

APPENDIX B
Conditions of Approval of Transfer of Control

1. The transfer of control shall have no effect on the Commission's authority over Valencia Water Company's (Valencia) provision of public utility service to the public.

2. Valencia shall comply with all applicable California and federal laws and administrative regulations.

3. All owners, direct and indirect, of Newhall Land and Farming Company shall ensure that Valencia has adequate capital to fulfill all of its public utility service obligations. The term "capital" encompasses "money and property with which a company carries on its corporate business; a company's assets, regardless of source, utilized for the conduct of the corporate business and for the purpose of deriving gains and profits; and a company's working capital," and is not limited to mean only "equity capital, infrastructure investment, or any other term that does not include, simply, money or working cash."

Decision 02-01-039, Findings of Fact 5 and 6, 2002 Cal. PUC LEXIS 5 *57.

4. Valencia shall continue to maintain its books and records in accordance with all Commission rules. Valencia's books and records shall be maintained and housed in California.

5. The transfer of control may not adversely affect Valencia policies with respect to service to customers, employees, operations, financing, accounting, capitalization, rates, depreciation, maintenance, or other matters relating to the public interest or utility operations.

6. There shall be no adverse impact on customer service as a result of the transaction. All owners, direct and indirect, of Newhall Land and Farming

Company shall maintain Valencia's commitment to high quality public utility water service and community involvement.

7. Valencia shall maintain its business headquarters in California together with fully operational local offices as appropriate to maintain the high quality of customer service and community involvement. Valencia shall not close any of its offices as a result of this transaction.

8. Valencia shall maintain or improve its practices and policies for addressing the ammonium perchlorate pollution plume in Valencia's groundwater source.

9. The transfer of control shall not result in changes to the existing management and officers of Valencia.

10. Operational control of Valencia shall continue to be exercised by Valencia's board of directors and management.

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

12. No additional layer of management overhead may be allocated to Valencia as a result of the transaction. Newhall Land and Farming Company and its upstream owners' costs may not be included in Valencia's revenue requirement absent a compelling demonstration of benefit to Valencia and its customers.

13. None of the outstanding debt owed and recorded as liabilities on the regulated books of Valencia may be adversely affected by the transfer of control. There shall be no changes in the income statement, balance sheet or financial position of Valencia used for ratemaking purposes as a result of the transfer of control.

14. The ratepayers of Valencia shall not incur, directly or indirectly, any transaction costs or other liabilities or obligations arising from the transfer of control. Valencia shall not incur any additional indebtedness, issue any

additional securities, or pledge any assets to finance any part of the transfer of indirect control.

15. All transaction-related costs, including external advisors, early termination costs, and change in control payments as a result of the transfer of control, shall not be “pushed down” to Valencia or otherwise reflected in Valencia’s accounting records used for ratemaking purposes, and there shall be no attempt to recover such costs in any future rate proceeding.

16. Affiliated companies of Valencia shall take no actions that would impair Valencia’s ability to fulfill its public utility obligation to serve or to operate in a prudent and efficient manner.

17. Valencia may not grant preferences to an affiliated firm’s real estate development when evaluating whether Valencia can or will extend water service to the development.

18. Valencia shall comply with the Affiliated Interest Transaction Rules set out in Appendix C to this decision, subject to modification by a final decision in Rulemaking 09-04-012, Commission Rulemaking to develop standard rules for the use of regulated assets for non-tariff services of water utilities.

(END OF APPENDIX B)

APPENDIX C

Affiliated Interest Transaction Rules

These Affiliated Interest Transaction Rules set forth the practices to be observed by Valencia Water Company (Valencia), subject to modification by a final decision in Rulemaking 09-04-012, Commission's rulemaking to develop standard rules for the use of regulated assets for non-tariff services of water utilities.

Definitions:

Affiliated company or companies: all entities that are under direct or indirect common ownership or control with Valencia, including any holding companies.

Cost: all fully allocated capital and expense amounts including all management, administration, overhead, and indirect allocations.

Property: any right or thing to which an entity has legal or equitable title.

Real Property: any interest in real estate including leases, easements, and water rights.

