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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA **A1205001**

Joint Application of PARK WATER COMPANY)
(U 314 W) and APPLE VALLEY RANCHOS)
WATER COMPANY (U 346 W) for Authority)
to Establish an Authorized Cost of Capital for)
2013 - 2015.)
_____)

APPLICATION NO. _____

JOINT APPLICATION OF PARK WATER COMPANY AND
APPLE VALLEY RANCHOS WATER COMPANY

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May 1, 2012

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Joint Application of PARK WATER COMPANY)
(U 314 W) and APPLE VALLEY RANCHOS)
WATER COMPANY (U 346 W) for Authority) APPLICATION NO. _____
to Establish an Authorized Cost of Capital for)
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I. INTRODUCTION

Pursuant to the Rate Case Plan adopted by the California Public Utilities Commission (“Commission”) in Decision 07-05-062 and the Commission’s Rules of Practice and Procedure, PARK WATER COMPANY and APPLE VALLEY RANCHOS WATER COMPANY (hereinafter sometimes referred to as “Park” and “AVR” or “Joint Applicants”) submit this joint application for an authorized cost of capital for 2013 – 2015. Specifically, the Joint Applicants requests that the Commission find reasonable and authorize: (1) a rate of return on rate base of 10.32% for 2013 - 2015; (2) a capital structure of 42.51% long-term debt and 57.49% common equity for 2013 – 2015; (3) a cost of debt of 8.12% for 2013 - 2015; (4) a return on equity of 11.95% for 2013 – 2015; (5) a revenue increase of \$360,535 or 1.15% in 2013 for Park; and (6) a revenue increase of \$383,460 or 1.64% in 2013 for AVR.

This application includes the Minimum Data Requirements for a Utility Cost of Capital Application in the Application, its Exhibits, and the Testimony in the Testimony of Leigh Jordan (Section V).

II. REQUESTED COST OF CAPITAL FOR 2013 – 2015

Rate of Return on Rate Base

Joint Applicants recommend the adoption of a return on rate base of 10.32% for 2013-2015. As set forth in the Testimony of Leigh Jordan, the recommended rate of return on rate base was developed by utilizing the average effective cost of long-term debt, a cost of common equity supported by the Testimony of Dr. Thomas Zepp and the recommended capital structure

to determine the weighted cost of each component. The sum of the weighted components equals the recommended annual returns on rate base (ROR).

Capital Structure

As described in the Testimony of Leigh Jordan, Joint Applicants propose that the Commission adopt a total Park consolidated capital structure for 2013 – 2015 consisting of 42.51% long-term debt and 57.49% common equity, which is the average estimated capital structure for years 2013 – 2015, incorporating an adjustment to equity to reflect the necessity for Joint Applicants to fund long-term regulatory assets generated from under-collections in regulatory accounts. While the capital structure changes slightly for each year of the period, in prior cost of capital determinations for Joint Applicants the average capital structure over the 3-year period has been used for each year Joint Applicants propose that practice be continued for 2013-2015.

Cost of Debt

Joint Applicants requested Cost of Long-term Debt, 8.12%, is based on the Joint Applicants existing long-term debt, authorized by the Commission and found reasonable in D.10-10-035, and includes the estimated effective costs of a new financing in 2013%, as set forth in the Testimony of Leigh Jordan. Since the Commission has historically adopted one ROE and one average capital structure for all three years of the proceeding, Joint Applicants propose that the average effective cost of Long-term debt over the period 2013-2015 be used for each year as well. Using an average cost of long-term debt is consistent with the approach for the capital structure and ROE and will avoid the necessity of dealing with small annual changes in ROR that would otherwise result.

Return on Equity

Joint Applicants request a return of equity (ROE) of 11.95%, as set forth in the Testimony of Leigh Jordan. The quantitative analysis of market data of publicly-traded companies performed by Park's outside consultant, Dr. Thomas Zepp, results in a recommended range of ROE of 10.8% - 11.48% for those companies. Dr. Zepp recommends that the ROE for Park should be higher than that for those companies by 80 basis points, resulting in a recommended range for Park of 11.6% - 12.28%. Dr. Zepp's recommendation for the reasonable ROE for Park, based on the rounded mid-point of that range, is 11.95%. Joint Applicants

consider that Dr. Zepp's recommendation of 11.95% is a reasonable return on equity for Park and AVR which reflects the risks faced by the companies' equity holders, as demonstrated in the Testimony of Dr. Thomas Zepp and Mr. Leigh Jordan.

Revenue Increase

Joint Applicants have evaluated the increase in revenues necessary to achieve the proposed rate of return on rate base. Since neither applicant has adopted rates for 2013 (Park has just filed its 1013 GRC and a decision has not yet been issued on AVR's 2012 GRC), the effect of the cost of capital request is based on Park's 2013 request in A.12-01-001 and AVR's partially settled position in A.11-01-001. Park proposes an increase in revenue requirement of \$360,535 or 1.15% in 2013. AVR proposes an increase in revenue requirement of \$383,460 or 1.64% in 2013. Park requests that the rate increase authorized in this proceeding would be incorporated into the test year 2013 general rate case (A.12-01-001) increase. AVR proposes that the rate increase authorized in this proceeding would be incorporated into the 2013 escalation year increase.

