

APPENDIX B

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Joint Application of California-American Water Company (U-210-W), a California corporation, RWE Aktiengesellschaft, a corporation organized under the laws of the Federal Republic of Germany, Thames Water Aqua Holdings GmbH, a corporation organized under the laws of the Federal Republic of Germany, Thames Water Plc, a corporation organized under the laws of the United Kingdom and Wales, and Apollo Acquisition Company, a Delaware Corporation, for an order Authorizing Apollo Acquisition Company to merge with and into American Water Works Company, Inc. resulting in a change of control of California-American Water Company, and for such related relief as may be necessary to effectuate such transaction.

Application 02-01-036
(Filed January 28, 2002)

Notice of Intent
No. 01-12-027
(Filed December 19, 2001)

SETTLEMENT AGREEMENT WITH CONDISTIONS

The Parties to this Settlement before the California Public Utilities Commission (“Commission”) are the Office of the Ratepayer Advocates (“ORA”), the Utility Workers Union of America, AFL-CIO, and Joint Applicants RWE Aktiengesellschaft, Thames Water Aqua Holdings, Thames Water Plc, Apollo Acquisition Company, American Water Works Company, Inc. and California-American Water Company (“Joint Applicants”) (collectively, “the Parties”). The Parties, desiring to avoid the expense, inconvenience, and uncertainty attendant to litigation of the matters in dispute between them have agreed on this Settlement Agreement which they now submit for approval. The

Parties' negotiations have resulted in the resolution of all issues raised in Application 02-01-036 ("Application") and in ORA's Report dated July 1, 2002.

ORA originally opposed the Application because of its concern over the lack of quantifiable benefits set forth by the Joint Applicants. With the conditions set forth below, ORA is satisfied that there are quantifiable and nonquantifiable short-term benefits and long-term benefits, both of which will be passed on to ratepayers. The conditions of this Settlement Agreement provide ORA with satisfactory assurances from Joint Applicants that there will be no adverse impacts on ratepayers as a result of this transaction. The Affiliated Transaction Rules, attached as Appendix A, provide additional protection for California-American Water Company ("Cal-Am") ratepayers.

Joint Applicants originally requested approval of the proposed transaction without conditions. Joint Applicants agree to the following conditions to provide quantifiable benefits to ratepayers, together with all of the benefits described in the Application and supporting testimony of Joint Applicants. Additionally, Joint Applicants agree to abide by the attached Affiliated Transaction Rules.

PROPOSED CONDITIONS

1. Cal-Am agrees to the following:

Monterey: defer filing the authorized 2004 step rate increase that would have been filed in 2003 to November 2004 to be effective January 2005.

Sacramento, Felton, Montara and Larkfield: defer filing the authorized 2004 step rate increase that would have been filed in 2003 to November 2004 to be effective January 2005.

Los Angeles (San Marino, Duarte and Baldwin Hills): file general rate case as scheduled in 2003 but set forth in the application that

Cal-Am will defer filing the tariffs authorizing rate increases from January 1, 2004 to January 1, 2005. This deferral will not apply to any step rates.

Village & Coronado: file general rate case as scheduled in 2004 but set forth in the application that Cal-Am will defer filing the tariffs authorizing rate increases from January 1, 2005 to January 1, 2006. This deferral will not apply to any step rates.

Any such deferred rates will be placed into effect at the same time as the next scheduled step rate for each such district.

Commission Comment: Cal-Am agrees to the following:

Monterey: Defer filing the authorized 2004 step rate increase that would have been filed in 2003 to November 2004 to be effective January 2005. Defer filing the authorized attrition year increase for 2005. File a general rate case application for new rates effective January 2006.

Sacramento, Felton, Montara and Larkfield: Defer filing the authorized 2004 step rate increase that would have been filed in 2003 to November 2004 to be effective January 2005. Defer filing the authorized attrition year increase for 2005. File a general rate case application for new rates effective January 2006.

Los Angeles (San Marino, Duarte and Baldwin Hills): File general rate case as scheduled in 2003 but set forth in the application that Cal-Am shall defer filing the tariffs authorizing rate increases from January 1, 2004 to January 1, 2005. Defer filing the authorized 2005 step rate increase that would have been filed in 2004 to November 2005 to be effective January 2006. Defer filing the authorized attrition year increase for 2006. File a general rate case application for new rates effective January 2007.

