commission accept and adopt this Settlement in its entirety and without modification or condition, as reasonable, consistent with the law, and in the public interest.

1.11 The Parties agree that within fifteen (15) days of the Effective Date they will jointly submit this Settlement for Commission approval by joint motion pursuant to Commission Rule 12.1(a). In their joint motion, the Parties will ask that the Commission expeditiously consider and approve this Settlement in its entirety and without condition or modification.

1.12 The Parties agree to support this Settlement and use their best efforts to secure the Commission's approval of this Settlement in its entirety and without condition or modification.

1.13 The Parties agree to defend this Settlement and its implementation before the Commission if the Commission's adoption or implementation of this Settlement is opposed by anyone else.

1.14 Each Party hereto agrees without further consideration to execute and deliver such other documents and take such other actions as may be necessary to achieve the purposes of this Settlement, including, without limitation, furnishing such additional information, documents, and/or testimony as the Commission may require (with due regard for confidentiality) in issuing an order adopting this Settlement.

1.15 The Parties acknowledge and agree that this Settlement has been jointly negotiated and drafted. The language of this Settlement shall be construed as a whole according to its fair meaning and not in favor of or against any

Party.

1.16 This Settlement constitutes the entire agreement and understanding between the Parties as to the subject of this Settlement, and supersedes any prior agreements, commitments, representations, or discussions between the Parties.

1.17 This Settlement may not be amended or modified without the express written and signed consent of each Party hereto.

1.18 No Party has relied or relies upon any statement, promise, or representation by any other Party, except as specifically set forth in this Settlement. Each Party expressly assumes the risk of any mistake of law or fact made by such Party or its authorized representative.

1.19 This Settlement and each covenant and condition set forth herein shall be binding upon the respective Parties hereto.

1.20 This Settlement may be executed in counterparts by each Party hereto with the same effect as if all Parties had signed one and the same document. Any such counterpart shall be deemed to be an original and shall together constitute one and the same Settlement.

1.21 This Settlement shall be governed by the laws of the State of California as to all matters, including validity, construction, effect, performance and remedy.

II. FACTUAL BACKGROUND

2.1 DOWC is a Class B multi-district water utility providing water service to 17 districts throughout California. On December 7, 2011, DOWC filed Advice Letter 315-A, which sought to increase water service rates in its

Pine Flat District and Pine Mountain District in order to recover increased operating expenses and earn a reasonable rate of return on its plant investment. Advice Letter 315-A also sought to consolidate the two districts and place them under the same rate schedule. The combined districts serve approximately 288 metered customers: 193 are served by Pine Flat and 95 are served by Pine Mountain.

2.2 On October 3, 2013, the Commission issued Resolution W-4954 in response to Advice Letter 315-A. Resolution W-4954 granted DOWC an interim increase in gross annual revenues, subject to refund, of $37,358 (25.1%) over the revenues produced under DOWC's then-effective rates, and additional interim revenue of $14,893 (10%), subject to refund, for Escalation Year 2012 to provide a return on ratebase of 10.8% for the consolidated California Pines District. Resolution W-4954 recommended maintaining separate rate structures for each service area until DOWC's next general rate case. Resolution W-4954 further raised issues of concern to the Division of Water and Audits ("DWA") regarding transactions between DOWC and its affiliates ("affiliate transactions"); DOWC was ordered to file an application to determine the reasonableness of its general office costs and affiliated transactions charged to DOWC ratepayers. In response to Resolution W-4954,DOWC filed A.13-12-002 on December 2, 2013.

2.3 On January 3, 2014, ORA filed a protest to A.13-12-002. The protest identified issues ORA intended to examine through discovery, including, accounts, books, papers, and documents relating to (1) transactions between DOWC and its affiliates or subsidiaries and (2) the independent audit of DOWC and its affiliates performed during the prior two calendar years.

2.4 DOWC filed a reply to the protest on January 13, 2014. In its Reply,

DOWC expressed its willingness to provide ORA any information reasonably required to assist ORA in its evaluation of A.13-12-002.

2.5 Following ORA's protest, DOWC and ORA worked together to ensure that ORA had sufficient information to evaluate the Application. On April 14, 2014, DOWC and ORA filed a joint Prehearing Conference Statement. The Statement provided that no discovery disputes had arisen and the discovery process was moving forward. The Statement further advised the Commission that DOWC had filed its report in compliance with Rule VIII.E of the Affiliate Transaction Rules, Independent Audit Report, a compliance report and that ORA was in the process of reviewing it . The Parties recommended the Prehearing Conference be continued to a date in June of 2014 in order to allow ORA sufficient time to complete its review of the required data for the compliance filing, and for DOWC to respond to any inquiries.

2.6 On May 28, 2014, a Prehearing Conference was held. During the Prehearing Conference, the Parties informed the Administrative Law Judge ("ALJ") that they were working toward reaching a settlement of the issues raised in ORA's protest. The Parties advised the ALJ that the Parties anticipated filing a motion with the Commission seeking approval and adoption of the settlement shortly after DOWC submitted its revised Affiliate Transaction Rules VIII.E, Independent Audit Report that the Division of Water & Audits rejected on April 24, 2014 and that ORA also found unreasonable on or before August 1, 2014.

2.7 On September 24, 2014, the Administrative Law Judge held a telephonic status conference with the Parties to determine the status of settlement, as no motion for adoption of the settlement had been filed as of that date. The Parties advised the ALJ that (1) a few issues concerning DOWC's financial

statements and audit report remained unresolved and (2) the motion for adoption of the settlement was now expected to be served by November 17, 2014.

2.8 On October 22, 2014, the Assigned Commissioner issued a Scoping Memo and Ruling. The Scoping Memo set out the schedule for the remainder of the proceeding. Pursuant to it , intervenor and concurrent rebuttal testimony are to be served on November 21 and December 1, 2014, respectively. Evidentiary hearings, if necessary, will be held on December 15, 2014 at 10:30 a.m. Concurrent opening and reply briefs will be filed December 29, 2014, and January 16, 2015, respectively. The proposed decision will be mailed March 6, 2015. The Scoping Memo also defined the scope of the proceeding in the event the matter proceeds to evidentiary hearings. The proposed scope focuses on whether DOWC's operations are in compliance with the Affiliate Transaction Rules, and whether any safety considerations are raised by the Application.