Water Cost of Capital Adjustment Mechanism

In the last Cost of Capital proceeding the Commission adopted a Water Cost of Capital Adjustment mechanism (WCCAM) for all applicants that was modified somewhat from the WCCAM adopted previously; it used a one-year later than usual period for the determination of the benchmark and increased the dead band. The Commission stated that this was a one-time modification of the trigger due to an anomaly in the index (utility bond rates) during the period (D.10-10-035, page 65). Joint Applicants propose that the WCCAM be retained without those one-time modifications. The WCCAM would therefore work off the annual average, from October through September, of an index rate, published utility bond yields and track the difference each year from a benchmark. For Park and AVR the Commission determined that the appropriate index to be used is the Baa utility bond yield (D.10-10-035, Finding of Fact No. 30). The benchmark would be the annual average of the published Moody's Baa bond yields from October 1, 2011 through September 30, 2012. In 2013 and 2014, that year's average would be compared to the benchmark. There would be a dead band of 100 basis points up and down. Once the dead band was exceeded, it would trigger a modification in the adopted ROE for the upcoming year of 50% of the difference in the index rate.

Description of Applicants

PARK WATER COMPANY is a California corporation with its principal office and place of business located at 9750 Washburn Road, Downey, California 90241. A copy of Park's Articles of Incorporation, as amended and restated and filed with the Secretary of State of California on December 19, 2011, is attached hereto as Exhibit C and incorporated herein by reference. Park operates a public utility water system in the southeastern and northeastern sections of Los Angeles County.

APPLE VALLEY RANCHOS WATER COMPANY is a California corporation with its principal office and place of business located at 21760 Ottawa Road, Apple Valley, California 92307. AVR is a wholly-owned subsidiary of Park, a California corporation. AVR operates a public utility water system within and around the Town of Apple Valley in San Bernardino County. A certified copy of the Articles of Incorporation of AVR was filed with the Commission as Exhibit C attached to the amendment of Application No. 58520 filed on March 9, 1979, and made a part thereof.

For more detailed information with respect to the public utility business of the Joint Applicants, reference is made to the reports, maps, rate schedules and other information now on file with the Commission.

Contact Information

Correspondence or communications with regard to this application should be addressed and delivered to Edward N. Jackson, Director Revenue Requirements, Park Water Company, P.O. Box 7002, 9750 Washburn Road, Downey, California 90241-7002, telephone (562) 923-0711, email ed.jackson@parkwater.com and Leigh K. Jordan, Executive Vice President, Apple Valley Ranchos Water Company c/o Park Water Company, P.O. Box 7002, 9750 Washburn Road, Downey, California 90241-7002, telephone (562) 923-0711, email leigh@parkwater.com with courtesy copies to David A. Ebershoff, Fulbright & Jaworski, L.L.P., 555 S. Flower Street, 41st Floor, Los Angeles, California 90071, telephone (213) 892-9329, email debershoff@fulbright.com.

Proposed Categorization, Need for Hearing and Proposed Schedule

This application is a “Rate Setting” proceeding. Joint Applicants believe that hearings will be required. Joint Applicants propose the following schedule:

May 1, 2009	Application
June 1, 2009	Prehearing Conference
July 2, 2009	DRA and Intervener Testimony
July 31, 2009	Rebuttal Testimony
August 17, 2009	Hearings
September 18, 2009	Opening Briefs
October 2, 2009	Reply Briefs
November 13, 2009	Proposed Decision
November 27, 2009	Comments on Proposed Decision
December 4, 2009	Reply Comments on Proposed Decision
December 17, 2009	Final Decision

Financial Statements

Financial Statements in accordance with Rule 2.3, including Park and AVR’s latest available balance sheets as of March 31, 2012 and their income statements for three months ended March 31, 2012 and notes concerning Park’s current capitalizations, are attached hereto as Exhibit A and incorporated herein by reference.

Statutory Authority

This application is made pursuant to Sections 451, 454, 701, 702, et.al. of the California Public Utilities Code, the Commission’s Rules, and the prior decisions, order, and resolutions of the Commission.

General Order 104-A

Joint Applicants represent that they have no knowledge of any matters occurring or proposed subsequent to the period covered by its last filed Annual Reports corresponding to the statement required by Section 2 of General Order No. 104-A.

Notice

In compliance with Rule 3.2, Joint Applicants will provide notice and proof of compliance with the provisions of such rule as required. Draft notices are attached hereto as Exhibit B, and have been submitted to the Public Advisors Office for approval.

