

ALISAL WATER CORPORATION

A California Corporation
dba ALCO WATER SERVICE

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April 15, 2021

Terence Shia, Director
Water Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

**RE: California Public Utilities Commission Affiliate Transaction Compliance
Affiliate Transactions Rule Biennial Report for Years Ending December 31, 2019
and December 31, 2020**

Dear Mr. DeBerry,

Pursuant to Decision (D.) 1010019, adopted October 14, 2010, Sections VIII.C, VIII.E and VIII.F, as ultimately modified by D.1201042 dated January 31, 2012, Alisal Water Corporation, dba Alco Water Service ("Alco"), utility #W-206, hereby submits to the Commission its biennial report for affiliate transactions for the years ending December 31, 2019 and December 31, 2020.

Question:

VIII.C

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

- 1. A list of all affiliates of the utility, as defined in Rule II.D, and for each affiliate a description of its purposes or activities, and whether the utility claims that Rule I.B makes any portion of these Rules applicable to the affiliate;*

Answer:

Alco has no affiliates, as defined in Rule II.D from D.1010019, which was subsequently modified by D.1201042 as Rule II.E, except that pursuant to D.1205003, the Commission deemed, as of May 10, 2012, individual Adcock family members as affiliates but, excepting therefrom, the employment of individual Adcock family members is not an affiliate transaction.

Additionally, Adcock family members who receive and pay for utility services under the standard tariffs do not constitute affiliates nor are the utility services affiliate transactions.

This definition of the Adcock family as affiliates and the conditions thereon are addressed in D.1205003, at Section 3, Discussion, Page 6, which states, in pertinent part:

Adcock family members are deemed to be an affiliate.³ This would be the only modification to Rule II applicable to Alco. We note that no Adcock family member would be viewed as a "parent" company of Alco for purposes of the Affiliate Transaction Rules;

D.1205003 continues, at Page 6, in the Discussion section and at Footnotes 2 and 3 on that page:

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

² *As noted elsewhere, Adcock family members and any other companies that they may own or control are only deemed to be affiliates. As currently structured Alco has no parent company under the meaning of the Affiliate Transaction Rules.*

³ *As a beginning point, we define an "Adcock family member" as any member of the Adcock family who owns or controls, directly or indirectly, more than 10% of Alco's outstanding voting securities, and that individual's parents, siblings, children, grandchildren, and/or any spouse of any of the above. Currently, Patricia Adcock owns 100% of Alco's voting shares. We further note that any family member who has no transactions with Alco has no reporting obligation. In fact, it is Alco's obligation to report its transactions with Adcock family members. As noted elsewhere, if Alco has a transaction with an Adcock family member, then the family member must only make available financial records applicable to that transaction.*

D.1205003 continues, at Page 8, in the Discussion section:

With respect to this rule there are no modifications except to exclude compensation of Adcock family members employed by Alco from the audit trigger.

D.1205003 also states, at Page 9, Section 4, Conclusion:

Whenever Adcock family members work for Alco that employment in itself is not an affiliate transaction.

And, at Page 11, Finding of Facts Section, Finding of Facts #6 and #7, D.1205003 states:

6. *Employment of an Adcock family member by Alco is not itself an affiliate transaction.*

7. *Adcock family members who have no transactions with the company are not affiliates.*

The above definitions and conditions of the Adcock family members as affiliates can also be found in Ordering Paragraph number 2, which states, in pertinent part:

The Tier 3 Advice Letter requirement previously imposed on Alisal Water Corporation, doing business as Alco Water Service (Alco), is replaced with application of the Commission's existing Affiliate Transaction Rules for water companies and which already applies to Alco, but are modified as follows for commercial transactions between Alco and Adcock family members:

- i) All Adcock family members and any companies owned by Adcock family members that have transactions with Alco are deemed to be affiliate companies of Alco and are subject to the Affiliate Transaction Rules. Employment of an Adcock family member by Alco is not considered to be an affiliate transaction.*
- iv) Pursuant to Rule VIII. D, the only time changes within the Adcock family need to be reported by Alco is whenever a new Adcock family member enters into a transaction with Alco. No other changes to the Adcock family structure are reportable.*
- v) Pursuant to Rule VIII.E, we exclude the compensation of Adcock family members employed by Alco from this Rule's audit trigger.*

Question:

- 2. A description of the procedures in place to assure compliance with these Rules; and*

Answer:

Alco filed this initial compliance plan with the Commission on March 31, 2011. Alco will maintain appropriate procedures and mechanisms to ensure compliance with Rule VIII.C. If changes are determined to be necessary to ensure compliance, this plan will be revised and updated biennially or as needed. Alco affirms that it believes this plan complies with Rule VIII.C.

Question:

- 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.

Answer:

The following is a description of Alco's mechanisms and procedures to assure that the utility and / or a potential future parent company (Alco does not currently have a parent company) is not utilizing a parent company or any of its affiliates as a conduit to circumvent the Affiliate Transaction Rules.