2.9 On November20, 2014, DOWC and ORA entered into this settlement agreement.

2.10 The Parties have agreed upon terms and conditions resolving the entirety of the issues in this proceeding, which the Parties believe are fair and reasonable in light of the evidentiary record and in the public interest. The terms and conditions agreed to by the Parties are set forth in Section III of this Settlement Agreement below.

III. TERMS AND CONDITIONS OF THE SETTLEMENT

3.0 Approval of the Application

3.1 The Commission should approve Application 13-12-002, subject to the additional terms and conditions set forth in this Settlement, and issue an order including the following:

1. Find that DOWC as of the date of the Settlement Agreement, has two Affiliate Transaction Rule II.E. affiliates: 1) Utility Management Services ("UMS") AND 2) The Safor Corporation ("Safor").
2. Find reasonable for ratesetting purposes, DOWC's methodology for its allocation of staff and executive time between DOWC and its affiliates using 120,000 minutes/year to allocate time to its affiliates.
3. Find that DOWC's allocation methodology for all affiliate expenses will be employed in DOWC General Rate Case ("GRC") applications to that portion of the expense allocated to DOWC employed for ratesetting purposes while the portion of the expense allocated to affiliates will not.
4. Find that DOWC's Revised Affiliate Transaction Rules Compliance Plan, Affiliate Transaction Rule VIII.C, attached as Attachment 1, is reasonable.
5. Find that DOWC has established proper accounting procedures for its affiliate transactions under Affiliate Transaction Rule VIII.C, attached as Attachment 1.
6. Direct that the Continuing Service Agreements between DOWC and its affiliates, UMS and Safor be amended to correctly implement the Affiliate Transaction Rules contained in D.10-10-019 and its progeny and be reviewed as part of the

next Affiliate Transaction Rule VIII.E Independent Audit to be overseen by the Division of Water & Audits, due September 30, 2015.

7. Order that DOWC's next independent audit, due September 30, 2015, will be conducted under the supervision of the Division of Water &Audits.

3.2 **DOWC's Allocation of Expenses**

3.3 The Parties agree that when calculating the proportion of DOWC staff and management time expended for the benefit of DOWC's affiliates, the employee shall be presumed to work 120,000 minutes per year, instead of the 154,800 minutes per year employed in work papers submitted with A.13-12-002.

3.4 The Parties recognize that because UMS hired its own employees in February 2014, UMS no longer relies solely on employee support from DOWC to conduct its business operations. As a result, the Parties agree UMS is no longer subject to Affiliate Transaction Rule X, Non-Tariffed Products and Services. The Parties acknowledge, however, that UMS does share some corporate support services subject to Affiliate Transaction Rules I-IX.

3.5 **DOWC's Calculation Methodology for Compensation**

The Parties agree that proper allocation for overhead expenses is controlled by Affiliate Transaction Rule IV.B and allocation occurs during GRCs. The Parties agree that the allocations should be conducted pursuant to the terms and conditions set forth in the Affiliate Transaction Rule VIII.C, which is Attachment 1 here.

3.6 **Shared Costs**

3.7 Shared costs are allocated during GRCs so that the portion of the expense allocated to DOWC will be employed for ratesetting purposes while the portion of the expense allocated to affiliates will not.

a. The rent for office space that is not shared but dedicated to the exclusive use of one company shall be allocated to that company Rent for shared spaces will be allocated as follows: 80%-DOWC; 10%- UMS; 10%-Safor.

b. The cost of supplies, security services, janitorial services, office services, phone systems, internet, and furniture will be allocated by the same percentage.

c. Utilities will be allocated to each company according to square footage of rented space and paid directly by each company.

d. Any office supply or service (including legal service) obtained for the benefit of a single company will be paid for by that company.

e. Accounting services will continue to be allocated annually to DOWC and UMS according to the accountant's determination of time spent per company allocated during GRCs to that the portion of the expense allocated to DOWC employed for ratesetting purposes while the portion of the expense allocated to affiliates will not.

3.8 **DOWC Revised Affiliate Transaction Compliance Plan**

3.9 The Parties agree the Affiliate Transaction Compliance Plan originally submitted with A.13-12-002 did not satisfy Ordering Paragraph 5 of Resolution W-4954.

DOWC has submitted a revised Affiliate Transaction Compliance Plan as Attachment 1 to this Settlement Agreement. The Parties agree that DOWC's revised Affiliate Transaction Compliance Plan complies with Resolution W-4954 and is reasonable.

3.10 The Parties further agree that DOWC and its affiliates, UMS and Safor, will amend any Continuing Service Agreements between them so that any such agreement correctly reflects the Affiliate Transaction Rules set forth in D.10-10-019 and its progeny and will be reviewed as part of the next Affiliate Transaction Rule VIII.E Independent Audit to be overseen by the Division of Water and Audits, due September 30, 2015.

3.11 The Parties agree that DOWC will be deemed to have satisfied the provisions of Resolution W-4954 when the revised Affiliate Transaction Compliance Plan, which is Attachment 1 to this Settlement Agreement, and revised Continuing Service Agreements, considered as part of the Affiliate Transaction Rule VIII.C plans, and have been submitted to the Director of the Division of Water and Audits.

3.12 **<u>DOWC's Independent Audit Report</u>**

3.13 The Parties agree that the independent audit submitted to the Division of Water and Audits pursuant to Affiliate Transaction Rule VIII.E in August 2014 was inadequate. The Parties agree the next independent audit, which is due September 30, 2015, will be supervised by the Division of Water and Audits. The Parties request the Commission include in the decision approving this Settlement

Agreement an ordering paragraph requiring the Division of Water and Audits to supervise DOWC's next independent audit.

3.14 The Parties recognize that the level of resources DOWC should commit to the Independent Audit should be commensurate with DOWC's size as a Class B water utility rather than that which might be appropriate for a multi-state Class A water corporation. DOWC must engage an independent Certified Public Accountant, with utility client experience, to perform a full and complete audit as required by D.10-10-019 and its progeny, and Rule VIII.E, which is due September 30, 2015.