III. CONCLUSION

Wherefore, Park prays that this Commission issue a decision:

- (a) finding reasonable and authorizing Joint Applicants to implement a rate of return on the rate base of 10.32% for 2013, 2014, 2015 ;
- (b) finding reasonable and authorizing Joint Applicants' capital structure for 2013 – 2015 to consist of 42.51% long-term debt and 57.49% common equity;
- (c) finding reasonable and authorizing Joint Applicants' return on equity of 11.95%;
- (d) finding reasonable and authorizing Park to increase its revenue for 2013 by \$360,535;
- (e) finding reasonable and authorizing AVR to increase its revenue 2013 by \$383,460;
- (f) granting relief with interim rates as determined reasonable by the Commission if completion according to the Commission's regulatory plan time table is delayed or if step or attrition increases are delayed due to no fault of Joint Applicants; and
- (g) granting such further, additional, and other relief as the Commission may deem to be necessary or proper.

Dated at Downey, California, May 1, 2012.

Respectfully submitted,
PARK WATER COMPANY



By: Leigh K. Jordan
Executive Vice President

Respectfully submitted,
APPLE VALLEY RANCHOS WATER
COMPANY



By: Leigh K. Jordan
Executive Vice President

VERIFICATION

STATE OF CALIFORNIA) ss.
COUNTY OF LOS ANGELES)

I, Leigh K. Jordan, am Executive Vice President of the Applicant Corporations herein and am authorized to make this verification on their behalf. The statements in the foregoing document are true to my own knowledge, except as to the matters which are therein stated on information and belief, and as to those matters I believe them to be true.

I declare under penalty of perjury that the above is true and correct.

Executed at Downey, California, this 1st day of May 2012.



Leigh K. Jordan
Executive Vice President

Park Water Company
Balance Sheet as of March 31, 2012
(Unaudited)

	Corporate and Central Basin Division	Central Basin Division
Assets and Other Debits		
Utility Plant		
Utility Plant in Service	\$ 62,097,162	\$ 55,202,931
Construction in Progress	3,594,315	3,476,648
Total Utility Plant	<u>65,691,477</u>	<u>58,679,579</u>
Reserve for Depreciation of Utility Plant		
Accumulated Amortization-Plant in Service	(24,460,677)	(18,616,172)
Utility Plant Adjustments	<u>18,402</u>	<u>18,402</u>
Total Utility Plant Less Reserve	41,249,202	40,081,809
Current and Accrued Assets		
Cash	610,864	4,700
Temporary Investments	5,399,513	0
Receivables	1,266,644	1,235,594
Inventory	141,913	141,913
Prepays	1,517,825	398,462
Regulatory Accounts	2,416,619	2,416,619
Other Work in Progress	65,443	56,108
Nonutility Property	51,279	0
Deferred Debits and Miscellaneous	<u>1,149,073</u>	<u>86,238</u>
Total Current and Accrued Assets	12,619,173	4,339,634
Regulatory Accounts	7,687,062	7,687,062
Deferred Debits	4,000,302	136,110
Investment-Associate Company	21,771,845	189,792
Other Assets	<u>102,562</u>	<u>0</u>
Total Assets and Other Debits	<u>\$ 87,430,146</u>	<u>\$ 52,434,407</u>

Park Water Company
Balance Sheet as of March 31, 2012
(Unaudited)

	Corporate and Central Basin Division	Central Basin Division
Liabilities and Other Credits		
Capital Stock and Surplus		
Common Stock	\$ 610,391	\$ 0
Miscellaneous Paid in Capital	1,963,455	0
Earned Surplus	0	
Beginning of the Year	(35,946,821)	0
Current Year Net Income(Loss)	(347,841)	473,435
Dividends Paid	0	0
Total Capital Stock and Surplus	(33,720,816)	473,435
Long Term Debt		
Miscellaneous Long Term Debt	52,000,000	0
Total Capitalization	18,279,184	473,435
Current and Accrued Liabilities		
Accounts Payable	1,966,286	757,869
Current Portion L/T Debt	0	0
Taxes Accrued	0	320,622
Interest Accrued	1,168,158	0
Other Current and Accrued Liabilities	2,294,301	618,346
Total Current and Accrued Liabilities	5,428,745	1,696,837
Deferred Credits		
Advances for Construction	1,303,166	1,303,166
Advances from Associated Companies	41,995,989	31,175,369
Other Deferred Credits	16,777,832	14,140,370
Total Deferred Credits	60,076,987	46,618,905
Contributions in Aid of Construction	3,645,230	3,645,230
Total Liabilities and Other Credits	\$ 87,430,146	\$ 52,434,407

Park Water Company
Income Statement for the Three Months ending March 31, 2012
(Unaudited)