Village & Coronado: File general rate case as scheduled in 2004 but set forth in the application that Cal-Am shall defer filing the tariffs authorizing rate increases from January 1, 2005 to January 1, 2006. Defer filing the authorized 2006 step rate increase that would have been filed in 2005 to November 2006 to be effective January 2007. Defer filing the authorized attrition year increase for 2007. File a general rate case application for new rates effective January 2008.

2. Cal-Am will be provided with adequate capital to fulfill all of its service obligations prescribed by the Commission and Cal-Am will comply with all applicable California and federal statutes, laws and administrative regulations.

Commission comment: We understand this provision as requiring RWE, Thames, and American to provide Cal-Am with all necessary capital to fulfill all of its obligations prescribed by the Commission, and that Cal-Am will comply with all applicable California and federal statutes, laws and administrative regulations. We find the definition of the term “capital” in this provision is the same definition of “capital” used by the Commission in D.02-01-039, *Investigation into Pacific Gas and Electric Company, Southern California Edison Company and San Diego Gas and Electric Company and their respective holding companies*, Findings of Fact 5 and 6, 2002 Cal. PUC LEXIS 5 *57. This means that the term “capital” encompasses “money and property with which a company carries on its corporate business; a company’s assets, regardless of source, utilized for the conduct of the corporate business and for the purpose of deriving gains and profits; and a company’s working capital,” and is not limited to mean only “equity capital, infrastructure investment, or any other term that does not include, simply, money or working cash.” (*Id.*)

3. The Commission will retain jurisdiction over the rates and services provided by Cal-Am. RWE, Thames, American and Cal-Am will not assert in any Commission proceeding that Commission review of the reasonableness of any cost has been or is preempted by a United Kingdom, Federal Republic of Germany, European Community or other foreign regulator.

Commission Comment: We understand the use of the term “will” as if the parties had used the term “shall.”

4. Cal-Am will continue to maintain its books and records in accordance with all Commission rules. Cal-Am’s books and records will be maintained and housed in California.

Commission Comment: We understand the use of the term “will” as if the parties had used the term “shall.”

5. The transaction will not result in any adverse changes in Cal-Am policies with respect to service to customers, employees, operations, financing, accounting, capitalization, rates, depreciation, maintenance, or other matters affecting the public interest or utility operations.

Commission Comment: RWE, Thames, American, and Cal-Am shall ensure that this transaction does not result in any adverse changes in Cal-Am policies with respect to service to customers, employees, operations, financing, accounting, capitalization, rates, depreciation, maintenance, or other matters affecting the public interest or utility operations.

6. There will no adverse impact on customer service as a result of the transaction. RWE and Thames will maintain American's and Cal-Am's levels of commitment to high quality utility service and will fully support maintaining Cal-Am's record for service quality.

Commission Comment: We understand the first line of this provision as follows. RWE, Thames, American, and Cal-Am shall ensure that there will be no adverse impact on customer service as a result of the transaction. We also understand the use of the term "will" as if the parties had used the term "shall."

7. Cal-Am shall continue to maintain its business headquarters in California together with fully operational field offices as appropriate to maintain the quality of its service. Cal-Am will not close any of its local offices as a result of this transaction. However, Cal-Am is not precluded from making local operational changes in connection with integrating water and wastewater systems acquired in other transactions.

Commission Comment: We understand the use of the term "will" as if the parties had used the term "shall."

8. The transaction will not result in changes to the existing management and officers of Cal-Am.

Commission Comment: RWE, Thames, American, and Cal-Am shall not change Cal-Am's existing management and officers as a result of the transaction.

9. Operational control of Cal-Am will not change as a result of the transaction.

Commission Comment: RWE, Thames, American, and Cal-Am shall not change operational control of Cal-Am as a result of the transaction.

10. The transaction will have no adverse impact on Cal-Am employees. Thames has committed to no layoffs until March 31, 2004 or one year after the transaction closes, whichever is later. There will be no changes in compensation and the value of employee benefits will not diminish as a result of the transaction.

Commission Comment: RWE, Thames, American, and Cal-Am commit that the transaction shall have no adverse impact on Cal-Am employees. RWE, Thames, American, and Cal-Am commit to no layoffs until March 31, 2004 or one year after the transaction closes, whichever is later. RWE, Thames, American, and Cal-Am shall not change employee compensation or diminish the value of employee benefits as a result of the transaction.

