



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

**FILED**

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In the Matter of the Application of )  
VALENCIA WATER COMPANY (U-342-W), )  
a Corporation, for an Order Authorizing It to )  
Increase Rates Charged for Water Service in )  
Order to Realize Increased Annual Revenues of )  
\$4,013,000 or 15.97% in a Test Year Beginning )  
January 1, 2014, \$858,000 or 2.93% in a Test Year )  
Beginning January 1, 2015, and \$1,270,000 or )  
4.23% in an Escalation Year Beginning January 1, )  
2016, and to Make Further Changes and Additions )  
to Its Tariff for Water Service and for Other Items )  
as Requested in this Application. )  
\_\_\_\_\_)

Application No. 13-01-1301003  
(Filed \_\_\_\_\_)

**APPLICATION OF VALENCIA WATER COMPANY  
FOR AUTHORITY TO INCREASE RATES FOR WATER SERVICE  
AND FOR RELATED RELIEF**

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January 2, 2013

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**VERIFICATION**

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Exhibit 4: Water SMART Program and Tiered Rates

Exhibit 5: Balancing and Memorandum Accounts

Exhibit 6: Affiliated Transactions Report (also provided as Attachment F)

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Exhibit 8: Water Supply and Quality

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RELATED DOCUMENTS

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

In the Matter of the Application of )  
VALENCIA WATER COMPANY (U-342-W), )  
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to Its Tariff for Water Service and for Other Items )  
as Requested in this Application. )  
\_\_\_\_\_ )

**APPLICATION OF VALENCIA WATER COMPANY  
FOR AUTHORITY TO INCREASE RATES FOR WATER SERVICE  
AND FOR RELATED RELIEF**

In accordance with the Rate Case Plan for Class A Water Companies as adopted and modified by the Commission’s Decision (“D.”) 04-06-018 and D.07-05-062, respectively (the “Rate Case Plan”) and Rule 6(a), Article 4, and Article 6 of the Commission’s Rules of Practice and Procedure (“Rules”), Valencia Water Company, a California Water Corporation, hereinafter referred to as “Applicant” or “Valencia,” respectfully submits its general rate case (“GRC”) application for Test Years beginning January 1, 2014 and January 1, 2015, and for an Escalation Year beginning January 1, 2016. In support of this application, Valencia respectfully offers the following showing:

1.0 Summary of the Requested Increase

By this Application and consistent with the schedule established by the Rate Case Plan, Applicant requests a general increase in rates authorized to be charged in connection with

its general metered services in order to realize the following increases in annual revenues for the Test Years<sup>1</sup> and Escalation Year indicated above:

<u>Year</u>	<u>Amount of Increase</u>	<u>Percent Increase</u>
Test Year 2014	\$4,013,000	15.97%
Test Year 2015	\$858,000	2.93%
Escalation Year 2016	\$1,270,000	4.23%

Applicant has summarized the revenue requirement, rate base, operating expenses, and rate of return on which the requested rate increases are based in comparison to its last adopted revenue requirement, rate base, operating expenses, and rate of return. The following table, presenting these values, is drawn from Table 1-1 in Exhibit 1, Report on Results of Operations, Revenue Requirement, and Rate Design (“Results of Operations”), bound separately and served with this Application.

The comparison of the proposed revenue requirement for Test Year 2014 and its key elements with the corresponding last adopted and last recorded amounts is as follows:

**Comparison of Proposed Test Year 2014 Amounts  
With Last Test Year Adopted and Last Recorded Year**

	<b>Adopted Test Year 2012</b>	<b>Recorded Year 2012</b>	<b>Proposed Test Year 2014</b>
Total Revenue Requirement	\$27,207,545	\$26,090,000	\$29,143,823
Rate Base \$	\$44,310,335	\$44,199,000	\$43,170,622
Rate Base % increase		(0.25%)	(2.57%)
Operating Expenses \$	\$23,538,649	\$22,897,000	\$25,569,296
Operating Expenses % increase		(2.73%)	8.63%
Rate of Return	8.28%	7.22%	8.28%

<sup>1</sup> Pursuant to the Rate Case Plan, the second year of the general rate case cycle is a second Test Year for all rate base items, but is subject to escalation adjustments for operating and administrative expenses.

1.1 List of Most Significant Cost Increases

The Rate Case Plan requires Applicant to list the five most significant issues, in terms of dollars, that the utility believes require the rate increase, identify the cause of the cost increase, and reference supporting testimony. In the present case, the five most significant issues, in order of their comparative responsibility for the proposed increase in Test Year revenue requirement are:

<b>Most Significant Cost Increases</b>	<b>Primary Causes of Cost Increases</b>
Operation and Maintenance Payroll	Additional employees and salary adjustments
Administrative Payroll	Additional employees and salary adjustments
Outside Services Expense	General expense levels and activity increases
Federal & State Income Taxes	Increase in net operating income
Conservation Expense	General expense levels and activity increases

The issues set forth above are responsible for the largest portions of the proposed increase in Applicant’s revenue requirement for Test Year 2014. Corresponding dollar amounts are set forth in Table 1-2 in Chapter 1 of Exhibit 1, Results of Operations, bound separately and served with this Application. Table 1-2 also provides cross-references to the various chapters of Exhibit 1 and other Exhibits that explain the reasons for the particular cost increases.