	Corporate and Central Basin Division	Central Basin Division
Operating Revenues		
Water Service Revenue		
Metered Sales to General Customers:		
Residential Sales	\$ 4,043,173	\$ 4,043,173
Commercial Sales	1,265,279	1,265,279
Sales to Public Authorities	259,020	259,020
Subtotal	<u>5,567,472</u>	<u>5,567,472</u>
Unmetered Sales to General Customers		
Residential Sales		
Private Fire Protection Service	33,290	33,290
Sales to Other Water Utilities for Resale	0	0
Regulatory Balancing Account	448,022	448,022
Subtotal	<u>481,312</u>	<u>481,312</u>
Total Water Service Revenues	6,048,784	6,048,784
Other Water Revenues		
Miscellaneous Service Revenues	59,294	59,294
Other Water Revenues	<u>78,688</u>	<u>78,688</u>
Other Operating Revenues	137,982	137,982
Total Operating Revenues	6,186,766	6,186,766
Operating Expenses		
Source of Supply Expense		
Operation:		
Purchased Water	1,928,240	1,928,240
Purchased Power	35,410	35,410
Leased Water Rights	62,003	62,003
Replenishment Charge	108,063	108,063
Chemicals	<u>2,426</u>	<u>2,426</u>
Total Source of Supply Expense	2,136,142	2,136,142
Payroll-Including Paid Time Off & Temporary Labor		
Regular	890,763	890,763
Paid Time Off	143,753	143,753
Temporary Labor - Agency	<u>9,938</u>	<u>9,938</u>
Total Payroll Including Paid Time Off & Temporary Labor	1,044,454	1,044,454
Payroll Related Costs		
Payroll Taxes	81,945	81,945
Workers' Compensation Insurance	26,594	26,594
Employees Benefits Excluding Paid Time Off	<u>429,201</u>	<u>429,201</u>
Total Payroll Related Costs	\$ 537,740	\$ 537,740

Park Water Company
Income Statement for the Three Months ending March 31, 2012
(Unaudited)

	Corporate and Central Basin Division	Central Basin Division
Administrative & General		
Utilities	\$ 30,140	\$ 30,140
Travel & Business Meals	7,196	7,196
Training and Educational	1,814	1,814
Dues-Industry & Professional	23,189	23,189
Postage	22,798	22,798
Office Supplies	6,032	6,032
Bank Fees	8,803	8,803
Miscellaneous A & G	666	666
Professional Services	10,853	10,853
Insurance	150,924	150,924
Franchise Requirements	24,271	24,271
Regulatory Commission Expense	28,617	28,617
Administrative Transfer Credit	(44,566)	(44,566)
Corporate A & G Allocation	16,087	16,087
Total Administrative & General Expense	286,824	286,824
Operations and Maintenance Other		
Contracted Services	180,857	180,857
Materials	7,934	7,934
Operating Supplies & Parts	21,107	21,107
Permits	3,506	3,506
Uniforms	7,335	7,335
Total Operations and Maintenance Other	220,739	220,739
Customer Service and Information		
Collection Agency	1,598	1,598
Uncollectibles	29,038	29,038
Deposit Over and Under and NSF Charges Collected	(1,698)	(1,698)
Customer Service Forms	1,246	1,246
Total Customer Service and Information	30,184	30,184
Depreciation and Amortization		
Depreciation	308,777	308,777
Amortization	0	0
Total Depreciation and Amortization	308,777	308,777
Taxes Other Than Income		
Property Taxes	76,356	76,356
Taxes Other	11,464	11,464
Total Taxes Other Than Income	\$ 87,820	\$ 87,820

Park Water Company
Income Statement for the Three Months ending March 31, 2012
(Unaudited)

	Corporate and Central Basin Division	Central Basin Division
Clearing Accounts		
Stores Excluding Labor	\$ 2,746	\$ 2,746
Transportation Excluding Labor	77,832	77,832
Tools/Work Equipment Excluding Labor	<u>1,835</u>	<u>1,835</u>
Total Clearing Accounts	82,413	82,413
Allocations		
Main Office-Four Factor	701,392	701,392
Maintenance General Plant-Downey	<u>(33,204)</u>	<u>(33,204)</u>
Total Allocations	668,188	668,188
Total Admin. & General Expense	1,684,945	1,684,945
Total Operating Expenses	5,403,281	5,403,281
Total Utility Operating Income	783,485	783,485
Non-Operating Revenue		
Income from Nonutility Operations	(92,643)	0
Investment Income	759	0
Miscellaneous Non-operating Revenues	<u>15,834</u>	<u>15,834</u>
Total Other Income	(76,050)	15,834
Non-Operating Expenses		
Miscellaneous Income Deductions	6,984	6,984
Interest Expense	1,236,157	3,278
Amortization of Debt Discount & Expense	<u>44,030</u>	<u>0</u>
Total Income Deductions	1,287,170	10,262
Net Income Before Income Taxes	(579,735)	789,057
Income Taxes (A)	<u>231,894</u>	<u>(315,622)</u>
Net Income (Loss)	<u>\$ (347,841)</u>	<u>\$ 473,435</u>

(A) Actual income taxes will be calculated in audited financial statements.