11. There will be no changes in any existing union agreement as a result of the transaction. All collective bargaining agreements will be honored.

Commission Comment: RWE, Thames, American, and Cal-Am shall make no changes in any existing union agreement as a result of the transaction, and shall honor all collective bargaining agreements.

12. Cal-Am will not allow the transaction to diminish staffing that would result in service degradation. However, Cal-Am may make local staffing and other operating changes which would have occurred absent the transaction.

Commission Comment: We understand the first line of this provision as follows. RWE, Thames, American, and Cal-Am shall not allow the transaction to diminish staffing that would result in service degradation.

13. There will not be an additional layer of management overhead allocated to Cal-Am as a result of the transaction. Cal-Am may, however, demonstrate in a rate proceeding that specific management overheads provide a benefit to Cal-Am or its customers and should be recoverable in rates.

Commission Comment: We understand the first line of this provision as follows. RWE, Thames, American, and Cal-Am shall not allocate an additional layer of management overhead to Cal-Am as a result of the transaction.

14. None of the outstanding debt, owed and recorded as liabilities on the books of Cal-Am, will be affected by the proposed transaction. There will be no changes in the income statement, balance sheet or financial position of Cal-Am as a result of the transaction.

Commission Comment: We understand the use of the term “will” as if the parties had used the term “shall.”

15. Cal-Am’s equity to capital ratio shall be maintained at or about 35 percent. If Cal-Am’s common equity falls below 35 percent of total capital, Cal-Am shall within 30 days of such event provide a detailed written plan of action to return Cal-Am’s equity capital to a minimum of 35 percent. In general rate cases the Commission has historically authorized a capital structure for Cal-Am composed of approximately 55-60% debt and 40-45% equity. Cal-Am shall not be prohibited from requesting that the foregoing equity percentage be modified based on changes in capital markets or other conditions that make it prudent to alter Cal-Am’s capital structure.

Commission Comment: We understand the first line of this provision as follows. RWE, Thames, American, and Cal-Am shall maintain Cal-Am’s equity at or about 35 percent of total capital.

16. RWE and American Water Capital Corporation (AWCC) will notify the Commission in writing within 30 days of any downgrading to the bonds of RWE or AWCC and will include with such notice the complete report of the issuing bonding rating agency.

Commission Comment: We understand the use of the term “will” as if the parties had used the term “shall”. RWE and AWCC shall give the notice required by this provision to the Director of the Commission’s Water Division, the Commission’s Executive Director, and the Office of Ratepayer Advocates.

17. Neither Cal-Am nor its ratepayers, directly or indirectly, will incur any transaction costs or other liabilities or obligations arising from Thames’ and RWE’s acquisition of American. All costs of the transaction will be absorbed by the shareholders with no attempt to seek recovery from ratepayers at any time. Cal-Am will not incur any additional indebtedness, issue any additional securities, or pledge any assets to finance any part of the purchase price paid by Thames for American stock.

Commission Comment: We understand the use of the term “will” as if the parties had used the term “shall.”

18. The premium Thames pays for American stock, as well as all transaction-related costs, including external advisors, early termination costs, change in control payments, or retention bonuses paid to Cal-Am or American employees as a result of the proposed transaction, will not be “pushed down” to Cal-Am, and there will be no attempt to recover such costs in any future rate proceeding.

Commission Comment: RWE, Thames, American, and Cal-Am shall not “push down” to Cal-Am the premium Thames pays for American stock, as well as all transaction-related costs, including external advisors, early termination costs, change in control payments, or retention bonuses paid to Cal-Am or American employees as a result of the proposed transaction, and shall not attempt to recover such costs in any future rate proceeding.

19. For a period of five years following the close of the transaction Cal-Am will not seek a cost of new debt greater than it would have sought if American had remained an independent entity. For the purposes of this provision, Cal-Am agrees that at present its cost of new debt is based on AWCC's current Standard and Poor's credit rating of A- for secured debt and current Moody's credit rating of Baa1, for senior unsecured debt.

Commission Comment: For a period of five years following the close of the transaction Cal-Am shall not seek a cost of new debt greater than it would have sought if American had remained an independent entity. For purposes of this provision, Cal-Am agrees that it shall not seek a cost of debt greater than A- for secured debt and Baa1 for senior unsecured debt.