3.15 **Selection of Auditor**

3.16 DOWC must comply with the following minimum requirements in choosing a Certified Public Accountant for the audit required by the preceding article of the Settlement Agreement:

a. DOWC must solicit audit proposals from multiple Certified Public Accountants who are experienced in auditing regulated public utilities in California.

b. DOWC must submit its request and copies of all bids to the Director of the Commission's Division of Water & Audits within 10 days of issuance or receipt, respectively.

c. DOWC must prepare and submit to the Director of the Division of Water and Audits a written summary of its evaluation of the proposals and all the criteria applied to the selection process within 21 days of selecting a Certified Public Accountant.

d. Following preapproval, DOWC must submit a copy of an executed engagement letter to the Director of the Division of Water and Audits within 10 days of its execution and seek the Director's concurrence in the selection.

3.17 These documents shall all be confidential pursuant to General Order 66-C.

3.18 Del Oro Water Company must submit all audited financial statements, the related disclosures and the attest opinion of the Certified Public Accountant to the Division of Water and Audits (or successor organization) and the Office of Ratepayer Advocates (or successor organization) on or before September 30, 2015.

3.19 These documents shall be filed and/or served in accordance with the requirements in Affiliate Transaction Rule VIII.E, and D.10-10-019 and its progeny.

3.20 **Affiliate Transaction Rule X, Non-Tariffed Services & Products**

3.21 Pursuant to the effective date of the Settlement Agreement, antenna leases in DOWC's Paradise Pines District, will fall under Affiliate Transaction Rule X activities. Accordingly, DOWC will allocate this activity as "Passive" and will properly compensate DOWC ratepayers pursuant to Affiliate Transaction Rule X during the next GRC for its Paradise Pines District. Rule X revenues are allocated during GRCs and not as reimbursements from the affiliates to DOWC.

3.22 **Safety Considerations**

3.23 The Parties agree A.13-12-002 does not raise any safety considerations, as emergency procedures for DOWC are addressed in its general rate case proceedings.

IV. CONCLUSION

The Parties mutually agree that, based on the terms and conditions set forth above, this Settlement Agreement is reasonable, consistent with the law, and in the public interest.

Each signatory to this Settlement represents and warrants that they have the right, power and authority to bind the Parties they represent, and that his or her signature to this Settlement Agreement binds his or her respective Party to the terms of this Settlement Agreement.

Dated: November 20, 2014

Joseph P. Como
Acting Director
Office of Ratepayer Advocates
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Telephone: (415) 703-2381

Dated: November__, 2014

Del Oro Water Company, Inc.
Drawer 5172
Chico, CA 95927
Telephone: (530) 894-1100

IV. CONCLUSION

The Parties mutually agree that, based on the terms and conditions set forth above, this Settlement Agreement is reasonable, consistent with the law, and in the public interest.

Each signatory to this Settlement represents and warrants that they have the right, power and authority to bind the Parties they represent, and that his or her signature to this Settlement Agreement binds his or her respective Party to the terms of this Settlement Agreement.

Dated: November __, 2014

Joseph P. Como
Acting Director
Office of Ratepayer Advocates
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Telephone: (415) 703-2381

Dated: November 20, 2014

Del Oro Water Company, Inc.
Drawer 5172
Chico, CA 95927
Telephone: (530) 894-1100

ATTACHMENT 1

DEL ORO WATER COMPANY, INC.
REVISED AFFILIATE TRANSACTION COMPLIANCE PLAN,
AFFILIATE TRANSACTION RULE VIII.C

3258/009/X167879.v1

A.13-12-002, Settlement Agreement Attachment 1

ATR Rule VIII.C, Compliance Plans

ATTACHMENT 1: ATR RULE VIII.C COMPLIANCE PLANS

D.10-10-019 and its progeny. Affiliate Transaction Rule VIII.C.

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, (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.

V.III.C.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.

Del Oro has two Affiliates per ATR Rule II.E and liable to the ATR Rules.

1. Utility Management Services ("UMS")
2. The Safor Corporation ("SAFOR")

Utility Management Services ("UMS")
426 Broadway St
Chico, CA 95928
(530) 717-2600

The Safor Corporation ("SAFOR")
426 Broadway
Chico, CA 95928
(530) 894-1100 Ext 103

A.13-12-002, Settlement Agreement Attachment 1

ATR Rule VIII.C, Compliance Plans

Purposes or activities: UMS is the Parent Company of the Del Oro Water Company and by ATR Rule II.A is an affiliate of Del Oro Water Company.

UMS services:

Utility Services
Billing and Call Center Services for Utility Companies, Service Districts, Municipalities, Townships, Cities, Homeowners' Associations, Condominium Associations, Golf Courses, College Housing, and Country Clubs.

Utility Management Services provides non-regulated and regulated contract Billing and Call Center services throughout California. UMS financial resources and professional expertise offer a range of services to meet billing and customer service needs. UMS offers mailed, emailed, and web-based billing as well as a full range of customer service options including Call Center operations and "self-service" customer account management. In addition, the UMS off-site back-up and storage system assures that data is protected and secured.

Water Companies
Utility Management Services (UMS) provides non-regulated and regulated contract utility services throughout California. UMS financial resources and professional expertise help other water providers, including municipalities, community service districts, and privately owned utility companies, provide their customers with reliable water supplies that meet increasingly stringent federal and state water quality standards. UMS provides a range of services, including meter reading, billing, customer service, water quality testing, and full water system operations. UMS also conducts related non-regulated business, including sales of surplus, non-utility properties. In addition, the UMS off-site back-up and storage system assures that data is protected and secured.

SAFOR Services:

SAFOR is a Property Management Company which owns and operates both residential and commercial property in California. SAFOR also conducts investment opportunities as a tenant in common (TIC) with other companies outside the state of California.

VIII.C.3 (b) Del Oro's services to its affiliates, UMS and SAFOR, covered by these Rules:

Del Oro supplies corporate services to its Affiliates: UMS and SAFOR therefore common costs must be allocated with Del Oro Water Company.

