



CALIFORNIA WATER SERVICE

1720 North First Street
San Jose, CA 95112-4598 Tel: (408) 367-8200

October 15, 2021

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

Re: 2019-2020 Biennial Independent Audit for Affiliate Transactions

Director Shia,

California Water Service Company (“Cal Water”) hereby notifies the Commission that the company is not submitting an independent audit pursuant to the Commission’s Affiliate Transactions Rules¹ (“Rules”) because the audit requirement was not triggered for 2019 and 2020.

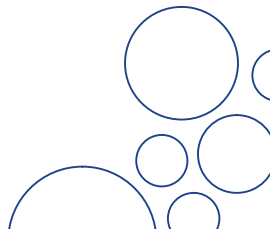
Background

Section VIII.E of the Rules requires utilities to have an independent audit conducted “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” (emphasis added).

Total Revenue

Exhibit A to this letter consists of the Consolidated Income Statement for California Water Service Group (“CWS Group”), Cal Water’s parent company, provided in the Form 10-K filed with the Securities and Exchange Commission for the year ending December 31, 2020. The Consolidated Income Statement reflects the activities of Cal Water and all of its affiliates. For the purposes of Section VIII.E of the Rules, the “total revenue of the utility and all of its affiliates” for 2019 and 2020 would be the sum of the

¹ *Modified Rules for Water and Sewer Utilities Regarding Affiliate Transactions and the Use of Regulated Assets for Non-Tariffed Utility Services (“Affiliate Rules”)* of Appendix A to D.10-10-019, as modified by D.11-10-034 and D.12-01-042.





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“operating revenue” and the “non-regulated revenue,” or approximately \$1.5 billion, as shown in **Exhibit B** to this letter.

Unregulated Affiliates’ Revenue

To determine the “unregulated affiliates’ revenue” that triggers the audit requirement in Section VIII.E of the Rules, please refer to **Exhibit C** to this letter, which is an excerpt from Cal Water’s Biennial Affiliate Compliance Plan (“Compliance Plan”).²

- As discussed under Section I.B of the Compliance Plan, Cal Water had three *regulated* affiliates in 2019 and 2020 that are exempt from all of the Affiliate Transactions Rules except Rules IV.B and X. According to the specific terms of Section VIII.E, the revenue from these regulated affiliates are not relevant.
- Section I.B also indicates that Cal Water had three *unregulated* affiliates (CWS Group, HWS Utility Services, and CWS Utility Services). While it is only the revenue associated with these unregulated affiliates that trigger the Section VIII.E audit, that data is not readily available in a public, audited, financial statement.

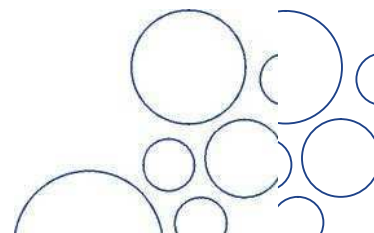
For the purposes of determining whether the independent audit requirement is triggered, it is sufficient to treat the “non-regulated revenue” listed in the Consolidated Income Statement as *potentially* qualifying as “unregulated affiliates’ revenue” under Section VIII.E. Even with this generous interpretation, Cal Water’s unregulated affiliate revenue is clearly under 5%, as shown in **Exhibit B**.³

Conclusion

Based on the above analysis and the Form 10-K submitted by CWS Group, the amount of Cal Water’s “unregulated affiliates’ revenue” as compared to total revenue does not meet the 5% trigger for the period of 2019-2020. Therefore, an independent

² Cal Water’s Biennial Affiliate Compliance Plan was submitted as Attachment E to its Annual CPUC Report for Calendar Year 2020. See pages 1-2 of Attachment E.

³ A large percentage of the “Non-regulated revenue” listed in the Consolidated Income Statement relate to Cal Water activities authorized under the Non-Tariffed Products and Services section of the Rules. Such revenue is authorized under Section X of the rules and does not constitute “unregulated affiliates’ revenue” as identified in Section VIII.E.