20. For a period sufficient to cover a single full rate cycle for each of Cal-Am's four sets of filing districts, not to exceed four years from the date of closing, RWE, Thames, American and Cal-Am will implement a mechanism to track the savings and costs resulting from the proposed merger and a methodology to allocate all net savings and will submit to the Commission in writing a detailed description of that methodology in connection with future Cal-Am general rate case filings.

Commission Comment: We understand the use of the term "will" as if the parties had used the term "shall." The methodology to be developed shall allocate all net benefits to the ratepayers.

21. Cal-Am will provide the Commission with English-language versions of the RWE annual reports, RWE quarterly shareholder reports and the annual audit reports of RWE, Thames, American and Cal-Am, as applicable, either in printed media or through access to electronic versions. In addition, the income statement, balance sheet, and statement of cash flows will be converted to U.S. dollars at the exchange rates existing at the end of the time period for such excerpts or financial reports.

Commission Comment: We understand the use of the term “will” as if the parties had used the term “shall.”

22. Cal-Am will match in its future rate proceedings the cost of any “best practices” that are implemented with a reasonable estimate of the savings or increased revenues that will result from the implementation of such practices and will not implement the practices if the increased revenues or decreased expenses do not justifiably exceed the cost of such practices. When implementing best practices, RWE, Thames, American and Cal-Am will take into full consideration the related impacts on the levels of customer service and customer satisfaction, including any negative impacts resulting from any future work force reductions.

Commission Comment: We understand the use of the term “will” as if the parties had used the term “shall.”

23. Thames will commit shareholder funds up to \$50,000 annually for a five-year period from the close of the transaction to develop, promote or otherwise get a low-income assistance program underway in cooperation with the Commission. Cal-Am will not seek recovery of those contributions to a low-income assistance program from ratepayers.

Commission Comment: We understand the use of the term “will” as if the parties had used the term “shall.”

24. Thames will commit shareholder funds up to \$50,000 annually for a five-year period from the close of the transaction to establish in cooperation with the Commission a Small System Technical Advisory Team (SSTAT) by Cal-Am within six months of the close of the transaction. Cal-Am will not seek recovery of those contributions for a SSTAT from ratepayers.

Commission Comment: We understand the use of the term “will” as if the parties had used the term “shall.”

25. The Commission has approved Cal-Am's agreements with affiliates American Water Works Service Company and American Water Capital Corp. All affiliated interest agreements approved by the Commission to which Cal-Am is a party will remain in effect. The Affiliated Transaction Rules attached as Appendix A shall apply to Cal-Am affiliated transactions not now covered by existing Commission-approved affiliated transactions.

Commission Comment: We understand the use of the term "will" as if the parties had used the term "shall."

26. Historically, Cal-Am has transferred on a quarterly basis approximately 75% of its net income to its parent, American Water Works Company, Inc., as a dividend. If Cal-Am's payment of any dividend or transfer of any funds to American represents more than the historical percentage of Cal-Am's annual net income, then Cal-Am will notify the Commission of that fact.

Commission Comment: We understand the use of the term "will" as if the parties had used the term "shall". We require Cal-Am to provide the Commission with the notice required by this provision no later than 30 days prior to Cal-Am's payment of any dividend or transfer of any funds to its parent. Cal-Am shall provide this notice to the Director of the Water Division, the Commission's Executive Director, and the Office of Ratepayer Advocates.

27. Cal-Am's parent and affiliates will not acquire Cal-Am 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.

Commission Comment: We understand the use of the term "will" as if the parties had used the term "shall."

28. The creation of Thames Water Aqua U.S. Holdings, Inc., by RWE will have no adverse impact on Cal-Am from an operating, financial or management perspective.

Commission Comment: We understand the use of the term “will” as if the parties had used the term “shall.”

29. Cal-Am will seek to employ Thames’ advanced project delivery experience to compliment American’s capability. Based on Cal-Am’s forecasted capital expenditures for a full rate cycle for Cal-Am's filing districts, Applicants believe such savings would reduce its capital expenditure requirements by about \$2.2 million.

Commission Comment: We understand the use of the term “will” as if the parties had used the term “shall.”