A.13-12-002, Settlement Agreement Attachment 1

ATR Rule VIII.C, Compliance Plans

These following descriptions express both the specific mechanisms and procedures that Del Oro Water Company and its parent company, Utility Management Services and affiliate, the Safor Corporation, conduct to assure that Del Oro is not utilizing UMS and SAFOR, or any of its affiliates not covered by these Rules as a conduit to circumvent any of these Rules in any respect.

Del Oro does not transfer employees as defined by these Rules to its affiliates. However, shared resources are covered by ATR Rule IV.B.

Del Oro employees provide resources to its affiliates on a temporary or intermittent basis (less than 30% of an employee's chargeable time in any calendar year) under ATR Rule IV.3.E.

Rule VIII.C.2 A description of the procedures in place to assure compliance with these Rules.

The Compliance Plans and Procedures, per ATR Rule VIII.C.2, are shown below.

For purposes of implementing the ATR Rules in a more efficacious manner, Del Oro will amend and include its Continuing Service Agreements, Exhibits D and E of A.13-12-002 to be consistent with the ATR rules. These Continuing Service Agreements will be reviewed during enactment of ATR Rule VIII.E, Independent Audit.

RULE I. Jurisdiction and Applicability

Del Oro Water Company is under the jurisdiction of the Commission. This Compliance Plan complies with Rule VIII.C, Compliance Plans. These are the specific mechanisms and procedures in place for Del Oro to follow.

Del Oro recognizes its Parent Company, Utility Management Services, and The Safor Corporation as affiliates.

The affiliate transaction rules of D.10-10-019 and its progeny are the first rules and guidelines for Del Oro to follow, that is, Del Oro did not have any utility specific guidelines before.

Del Oro is not a multi-state utility, although it does conduct some of its administrative activities through the Del Oro and Safor Chief Financial Officer (CFO) outside the state of California, in Arizona, the location of the CFO's residence.

A.13-12-002, Settlement Agreement Attachment 1

ATR Rule VIII.C, Compliance Plans

RULE II. Definitions Affiliate

Del Oro agrees Del Oro's Parent Company is Utility Management Services ("UMS") and is a Rule II.E affiliate and The Safor Corporation ("SAFOR") is a Rule II. E affiliate of Del Oro. The following ATRs are amended in relation to SAFOR, and others as described below:

Rule II.

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

Rule VI.

Any transaction between a Fortino family member and Del Oro must be priced at fair market value.

All other components of Rule VI otherwise apply to all other transactions by Del Oro for any corporate affiliates of Del Oro and for any transactions with Fortino family members or companies owned by Fortino family members. (For example, if Robert Fortino, Del Oro's President, owns another company, and it has dealings with Del Oro, that company would be deemed an ATR Rule II.E affiliate.)

Rule VIII. A.

This rule only applies to the extent a Fortino family member is involved in any transaction with Del Oro. Any service provided by Del Oro to a Fortino family member or company controlled by a Fortino family member would be a reportable transaction. If a Fortino family member privately hires an individual who is also employed by Del Oro to perform services outside of the employee's normal business hours, provided the Fortino family member pays for those services personally rather than by having the services paid for by Del Oro, then these completely private transactions would not be subject to the Affiliate Transaction Rules.

Rule VIII. B.

Fortino family members need only provide or maintain the financial records related to affiliate specific transactions, and do not otherwise have to disclose personal financial records. However, if a Fortino family member has a separate company and deals with Del Oro through that separate company, that separate company is an ATR Rule II.E affiliate which must fully comply with this rule.

A.13-12-002, Settlement Agreement Attachment 1

ATR Rule VIII.C, Compliance Plans

Rule II.F. "Costs"

1. Direct Costs.
   Del Oro's direct costs are costs that can be clearly identified specifically to UMS or SAFOR. Del Oro's time sheets specifically allocate these hours of a worker's time spent at UMS and SAFOR. The same method is also available for the materials purchased and the proportion of each piece of equipment dedicated to either UMS or SAFOR.
2. Direct Overhead Costs.
   Overhead costs allocated to specific projects are documented through the Del Oro timesheets. See ATR Rule IV.B for other costs generally considered direct overhead.
3. Indirect Overhead Costs.
   Del Oro's indirect overhead costs, functions that affect all of Del Oro, UMS, and SAFOR, such as the headquarters building, the Chief Executive Officer, Robert Fortino and Chief Financial Officer, Bryan Fortino, Director of Corporate Accounting, Janice Hanna, and associated corporate support. See ATR Rule IV for proper allocation procedures.
4. Fully-loaded Costs is the sum of above: Direct, Direct Overhead, and Indirect Overhead.

RULE III. Utility Operations and Service Quality

<u>RULE III.B.7</u>

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

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.

Implementation of this rule evident with Del Oro's Continuing Service Agreements between Del Oro and its two Affiliate, UMS and SAFOR, amended to address these ATR rules. Del Oro agrees to amend its Continuing Service Agreements, Exhibits D and E of A.13-12-002 to comply with the Commission's ATR rules in D.10-10-019 and its progeny.

A.13-12-002, Settlement Agreement Attachment 1

ATR Rule VIII.C, Compliance Plans

RULE IV. Separation

RULE IV.B. Allocate common costs

Del Oro, UMS and other affiliated companies, including SAFOR, allocate common costs among them in such a manner that the ratepayers of the utility shall not subsidize UMS or any other affiliate, such as SAFOR.

Below are the procedures for the Common Costs between Del Oro, UMS and SAFOR:

Payroll benefits: health, vision, dental

Benefits Insurance (Health, Vision, Dental)
Safor and UMS pay for and are insured by separate policies. Therefore, Del Oro is only reimbursed by affiliates for the hours worked by Del Oro employees for affiliates (shared corporate support); it is a direct overhead component of Fully Allocated Cost. Based on historical total affiliate (UMS + Safor) hours worked, Del Oro recommends using 6% for current GRCs and reevaluating this percentage at the time of each future GRC to adjust for changes in the utility's districts and other relevant factors.

Payroll benefits: 401k

401k
Affiliate employees: Safor does not offer a 401k. UMS has not yet had any employees that qualify for a 401k. In 2015, when UMS has qualifying employees, UMS will pay 10% of all 401k plan general fees/expenses. UMS will also pay 100% of 401k matching contributions for UMS employees.

