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September 30, 2019

Mr. Bruce DeBerry
Water Division
505 Van Ness Avenue
San Francisco, CA 94102

Subject: Affiliate Transaction Rules (ATR) Audit Report required by D.10-10-019

Dear Mr. DeBerry:

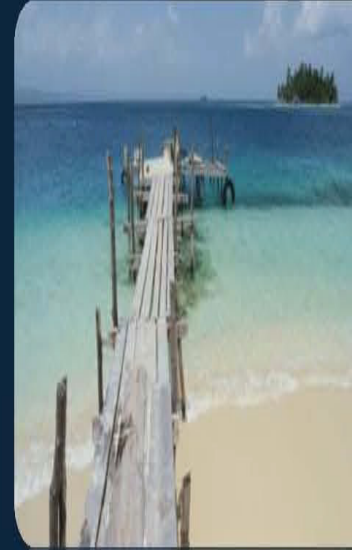
Attached please find the ATR Audit Report for Liberty Utilities (Apple Valley Ranchos Water) Corp. ("Liberty Apple Valley") for calendar years 2017 and 2018. This ATR Audit Report is provided pursuant to Rule VIII.E of Decision 10-10-019 dated October 14, 2010. Rule VIII.E requires the utility such as Liberty Apple Valley to engage in an independent auditor and if certain threshold is met, to verify that the utility is in compliance with the Rules.

Very truly yours,

LIBERTY UTILITIES (APPLE VALLEY RANCHOS WATER) CORP.

 /s/ Edward N. Jackson
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**LIBERTY UTILITIES
(APPLE VALLEY RANCHOS WATER)
CORP.**

COMPLIANCE EXAMINATION

2017-2018

AFFILIATE TRANSACTION RULES



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INDEPENDENT ACCOUNTANT'S REPORT

Edward Jackson
Director, Rates and Regulatory Affairs
Liberty Utilities (Apple Valley Ranchos Water) Corp.
21760 Ottawa Rd,
Apple Valley, CA 92308

We have examined Liberty Utilities (Apple Valley Ranchos Water) Corp. ("Liberty Apple Valley" or "Utility") compliance with the *Modified Rules for Water and Sewer Utilities Regarding Affiliate Transactions and the Use of Regulated Assets for Non-Tariffed Utility Services* ("the Rules") established by the California Public Utilities Commission's ("Commission"), for the period of January 1, 2017 through December 31, 2018. Liberty Apple Valley's management is responsible for the Utility's compliance with those requirements. Our responsibility is to express an opinion on the Utility's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants in addition to Generally Accepted Government Auditing Standards (GAGAS) and, accordingly, included examining, on a test basis, evidence supporting Liberty Utilities (Apple Valley Ranchos Water) Corp.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether Liberty Utilities (Apple Valley Ranchos Water) Corp. is in accordance with the Rules, in all material respects. An examination involves performing procedures to obtain evidence about the compliance of the Rules. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, Liberty Utilities (Apple Valley Ranchos Water) Corp. complied, in all material respects, with the requirements under the Rules for the period January 1, 2017 through December 31, 2018.

This report is intended solely for the information and use of management of Liberty Utilities (Apple Valley Ranchos Water) Corp. and the California Public Utilities Commission and is not intended to be and should not be used by anyone other than these specified parties.

Sotomayor & Associates, LLP
Pasadena, CA

August 9, 2019

Registered with the Public Companies Accounting Oversight Board, member of the American Institute of Certified Public Accountants, CPAF Section, the California Society of Certified Public Accountants, and the New Jersey Society of Certified Public Accountants

Executive Summary

The audit performed examined Liberty Utilities (Apple Valley Ranchos Water) Corp.'s ("Liberty Apple Valley") compliance with the California Public Utilities Commission's ("Commission") directives regarding its Rules for Water and Sewer Utilities Regarding Affiliate Transactions and the Use of Regulated Assets for Non-Tariffed Utility Services ("the Rules"). Our examination found that Liberty Apple Valley materially complied with all Rules. The details of this procedure are included in Appendix A of this report.

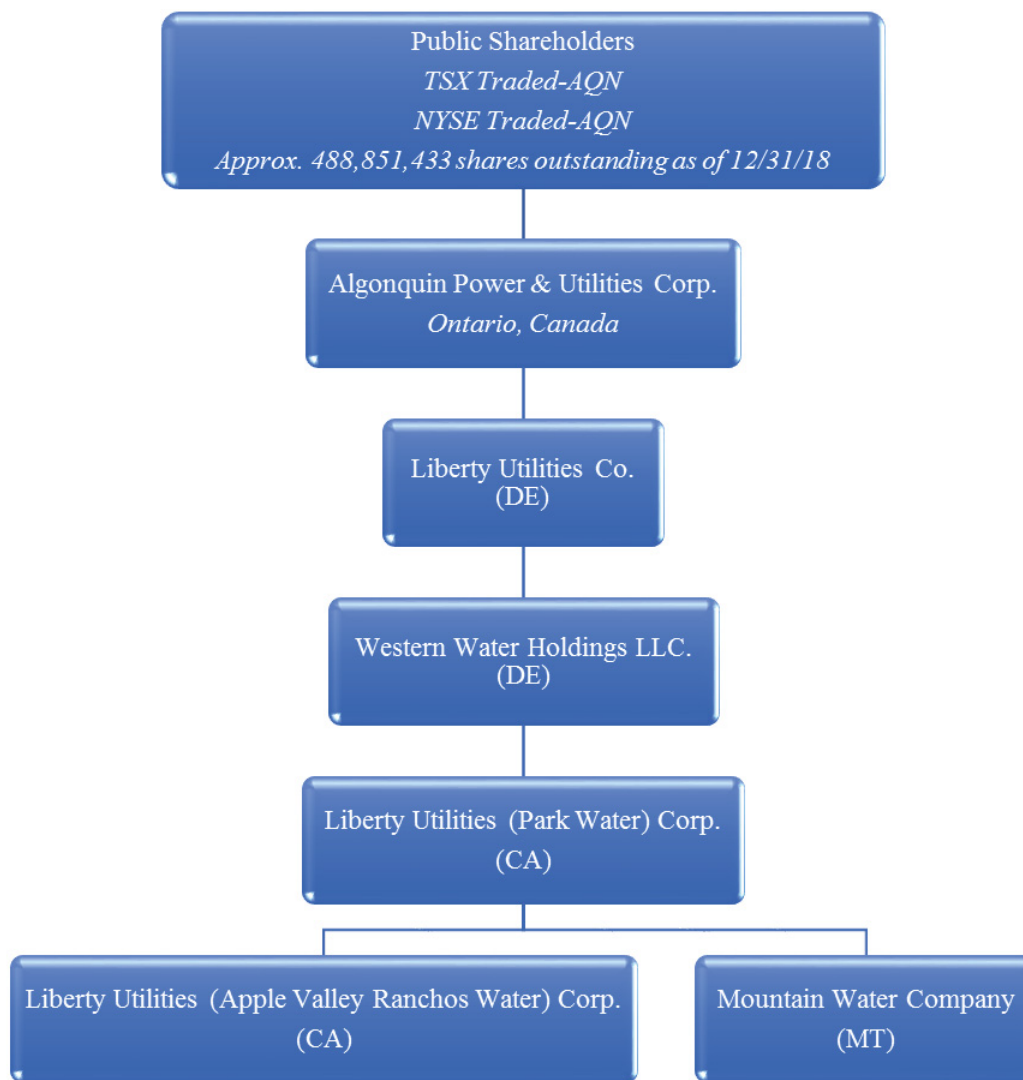
Background

In October 2010, the Commission adopted Decision ("D.") 10-10-019, which provided Class A and B water utilities with a set of rules governing affiliate transactions and the provision of non-tariffed products and services. Before, some water utilities were operating under Commission affiliate transaction rules designed primarily for the establishment of holding companies. The Commission adopted the Rules to provide "consistent and understandable rules for all subject water and sewer utilities". The Commission further stated that "our newly adopted rules address our goals of protecting ratepayers, ensuring the financial health of the utility, and preventing anti-competitive behavior in the competitive marketplace".