Notes to Financial Statements as of 12/31/11

Holder of Obligation	Date of Issue	Date of Maturity	Principal Amt. Authorized	Outstanding Dec. 31, 2011	Rate	Interest Paid 2011
Nationwide Life Insurance Company	1995	2025	10,000,000	10,000,000	7.59%	759,000
American United Life Insurance Company	2000	2020	6,000,000	6,000,000	8.82%	529,200
The State Life Insurance Company	2000	2020	500,000	500,000	8.82%	44,100
Pioneer Mutual Life Insurance Company	2000	2020	500,000	500,000	8.82%	44,100
Pacific Life Insurance Company	2006	2036	12,000,000	12,000,000	5.99%	718,800
Pacific Life & Annuity Insurance Company	2006	2036	3,000,000	3,000,000	5.99%	179,700
American United Life Insurance Company	2008	2033	8,000,000	8,000,000	7.56%	604,800
The State Life Insurance Company	2008	2033	1,500,000	1,500,000	7.56%	113,400
Pioneer Mutual Life Insurance Company	2008	2033	500,000	500,000	7.56%	37,800
Pacific Life Insurance Company	2008	2038	7,000,000	7,000,000	7.65%	535,500
Pacific Life & Annuity Insurance Company	2008	2038	3,000,000	3,000,000	7.65%	229,500
Notes Payable-Stockholders	1997	2012	2,514,392	1,695,314	7.38%	181,606
			54,514,392	53,695,314		

Apple Valley Ranchos Water Company
Balance Sheet as of March 31, 2012
(Unaudited)

Assets and Other Debits

Utility Plant

Utility Plant in Service	\$	105,245,652
Construction in Progress		1,085,197
Total Utility Plant		<u>106,330,849</u>

Reserve for Depreciation of Utility Plant		
Accumulated Amortization-Plant in Service		(26,837,902)
Utility Plant Adjustments		<u>13,770</u>

Total Utility Plant Less Reserve		79,506,717
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Current and Accrued Assets

Cash		(483)
Temporary Investments		0
Receivables		601,134
Inventory		361,133
Prepays		664,232
Regulatory Accounts		2,999,841
Other Work in Progress		102,562
Nonutility Property		212,808
Deferred Debits and Miscellaneous		<u>307,996</u>

Total Current and Accrued Assets		5,249,222
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Regulatory Accounts		7,892,652
Deferred Debits		215,377
Investment in Associate Company		236,132
Other Assets		<u>0</u>

Total Assets and Other Debits	\$	<u><u>93,100,100</u></u>
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Apple Valley Ranchos Water Company
Balance Sheet as of March 31, 2012
(Unaudited)

Liabilities and Other Credits	
Capital Stock and Surplus	
Common Stock	\$ 3,750
Miscellaneous Paid in Capital	5,862,976
Earned Surplus	0
Beginning of the Year	38,502,950
Current Year Net Income(Loss)	188,186
Dividends Paid	<u>0</u>
Total Capital Stock and Surplus	44,557,862
Long Term Debt	
Miscellaneous Long Term Debt	<u>0</u>
Total Capitalization	44,557,862
Current and Accrued Liabilities	
Accounts Payable	479,755
Current Portion L/T Debt	0
Taxes Accrued	328,521
Interest Accrued	0
Other Current and Accrued Liabilities	<u>865,454</u>
Total Current and Accrued Liabilities	1,673,730
Deferred Credits	
Advances for Construction	30,612,197
Advances from Associated Companies	0
Other Deferred Credits	<u>14,111,309</u>
Total Deferred Credits	44,723,506
Contributions in Aid of Construction	2,145,002
Total Liabilities and Other Credits	\$ <u><u>93,100,100</u></u>

Apple Valley Ranchos Water Company
Income Statement for the Three Months ending March 31, 2012
(Unaudited)

Operating Revenues	
Water Service Revenue	
Metered Sales to General Customers:	
Residential Sales	\$ 2,687,527
Commercial Sales	615,059
Sales to Public Authorities	86,030
Subtotal	<u>3,388,616</u>
Unmetered Sales to General Customers	
Residential Sales	
Private Fire Protection Service	62,668
Sales to Other Water Utilities for Resale	0
Regulatory Balancing Account	38,649
Subtotal	<u>101,317</u>
Total Water Service Revenues	3,489,933
Other Water Revenues	
Miscellaneous Service Revenues	8,748
Other Water Revenues	<u>137,149</u>
Other Operating Revenues	145,897
Total Operating Revenues	3,635,830
Operating Expenses	
Source of Supply Expense	
Operation:	
Purchased Water	0
Purchased Power	185,070
Leased Water Rights	145,060
Replenishment Charge	(152,469)
Chemicals	541
Total Source of Supply Expense	<u>178,202</u>
Payroll-Including Paid Time Off & Temporary Labor	
Regular	652,356
Paid Time Off	91,109
Temporary Labor - Agency	16,561
Total Payroll Including Paid Time Off & Temporary Labor	<u>760,026</u>
Payroll Related Costs	
Payroll Taxes	69,426
Workers' Compensation Insurance	28,347
Employees Benefits Excluding Paid Time Off	323,377
Total Payroll Related Costs	<u>\$ 421,150</u>

Apple Valley Ranchos Water Company
Income Statement for the Three Months ending March 31, 2012
(Unaudited)