Therefore, Del Oro is only reimbursed by affiliates for the hours worked by Del Oro employees for affiliates (shared corporate support); it is a direct overhead component of Fully Allocated Cost. Based on historical total affiliate (UMS + Safor) hours worked, Del Oro recommends using 6% for current GRCs and reevaluating this percentage at the time of each future GRC.

Shared costs:

Office space

A.13-12-002, Settlement Agreement Attachment 1

ATR Rule VIII.C, Compliance Plans

Rent
Split 80% DOWC, 10% UMS, and 10% Safor for all shared space. Dedicated spaces are paid 100% by the appropriate company. Each company pays their portion directly, therefore ONLY the portion paid by Del Oro is included in GRCs.
Procedural Example: Current total shared square feet is 3,914. Del Oro only pays for 80%, or 3,130 sq. ft. Therefore the only rent expense for shared space in the GRC is for the 3130 sq. ft.

Utilities
Split according to square footage of rented space and paid directly by each company. See Rent explanation.

Supplies Security Services Janitorial Workstations Office Services Phone System Furniture

In the Fair Market Value calculation (SEE ATR Rule VIII.G) only 80% of cost/value for these services is included. This assures that Safor and UMS continue to pay for their portion (10% each) of these items.

In addition, when any of the items purchased are specific to a single company (i.e., Del Oro letterhead), the expense is charged only to the relevant company and is not included in the FMV calculation for allocation purposes. Therefore, only Del Oro's portion is included in Del Oro's GRCs.

Professional services

- Legal

Legal Services
No retainer is paid for legal services. Fees are incurred on an as-needed (per item) basis and paid directly by the company served.

- Accounting

Accounting
Allocated annually to Del Oro and UMS according to Accountant's determination of time spent per company. Paid directly by each company. Safor is billed and paid separately. Therefore, only Del Oro's portion is included in Del Oro's GRCs.

- Informational Technology

Internet & Phone expenses
Split 80% DOWC, 10% UMS, and 10% Safor. Each company pays their portion directly. Therefore, only Del Oro's portion is included in Del Oro's GRCs.

A.13-12-002, Settlement Agreement Attachment 1

ATR Rule VIII.C, Compliance Plans

Liability Insurance
UMS pays 10% of the policy directly and the remainder is paid by Del Oro. Safor pays for and is insured by a separate policy.

A.13-12-002, Settlement Agreement Attachment 1

ATR Rule VIII.C, Compliance Plans

RULE IV.C.

Del Oro lists 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).

					DIRECTORS		
CORPORATION	**CHIEF EXECUTIVE OFFICER**	**SECRETARY**	**ASSISTANT SECRETARY**	**CHIEF FINANCIAL OFFICER**	**(1)**	**(2)**	**(3)**
THE SAFOR CORPORATION	ROBERT.	JANICE	PAUL.	BRYAN.	ROBERT	BRYAN.	PAUL
(MARCH 31) Incorporated 1/21/1958	FORTINO	HANNA	MATULICH	FORTINO	FORTINO	FORTINO	MATULICH
UTILITY MANAGEMENT SERVICES, INC.	ROBERT.	JANICE		BRYAN.	ROBERT S.	BRYAN.	PAUL.
(MARCH 31) Incorporated 3/11/1999	FORTINO	HANNA		FORTINO	FORTINO	FORTINO	MATULICH
DEL ORO WATER CO., INC.	ROBERT S.	JANICE	PAUL J.	BRYAN.	ROBERT S.	BRYAN	PAUL J.
(MARCH 31) Incorporated 7/29/1963	FORTINO	HANNA	MATULICH	FORTINO	FORTINO	FORTINO	MATULICH

A.13-12-002, Settlement Agreement Attachment 1

ATR Rule VIII.C, Compliance Plans

IV.E.1&2

Del Oro conducts its affiliate transactions under ATR Rule IV.E.3. Del Oro does not transfer its assets or employees (for greater than 30% of the employees' time for the calendar year) and therefore this rule is not operative.

IV.E.3

Del Oro staff employee / management that works temporarily for affiliates pricing for purposes of GRC ratemaking is the formula found here in ATR Rule IV.E.3.

For staff: fully loaded costs plus a 5% adder of direct labor costs for compensation of the accrued ratepayer benefit.

For executives: fully loaded costs plus a 15% adder of direct labor costs for compensation of the accrued ratepayer benefit.

Fully loaded is defined in ATR Rule II.F.

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

Rule VI controls utility transfers -- employees with 30% or more calendar year time allocated to an affiliate. Del Oro does not transfer employees, but does share resources as temporary or intermittent and therefore must follow the ATR Rules for such transactions as shown above under ATR Rule IV.3.E.

Del Oro must include procedures for calculation of Fair Market Value (FMV) discussed in ATR Rule VI.G.

VI.G.

The Del Oro developed below FMV methods.

A.13-12-002, Settlement Agreement Attachment 1

ATR Rule VIII.C, Compliance Plans

ATR RULE VI.G Fair Market Value Procedures

Del Oro Water Company operates under California Public Utilities Commission Affiliate Transaction Rules (the rules) which, in specific cases, require the determination of fair market value (FMV) for assets or services exchanged between affiliated entities. The rules, in particular the fair market value transfer pricing requirements, are structured to protect the ratepayers of the Utility from cross-subsidizing unregulated affiliated entities.

Fair Market Value (FMV) is the price at which a willing seller would sell to a willing buyer, where neither party is acting under compulsion to buy or sell and both parties have reasonable knowledge of the relevant facts.

For goods or services for which the price is regulated by a single state or federal agency, the regulated price shall be deemed to be the fair market value. In cases where more than one agency regulates the price, the federal agency price shall be deemed to be the fair market value. If no federal agency regulates the price, the California Public Utilities Commission's price shall be deemed to be the fair market value.

Del Oro's appraisal process is a systematic procedure for collecting and analyzing information in order to develop a value estimate and the procedures for determining fair market value depend on the type of asset or service being valued.