The Rules went into effect June 30, 2011. Rules V.C and V.D went into effect November 30, 2011. Under the Rules, biennial independent audits are required, with the first audit for Liberty Apple Valley due September 30, 2017. The second audit for years ending December 31, 2017 and 2018 due September 30, 2019.

Liberty Apple Valley is wholly owned by its parent company, Liberty Utilities (Park Water) Corp. ("Liberty Park") which is owned by Western Water Holdings, LLC which is owned by Liberty Utilities Co. ("LUC"). The ultimate parent company is Algonquin Power & Utilities Corp ("APUC") which is based in Canada. LUC also owns multiple other regulated water utilities operating in states outside of California, as well as non-regulated companies such as Liberty Utilities (White Hall Water) Corp. ("White Hall Water"), which provides water operation and maintenance contract services. Corporate support services are provided at cost to Liberty Apple Valley by APUC, Liberty Utilities (Canada) Corp., and Liberty Park.

Below is a condensed organizational chart that reflects the main companies examined:



After adoption of the Rules, but prior to their implementation, Liberty Apple Valley took numerous steps to comply with the Rules. For example, Liberty Apple Valley established a Compliance Plan to guide employees towards compliance with the Rules.

The Rates & Regulatory Affairs Department (“R&R”) is responsible for overall compliance and interpretation of the Rules and their application to particular transactions. The R&R provides education, direction and oversight of all matters pertaining to training and implementation of the Rules. The compliance tools that the R&R uses include employee communications and education/training, issuance of procedures governing affiliate transactions and reporting requirements, and ongoing monitoring necessary to comply with the Rules. Liberty Apple Valley issued Affiliate Transaction Procedures, which are updated periodically, to assist employees in understanding the Rules. Liberty Apple Valley continues its compliance efforts during 2019.

Audit Purpose and Objective

Rule VIII.E, requires the utility to engage an independent auditor if a certain threshold is met, to verify that the utility is in compliance with the Rules. The purpose of this audit is to comply with this requirement. This second audit report is due September 30, 2019.

Audit Scope and Methodology

The audit period covered by this audit is January 1, 2017 through December 31, 2018. The fieldwork consisted of interviews, research, data analysis, observations and sample testing conducted between February 6, 2019 and April 24, 2019. Appendix A of this report describes the audit methodology used to determine Liberty Apple Valley's compliance with each Rule.

Audit Findings and Conclusions

Appendix A of this report details the findings and conclusions for each Rule, which consists of sub-rules that provide the specific criteria. In response to Rule VIII.C, Liberty Apple Valley prepared a compliance plan, which describes their comprehensive procedures to comply with the Rules. We have provided Liberty Apple Valley's 2019 compliance plan criteria for sub-rules, followed by Sotomayor's conclusions and comments.

Appendix A – Audit Methodology, Findings, and Conclusions

RULE I – Jurisdiction and Applicability

Rule I.A. – These Rules apply to all Class A and Class B California public utility water and sewer corporations or companies subject to regulation by the California Public Utilities Commission (“Commission”).

Liberty Apple Valley Compliance Plan: As a Class A water utility subject to Commission regulation, Liberty Apple Valley affirms that the Rules apply to it and its employees. Liberty Apple Valley will maintain appropriate policies, procedures and mechanisms to ensure compliance with the Rules. Further, Liberty Apple Valley’s training materials and resources reference the respective compliance requirements associated with the Rules.

Sotomayor Conclusion: Liberty Apple Valley serves more than 10,000 customers and is therefore classified as a Class A Utility.

Rule I.B. – These Rules apply to transactions between a Commission-regulated utility and another affiliated entity that is engaged in the provision of products that use water or sewer services or the provision of services that relate to the use of water or sewer services, including the utility’s parent company, and to the utility’s use of regulated assets for non-tariffed utility services, unless specifically modified or exempted by the Commission. Transactions between a Commission-regulated utility and an affiliated utility regulated by a state regulatory commission (whether the utility is located in California or elsewhere) are exempt from these Rules, except for provisions of Rule IV.B and Rule X.

Liberty Apple Valley Compliance Plan: Liberty Apple Valley is “water utility” for purposes of the Affiliate Rules. Rule I.B provides that the Affiliate Rules apply only to transactions between Liberty Apple Valley as a water utility and “another affiliated entity that is engaged in the provision of products that use water or sewer services or the provision of services that relate to the use of water or sewer services, including the utility’s parent company, and to the utility’s use of regulated assets for non-tariffed utility services, unless specifically modified or exempted by the Commission.”

Liberty Apple Valley identifies its Rule I.B. affiliates in Attachment B to the Compliance Plan. The listing provides the Rule I.B Affiliate’s name, a brief description of the affiliate’s business, and states whether it conducts business within California. It is important to note as evidenced on Attachment B that many of the Rule I.B Affiliates of Liberty Apple Valley conduct business outside of California. Liberty Apple Valley does not interpret Rule I.B. to include any affiliates that are engaged in the generation of electricity from hydroelectric generation facilities.

Sotomayor Conclusion: Liberty Apple Valley is in compliance with Rule I.B. During the examination, we performed inquiries and observations of Liberty Apple Valley management. We also reviewed the organizational chart for Liberty Apple Valley and the Liberty Utilities Co. as a whole to understand the structure of the related affiliates, including the regulated affiliates and the “Covered Affiliates.”

A few Covered Affiliates include: Algonquin Power & Utilities Corp. (“APUC”), Liberty Utilities Co. (“LUC”), Liberty Utilities (Park Water) Corp. (“Liberty Park”) and Mountain Water Company (“MWC”). Based on our review of the Rules and discussions with Liberty Apple Valley management, we determined that the Rules apply to Liberty Apple Valley’s transactions with these affiliates. Regulated businesses would be regulated by the respective utilities’ commissions.

Rule I.C. – Utilities shall comply with all applicable State and Federal statutes, laws and administrative regulations.

Liberty Apple Valley Compliance Plan: Liberty Apple Valley affirms that it will comply with all applicable State and Federal statutes, laws and administrative regulations.

Sotomayor Conclusion: Liberty Apple Valley is regularly monitored by the Internal Audit Department of APUC with no serious deficiencies reported. We reviewed its annual financial audits for 2017 and 2018 and found that each year, Algonquin Power and Utilities Corp., a company under which Liberty Apple Valley is a subsidiary, received an unqualified opinion that the financial statements fairly presented the financial position of the company. Additionally, we confirmed through multiple observations and interviews that Liberty Apple Valley’s statement of compliance in Rule I.C is accurate.

Rule I.D – Existing Commission rules for each utility and its parent company continue to apply except to the extent they conflict with these Rules. In such cases, these Rules supersede prior rules and guidelines, provided that nothing herein shall preclude (1) the Commission from adopting other utility-specific guidelines; or (2) a utility or its parent company from adopting other utility-specific guidelines, with advance Commission approval through Decision or Resolution. In the case of ambiguity regarding whether a conflict exists, there shall be a rebuttable presumption that these Rules apply.

Liberty Apple Valley Compliance Plan: The Rate Case Plan requirements adopted in D.04-06-018 (shown below) are not superseded by these Rules:

Transactions with Corporate Affiliates

Identify and explain all transactions with corporate affiliates involving utility employees or assets, or resulting in costs to be included in revenue requirement. Include all documentation, including a list of all such contracts, and accounting detail necessary to demonstrate that any services provided by utility officers or employees to corporate affiliates are reimbursed at fully allocated costs.