- (i) Alco does not currently have a holding company or parent company ("Parent"), but if in the future, Alco does, Alco and its Parent shall be separate legal entities;
- (ii) Alco shall observe, in all material respects, all formalities and procedures required by its Articles of Incorporation, its Bylaws and applicable corporate laws regarding the management of its business and affairs.
- (iii) Alco shall correct any known misunderstanding regarding the separate identity of Alco, and shall not identify itself as a department or division of any future Parent, but may identify itself as a subsidiary;
- (iv) Alco may only share its assets, funds, liabilities or business functions with any future Parent as permitted in D.1010019 or any other applicable Commission actions;
- (v) Alco shall conduct business in its own name as an entity distinct from any future Parent;
- (vi) Neither Alco nor any future Parent will use stationery, invoices or checks displaying the name of the other in a manner that could reasonably be expected to cause a recipient thereof or payee thereon to believe such communication or payment was being made by or on behalf of the other;
- (vii) Alco shall maintain separate financial statements showing its assets and liabilities on a stand-alone basis and may be included in the consolidated financial statements of any future Parent for financial reporting purposes;
- (viii) Alco's books and records shall be kept in accordance with the applicable Uniform System of Accounts ("USOA") and/or, as appropriate, Generally Accepted Accounting Principles ("GAAP").
- (ix) Alco shall not enter into financial transactions with any future Parent that are disallowed in D.1010019, or other applicable Commission actions, except as permitted by the Commission;

- (x) Alco shall allocate any shared corporate support and services pursuant to D.1010019 and any other applicable Commission actions;
- (xi) Alco shall maintain its assets and liabilities and books and records relating thereto in such a manner that ascertaining or identifying its individual assets and liabilities as separate and distinct from those of any future Parent will not entail significant cost or difficulty;
- (xii) Alco shall not issue, secure, or guarantee the debts of any future Parent;
- (xiii) Alco shall not make any short-term loans to any future Parent except on terms that are substantially similar to those that would be available on an arms-length basis with unrelated third parties.

Question:

VIII.E

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

If the affiliates do not meet the 5% total revenue threshold, please inform the Division of Water and Audits (DWA) in writing. If the 5% revenue threshold is met, please provide the date that the audit will be completed and provided to Commission staff.

Answer:

Alco has no parent company nor affiliate transactions that trigger the 5% total revenue threshold. As stated earlier, the only affiliates Alco has are, per D.1205003, individual Adcock family members that the Commission deemed, as of May 10, 2012, are affiliates but, excepting therefrom, the employment of individual Adcock family members is not an affiliate transaction. Additionally, Adcock family members who receive and pay for utility services under the standard tariffs do not constitute affiliates nor are the utility services affiliate transactions. Finally, D.1205003 provides that the compensation to Adcock family members employed by Alco is excluded from the audit trigger, see Ordering Paragraph 2.

Alco has no affiliates, except as described above, therefore, Alco has no affiliate transactions.

Question:

VIII.F.

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

Answer:

Please note that the following applies to the following numbered questions (from 1 through 9): As stated earlier in this correspondence, Alco has no affiliates, as defined in Rule II.D from D.1010019, which was subsequently modified by D.1201042 as Rule II.E, except that pursuant to D.1205003, the Commission deemed, as of May 10, 2012, individual Adcock family members as affiliates but, excepting therefrom, the employment of individual Adcock family members is not an affiliate transaction. Additionally, Adcock family members who receive and pay for utility services under the standard tariffs do not constitute affiliates nor are the utility services affiliate transactions. Finally, D.1205003 provides that the compensation to Adcock family members employed by Alco is excluded from the audit trigger.

Question:

These transactions shall include the following:

1. *Services provided by the utility to the affiliated companies;*

Answer:

There have been no services provided by the utility to any affiliated companies; Alco does not have any affiliated companies.

Question:

2. *Services provided by the affiliated companies to the utility;*

Answer:

There have been no services provided by any affiliated companies to the utility; Alco does not have any affiliated companies.

Question:

- 3. Assets transferred from the utility to the affiliated companies;*

Answer:

There have been no assets transferred from the utility to any affiliated companies; Alco does not have any affiliated companies.

Question:

- 4. Assets transferred from the affiliated companies to the utility;*

Answer:

There have been no assets transferred from any affiliated companies to the utility; Alco does not have any affiliated companies.

Question:

- 5. Employees transferred from the utility to the affiliated companies;*

Answer:

There have been no employees transferred from the utility to any affiliated companies; Alco does not have any affiliated companies.

Question:

- 6. Employees transferred from the affiliated companies to the utility;*

Answer:

There have been no employees transferred from any affiliated companies to the utility; Alco does not have any affiliated companies.

Question:

- 7. The financing arrangements and transactions between the utility and the affiliated companies,*

Answer:

There have been no financing arrangements between the utility and any affiliated companies; Alco does not have any affiliated companies.

Question:

8. *Services provided by and/or assets transferred from the parent holding company to affiliate company which may have germane utility regulations impacts; and*

Answer:

There have been no services provided by nor assets transferred from, any parent holding company to any affiliated companies; Alco does not have any affiliated companies.

Question:

9. *Services provided by and/or assets transferred from affiliated company to the parent holding company which may have germane utility regulation impacts.*

Answer:

There have been no services provided by nor assets transferred from, any affiliated companies to any parent holding company; Alco does not have any affiliated companies.

This letter serves as the biennial report for affiliate transactions for the years ending December 31, 2019 and December 31, 2020.

If you have any questions or require additional information, please do not hesitate to contact me at (831) 424-0441.

Sincerely,



Thomas R. Adcock
President

TRA/ams

cc: Elizabeth Echols, Director
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California Public Utilities Commission
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