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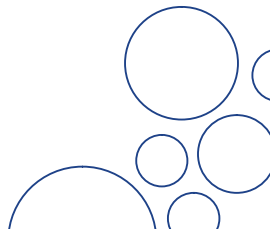
audit under Section VIII.E of the Commission's Affiliate Transactions Rules is not needed at this time.

Please feel free to contact me if you have any questions. Thank you.

A handwritten signature in blue ink that reads "Natalie D. Wales".

Natalie D. Wales
Director
Regulatory Policy & Compliance
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408-367-8566

CC: Viet.Truong@cpuc.ca.gov - Trương, Việt "Kevin," Water Division, CPUC



**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2020

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file No. 1-13883

CALIFORNIA WATER SERVICE GROUP

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

1720 North First Street

San Jose, California

(Address of Principal Executive Offices)

77-0448994

(I.R.S. Employer
Identification No.)

95112

(Zip Code)

(408) 367-8200

(Registrant's Telephone Number, including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class:	Trading Symbol(s)	Name of Each Exchange on Which Registered:
Common Stock, \$0.01 par value per share	CWT	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated Filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C.7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant was \$2,356 million on June 30, 2020, the last business day of the registrant's most recently completed second fiscal quarter. The valuation is based on the closing price of the registrant's common stock as traded on the New York Stock Exchange.

The Common stock outstanding at February 8, 2021 was 50,348,013 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required to be disclosed in Part III of this report is incorporated by reference from the registrant's definitive Proxy Statement for its Annual Meeting of Stockholders to be held on or about May 26, 2021. The proxy statement is expected to be filed no later than 120 days after the end of the fiscal year covered by this report.

CWS Letter re Independent Audit (10/15/2021), Exhibit A

CALIFORNIA WATER SERVICE GROUP
Consolidated Statements of Income

	For the Years Ended December 31,		
	2020	2019	2018
(In thousands, except per share data)			
Operating revenue	\$ 794,307	\$ 714,557	\$ 698,196
Operating expenses:			
Operations:			
Purchased water	230,076	212,461	207,103
Purchased power	34,006	31,362	31,080
Pump taxes	12,647	11,518	14,664
Administrative and general	117,058	108,617	100,781
Other operations	95,859	90,061	79,868
Maintenance	28,026	26,834	24,494
Depreciation and amortization	98,505	89,220	83,781
Income taxes	11,435	16,280	18,589
Property and other taxes	30,029	28,792	27,296
Total operating expenses	657,641	615,145	587,656
Net operating income	136,666	99,412	110,540
Other income and expenses:			
Non-regulated revenue	16,922	19,205	18,272
Non-regulated expenses	(14,300)	(13,869)	(22,787)
Other components of net periodic benefit cost	(4,988)	(5,733)	(9,308)
Allowance for equity funds used during construction	4,976	6,685	3,954
Gain on sale of non-utility property	—	28	50
Income tax (expense) benefit on other income and expenses	(583)	(1,391)	2,717
Net other income (loss)	2,027	4,925	(7,102)
Interest expense:			
Interest expense	45,047	44,891	39,917
Allowance for borrowed funds used during construction	(3,185)	(3,670)	(2,063)
Net interest expense	41,862	41,221	37,854
Net income	\$ 96,831	\$ 63,116	\$ 65,584
Earnings per share:			
Basic	\$ 1.97	\$ 1.31	\$ 1.36
Diluted	\$ 1.97	\$ 1.31	\$ 1.36
Weighted average number of common shares outstanding:			
Basic	49,274	48,168	48,060
Diluted	49,274	48,168	48,060

See accompanying Notes to Consolidated Financial Statements.

Trigger for Biennial Independent Affiliate Audit (Rule VIII.E, Affiliate Transactions Rules)

	Regulated ("Operating") Revenue	Non-Regulated Revenue	Total Revenue	Non-Reg as percent of Total Revenue	Less than 5%?
2019	\$ 714,557,000	\$ 19,205,000	\$ 733,762,000	2.62%	
2020	\$ 794,307,000	\$ 16,922,000	\$ 811,229,000	2.09%	
Total	\$ 1,508,864,000	\$ 36,127,000	\$ 1,544,991,000	2.34%	Yes

Source: California Water Service Group, Form 10-K (December 31, 2020), "Consolidated Statements of Income."