Unregulated Transactions

To the extent the utility uses assets or employees included in revenue requirement for unregulated activities, the utility shall identify, document, and account for all such activities, including all costs and resulting revenue, and provide a list of all contracts.

Sotomayor Conclusion: Based on the review of Liberty Apple Valley's existing rules, we determined that Liberty Apple Valley's interpretation of the Rules is correct.

Rule I.E. – Where these Rules do not address an item currently addressed in a utility's existing rules imposed by this Commission, which govern that utility's transactions with its affiliate(s) or its use of regulated assets for non-tariffed utility services, the existing utility-specific rules continue to apply for that item only.

Liberty Apple Valley Compliance Plan: See response to I.D.

Sotomayor Conclusion: Based on the review of Liberty Apple Valley's existing rules, we determined that Liberty Apple Valley's interpretation of the Rules is correct.

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

Liberty Apple Valley Compliance Plan: The Plan does not require a response to this Rule.

Sotomayor Conclusion: Based on our observations and testing, Liberty Apple Valley affirms this Rule and is in compliance.

Rule I.G. – A California utility that is also a multi-state utility and subject to the jurisdiction of other state regulatory commissions, may file an application with this Commission, served on all parties to this proceeding and its most recent general rate case, requesting a limited exemption from these Rules or a part thereof, for transactions between the utility solely in its capacity serving its jurisdictional areas wholly outside of California, and its affiliates if such out-of-state operations do not substantially affect the utility's operations and the operating costs inside California. The applicant has the burden of proof.

Liberty Apple Valley Compliance Plan: Liberty Apple Valley does not seek such an exemption.

Sotomayor Conclusion: Based on our observations and inquiries, Rule I.G. does not apply to Liberty Apple Valley since it only operates as a regulated utility within the state of California.

Rule I.H. - A California utility's affiliates that operate entirely outside of California are exempt from Rule III.B and Rule III.C of these Rules, for transactions between the utility and such affiliates, if the affiliates' operations do not substantially affect the utility's operations and the operating costs inside California.

Liberty Apple Valley Compliance Plan: There is no response required by this Rule. The Rules shall be interpreted broadly, to effectuate the Commission's stated objectives of protecting consumer and ratepayer interests and, as an element thereof, preventing anti-competitive conduct.

Liberty Apple Valley affirms that its compliance policies, procedures and mechanisms will be guided by what we understand to be the intent of the Rules factoring in the concept embodied by this Rule.

Sotomayor Conclusion: Based on our observations and inquiries, the affiliates operating outside California do not substantially affect Liberty Apple Valley's costs within the state of California.

Rule I.I. – These Rules shall be interpreted broadly, to effectuate the Commission's stated objectives of protecting consumer and ratepayer interests and, as an element thereof, preventing anti-competitive conduct.

Liberty Apple Valley Compliance Plan: Liberty Apple Valley affirms that, for its particular circumstances, application of these Rules, broadly interpreted, will protect consumer and ratepayer interests and will prevent anti-competitive conduct.

Sotomayor Conclusion: Liberty Apple Valley affirms this Rule. Based on our observations and inquiries with multiple levels of personnel, we determined that Liberty Apple Valley has affirmed to this Rule.

RULE II – Definitions

II.A. "Parent company" or "parent"

"Parent company" or "parent" is the entity, including a holding company or corporation, that owns, or has substantial operational control (as defined in Rule II.E) of, the regulated utility.

II.B. "Utility"

"Utility" (unless specified as a water utility) refers to all water utilities and sewer utilities regulated by the Commission.

II.C. "Water utility"

"Water utility" refers to all water utilities regulated by the Commission.

II.D. "Sewer utility"

"Sewer utility" refers to all sewer utilities regulated by the Commission.

II.E. "Affiliate"

"Affiliate" means any entity whose outstanding voting securities are more than 10 percent owned, controlled, directly or indirectly, by a utility, by its parent company, or by any subsidiary of either that exerts substantial operational control.

For purposes of these Rules, "substantial operational control" includes, but is not limited to, the possession, directly or indirectly of the authority to direct or cause the direction of the management or policies of a company. A direct or indirect voting interest of more than 10 percent by the utility in an entity's company creates a rebuttable presumption of substantial operational control.

For purposes of these Rules “affiliate” includes the utility’s parent company, or any company that directly or indirectly owns, controls, or holds the power to vote more than 10 percent of the outstanding voting securities of a utility or its parent company.

Regulated subsidiaries of a utility, the revenues and expenses of which are subject to regulation by the Commission and are included by the Commission in establishing rates for the utility, are not included within the definition of affiliate for the purpose of these Rules. However, these Rules apply to all interactions any such regulated subsidiary has with other affiliated unregulated entities covered by these Rules.

For the purposes of this Rule, “affiliate” shall not include a mutual water company, a joint powers authority, other governmental or quasi-governmental agency or authority, a public/private partnership, a watermaster board, a water basin association, or a groundwater management authority in which a utility participates or in which a utility is a member or shareholder.

II.F. “Costs”

“Costs” are used in these Rules to refer to the total expenses assigned or allocated to different projects or activities through the utility’s and parent company’s accounting systems. Cost categories include:

1. **Direct Costs.** Direct costs are costs that can be clearly identified to specific projects or activities because the resource in question, or some measurable portion of that resource, has been dedicated to the project or activity. An example would be the hours of a worker’s time spent on the effort, materials purchased and used specifically on that effort, or the proportion of a machine’s hours dedicated to the effort.
2. **Direct Overhead Costs.** For organizations that produce multiple outputs, direct overhead costs are the common costs of a subset of the organization, such as supervisors and support staff of a division not assigned or traceable to specific projects, or machinery shared among a subset of the company’s projects. Such overhead costs require allocation to specific projects through proxies and methodologies designed to accurately reflect the particular production aspects of each project; e.g., some processes are more capital-intensive than others and need less supervision input. Allocation methodologies for direct overhead costs can make use of several factors, often activity-based and often using “cost causation” as one of the principles in their design.
3. **Indirect Overhead Costs.** Indirect overhead costs are functions that affect the entire organization, such as the headquarters building, the Chief Executive Officer and Chief Financial Officer, General Counsel and associated legal support, personnel departments, security for this building or these offices, shareholder and public relations, insurance, depreciation, advertising, and similar functions. These are real costs of the organization and must be allocated to the ongoing projects and activities to determine the total cost of each. These are also sometimes called “General Overhead Costs.”

4. Fully-loaded (also known as fully-allocated) costs. Fully-loaded (or fully-allocated) costs refer to the total cost of a project or activity, which is the sum of Direct, Direct Overhead, and Indirect Overhead costs, as defined in Rule II.F.1, 2 and 3.

II.G. “Transaction”

“Transaction” means any transfer of an item of value such as a good, service, information or money between a utility and one or more of its affiliates.

II.H. “Property”

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

II.I. “Real Property”

“Real property” refers to any interest in real estate including leases, easements, and water rights.

II.J. “Customer”

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

II.K. “Customer information”

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

II.L. “Cross-subsidy”

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

Liberty Apple Valley Compliance Plan: Rule II.A. through Rule II.L. require no compliance action.

Sotomayor Conclusion: Liberty Apple Valley implements and consistently applies these definitions in the Liberty Apple Valley “Affiliate Transaction Rules Compliance Plan” dated May 2019 and includes the relevant definitions in the Liberty Apple Valley Affiliate Transaction Rules policies and procedures.