Administrative & General		
Utilities	\$	23,308
Travel & Business Meals		4,930
Training and Educational		6,815
Dues-Industry & Professional		25,314
Postage		17,414
Office Supplies		6,595
Bank Fees		6,325
Miscellaneous A & G		861
Professional Services		32,808
Insurance		128,864
Franchise Requirements		35,393
Regulatory Commission Expense		24,614
Administrative Transfer Credit		(35,037)
Corporate A & G Allocation		4,510
		<hr/>
Total Administrative & General Expense		282,714
Operations and Maintenance Other		
Contracted Services		164,433
Materials		23,645
Operating Supplies & Parts		25,680
Permits		981
Uniforms		7,374
Rents		6,000
		<hr/>
Total Operations and Maintenance Other		228,113
Customer Service and Information		
Collection Agency		1,879
Uncollectibles		19,146
Deposit Over and Under		(887)
Customer Service Forms		2,422
		<hr/>
Total Customer Service and Information		22,560
Depreciation and Amortization		
Depreciation		641,952
Amortization		16,066
		<hr/>
Total Depreciation and Amortization		658,018
Taxes Other Than Income		
Property Taxes		101,339
Taxes Other		0
		<hr/>
Total Taxes Other Than Income	\$	101,339

Apple Valley Ranchos Water Company
Income Statement for the Three Months ending March 31, 2012
(Unaudited)

Clearing Accounts		
Stores Excluding Labor	\$	(1,333)
Transportation Excluding Labor		106,284
Tools/Work Equipment Excluding Labor		<u>24,344</u>
Total Clearing Accounts		129,295
Allocations		
Main Office-Four Factor		<u>527,767</u>
Total Allocations		527,767
Total Admin. & General Expense		1,949,806
Total Operating Expenses		3,309,184
Total Utility Operating Income		326,646
Non-Operating Revenue		
Income from Nonutility Operations		0
Investment Income		0
Miscellaneous Non-operating Revenues		<u>2,750</u>
Total Other Income		2,750
Non-Operating Expenses		
Miscellaneous Income Deductions		14,430
Interest Expense		1,323
Amortization of Debt Discount & Expense		<u>0</u>
Total Income Deductions		15,753
Net Income Before Income Taxes		313,643
Income Taxes (A)		<u>(125,457)</u>
Net Income (Loss)	\$	<u><u>188,186</u></u>

(A) Actual income taxes will be calculated in audited financial statements.

NOTIFICATION OF APPLICATION FOR A COST OF CAPITAL RATE INCREASE

APPLICATION NO. A.12-05-xxx

On May 1, 2012, Apple Valley Ranchos Water Company (AVR) filed Application A.12-05-xxx with the California Public Utilities Commission (CPUC) requesting the authority to increase its authorized Cost of Capital (COC) for the period from January 1, 2013 through December 31, 2015. AVR is asking the CPUC to increase AVR's authorized rate of return on its invested capital from 9.42% to 10.32%. AVR is requesting this increase due to the increases in the cost of capital, for both debt and common stock that AVR uses to fund facility improvements needed to provide service to customers. If approved by the CPUC, AVR's revenues would increase by \$383,460 or 1.64% in 2013.

Cost of Capital is a financial term defining how much a corporation is allowed in rates as a return on its invested capital. In this proceeding the CPUC will determine AVR's reasonable costs of long-term debt and common stock that are part of the authorized COC. The authorized COC will be applied to the capital investment authorized for AVR.

The table below shows the proposed rate impacts in 2013 on the average residential customer's bimonthly (every 2 months) bill for 38.87 hundred cubic feet (Ccf) of water with a 5/8 inch x 3/4 inch meter. AVR is not requesting additional increases in the cost of capital for 2014 and 2015. The table excludes applicable taxes and surcharges.

Year	<u>Present</u> (every 2 months)	<u>2013</u> (every 2 months)
Amount of Bill	\$144.70	\$149.14
Amount of Increase \$		\$4.44
Percentage Increase %		3.07%

FOR FURTHER INFORMATION

A copy of the Application will be furnished by applicants upon written request to Edward N. Jackson, Representative, Park Water Company, 9750 Washburn Road, P. O. Box 7002, Downey, California 90241-7002. Further information regarding the COC Application is available and may be inspected at Apple Valley Ranchos Water Company, located at 21760 Ottawa Road, Apple Valley, CA 92307. The Application can be viewed at Apple Valley Ranchos Water Company's website at: <http://www.avrwater.com/docs/rates>. If you need additional information, you may call our Customer Service Center, toll free 866-790-7710. The application may also be inspected at the California Public Utilities Commission, 505 Van Ness Avenue, San Francisco, California 94102 between the hours of 8:00 a.m. and noon daily.

EVIDENTIARY HEARINGS

The CPUC **may** schedule formal Evidentiary Hearings (EHs) whereby the formal parties of record provide testimony and are subject to cross examination before the CPUC's Administrative Law Judge (ALJ). These hearings are open to the public, but only those who are formal parties of record can participate. The CPUC has their own court reporters who will take the comments of those formal parties of record participating in the evidentiary hearings. AVR will provide testimony at the hearings. The Division of Ratepayer Advocates (DRA) consists of engineers, accountants, economists, and attorneys who independently evaluate the proposals of utilities for rate changes and present their analyses and recommendations for the CPUC at evidentiary hearings. Once hearings are completed, the ALJ will consider all of the evidence presented and release the draft decision. The CPUC may approve the proposed requests for AVR, approve the draft decision by the ALJ, or may approve an alternate decision filed by a CPUC Commissioner. The final decision may differ from AVR's original proposed request.