OFFICE OF THE RATEPAYER
ADVOCATES

By /s/ MONICA McCrARY
Monica McCrary
Attorney for Office of the Ratepayer
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Dated: July 31, 2002

RWE AKTIENGESELLSCHAFT, THAMES
WATER AQUA HOLDINGS, THAMES
WATER PLC AND APOLLO AQUISITION
COMPANY

By: /s/ JAMES McGIVERN
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Dated: July 31, 2002

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Dated: July 31, 2002

AMERICAN WATER WORKS COMPANY,
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By: /s/ ELLEN WOLF
Ellen Wolf
Chief Financial Officer, American Water Works
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Dated: July 31, 2002

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By: /s/ BERNARDO R. GARCIA
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July 31, 2002

APPENDIX A TO SETTLEMENT AGREEMENT

AFFILIATED TRANSACTION RULES

These Affiliated Transaction Rules set forth the practices to be observed by Cal-Am. For the purposes of these Rules the following definitions shall apply:

- A. “Affiliated companies” refers to all companies in the RWE Group.
- B. “Affiliated sister companies” refers to American Water Works Service Company, Inc. (AWWSC), American Water Resources (AWR), American Water Capital Corp. (AWCC), American Water Services (AWS) and all future subsidiaries of American Water Works, Inc. (collectively “affiliated sister companies”). Except as otherwise expressly stated, these rules shall apply only to transactions between Cal-Am and its affiliated sister companies.

It is understood that it is not the intention of these Rules to create a barrier, disincentive or disadvantage regarding transactions between Cal-Am and any of its affiliated companies.

Commission Comment: The rules are clear on their use of the terms “affiliated companies (or company)” and “affiliated sister companies”. We therefore conditionally approve the settlement and these rules by striking the sentence above which reads “Except as otherwise expressly stated, these rules shall apply only to transactions between Cal-Am and its affiliated sister companies” because this sentence could cause confusion in future interpretation of these rules.

1. *Access to Officers and Employees.* The officers and employees of Cal-Am and its affiliated sister companies shall be available to appear and testify in any proceeding before the Commission involving Cal-Am. If in the proper exercise of Commission staff’s duties, Cal-Am cannot supply appropriate personnel to address staff’s reasonable concerns, then the appropriate staff of the relevant Cal-Am affiliated sister companies including, if necessary, its holding companies, shall be made available to staff.

Commission Comment: We correct this rule so that the term “affiliated companies” is substituted for the term “affiliated sister companies”.

2. *Access To Books and Records.* Cal-Am and its affiliated companies will provide the Commission, its staff, and its agents with access to the relevant books and records of such entities in connection with the exercise by the Commission of its regulatory responsibilities in examining any of the costs sought to be recovered by Cal-Am in rate proceedings.

Commission Comment: We understand that by this rule, Cal-Am and its affiliated companies will provide the Commission, its staff, and its agents with access to the books and

records of such entities as necessary in the Commission's judgment to facilitate the Commission's obligation to regulate.

3. *Annual Report.* Cal-Am shall file with the Commission each year, in connection with its general rate case filing, a report which includes a summary of all transactions between Cal-Am and its affiliated companies for the previous calendar year. Cal-Am shall maintain such information on a monthly basis and make such information available to the Commission's staff upon request. To the extent not covered by an existing affiliated transaction agreement, 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. These transactions shall include (a) services provided by Cal-Am to any affiliated company; (b) services provided by any affiliated company to Cal-Am; (c) assets transferred from Cal-Am to any affiliated company; (d) assets transferred from any affiliated company, to Cal-Am; (e) employees transferred from Cal-Am to any affiliated company; (f) employees transferred from any affiliated company to Cal-Am; and (g) financing arrangements and transactions between Cal-Am and any affiliated company.
4. *Issuance of Debt for Affiliated Companies.* Debt of Cal-Am's affiliated companies shall not be issued or guaranteed by Cal-Am without prior approval by the Commission.
5. The Commission's approval is not required for issuance of debt by Cal-Am's affiliated companies unless guaranteed by Cal-Am or secured by Cal-Am's assets.
6. *Accounting.* Cal-Am shall maintain its accounting records in accordance with Generally Accepted Accounting Principles and, where appropriate, the Commission's Uniform System of Accounts.
7. *Allocation of Common Costs.* Absent any change in the applicable policy of the Commission or provision of the Public Utilities Code, Cal-Am and each of its affiliated sister companies shall allocate costs between them in such a manner that ratepayers of Cal-Am will not subsidize any affiliate of Cal-Am.

Commission Comment: We correct this rule so that the term "affiliated companies" is substituted for the term "affiliated sister companies".