RULE III – Utility Operations and Service Quality

III.A. – A utility shall not allow transactions with affiliates to diminish water utility staffing, resources, or activities in a manner that would result in degradation of the reliability, efficiency, adequacy, or cost of utility service or an adverse impact on customer service. Utility management attention shall not be diverted to such transactions in a way that would result in such degradation. The utility’s parent and affiliates shall not acquire utility assets at any price if such transfer of assets would impair the utility’s ability to fulfill its obligation to serve or to operate in a prudent and efficient manner.

Liberty Apple Valley Compliance Plan: Liberty Apple Valley will maintain a policy to ensure compliance with Rule III.A. Further, Liberty Apple Valley's ongoing compliance with General Order 103-A precludes the possibility of degradation of the reliability, efficiency, adequacy, or cost of utility service (in particular, Section II of GO 103-A, Standards of Service, requires that each utility shall operate its system so as to deliver reliable, high quality service to its customers at reasonable cost and that each water utility shall ensure that it complies with the California State Water Resources Control Board's Division of Drinking Water's permit requirements and all applicable drinking water regulations). Further, Liberty Apple Valley's compliance with Public Utilities Code Section 851 precludes the acquisition of utility assets in such a manner as to impair the utility's ability to fulfill its obligation to serve or to operate in a prudent and efficient manner.

Sotomayor Conclusion: Based on observations and interviews with Liberty Apple Valley personnel, it was noted that other than corporate shared services provided by APUC, Liberty Utilities (Canada) Corp., and Liberty Park, Liberty Apple Valley and all affiliate companies are maintained and managed as separate entities. There is no degradation of utility service or impact to customer service related to the affiliates.

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

1. Provide leads to its affiliates;

Liberty Apple Valley Compliance Plan: Liberty Apple Valley affirms that it has a policy in place to comply with Rule III.B.1 and will provide training to its employees advising them on the prohibition in this Rule. Liberty Apple Valley's understanding of this Rule is that the intent was to ensure that the utility did not provide non-public leads to unregulated affiliates providing products or services in a manner which unfairly disadvantaged the competitive marketplace. Therefore, a utility advising its parent that it had been contacted by a third party or of information disseminated publicly regarding water or sewer systems being available for purchase, lease or provision of services under an operating contract would not be a violation of this Rule.

2. Solicit business on behalf of its affiliates;

Liberty Apple Valley Compliance Plan: Liberty Apple Valley affirms that it has a policy in place to comply with Rule III.B.2. Liberty Apple Valley will provide training to its employees advising them on the prohibition in this Rule.

3. Acquire information on behalf of or to provide to its affiliates;

Liberty Apple Valley Compliance Plan: Liberty Apple Valley affirms that it has a policy in place to comply with Rule III.B.3, with the exception of Rule III.B.8 and consideration of its compliance plan response to Rule III.B.1 above. Liberty Apple Valley will provide training to its employees on the prohibition in this Rule.

4. Share market analysis reports or any other types of proprietary or non-publicly available reports, including but not limited to market, forecast, planning or strategic reports, with its affiliates, except that a utility may share such information with a parent under the condition that the parent does not share the information with any other entity;

Liberty Apple Valley Compliance Plan: Liberty Apple Valley affirms that it has a policy in place to comply with Rule III.B.4, with the exceptions noted in Rule III.B.8 and consideration of its compliance plan response to Rule III.B.I above. Liberty Apple Valley will provide training to its employees on the prohibition in this Rule.

Liberty Apple Valley interprets this Rule to exclude any information that an employee might otherwise legally disclose to others after termination of employment. Further, corporate governance and corporate support services covered by Rule V.A are expressly permitted.

5. Request authorization from its customers to pass on customer information exclusively to its affiliates;

Liberty Apple Valley Compliance Plan: Liberty Apple Valley affirms that it has a policy and a procedure in place to comply with Rule III.B.5. Under these procedures, information will be released to affiliates only with the specified customer's explicit written consent.

6. Give the appearance that the utility speaks on behalf of its affiliates; or

Liberty Apple Valley Compliance Plan: Liberty Apple Valley affirms that it has a policy in place to comply with Rule III.B.6. Liberty Apple Valley will provide training to its employees on the prohibition in this Rule.

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.

Liberty Apple Valley Compliance Plan: Liberty Apple Valley affirms that it has a policy in place to comply with Rule III.B.7 and will provide training to its employees on the prohibition in this Rule.

8. Provisions 3, 4 and 5 of Rule III.B shall not apply to utility affiliates that are non-profit and whose sole purpose is to serve the functions of regulated utilities, the parents of regulated utilities, governmental or non-profit entities, including non-profit affiliates of regulated utilities.

Liberty Apple Valley Compliance Plan: This Rule is not currently applicable to Liberty Apple Valley or its affiliates as none of them meet the non-profit standard.

9. Utilities may file an Advice Letter seeking an exemption to Rule III.B.8 within ninety days of the effective date of the Commission decision adopting these rules, requesting that a non-profit affiliate subject to Rule III.B.8 be allowed to serve the functions of other affiliates, as long as those other affiliates provide no more than five per cent of the annual revenues of the non-profit affiliate.

Liberty Apple Valley Compliance Plan: This authority is not required by Liberty Apple Valley or its affiliates as it has no affiliates subject to Rule III.B.8.

Sotomayor Conclusion: Based on interviews of employees throughout the organization and review of ATR compliance plan, policies and procedures, the Company is in compliance with all elements of Rule III.B.

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

Liberty Apple Valley Compliance Plan: Liberty Apple Valley affirms that it has a policy and procedure in place to comply with Rule III.C. Liberty Apple Valley will provide training to its employees on the prohibition in this Rule. Further, if Liberty Apple Valley offers customer or utility information, services or unused capacity to an affiliate governed by these Rules, Liberty Apple Valley will provide notice accessible to all similarly situated market participants via a posting to Liberty Apple Valley's website.

Sotomayor Conclusion: Based on observations and interviews with multiple levels of personnel, and documentation obtained, it was noted that Liberty Apple Valley does not provide customer or utility information, services, unused capacity or supply to its affiliates except as provided for elsewhere in the Rules. Liberty Apple Valley provides information to APUC, Liberty Utilities (Canada) Corp. and Liberty Park as shared corporate services as authorized by Rule III.B.4 and V.

RULE IV – Separation

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

Liberty Apple Valley Compliance Plan: Liberty Apple Valley affirms that it maintains its accounting records in accordance with this Rule. As Liberty Apple Valley's ultimate parent company, APUC, is required by the US Securities and Exchange Commission and its bond indentures and credit line agreements to maintain its accounting records in accordance with Generally Accepted Accounting Principles, which includes consolidated reporting, this requirement effectively applies to Liberty Apple Valley. Liberty Apple Valley's financial statements are audited by an independent accounting firm.

Sotomayor Conclusion: Review of the consolidated audited annual financial reports for 2017 and 2018 confirmed that Generally Accepted Accounting Principles were applied. We also reviewed the Commission's Uniform System of Accounts and Liberty Apple Valley's Chart of Accounts and confirmed that Liberty Apple Valley uses the Commission's Uniform System of Accounts.

Rule 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.

Liberty Apple Valley Compliance Plan: Liberty Apple Valley affirms that it has adequate policies, procedures and mechanisms to comply with Rule IV.B. In addition, the Public Advocates Office routinely reviews Liberty Apple Valley's allocation of common costs in each of Liberty Apple Valley's general rate cases and that of Liberty Park.

Liberty Apple Valley receives allocated costs from Liberty Park that are ultimately from WWH's corporate parents, including Algonquin Power & Utilities Corp., Liberty Utilities (Canada) Corp., Liberty Utilities Co. and Liberty Utilities Service Corp. These allocations would be subject to review in the relevant general rate case proceeding of Liberty Apple Valley.