PROTESTING THE APPLICATION

Formal protests to this application must be filed with the CPUC's Docket Office. As an AVR customer, if you would like to submit an informal comment or to protest this filing you may send your comments to the CPUC's Public Advisor Office (PAO). Written public comment by AVR customers is very much desired by the CPUC. The PAO was established to assist members of the public who wish to protest or participate as a formal party of record in CPUC proceedings. For assistance in filing a protest with the CPUC or to participate in this proceeding, please contact the PAO, 505 Van Ness Avenue, San Francisco, CA 94102 or E-mail public.advisor@cpuc.ca.gov. Please refer to Application (A.12-05-xxx) in all written correspondences or emails. Comments will become part of the formal correspondence file for this proceeding and will be circulated to the assigned ALJ, the CPUC Commissioners, and appropriate CPUC staff.

Apple Valley Ranchos Water Company

APPLE VALLEY RANCHOS WATER COMPANY
 NOTIFICATION OF APPLICATION FOR A COST OF CAPITAL RATE INCREASE
 APPLICATION 12-05-xxx

EXHIBIT B

On May 1, 2012, Apple Valley Ranchos Water Company (AVR) filed Application A.12-05-xxx with the California Public Utilities Commission (CPUC) requesting the authority to increase its authorized Cost of Capital (COC) for the period from January 1, 2013 through December 31, 2015. If approved by the CPUC AVR revenues would increase by \$383,460 or 1.64% in 2013.

Cost of Capital is a financial term defining how much a corporation is allowed in rates as a return on its invested capital. In this proceeding the CPUC will determine AVR's reasonable costs of long-term debt and common stock that are part of the authorized COC. The authorized COC will be applied to the capital investment authorized for AVR.

The chart below provides an overview and is applicable to the capital investment authorized for AVR:

Year	Cost Factor	Cost	Capital Structure (Weight)	Weight Cost
2013	Long Term Debt	8.12%	42.52%	3.45%
	Common Equity	11.95%	<u>57.48%</u>	<u>6.87%</u>
			100.00%	10.32%
2014	Long Term Debt	8.12%	42.52%	3.45%
	Common Equity	11.95%	<u>57.48%</u>	<u>6.87%</u>
			100.00%	10.32%
2015	Long Term Debt	8.12%	42.52%	3.45%
	Common Equity	11.95%	<u>57.48%</u>	<u>6.87%</u>
			100.00%	10.32%

If the AVR request is approved by the Commission as proposed in 2013, the impact on the average residential customer's bi-monthly (every 2 months) bill for 38.87 hundred cubic feet (Ccf) of water with a 5/8" by 3/4" meter is shown in the table below. AVR is not requesting additional increases in the cost of capital for 2014 and 2015.

<u>Year</u>	<u>Present</u>	<u>2013</u>
Amount of Bill	\$144.79	\$149.14
Amount of Increase		\$ 4.44
Percentage Increase		3.07%

FOR FURTHER INFORMATION

A copy of the Application will be furnished by applicants upon written request to Edward N. Jackson, Representative, Park Water Company, 9750 Washburn Road, P. O. Box 7002, Downey, California 90241-7002. Further information regarding the COC Application is available and may be inspected at Apple Valley Ranchos Water Company, located at 21760 Ottawa Road, Apple Valley, CA 92307. The Application can be viewed at Apple Valley Ranchos Water Company website at: <http://www.avrwater.com/docs/rates>. If you need additional information, you may call our Customer Service Center, toll free 866-790-7710. The application may also be inspected at the California Public Utilities Commission, 505 Van Ness Avenue, San Francisco, California 94102 between the hours of 8:00 a.m. and noon daily.

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PROTESTING THE APPLICATION

Formal protests to this application must be filed with the CPUC's Docket Office. As an AVR customer, if you would like to file an informal comment or protest this filing you may send your comments to the CPUC's Public Advisor Office (PAO). Written public comment by AVR customers is very much desired by the CPUC. The PAO was established to assist members of the public who wish to protest or participate as a formal party of record in CPUC proceedings. For assistance in filing a protest with the CPUC or to participate in this proceeding, please contact the PAO, 505 Van Ness Avenue, San Francisco, , CA 94102 or E-mail public.advisor@cpuc.ca.gov. Please refer to Application (A.12-05-xxx) in all written correspondences or emails. Comments will become part of the formal correspondence file for this proceeding and will be circulated to the assigned ALJ, the assigned CPUC Commissions, and appropriate CPUC staff.

Apple Valley Ranchos Water Company

PARA UNA VERSIÓN EN ESPAÑOL DE ESTE AVISO USTED PUEDE LLAMAR EL NÚMERO: 1-800-727-5987, O ENVIAR UN CORREO ELECTRÓNICO A: customerservice@parkwater.com, O VISITAR NUESTRO SITIO WEB EN: www.parkwater.com

PARK WATER COMPANY
NOTIFICATION OF APPLICATION FOR A COST OF CAPITAL RATE INCREASE
APPLICATION NO. A.12-05-xxx

On May 1, 2012, Park Water Company (Park) filed Application A.12-05-xxx with the California Public Utilities Commission (CPUC) requesting the authority to increase its authorized Cost of Capital (COC) for the period from January 1, 2013 through December 31, 2015. Park is asking the CPUC to increase Park's authorized rate of return on its invested capital from 9.42% to 10.32%. Park is requesting this increase due to the increases in the cost of capital, for both debt and common stock that Park uses to fund facility improvements needed to provide service to customers. If approved by the CPUC Park revenues would increase by \$360,535 or 1.15% in 2013.