When comparisons are made to prices that are determined in a competitive market place, the asset or service being valued must be equivalent in functionality, quality, availability and delivery point to those for which the market determined prices were obtained.

For Del Oro's process used to determine FMV Rent see Attachment A. Data shown are examples only and current data is used when actually FMV calculation are performed.

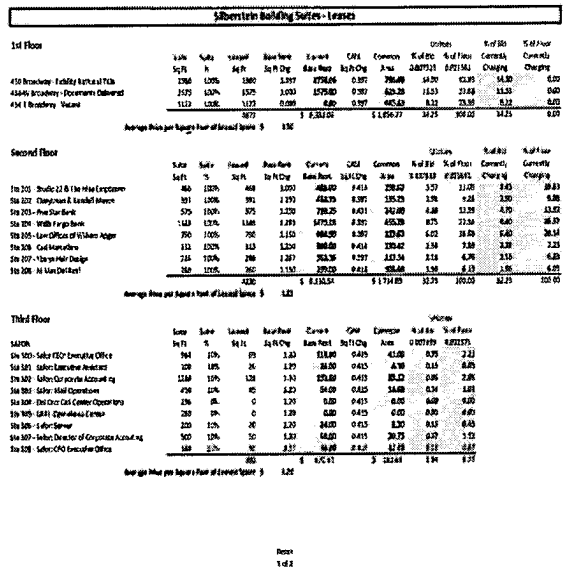
A.13-12-002, Settlement Agreement Attachment 1

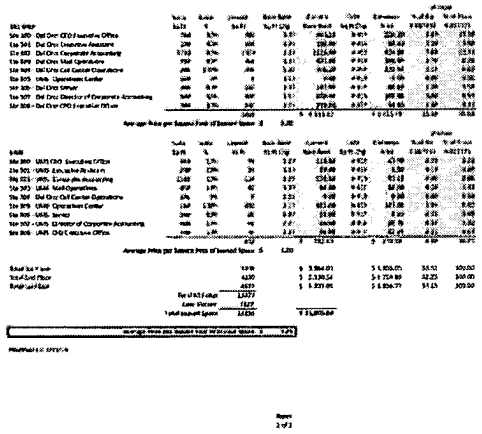
ATR Rule VIII.C, Compliance Plans

FMV

ATR Rules that invoke FMV are ATR RULE IV.3.E and ATR Rule VI A, VI.B: VI.C, VI.F, VI.G

Example of Procedures for Rent FMV





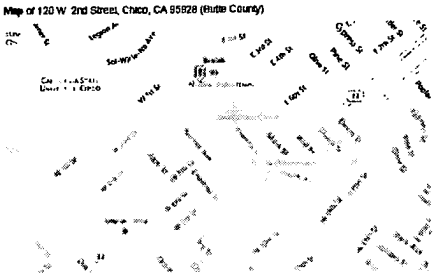
Office Property For Lease

120 W. 2nd Street

120 W 2nd Street, Chico, CA 95928

Total Space Available	330 SF
Rental Rate	$1.50/SF/Month
Property Type	Office
Property Sub-type	Office Building
Building Size	360 SF
Building Class	B
Listing ID	1859085
Last Updated	9 days ago
Find Out More...	

Map of 120 W 2nd Street, Chico, CA 95928 (Butte County)



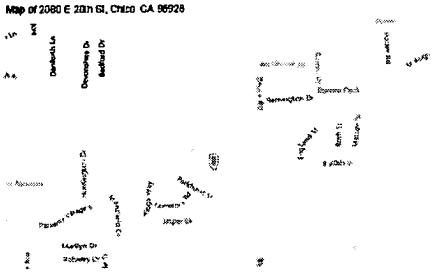
Office Property For Lease

2080 E 20th St

2080 E 20th St, Chico, CA 95928

Total Space Available	6,960 SF
Rental Rate	$2.00/SF/Month
Property Type	Office
Property Sub type:	Office Building
Building Size	66,061 SF
Year Built	1980
Listing ID	1811668
Last Updated	18 days ago
Find Out More...	

Map of 2080 E 20th St, Chico, CA 95928



LoopNet - 2570 Sierra Sunrise Terr, Office Building, Chico, CA

Rodney Krebs — (530) 895-3158

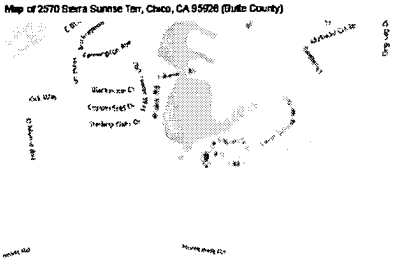
Office Property For Lease

2570 Sierra Sunrise Terr

2570 Sierra Sunrise Ter, Chico, CA 95928

Total Space Available	7,000 SF
Rental Rate	$1.85 /SF/Month
Property Type	Office
Property Sub-type	Office Building
Building Size	7,000 SF
Listing ID	15812339
Last Updated	0 days ago
Find Out More...	

Map of 2570 Sierra Sunrise Terr, Chico, CA 95928 (Butte County)



1 of 3

10/15/2014 11:30 AM

3211 Cohasset Rd Ste 100, Chico, CA, 95973 - Office Building Property

For Sale | For Lease | Sales Comps | Property Records | Find a Broker | Add Listing | My LoopNet

3211 Cohasset Rd Ste 100, Chico, CA, 95973 - Available for Lease

View this active lease listing or start a search to find more properties for lease.

Search

La Dolce Piazza

$1.20 - $1.25 /SF/Month

Office Property For Lease

1 of 3

10/15/2014 11:26 AM

Space 100

Space 120

Description

Map of 3211 Calmont Rd Ste 100, Chico, CA 95973 (Butte County)

Research for 3211 Calmont Rd Ste 100, Chico, CA 95973 (Butte County)

Contact Listing Broker to find out more details.