Sotomayor Conclusion: By reviewing account records and Commission guidance for charging common costs to affiliates, we determined that Liberty Apple Valley maintains an adequate method for allocating common costs. We obtained an understanding of the cost allocation processes used, and we sample tested processes to allocate common costs in accordance with this Rule.

Rule IV.C. – The utility shall list all shared directors and officers between the utility and its affiliates in its annual report to the Commission. Not later than 30 days following a change to this list, the utility shall notify the Director of the Division of Water and Audits and the Director of the Division of Ratepayer Advocates of the change(s).

Liberty Apple Valley Compliance Plan: Liberty Apple Valley includes as Attachment D a list of all shared directors and officers between the utility and its affiliates and will provide the required notification to the Director of the Division of Water and Audits and the Director of the Public Advocates Office no later than 30 days following a change.

Sotomayor Conclusion: During the examination, the listings of shared directors and officers and Commission filings were obtained to test for compliance. A change notice was inadvertently missed and thus did not provide the required notice to the Commission within the 30-day timeframe. Liberty Apple Valley implemented additional procedures to comply with the Rule.

Rule IV.D. – Employees transferred or temporarily assigned from the utility to an affiliate shall not use non-public, proprietary utility information gained from the utility in a discriminatory or exclusive fashion to the benefit of the affiliate to the detriment of unaffiliated competitors.

Liberty Apple Valley Compliance Plan: Liberty Apple Valley has a policy in place to comply with Rule IV.D. Liberty Apple Valley will provide training to employees transferred or

temporarily assigned to affiliates that fall under the applicability of this Rule, specifying that the employees shall not use non-public, proprietary utility information gained from the utility in a discriminatory or exclusive fashion to the benefit of the affiliate to the detriment of unaffiliated competitors.

Sotomayor Conclusion: During the examination, we conducted multiple interviews of Liberty Apple Valley employees and obtained and reviewed ATR compliance materials. Employees have a good understanding of this Rule.

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

Liberty Apple Valley Compliance Plan: Liberty Apple Valley interprets the sub-rules 1 and 2 below as being applicable to permanent movement only since intermittent use is covered by sub-rule 3.

Rule 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.

Liberty Apple Valley Compliance Plan: Liberty Apple Valley affirms that it has adequate procedures to comply with Rule IV.E.1. and will include this information in its Annual Report to the Commission.

Sotomayor Conclusion: During the examination, we obtained documentation to validate the employee transfers noted on the Annual Reports of Affiliate Transactions. There were two employee transfers from Liberty Apple Valley to the regulated affiliated companies during 2017 and 2018. We reviewed and examined the documentation of all employee movements. The records were consistent with the reporting to the Commission. Therefore, Liberty Apple Valley is in compliance with Rule IV.E.1.

Rule IV.E.2 – When an employee of a utility is transferred, assigned, or otherwise employed by the affiliate, the affiliate shall make a one-time payment to the utility in an amount equivalent to 15% of the employee's base annual compensation. All such fees paid to the utility shall be accounted for in a separate memorandum account to track them for future ratemaking treatment on an annual basis, or as otherwise necessary to ensure that the utility's ratepayers receive the fees. This transfer payment provision does not apply to clerical workers.

Liberty Apple Valley Compliance Plan: Liberty Apple Valley affirms that it has adequate procedures to comply with Rule IV.E.2. Liberty Apple Valley will include this information in its Annual Report to the Commission.

Sotomayor Conclusion: During the examination, there were two transfer of employees from Liberty Apple Valley to the regulated affiliated companies during 2017 and 2018. All transfers of employees took place between utilities regulated by a state commission. Per Rule I.B., “transactions between a Commission – regulated utility and an affiliated utility regulated by a

state regulatory commission are exempt from these Rules, except for provisions of Rule IV.B. and Rule X.” Therefore, Liberty Apple Valley complied with Rule IV.E.2.

Rule IV.E.3 – Utility employees may be used on a temporary or intermittent basis (less than 30% of an employee’s chargeable time in any calendar year) by affiliates only if:

- a. All such use is documented, priced and reported in accordance with these Rules and existing Commission reporting requirements, except that when the affiliate obtains the services of a non-executive employee, compensation to the utility shall be priced at a minimum of the greater of fully loaded cost plus 5% of direct labor cost, or fair market values. When the affiliate obtains the services of an executive employee, compensation to the utility shall be priced at a minimum of the greater of fully loaded cost plus 15% of direct labor cost, or fair market value;
- b. Utility needs for utility employees always take priority over any affiliate requests;
- c. No more than 10% of full time equivalent utility employees may be on loan at a given time;
- d. Utility employees agree, in writing, that they will abide by these Rules; and
- e. Affiliate use of utility employees shall be conducted pursuant to a written agreement approved by the appropriate utility and affiliate officers.

Liberty Apple Valley Compliance Plan: Liberty Apple Valley affirms that it has adequate procedures to comply with Rule IV.E.3. Liberty Apple Valley will include this information in its Annual Report to the Commission.

Sotomayor Conclusion: During the examination, we interviewed Liberty Apple Valley personnel and we noted that there were no temporary or intermittent use of employees between Liberty Apple Valley and its affiliates. Liberty Apple Valley complied with this Rule.

RULE V – Shared Corporate Support

Rule V.A. – A utility, its parent company, or a separate affiliate created solely to perform corporate support services may share with its affiliate’s joint corporate oversight, governance, support systems, and personnel as further specified in these Rules. Any shared support shall be priced, reported and conducted in accordance with these Rules as well as other applicable Commission pricing and reporting requirements.

Liberty Apple Valley Compliance Plan: Liberty Apple Valley affirms that it has adequate procedures and mechanisms to comply with Rule V.A. The relevant accounting procedures and mechanisms which impact the allocation of costs for the shared corporate services are consistent with Commission adopted rate case decisions. These accounting procedures and mechanisms are reviewed by the Office of Ratepayers Advocates in each general rate case proceeding.

Liberty Apple Valley receives allocated costs from Liberty Park that are from its indirect corporate parents, including Algonquin Power & Utilities Corp., Liberty Utilities (Canada) Corp., Liberty Utilities Co. and Liberty Utilities Service Corp. These allocations would be subject to review in the general rate case proceeding of Liberty Apple Valley.

Sotomayor Conclusion: Based on documentation and transactions reviewed, we noted that corporate shared services are accurately reported and fully reimbursed under Rule IV.B.

Rule V.B. – Corporate support shall not be shared in a manner that allows or provides a means for the transfer of confidential information from the utility to the affiliate, creates the opportunity for preferential treatment or unfair competitive advantage, leads to customer confusion, or creates significant opportunities for cross-subsidy of affiliates. The restriction on transfer of confidential information from the utility to the affiliate does not apply to corporate support, shared services and access to capital.

Liberty Apple Valley Compliance Plan: Liberty Apple Valley affirms that its policy is adequate to ensure that the provision of corporate support services will not provide a means for the transfer of confidential non-public Utility information from the Utility to an affiliate that would create the opportunity for preferential treatment or unfair competitive advantage, lead to customer confusion, or create significant opportunities for cross-subsidy of affiliates.

Sotomayor Conclusion: Based on our review of transactions and inquiries of management, Liberty Apple Valley maintains that the restriction regarding the transfer of confidential information does not apply to shared corporate services. We agree with the conclusion reached in D.10-10-019, which states “It is reasonable to allow water and sewer utilities to share non-public or proprietary information with their affiliates for the limited purposes of shared corporate services, as long as there are sufficient limits on other sharing of nonpublic or proprietary information.”