**Annual Report of California Water Service Company
to the California Public Utilities Commission**

ATTACHMENT E

**BIENNIAL AFFILIATE COMPLIANCE PLAN
OF
CALIFORNIA WATER SERVICE COMPANY (U-60-W)**

Affiliate Transaction Rules (D.10-10-019)

Effective June 30, 2011

(Submitted April 2021)

Affiliate Transaction Rules Applicable to Class A and B Water Utilities

RULE I. Jurisdiction and Applicability

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).

Cal Water Compliance: As a Class A water utility subject to Commission regulation, Cal Water affirms that these Rules apply to it and its employees. Cal Water has appropriate procedures and mechanisms to ensure compliance with these Rules in place. Cal Water's training materials and resources reference the respective compliance requirements associated with each 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.

Cal Water Compliance: Cal Water affirms that these Rules apply to transactions with its covered affiliates as discussed below. Cal Water reserves the right to reclassify an affiliate, with appropriate notice to the Commission, as the activities of that affiliate dictate.

Regulated Affiliates: Rule I.B specifically exempts from certain Rules any transactions between the utility and "an affiliated utility regulated by a state commission."

Accordingly, transactions between Cal Water and the following affiliates are **exempt from all of the Rules, with the exception that the following rules still apply:**

- ❖ Rule IV.B – requires the proper allocation of common costs, and prohibits cross-subsidies with Cal Water ratepayers; and
 - ❖ Rule X – rules for any non-tariffed products and services provided by Cal Water.
- (1) **Exempt: Hawaii Water Service Company** – a regulated utility that provides service to water and wastewater customers on the islands of Maui, Oahu, and Hawaii.
 - (2) **Exempt: New Mexico Water Service Company** – a regulated utility that provides service to water and wastewater customers in New Mexico.
 - (3) **Exempt: Washington Water Service Company** – a regulated utility that provides domestic water service in Washington State.

Affiliates outside of California that do not substantially affect Cal Water’s operations or operating costs: Under Rule I.H, an affiliate that “operates entirely outside of California,” and whose “operations do not substantially affect the utility’s operations and the operating costs in California” are exempt two provisions in these Rules. Accordingly, transactions between Cal Water and the following affiliate are subject to all of the Rules, except that they are exempt from the following provisions:

- ❖ Rule III.B – identifies specific activities related to affiliates that Cal Water may not engage in, including: providing leads to affiliates; soliciting business for affiliates; acquiring information to provide to affiliates; sharing non-public reports on strategic business matters; asking customers to allow sharing of information that will only go to affiliates; appearing to speak on behalf of affiliates, and; representing that an affiliate will get preferential treatment from the utility due to the affiliate relationship.
 - ❖ Rule III.C – requires that any customer information, utility information, unused capacity, or unused supply that is provided to an affiliate also be offered to similarly-situated market participants in a timely, non-discriminatory manner.
- (1) **Limited exemption: HWS Utility Services (“HWSUS”)** – an unregulated company in Hawaii that provides unregulated waste and wastewater services. All Rules except Rules III.B and III.C apply to this affiliate.

Other Affiliates: all Rules apply to transactions with the following Cal Water affiliates.

- (1) **California Water Service Group (“CWS Group”)** – Cal Water’s holding company, and the parent company for all affiliates listed here.
- (2) **CWS Utility Services (“CWSUS”)**: an unregulated company that owns real property in California.

I.C.

Utilities shall comply with all applicable State and Federal statutes, laws and administrative regulations.

Cal Water Compliance: Cal Water affirms that it is in compliance with all applicable State and Federal statutes, laws, and administrative regulations to which it is subject.

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.

Cal Water Compliance: Cal Water affirms that existing Commission rules for Cal Water and CWS Group continue to apply except to the extent that they conflict with these Rules.