LoopNet

Become the LoopNet **Featured Local Broker**

Summary of Del Oro's ATR Compliance Plans, ATR Rule VIII.C

VIII.C SUMMARY: *Affiliated Company Transactions Procedures - Pricing Rules*

FROM	TO	TRANSACTION RULE	RULE'S PROCEDURES/ALLOCATION
		Rule II Definitions	
		II.A. "Parent company" is the entity, including a holding company or corporation that owns, or has substantial operational control of the regulated utility. (SEE Rule II.E. affiliate includes the utility's parent company)	Del Oro's parent company is Utility Services Management and is an affiliate of Del Oro.
		II.C. "Water utility" refers to all water utilities regulated by the Commission.	Del Oro Water Company is under the jurisdiction of the CPUC
		II.E. "Affiliate" means any entity 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. Regulated subsidiaries of a utility, subject to regulation by the CPUC are not included within the definition of affiliate however, these Rules apply to all interactions any such regulated subsidiary has with other affiliated unregulated entities covered by these Rules "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	As of November 2014, Del Oro's Rule II.E affiliates are UMS and SAFOR SEE additional SAFOR rules below under **Rule II. Additional rules**
		II.F. "Costs" are expenses assigned or allocated to different projects/activities through the utility's and parent company's accounting systems. Cost categories include: **Direct Costs** **Direct Overhead Costs,** **Indirect Overhead Costs.** **Fully-loaded Costs** is the sum of Direct, Direct Overhead, and Indirect Overhead costs, as defined in Rule II.F.1, 2 and 3. **SEE RULE IV.B**	**II.F.** Cost categories are defined as: **Direct Costs:** Costs dedicated to a project/activity such as labor time spent on the project/activity, materials purchased/used on specific project/activity or the proportion of office instruments (electronics, copiers, etc.) hours dedicated to the project/activity. **Direct Overhead Costs.** Common costs such as supervisors and support staff of Del Oro & its affiliates not assigned or traceable to specific projects/activities, or machinery shared among a subset of Del Oro & its affiliates' projects/activities. Direct 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. "cost causation" are costs brought into existence as a direct result of providing the service or group of services; or avoided costs if the service(s) not provided. In other words, costs should be allocated on the basis of factors that cause the cost to be incurred.

			• **Del Oro Direct Overhead Costs** include as of November, 2014: payroll benefits equipment equipment depreciation other costs directly related to project **Indirect Overhead Costs.** Indirect overhead costs are functions that affect the entire organization, such as office rent, management and legal support, personnel, building security, shareholder and public relations, insurance, depreciation, advertising. These are real costs of the organization and must be allocated to the ongoing projects and activities to determine the total cost of each. • **Del Oro Indirect Overhead Costs** include as of November, 2014: Rent Office space liability insurance utilities professional services (legal, accounting, IT) other costs indirectly related to project **Fully-loaded Costs** Total cost of a project or activity: sum of Direct, Direct Overhead, and Indirect Overhead costs, (Rule II.F.1, 2 and 3)
SAFOR		**Rule II. Additional rules**	**SAFOR is a Rule II.E Affiliate** Utility Management Services (UMS) owns 100% of Del Oro stock and is identified as the Parent Company. The ownership structure for Del Oro remains as otherwise discussed in any of its rate case decisions, and any transfer of control of its parent holding company would be subject to the usual Commission review and approval process. (Rule II. A.) Consistent with the intent of the Affiliate Transaction Rules, if SAFOR receives and pays for services under the standard tariffs applicable to any other Del Oro ratepayer, these would not be reportable transactions. As of November, 2014, the Fortino Family owns 100% of SAFOR's voting shares. If Del Oro has a transaction with SAFOR, then those transaction's financial records applicable to that transaction must be available to the Commission and covered by the affiliate transaction rules.
		RULE IV: Separation	
		IV.A The utility shall maintain accounting records in accordance with Generally Accepted Accounting Principles (GAAP), the Commission's (CPUC) Uniform System of Accounts, Commission decisions and resolutions, and the Public Utilities Code.	**IV.A** Del Oro maintains its accounting records using GAAP, the CPUC's Uniform System of Accounts, CPUC decisions and resolutions, and the California Public Utilities Code.
		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.	**IV.B.** Del Oro, its parent, UMS, and its other affiliated companies, including SAFOR, allocate its common costs such that Del Oro ratepayers do not subsidize UMS, SAFOR or other Del Oro affiliate. **These Common Costs include: office space, equipment and supplies, professional services and liability insurance.**
		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 (DWA) and the Director of the Office of Ratepayer Advocates (ORA) of the change(s).	**IV.C** Del Oro's shared directors and officers between the Del Oro and its affiliates, UMS and SAFOR are listed in its annual report to the CPUC. IF there is a change to this list, Del Oro updates that list within 30 days following a change. Del Oro notifies the Director of the Division of Water & Audits and the Director of the Office of Ratepayer Advocates (or their successors) of any change(s) by mail and **with a copy of the new list via email.**
Del Oro	**Affiliate Includes:** • **SAFOR**	**IV.D.** Employees transferred or temporarily assigned from the utility to an affiliate shall not use non-public, proprietary utility	**IV.D.** Del Oro employees transferred or temporarily assigned from Del Oro to any affiliate including UMS & SAFOR do not use non-public, proprietary Del Oro information gained from Del