Rule V.C. – Examples of services that may be shared include: corporate governance and oversight, payroll, taxes, shareholder services, insurance, financial reporting, financial planning and analysis, corporate accounting, corporate security, human resources (compensation, benefits, employment policies), employee records, regulatory affairs, lobbying, legal, pension management, engineering, water or sewage for resale, water storage capacity, and purchasing of water distribution systems.

Liberty Apple Valley Compliance Plan: Liberty Apple Valley receives shared corporate services from Liberty Park and from its indirect parents and affiliated entities, including Algonquin Power & Utilities Corp., Liberty Utilities (Canada) Corp., Liberty Utilities Co. and Liberty Utilities Service Corp. These allocations would be subject to review in the relevant general rate case proceeding of Liberty Apple Valley.

Sotomayor Conclusion: During our examination, we noted that Liberty Apple Valley does receive a number of shared corporate services from APUC, Liberty Utilities (Canada) Corp. and Liberty Park, which fit the parameters of Rule V.C. and are provided for and paid for in accordance with Rules IV.B. and Rule V.A.

Rule V.D. – Examples of services that may not be shared include: hedging and financial derivatives and arbitrage services and marketing.

Liberty Apple Valley Compliance Plan: Liberty Apple Valley affirms its policy is sufficient to ensure that the services listed in Rule V.D. will not be shared with Liberty Apple Valley's unregulated affiliates.

Sotomayor Conclusion: During our examination, we reviewed the ATR compliance guidelines and communication issued to employees regarding this portion of the Rule. Based on observations and inquiries obtained from personnel, we determined that shared corporate services provided by APUC, Liberty Utilities (Canada) Corp. and Liberty Park do not include hedging and financial derivatives and arbitrage services and marketing.

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

To the extent that these Rules do not prohibit the transfer of goods and services between a utility and its affiliates:

Liberty Apple Valley Compliance Plan: Liberty Apple Valley interprets the services aspect of this Rule not to apply to Shared Corporate Services as there are separate Rules for that classification of service and that allocation of costs is subject to review during every general rate case by the staff of the Public Advocates Office. Liberty Apple Valley affirms that it has adequate procedures and mechanisms to record the cost of goods and services between the Utility and its affiliates consistent with the following Rules. The responses below are for information only as they highlight the areas of transactions that are applicable or not applicable currently between Liberty Apple Valley and its affiliates. Should the Rules become applicable Liberty Apple Valley will comply.

VI.A. – Transfers from the utility to its affiliates of goods and services offered by the utility on the open market will be priced at fair market value.

Liberty Apple Valley Compliance Plan: Not currently applicable.

VI.B. – Transfers from an affiliate to the utility of goods and services offered by the affiliate on the open market shall be priced at no more than fair market value.

Liberty Apple Valley Compliance Plan: Not currently applicable.

VI.C. – For goods or services for which the price is regulated by a state agency, that price shall be deemed to be the fair market value, except that in cases where more than one state commission regulates the price of goods or services, this Commission's pricing provisions govern.

Liberty Apple Valley Compliance Plan: Not currently applicable.

VI.D. – Goods and services produced, purchased or developed to be offered on the open market by the utility shall be provided to the utility’s affiliates and unaffiliated companies on a nondiscriminatory basis, except as otherwise required or permitted by these Rules or applicable law.

Liberty Apple Valley Compliance Plan: Not currently applicable.

VI.E. – Transfers from the utility to its affiliates of goods and services not produced, purchased or developed to be offered on the open market by the utility shall be priced at fully allocated cost plus 5% of direct labor cost.

Liberty Apple Valley Compliance Plan: Not currently applicable.

VI.F. – Transfers from an affiliate to the utility of goods and services not produced, purchased or developed to be offered on the open market by the affiliate shall be priced at the lower of fully loaded cost or fair market value.

Liberty Apple Valley Compliance Plan: As described above, Liberty Apple Valley receives services from Liberty Park, and its indirect parents and affiliated entities, including Algonquin Power & Utilities Corp., Liberty Utilities (Canada) Corp., Liberty Utilities Co. and Liberty Utilities Service Corp. Liberty Park has affiliate service agreements in place with these entities which sets forth the terms and conditions of those services.

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.

Liberty Apple Valley Compliance Plan: Not currently applicable.

Sotomayor Conclusion: Liberty Apple Valley is in compliance with Rule VI. Testing of transactions, review of documentation and observations and inquiries from personnel have revealed that Liberty Apple Valley has adequate procedures in place to ensure compliance with Rule VI.

RULE VII – Financial Health of the Utility

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

Liberty Apple Valley Compliance Plan: To meet its service obligations Liberty Apple Valley relies on internally generated funds.

Sotomayor Conclusion: Based on observations and interviews with management, we determined that the parent company provided Liberty Apple Valley with adequate capital to fulfill all of its service obligations prescribed by the Commission.

Rule VII.B. – If the parent is publicly traded, the utility shall notify the Director of the Commission’s Division of Water and Audits and the Director of the Public Advocates Office in writing within 30 days of any downgrading to the bonds of the parent, another affiliate, and/or the utility, and shall include with such notice the complete report of the issuing bond rating agency.

Liberty Apple Valley Compliance Plan: Algonquin Power & Utilities Corp., the ultimate parent of Liberty Apple Valley, is publicly traded on the Toronto Stock Exchange and the New York Stock Exchange. Liberty Apple Valley will comply with this rule as applicable.

Sotomayor Conclusion: We reviewed documentation and made inquiries to determine that Liberty Apple Valley has complied with Rule VII.B.

Rule VII.C. – The creation of a new affiliate by the parent or another affiliate shall not adversely impact the utility’s operations and provision of service.

Liberty Apple Valley Compliance Plan: Liberty Apple Valley will maintain a policy to ensure compliance with Rule VII.C. Further, Liberty Apple Valley’s ongoing compliance with General Order 103-A precludes the possibility of degradation of the reliability, efficiency, adequacy, or cost of utility service (in particular, Section II of GO 103-A, Standards of Service, requires that each utility shall operate its system so as to deliver reliable, high quality service to its customers at reasonable cost and that each water utility shall ensure that it complies with the California State Water Resources Control Board’s Division of Drinking Water’s permit requirements and all applicable drinking water regulations.) Further, Liberty Apple Valley’s compliance with Public Utilities Code Section 851 precludes the acquisition of utility assets in such a manner as to impair the utility’s ability to fulfill its obligation to serve or to operate in a prudent and efficient manner.

Sotomayor Conclusion: We reviewed documentation and made inquiries to determine that Liberty Apple Valley has complied with Rule VII.C. Per discussion with Liberty Apple Valley, there were no new affiliates created between January 1, 2017 and December 31, 2018.

Rule VII.D – Debt of the utility’s parent or other affiliates shall not be issued or guaranteed or secured by the utility.

Liberty Apple Valley Compliance Plan: Liberty Apple Valley will maintain an appropriate policy to ensure compliance with Rule VII.D.

Sotomayor Conclusion: During the examination, we reviewed APUC’s consolidated audit report to determine whether there was any debt guarantee by Liberty Apple Valley of the parent or any affiliates. We also confirmed with management that Liberty Apple Valley has not guaranteed any debt of the parent or affiliates. Liberty Apple Valley has complied with Rule VII.D.

Rule VII.E. – Financial Separation. Within three months of the effective date of the decision adopting these Rules, each utility with a parent company shall file a Tier III advice letter proposing provisions that are sufficient to prevent the utility from being pulled into the bankruptcy of its parent company. The process specified by the Advice Letter Filing shall include a verification that the provisions have been implemented and signed by the utility’s senior management (e.g., the Chief Executive Officer, Chief Financial Officer, and General Counsel).

Liberty Apple Valley Compliance Plan: Liberty Apple Valley filed an advice letter consistent with this Rule.