1. *Access to Officers and Employees.* The officers and employees of Valencia and its affiliated companies shall be available to appear and testify in any proceeding before the Commission involving Valencia. If in the proper exercise of Commission staff's duties, Valencia cannot supply appropriate personnel to address staff's reasonable concerns, then the appropriate staff of the relevant Valencia affiliated companies shall be made available to staff.
2. *Access To Books and Records.* Valencia 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.
3. *Annual Report.* Valencia shall file with the Commission each year, and include in all general rate case filings, a report that includes a summary of all transactions between Valencia and its affiliated companies for the previous calendar year. Valencia 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 complete 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 Valencia to any affiliated company; (b) services provided by any affiliated company to Valencia; (c) assets transferred from Valencia to any affiliated company; (d) assets transferred from any affiliated company, to Valencia; (e) employees transferred from Valencia to any affiliated company; (f) employees transferred from any affiliated company to Valencia; and (g) financing arrangements and transactions between Valencia and any affiliated company.
4. *Issuance of Debt for Affiliated Companies.* Debt of Valencia's affiliated companies shall not be issued or guaranteed by Valencia without prior approval by the Commission.

5. *Accounting.* Valencia shall maintain its accounting records in accordance with Generally Accepted Accounting Principles and, where appropriate, the Commission's Uniform System of Accounts.

6. *Allocation of Common Costs.* Valencia and each of its affiliated companies shall allocate costs between them in such a manner that ratepayers of Valencia will not subsidize any affiliate of Valencia. Valencia shall include and explain its methodology in its general rate case filings.

7. *Unregulated Operations and Transfer of Employees.*

a. Valencia shall not use its employees or officers to provide unregulated services if such use would adversely affect Valencia or its ratepayers.

b. To the extent Valencia chooses to use its employees or officers to provide unregulated services, Valencia shall carefully account for all such employee and officer time. In each general rate case application, Valencia shall submit a report showing all such employee and officer time on an annual basis for each year since the last general rate case.

c. Valencia shall not use its property to sell unregulated goods if such use would adversely affect Valencia or its ratepayers.

d. To the extent Valencia chooses to use its property to sell unregulated goods, Valencia shall carefully account for all such property use and tabulate the fully allocated cost. In each general rate case application, Valencia shall submit a report showing all such use on an annual basis for each year since the last general rate case.

8. *Transfer Of Property Other Than Real Property From Valencia.* All transfers of property other than real property or payment of dividends from Valencia to any affiliated company shall be in writing and priced at the higher of cost or fair market value. Valencia shall record any revenue resulting from the transfer of any such property in a memorandum account for further disposition by the Commission.

9. Valencia shall develop a verifiable and independent appraisal of fair market value for any property that is transferred to any affiliate under Paragraph 8 above. The Commission's staff will have access to all supporting documents used in the development of the fair market value.

10. *Transfers Of Property Other than Real Property to Valencia.* All transfers of any property other than real property to Valencia from any affiliated company shall be in writing and priced at the lower of cost or fair market value. Valencia shall obtain and retain sufficient cost data from the affiliate to support the price charged. Valencia shall obtain explicit Commission authorization prior to including the costs or expenses of any such property in its revenue requirement or rate base.

11. *Pricing Of Services From Valencia To Affiliated Companies.* All services provided by Valencia to an affiliated company shall either be pursuant to a Commission-approved tariff or be in writing and priced to recover all costs associated with such service that have been included in Valencia's revenue requirement for its last general rate case.

12. *Pricing Of Services From Affiliated Companies To Valencia.* Except for common costs allocated in the manner described in Paragraph 6, all services provided by an affiliate to Valencia

shall be pursuant to a written services agreement. All services provided by the affiliate shall be priced at the lower of the affiliate's incremental cost to provide the service or the fair market value of the service. Copies of all such service agreements shall be included in all general rate case filings and shall also include a full accounting of all services forecasted for the test year including the affiliated company's cost analysis and supporting documentation.

13. *Transfers of Real Property from Valencia to an Affiliate.* Valencia shall not transfer to an affiliate any real property necessary or useful in its provision of public utility service to the public. Valencia shall obtain Commission authorization prior to transferring to an affiliate any real property that was at any time included in Valencia's rate base.

14. *Transfers of Real Property from an Affiliate to Valencia.* Valencia shall not include in its rate base or revenue requirement the costs or expenses associated with any real property obtained from an affiliate, except for fees and costs paid to third parties incidental to obtaining and recording title to real property, absent a Commission decision specifically approving the acquisition and adopting specific ratemaking treatment.

15. *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.

16. *Physical Separation of Valencia from Affiliated Companies.* To the greatest extent feasible, Valencia shall maintain its offices, facilities, and employees in locations physically separate from affiliated companies. Where such separation is not feasible, Valencia shall create and implement stringent management and accounting policies to ensure that Valencia's public utility functions are not affected by the proximity of the affiliates, and that all affiliate costs are paid by the affiliate.

(END OF APPENDIX C)