Cost of Capital is a financial term defining how much a corporation is allowed in rates as a return on its invested capital. In this proceeding the CPUC will determine Park's reasonable costs of long-term debt and common stock that are part of the authorized COC. The authorized COC will be applied to the capital investment authorized for Park.

The table below shows the proposed rate impacts in 2013 on the average residential customer's bimonthly (every 2 months) bill for 22.52 hundred cubic feet (Ccf) of water with a 5/8 inch x 3/4 inch meter. Park is not requesting additional increases in the cost of capital for 2014 and 2015. The table excludes applicable taxes and surcharges.

Year	<u>Present</u> (every 2 months)	<u>2013</u> (every 2 months)
Amount of Bill	\$140.34	\$144.13
Amount of Increase \$		\$3.79
Percentage Increase %		2.70%

FOR FURTHER INFORMATION REGARDING THIS APPLICATION FILING

A copy of the Application will be furnished by applicants upon written request to Edward N. Jackson, Park Water Company, 9750 Washburn Road, P. O. Box 7002, Downey, California 90241-7002. Further information regarding the COC Application is available and may be inspected at Park Water Company, located at 9750 Washburn Road, Downey, CA 90241. The Application can be viewed at Park Water Company's website at: <http://www.parkwater.com/docs/rates>. If you need additional information, you may call our Customer Service Center, toll free 800-727-5987. The application may also be inspected at the California Public Utilities Commission, 505 Van Ness Avenue, San Francisco, California 94102 between the hours of 8:00 a.m. and noon daily.

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PROTESTING THE APPLICATION

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PARK WATER COMPANY

**FOR A SPANISH VERSION OF THIS NOTICE YOU MAY CALL THE FOLLOWING NUMBER: 1-800-727-5987; OR
E-MAIL: www.customerservice@parkwater.com, OR VISIT OUR WEBSITE AT www.parkwater.com**

PARA UNA VERSION EN ENSPANOL DE ESTE AVISO USTED PUEDE LLAMAR EL NÚMERO SIGUIENTE: 1-800-727-5987, O CORREO ELECTRONICO: customerservice@parkwater.com , O VISITA NUESTRO SITIO WEB EN www.parkwater.com

PARK WATER COMPANY
NOTIFICATION OF APPLICATION FOR A COST OF CAPITAL RATE INCREASE
APPLICATION NO. A.12-05-xxx

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			100.00%	10.32%

If the Park request is approved by the Commission as proposed, the impact on the average residential customer's bi-monthly (every 2 months) bill for 22.52 hundred cubic feet (Ccf) of water with a 5/8" by 3/4" meter is shown in the table below. : Park is not requesting additional increases in 2014 and 2015.

<u>Year</u>	<u>Present</u>	<u>2013</u>
Amount of Bill	\$140.34	\$141.98
Amount of Increase		\$ 1.63
Percentage Increase		1.16%

FOR FURTHER INFORMATION REGARDING THIS APPLICATION FILING

A copy of the Application will be furnished by applicants upon written request to Edward N. Jackson, Park Water Company, 9750 Washburn Road, P. O. Box 7002, Downey, California 90241-7002. Further information regarding the COC Application is available and may be inspected at Park Water Company, located at 9750 Washburn Road, Downey, CA 90241. The Application can be viewed at Park Water Company's website at: <http://www.parkwater.com/docs/rates/park>. If you need additional information, you may call our Customer Service Center, toll free 800-727-5987. The application may also be inspected at the California Public Utilities Commission, 505 Van Ness Avenue, San Francisco, California 94102 between the hours of 8:00 a.m. and noon daily.

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PARK WATER COMPANY

Amended and Restated Articles of Incorporation

I

The name of this corporation is Park Water Company.

II

The purpose of this corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of California other than the banking business, the trust company business or the practice of a profession permitted to be incorporated by the California Corporations Code.

III

This corporation is authorized to issue only one class of shares of stock, which shall be Common Stock. The total number of shares of Common Stock which this corporation is authorized to issue is Twenty-Five Thousand (25,000) with a par value of \$0.01 per share.

IV

This corporation is authorized to provide indemnification of agents (as defined in Section 317 of the California Corporations Code) through bylaw provisions, agreements with agents, vote of shareholders or disinterested directors or otherwise, in excess of the indemnification otherwise permitted by Section 317 of the California Corporations Code, subject only to the applicable limits set forth in Section 204 of the California Corporations Code with respect to actions for breach of duty to the corporation and its shareholders.

V

The liability of the directors of the corporation for monetary damages shall be eliminated to the fullest extent permissible under California law.