Sotomayor Conclusion: We believe that Liberty Apple Valley is in compliance with Rule VII.E. Liberty Apple Valley received correspondence from the Commission, which advised various utility companies to change their ring-fencing plans. The Commission did not direct Liberty Apple Valley to make any changes to its ring-fencing plans, which we infer that the utilities commission was satisfied with the Plan.

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

Liberty Apple Valley Compliance Plan: This Rule is not applicable to Liberty Apple Valley.

Sotomayor Conclusion: Based on discussion with Liberty Apple Valley management, this Rule does not apply to Liberty Apple Valley.

RULE VIII – Regulatory Oversight

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

Liberty Apple Valley Compliance Plan: Liberty Apple Valley affirms that it will make available the appropriate officers or employees necessary to testify in any proceeding before the Commission relating to Liberty Apple Valley.

Sotomayor Conclusion: During our examination, we confirmed that Liberty Apple Valley management would make any officers or employees available for any Commission proceeding.

Rule VIII.B. – The utility and its affiliated companies shall provide the Commission, its staff, and its agents with access to the relevant books and records of such entities in connection with the exercise by the Commission of its regulatory responsibilities in examining any of the costs sought to be recovered by the utility in rate proceedings or in connection with a transaction or

transactions between the utility and its affiliates. The utility shall continue to maintain its books and records in accordance with all Commission rules. The utility's books and records shall be maintained and housed available in California.

Liberty Apple Valley Compliance Plan: Liberty Apple Valley affirms that it will make available the relevant records, whether its own or those of an affiliate, that are germane to any of the costs sought to be recovered by the utility in rate proceedings or in connection with a transaction or transactions between Liberty Apple Valley and its affiliates.

Sotomayor Conclusion: During the examination, we requested access to the relevant books and records in order to complete observations and testing under this Rule. These records were maintained at the Liberty Apple Valley office in Apple Valley, CA.

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

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

Liberty Apple Valley Compliance Plan: This filing constitutes the required Plan responsive to this Rule. Liberty Apple Valley affirms that it has a procedure in place that will comply with the subsequent biennially update filing requirements of Rule VIII.C. The list of affiliates is provided in Attachment B, and the policies and procedures are provided in Attachment C.

Sotomayor Conclusion: During the examination, we noted that Liberty Apple Valley did not include the applicability of the Rules for its affiliates. Liberty Apple Valley later filed a revised 2019 Compliance Plan with the Commission. We concluded that Liberty Apple Valley is in compliance with Rule VIII.C.

Rule VIII.D. – New Affiliates. Upon the creation of a new affiliate, the utility shall immediately notify the Commission of its creation, as well as posting notice of this event on its web site. No later than 60 days after the creation of this affiliate, the utility shall file an information-only filing, as provided for in Rule 6.1 of General Order 96-B, with the Director of the Commission’s Division of Water and Audits, with service on the Director of the Public Advocates Office. The advice letter shall state the affiliate’s purpose or activities and whether the utility claims these Rules are applicable to the new affiliate, and shall include a demonstration to the Commission that there are adequate procedures in place that will assure compliance with these Rules. The advice letter may include a request, including supporting explanation, that the affiliate transaction rules not be applied to the new affiliate. If the utility requests that the affiliate transactions rules not be applied to the new affiliate, in lieu of an information-only filing, the utility shall file a Tier 2 advice letter making such a request, including an explanation of why these Rules should not apply to the new affiliate.

Liberty Apple Valley Compliance Plan: Liberty Apple Valley affirms that it and its affiliates have adequate procedures in place to comply with Rule VIII.D.

Sotomayor Conclusion: During the examination, we inquired of management and personnel about the process followed for notification of the creation of new affiliates. Based on available records and inquiries, it is verified that there were no new affiliates created in 2017 and 2018. Therefore, Liberty Apple Valley is in compliance with Rule VIII.D.

Rule 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 Public Advocates Office no later than September 30 of the year in which the audit is performed. The Division of Water and Audits shall post the audit reports on the Commission’s web site. The audits shall be at shareholder expense.

Liberty Apple Valley Compliance Plan: Liberty Apple Valley affirms that it has adequate procedures in place to comply with Rule VIII.E. Liberty Park affirms that it will provide Liberty Apple Valley with information sufficient to determine whether an audit needs to be performed in compliance with Rule VIII.E.

Sotomayor Conclusion: Sotomayor & Associates performed the required audit for the period January 1, 2017 to December 31, 2018.

Rule 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 Public Advocates Office that includes a summary of all transactions between the utility and its affiliated companies for the previous calendar year. The utility shall maintain such information on a monthly basis and make such information available to the Commission’s staff upon request. The summary shall include a description of each transaction and an accounting of all costs associated

with each transaction although each transaction need not be separately identified where multiple transactions occur in the same account (although supporting documentation for each individual transaction shall be made available to the Commission staff upon request). These transactions shall include the following:

1. Services provided by the utility to the affiliated companies;
2. Services provided by the affiliated companies to the utility;
3. Assets transferred from the utility to the affiliated companies;
4. Assets transferred from the affiliated companies to the utility;
5. Employees transferred from the utility to the-affiliated companies;
6. Employees transferred from the-affiliated companies to the utility;
7. The financing arrangements and transactions between the utility and the affiliated companies;
8. Services provided by and/or assets transferred from the parent holding company to affiliate company which may have germane utility regulations impacts; and
9. Services provided by and/or assets transferred from affiliated company to the parent holding company which may have germane utility regulation impacts.

Liberty Apple Valley Compliance Plan: Liberty Apple Valley interprets these requirements as applying to all services (excluding shared corporate services), assets or employee transfers and financing arrangements and transactions. Liberty Apple Valley affirms that it has adequate procedures in place to comply with Rule VIII.F.

Sotomayor Conclusion: During the examination, we reviewed copies of the 2017 and 2018 affiliate transaction reports submitted to the Commission and determined that they contained the information required in items 1 through 9 of this Rule. Certain accounts and items were inadvertently omitted from the report filed with the Commission. Liberty Apple Valley filed revised annual reports for 2017 and 2018 with the Commission and implemented procedures to comply with the Rule. We concluded that Liberty Apple Valley is materially compliant with Rule VIII.F.

RULE IX – Confidentiality

Any records or other information of a confidential nature furnished to the Commission pursuant to these Rules that are individually marked Confidential are not to be treated as public records and shall be treated in accordance with P. U. Code § 583 and the Commission's General Order 66-C, or their successors.

Liberty Apple Valley Compliance Plan: Liberty Apple Valley affirms that it has adequate procedures in place to comply with Rule IX.

Sotomayor Conclusion: To confirm that Liberty Apple Valley properly marks confidential information, we did the following:

- Discussed Rule IX with Liberty Apple Valley executive management and legal personnel;
- Examined Liberty Apple Valley's compliance plan;

- Examined documentation provided to the Commission in accordance with a number of filings made under the Rules; and
- Verified that any proprietary information provided to the Commission was identified as confidential information.

Liberty Apple Valley complies with Rule IX by specifying what information is to be treated as confidential.

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

Liberty Apple Valley Compliance Plan: Liberty Apple Valley affirms that it has adequate policies, procedures and mechanism in place to comply with all provisions of this Rule.

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

Sotomayor Conclusion: Liberty Apple Valley is in compliance with Rule X.A. Liberty Apple Valley offers a tie-up with Home Energy Insurance Solutions to provide Repair Service Plans (active and passive). Both types of NTP&S are listed in the Commissions NTP&S schedule as part of the Rules. Costs are segregated in accordance with Rule X.D and billed directly to the NTP&S recipients. Based on documentation reviewed and discussions with Liberty Apple Valley management, all current NTP&S items offered have been offered for years. Liberty Apple Valley management has confirmed that it currently has no plans to offer new NTP&S items.