1.2 List of Potentially Contentious Issues

The Rate Case Plan calls for a listing of all issues for which a different outcome is sought from a Commission Decision for Applicant or for another water utility, as well as all significant issues not previously addressed by the Commission. Applicant has identified six such issues, as follows:

- Valencia proposes removal of the 10,000 square foot limit on residential Water SMART customers’ landscape area (see Exhibit 4).

- Applicant proposes to close the Conservation Balancing Account (see Exhibit 5).
- Applicant requests approval of a Sales Reconciliation Mechanism (see Exhibit 1, Chapter 4).
- Applicant used the three-year historical average for its water sales forecast, rather than regression analysis (see Exhibit 1, Chapter 5).
- Applicant requests a Waiver of Notice for rate changes in escalation years (see Exhibit 1, Chapter 5).
- Applicant did not use the Commission-approved escalation rates for its medical and dental insurance expense forecast (see Exhibit 1, Chapter 5).

Each of these issues is addressed in the aforementioned Exhibits, which provides summaries of Applicant's position, and references to supporting testimony.

### 1.3 History of Rate Changes Since Last GRC Decision

A detailed list of all requests for rate changes and other formal and informal proceedings pertaining to Valencia since its last GRC application is set forth in Chapter 2, Company Operations, of Exhibit 1. Of those proceedings, seven advice letter filings have resulted in changes to Applicant's rates. Advice Letter 131, proposing a decrease in Valencia's rate of return on rate base pursuant to D.10-10-035 (resolving Valencia's cost of capital application, A.09-05-002), was approved by the Commission effective December 1, 2010. Advice Letter 132, proposing new rates in accordance with D.10-12-029 (resolving Valencia's last GRC, A.10-01-006), was approved by the Commission effective February 1, 2011. Advice Letter 133, proposing a water quality surcredit pursuant to D.10-12-029 (reflecting refunding to ratepayers of rate funded legal expenses that ultimately were recovered from the settlement of perchlorate litigation), was approved by the Commission effective February 1, 2011. Advice Letter 139, proposing a Water Revenue Adjustment Mechanism/Modified Cost Balancing

Account (“WRAM/MCBA”) surcharge for 2011, was approved by the Commission effective November 2, 2011. Advice Letter 140, proposing a 2012 escalation rate increase in accordance with D.10-12-029, was approved by the Commission effective January 1, 2012. Advice Letter 141, proposing water SMART tariffs for metered service for dedicated irrigation use in accordance with D.12-01-005, was approved by the Commission effective January 23, 2012. Advice Letter 142, implementing electronic customer billing and an option for paying bills by credit or debit card in accordance with Resolution W-4908, was effective August 10, 2012. Advice Letter 146, proposing a 2013 escalation rate increase in accordance with D.10-12-029, is pending approval by the Commission. The following information about these rate changes is provided in conformance with the Rate Case Plan:

<b>Effective Date</b>	<b>Proceeding Number</b>	<b>CPUC Action Authorizing Change</b>	<b>Revenue Change in \$</b>	<b>% Change in Revenue Requirement</b>	<b>% Change in Typical Resid. Customer Bill</b>
12/01/10	AL 131	D.10-10-035	(\$6,800)	(0.03%)	(0.05%)
2/01/11	AL 132	D.10-12-029	\$1,030,000	4.1%	4.2%
2/01/11	AL 133	D.10-12-029	(\$531,605)	(2.1%)	(2.4%)
11/02/11	AL 139	D.10-12-029	\$769,564	2.9%	2.9%
1/01/12	AL 140	D.10-12-029	\$428,242	1.6%	1.5%
1/23/12	AL 141	D.12-01-005	\$0	0%	None
8/10/12	AL 142	D.10-12-029	None <sup>2</sup>	None <sup>3</sup>	None
Pending	AL 146	D.10-12-029	\$475,700	1.8%	1.1%

<sup>2</sup> A convenience fee of \$2.50 per credit/debit card transaction will be charged and paid to a third-party payment processor. Resolution W-4908 required Valencia to establish a memorandum account to record all costs and savings associated with providing credit/debit card payment services, with any positive balance to be refunded as part of Valencia’s next GRC.

<sup>3</sup> See note 2.