8. *Unregulated Operations and Transfer of Employees.*
 - a. Unregulated operations, if any, including pertinent contracts, that are performed by Cal-Am shall be transferred to the appropriate affiliated company as soon as all requisite consent is obtained.
 - b. Cal-Am shall avoid a diversion of management that would adversely affect Cal-Am.
 - c. Cal-Am shall not use its employees, including officers, to conduct unregulated operations if such use would adversely affect Cal-Am or its ratepayers.

- d. Cal-Am shall endeavor to transfer to its affiliated companies any work performed by an employee whose primary responsibility is to conduct unregulated operations, taking into consideration Cal-Am's obligations to its customers, to any such employee, and its obligations under any contract with its unions or others.
9. *Transfer Of Tangible Assets and Goods From Cal-Am.* Any transfer without monetary consideration of a tangible asset or good from Cal-Am to any affiliated company shall be priced at cost or fair market value, whichever is higher, if the asset or goods are currently, or were at any time, included in Cal-Am's ratebase, including (a) any asset or goods booked to plant held for future use that is currently, or was at any time, included in Cal-Am's ratebase or (b) any asset or goods to which Cal-Am's ratepayers have contributed any carrying cost. Any gain resulting from the transfer of any such asset or goods shall be allocated in accordance with applicable provisions of the Public Utilities Code, applicable law and consistent policies of the Commission.
10. Cal-Am shall develop a verifiable and independent appraisal of fair market value for any tangible asset or good that is transferred to any affiliate under Paragraph 9 above. The Commission's staff will have access to all supporting documents used in the development of the fair market value.

Commission Comment: This rule applies to all "affiliated companies."

11. *Transfer Of Intangible Assets and Goods from Cal-Am.* Any transfer without monetary consideration of any intangible asset or goods from Cal-Am to any affiliated company shall be priced at cost or fair market value, whichever is higher, if the asset or goods are currently, or were at any time, included in Cal-Am's ratebase, including (a) any asset or goods booked to plant held for future use that is currently, or was at any time, included in Cal-Am's ratebase or (b) any asset or goods to which Cal-Am's ratepayers have contributed any carrying cost.
12. "Intangible assets and goods" shall mean all intellectual property (whether such property constitutes patents, trademarks, service marks, copyrights, or any intellectual property).
13. Cal-Am shall develop a verifiable and independent appraisal of fair market value for any intangible asset or goods that are transferred to any affiliated company under Paragraph 11 above. The Commission's staff will 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, Cal-Am shall hire an independent consultant acceptable to the Commission staff to reappraise the fair market value for any such intangible asset or goods. The fair market value may be a single price, a royalty on the intangible asset or good, or a combination.
14. *Transfers Of Tangible and Intangible Assets And Goods to Cal-Am.* Any transfer of any tangible or intangible asset or good to Cal-Am from any affiliated sister company or its holding companies shall be in compliance with the applicable provisions of the statutes,

law and consistent Commission policies. Unless in conflict with the statutes, law and consistent Commission policies, such asset or goods transferred from an affiliated sister company or its holding companies to Cal-Am shall be at fair market value. Cal-Am may seek prior authorization from the Commission, however, by filing an application or advice letter for a determination of the appropriate value of an asset or good.

Commission Comment: We correct this rule so that the term “affiliated companies” is substituted for the term “affiliated sister companies.”

15. *Pricing Of Services From Cal-Am To Affiliated Companies.* Any service provided by Cal-Am to an affiliated company shall be priced to recover at least Cal-Am’s cost – such as the proportionate cost of (a) salary and benefits of any employee used in providing such services and (b) any equipment, including carrying costs with respect thereto, or supplies used in connection therewith.
16. *Pricing Of Service From Affiliated Companies To Cal-Am.* Except for common costs allocated in the manner described in Paragraph 7, the cost of services provided by an affiliated company to Cal-Am shall be considered reasonable if it is at or below the lowest of (a) the cost which would have been incurred by Cal-Am if it provided such services on comparable terms, (b) the rate which would have been charged to Cal-Am by an unaffiliated party for the provision of comparable services on comparable terms, or (c) the rate which would have been charged by the affiliated company to an unaffiliated party for the provision of comparable services on comparable terms.
17. *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 Public Utilities Code section 583 and the Commission’s General Order 66-C.

(END OF APPENDIX B)