X.B. – A utility may only offer on the open market the following products and services:

1. Existing products and services offered by the utility pursuant to tariff;
2. New products and services that are offered on a tariffed basis; and
3. Products and services that are offered on a non-tariffed basis (NTP&S) and that meet the following conditions:
 - a. The NTP&S utilizes a portion of the excess or unused capacity of a utility asset or resource;
 - b. Such asset or resource has been acquired for the purpose of and is necessary and useful in providing tariffed utility services;
 - c. The involved portion of such asset or resource may only be used to offer the product or service on a non-tariffed basis without adversely affecting the cost, quality or reliability of tariffed utility products and services;
 - d. The products and services can be marketed with minimal or no incremental ratepayer capital, minimal or no new forms of liability or business risk being incurred by utility ratepayers, and no undue diversion of utility management attention; and

- e. The utility's offering of the NTP&S does not violate any California law, regulation, or Commission policy regarding anticompetitive practices.

Sotomayor Conclusion: See discussion under Rule X.A. above. Based on the above, Liberty Apple Valley is in compliance with Rule X.B.

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

1. Active NTP&S projects: 90% shareholder and 10% ratepayer.
2. Passive NTP&S projects: 70% shareholder and 30% ratepayer.
3. A utility shall classify all NTP&S as active or passive according to the table below. For a new NTP&S not listed in the table, which requires approval by the Commission by advice letter pursuant to Rule X.G, an "active" project requires a shareholder investment of at least \$125,000. Otherwise the new NTP&S shall be classified as passive. No costs recoverable through rates shall be counted toward the \$125,000 threshold.
4. Revenues received that are specified in a contract as pass-through of costs, without any mark-up, shall be excluded when determining revenue sharing. If an advice letter is required pursuant to Rule X.G, the utility shall specify in the advice letter any items other than postage, power, taxes, and purchased water for which it proposes pass-through treatment and must obtain Commission approval for such treatment.
5. For those utilities with annual Other Operating Revenue (OOR) of \$100,000 or more, revenue sharing shall occur only for revenues in excess of that amount. All NTP&S revenue below that level shall accrue to the benefit of ratepayers.
6. For those utilities with annual OOR below \$100,000, there shall be no sharing threshold, and ratepayers shall accrue all benefits for non-tariffed products and services.

Sotomayor Conclusion: Based on the documentation reviewed, revenue from NTP&S in 2017 and 2018 were both below \$100,000. In accordance with Rule X.C, 100% NTP&S revenue generated during 2017 & 2018 should be allocated to ratepayers. Liberty Apple Valley passed revenue derived from NTP&S activity to the ratepayers. Liberty Apple Valley is in compliance with Rule X.C.

Rule X.D. – Cost Allocation. All costs, direct and indirect, including all taxes, incurred due to NTP&S projects shall not be recovered through tariffed rates. These costs shall be tracked in separate accounts and any costs to be allocated between tariffed utility services and NTP&S shall be documented and justified in each utility's rate case. More specifically, all incremental investments, costs, and taxes due to non-tariffed utility products and services shall be absorbed by the utility shareholders, i.e., not recovered through tariffed rates.

Sotomayor Conclusion: During the examination, we obtained documentation to support the billing method used for NTP&S costs. Costs are incurred and billed directly to the NTP&S recipients and revenue is allocated to shareholders/ratepayers in accordance with Rule X.C. Liberty Apple Valley is in compliance with Rule X.D.

Rule X.E. – Annual Report of NTP&S Projects. Each utility shall include information regarding its NTP&S projects in its Annual Reports, including but not be limited to the following:

1. A detailed description of each NTP&S activity;
2. Whether and why it is classified active or passive;
3. Gross revenue received;
4. Revenue allocated to ratepayers and to shareholders, as established in the company's current general rate case;
5. A complete identification of all regulated assets used in the transaction;
6. A complete list of all employees (by position) that participated in providing the non-tariffed service, with amount of time spent on provision of the service;
7. If the NTP&S has been classified as active through advice letter submission, provide the number of the advice letter and the authorizing Resolution; and
8. If the NTP&S did not require approval through advice letter, provide the date notice was given to the Commission.

Sotomayor Conclusion: During our examination, we reviewed copies of the 2017 and 2018 Annual Report of NTP&S Projects. Based on the information we reviewed, Liberty Apple Valley has not included in the annual report submitted to the Commission a complete list of all employees (by position) that participated in providing the non-tariffed service, with amount of time spent on provision of the service. Liberty Apple Valley later filed revised annual reports for 2017 and 2018 to the Commission, including the requested information. We concluded that Liberty Apple Valley is materially in compliance with Rule X.E.

Rule X.F. – When a utility initiates the offering of NTP&S that are designated as active or passive in the table below, the utility shall provide notice of such activity by letter to the Director of the Division of Water and Audits and the Program Manager of the Public Advocates Office-Water Branch, within 30 days of instituting such activity.

Sotomayor Conclusion: Liberty Apple Valley confirmed that the current NTP&S have been provided for many years. There were no new NTP&S initiated during the 24 months ended December 31, 2018. In light of this, Liberty Apple Valley did not report any new items under Rule X.F. and is in compliance with Rule X.F.

Rule X.G. – Provision of New NTP&S. Any water or sewer utility that proposes to engage in the provision of new NTP&S not included in the table below, using the excess capacity of assets or resources reflected in the utility’s revenue requirement, and which are proposed to be classified as active as described herein, shall file a Tier 3 advice letter (see Resolution ALJ-202) with the Director of the Division of Water and Audits seeking Commission approval. The advice letter shall be served on the service list for Rulemaking 09-04-012 and the service list for the utility’s current or most recent general rate case. The advice letter shall contain the following:

1. A full description of the proposed NTP&S, including, without limitation, the identity of parties served (if known), revenue and cost forecasts, and the term of any contract to be employed.
2. A description of the accounting method to be used to allocate the incremental costs between tariffed services and caused by the NTP&S.
3. Copies of all operative documents for the proposed service.
4. A detailed description of any items other than postage, power, taxes, and purchased water for which the utility proposes pass-through treatment for purposes of calculating revenue sharing.
5. Complete identification of all utility regulated assets and personnel resources that will be used in the proposed transaction. Identify the particular excess capacity (or capacities) asset or resource to be used to provide the NTP&S.
6. A complete list of all employees that will participate in providing the service, with an estimate of the amount of time each will spend.
7. A showing that the proposed NTP&S may be offered without adversely affecting the cost, quality, or reliability of the utility services.
8. A showing of how the NTP&S will be marketed with minimal or no incremental ratepayer capital, minimal or no new forms of liability or business risk, and no undue diversion of utility management attention.
9. A showing of how the NTP&S does not violate any law, regulation, or Commission policy regarding anti-competitive practices.
10. A justification for classifying the NTP&S as active. The utility shall demonstrate that there is or will be incremental shareholder investment above \$125,000.
11. A statement that all risks incurred through this proposed NTP&S project shall be borne by the utility’s shareholders.
12. A description of the market served by the proposed NTP&S project, a list or description of the current incumbents in that market, and an analysis of how the utility’s entry into

the market will affect the market's competitiveness. Include in this analysis a description of how the utility will guard against using anti-competitive pricing in this market.

13. Any other information, opinions, or documentation that might be relevant to the Commission's consideration of the NTP&S.

Sotomayor Conclusion: Based on our discussions with Liberty Apple Valley, we learned the current NTP&S products/services have been provided for many years. There were no new NTP&S initiated during the 24 months ended December 31, 2018. Because of this fact, Liberty Apple Valley did not report any new items under Rule X.G., and Liberty Apple Valley is in compliance with Rule X.G.