	• **UMS**	information gained from the utility in a discriminatory or exclusive fashion to the benefit of the affiliate to the detriment of unaffiliated competitors.	Oro in a discriminatory or exclusive fashion to the benefit of any affiliate to the detriment of unaffiliated competitors.
		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, Annual Affiliate Transaction Reports.	IV.E.1. Del Oro tracks & reports to CPUC all employee movement between Del Oro and its affiliates, including UMS & SAFOR, consistent with Rule VIII.F. Rule VIII.F requires Del Oro to annually (by March 31), report to DWA Director & ORA Director summary of all transactions for previous calendar year between Del Oro and its affiliates including UMS & SAFOR. Del Oro maintains such information on a monthly basis & this information available to Commission staff upon request. The summary includes description of *each transaction & an accounting of all costs associated with each transaction,* however, each transaction is separately identified where an account has multiple transactions for the same activity (such as repetitive payments such as monthly rent---but supporting documentation for each individual transaction available to CPUC staff). These transactions include: 1. Services provided by Del Oro to its affiliated companies (UMS, SAFOR, other); 2. Services provided by its affiliates (UMS, SAFOR, other) to Del Oro; 3. Assets transferred from Del Oro to its affiliates (UMS, SAFOR, other); 4. Assets transferred from its affiliates (UMS, SAFOR, other) to Del Oro; 5. Employees transferred from Del Oro to its affiliates (UMS, SAFOR, other); 6. Employees transferred from its-affiliates (UMS, SAFOR, other) to Del Oro; 7. Financing arrangements and transactions between Del Oro and its affiliates (UMS, SAFOR, other); 8. Services provided by and/or assets transferred from the parent holding company, UMS, to its affiliates (SAFOR, other) which may have germane utility regulations impacts; and 9. Services provided by and/or assets transferred from Del Oro's affiliates (SAFOR, other) to its parent holding company, UMS, which may have germane utility regulation impacts.
Del Oro	**Affiliate Includes:** • **SAFOR** • **UMS**	**IV.E.2.** When utility employee 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.	**IV.E.2.** Del Oro employees transferred, assigned, or otherwise employed by its affiliates, including UMS & SAFOR, the affiliate makes a one-time payment to Del Oro in an amount equivalent to 15% of the employee's base annual compensation. All such fees paid to Del Oro are accounted for in a separate memorandum accounts in order for Del Oro to track them for ratepayer compensation in future ratemaking applications as necessary to ensure that the utility's ratepayers receive the fees. This transfer payment provision does not apply to clerical workers. Each and every separate memorandum account created per this rule is supplied for each and every relevant general rate case application filed by Del Oro. **As of November, 2014 Del Oro has not nor intends to transfer employees under this rule. However, if an employee transfer under this rule does occur the required accounting including advice letter filing for proper memorandum accounts will be accomplished.**
Del Oro	**Affiliate Includes:** **SAFOR** **UMS**	**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	**IV.E.3** Del Oro employees used on a "temporary or intermittent basis" means less than 30% of employee's chargeable time in any calendar year by affiliates, including UMS & SAFOR and is permissible only if: a. Del Oro documents, prices and reports such activities that are in accordance with these Rules and any other existing CPUC reporting requirements. When affiliates, including UMS & SAFOR obtain the services of a *non-executive employee*, compensation to Del Oro is priced at a minimum of the greater of *fully loaded cost plus 5% of direct*

		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.	*labor cost, or fair market values.* When an affiliate, including UMS & SAFOR obtains the services of an *executive employee,* compensation to Del Oro is priced at a minimum of the greater of *fully loaded cost plus 15% of direct labor cost, or fair market value*; b. Del Oro's needs for Del Oro employees *always* take priority over any affiliate request(s); c. No more than 10% of full time equivalent Del Oro employees may be on loan at any given time; d. Del Oro employees agree, in writing, they will abide by these Rules; & e. Affiliate use of Del Oro employees shall be conducted pursuant to a written agreement approved by the appropriate Del Oro and affiliate officers. Fully loaded costs-see Rule II.F: Fully loaded (or fully-allocated) costs are the total cost of a project/activity, or the sum of Direct, Direct Overhead, and Indirect Overhead costs, as defined in Rule II.F.1, 2 & 3. Del Oro supplies each and every employee a copy of CPUC's affiliate transaction rules (CPUC Decision 12-01-042 or its successor) & has on record a copy of each and every employee's signed confirmation in writing that they abide by CPUC affiliate transaction rules. Each and every affiliate, including UMS & SAFOR, has on record, written agreements signed by the appropriate Del Oro and affiliate officers that any affiliate's use of Del Oro employees is conducted pursuant to CPCU affiliate transaction rules. (CPUC D. 12-01-042 or its successor)
		Rule V. Shared Corporate Support	
		Corporate support refers to shared common expenses as shown in Rule V.	**V. C** Examples of services … shared … 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
		Rule VI Pricing of Goods & Services Between Del Oro / UMS &SAFOR	Del Oro recognizes that the sub-rules in Rule VI, cover all transactions, including rents and leases....(See footnote 65, D.10-10-019)
		To the extent that these Rules do not prohibit the transfer of goods and services between a utility and its affiliates:	**RULE VI.** A 5% adder as listed in VI.E to fully loaded costs to the price paid by a Del Oro affiliate for goods and services not provided on the open market is a reasonable percentage to account for unidentified cross-subsidies which accrue to affiliates from the investments and training funded by ratepayers. (D.10-10-019 COL #25)
Del Oro	**Affiliate Includes:** • **SAFOR** • **UMS**	**RULE VI.A.** Transfers from the utility to its affiliates of goods and services offered by the utility on the open market	**RULE VI.A. Priced at fair market value.**
Affiliate Includes: SAFOR UMS	**Del Oro**	**RULE VI.B.** Transfers **from an affiliate to the utility** of goods and services **offered by the affiliate on the open market**	**RULE VI.B. Priced at no more than fair market value.**
Affiliate **Utility**	**Utility** **Affiliate**	**VI.C.** For goods or services for which the price is **regulated by a state agency**	**VI.C.** Price at **fair market value, except** that in cases where **more than one state commission regulates this Commission's pricing govern.**
Del Oro	**Affiliated and**	**VI.D.** Goods and services produced, **purchased or developed to be offered on**	**VI.D.** Priced at **nondiscriminatory basis, except** as otherwise required or permitted by these Rules or applicable law.

	NOT affiliated	the open market by the utility shall be provided to the utility's affiliates and unaffiliated companies on a	
Del Oro	Affiliate Includes: • SAFOR • UMS	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	VI.E. Priced at fully allocated cost plus 5% of direct labor cost.
Affiliate Includes: SAFOR UMS	Del Oro	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	VI.F. Priced at the lower of fully loaded cost or fair market value
FMV	FMV	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.	*Rule VI G Del Oro developed proxies for fair market value for the goods or services as required under ATR Rule IV.E.3. Other proxies for items transferred to SAFOR and UMS and any other affiliate at fair market value per these Rules can also apply in ATR Rule VI. Del Oro will be responsible for obtaining an independent consultant acceptable to the Commission staff to reappraise the fair market value for these transactions if the CPUC does not find Del Oro's calculations of fair market value reasonable.

3258/009/X167836.v1

(End of Attachment 1)