## 2.0 Results of Operations

Testimony regarding Applicant's results of operations for Test Years 2014 and 2015 are presented in Exhibit 1, Results of Operations, which begins with an overview of the Application and of Valencia's history and operations. Exhibit 1 then provides detailed information about all elements of Applicant's Results of Operations, including water sales and revenues by customer class, operating and administrative expenses, utility plant, depreciation, rate base, taxes, overall revenue requirements, and current and proposed rates. The Results of Operations report is supported by detailed workpapers that have been furnished for review to the Division of Ratepayer Advocates ("DRA").

Certain aspects of the Results of Operations are examined in greater detail in all Exhibits 1 through 12. For example, Exhibit 2, Report on Capital Additions, bound separately and served with this Application, provides detailed testimony on all of Valencia's capital additions for 2008 through 2012 and for projected additions for 2013 through 2015. Another example is Exhibit 3, Capital Investment Plan, also bound separately and served with this Application, which presents testimony addressing Applicant's capital investment needs and projections for 2013 to 2016, offering a broad perspective on Valencia's water system, areas of particular attention, and its long-term planning process.

### 2.1 Revenues

Chapter 4 of Exhibit 1 (Results of Operations) addresses water sales and revenues. Applicant projected metered service customers for all customer classes based on the average increases over the past five years as set forth in Tables 4-1 and 4-2. Average annual water sales per customer were calculated for each customer class based on a three-year average of weather-adjusted recorded sales for years 2009 through 2011. This information is set forth in Table 4-3.

Total water sales by customer class, and average usages are shown in Table 4-3. Table 4-4 lists customers by meter size, Table 4-5 shows Private Fire Service customers by service size, and Table 4-6 lists revenues for the study period of this Application.

Valencia is requesting a “Sales Reconciliation Mechanism” for the escalation years of this GRC. This mechanism would adjust the adopted sales forecast for the escalation years if recorded aggregate sales for the past year were more than 5% higher or lower than the adopted Test Year sales, in which case, the mechanism would make a 50% adjustment. Chapter 4 of Exhibit 1 (Results of Operation) details how Applicant would request a change in rates pursuant to the Sales Reconciliation Mechanism.

Valencia includes in projected Test Year revenues the revenue associated with several increased or new charges that are proposed. Valencia is requesting an increase in its returned payment fee from \$10 to \$15 for any bad checks or electronic payments that are not honored by the customer’s financial institution. Valencia also is requesting an increase to its reconnection charge from \$25 to \$30 when a customer’s service has been discontinued for non-payment if the reconnection occurs during normal business hours, and from \$40 to \$50 if the reconnection occurs after normal business hours. Lastly, Valencia is proposing to carry out periodic testing of customers’ backflow devices when customers do not comply with Valencia’s request for voluntary backflow testing after receiving three notices. Valencia requests approval of a new Backflow Testing Fee of \$70 per test to cover the expenses associated with this procedure.

## 2.2 Expenses

Chapter 5 of Exhibit 1 presents a detailed analysis of operating expenses for estimated year 2013 and Test Years 2014 and 2015. Those expenses include numerous accounts within the broad categories of operation and maintenance (“O&M”) and

administrative and general (“A&G”) expenses. The estimated calendar year data are presented in Table 5-1.

The presentation in Chapter 5 is broken down primarily between payroll expenses, water production expenses, and operating expenses other than payroll. This Chapter explains and demonstrates the need for specified additional employee positions and compensation. Chapter 5 goes on to explain Valencia’s volume-related expenses for purchased water and purchased power. Chapter 5 also addresses the calculation of several other categories of operating expenses, giving particular attention to expense estimates for such items as water treatment, the water quality improvement program, mainline and meter maintenance, employee pensions and benefits, regulatory commission expense, and outside services expense. Conservation-related expenses are detailed in Exhibit 12, Water Conservation, bound separately and served with this Application, including narrative testimony and supporting documentation for programs implementing the Commission’s Water Action Plan and new legislation. Additionally, Valencia requests Commission authorization for a waiver of notice for escalation year rate increases.

### 2.3 Plant in Service and Rate Base

Utility Plant in Service is the primary component of the rate base and is a subject requiring particular attention in this GRC. Testimony addressing Applicant’s Utility Plant in Service is presented in Chapter 6 of Results of Operations, supported by calculations in Tables 6-1 through 6-5. Table 6-1 presents Utility Plant balances at the beginning of each of the years 2008 through 2015. Tables 6-2, 6-3, and 6-4 provide annual additions, annual retirements, and end-of-year values. Table 6-5 averages the values in Tables 6-1 and 6-4 to present average Utility Plant balances.

There has been a gradual but steady increase in Valencia's Utility Plant in Service over the period 2008 to 2012. Such increases are projected to continue through 2015, with the most significant increases occurring in transmission and distribution mains and water services.

This Application gives particular attention to Valencia's Capital Investment Plan and its capital additions over the recent past and near-term future. As noted above, Exhibit 2, the Report on Capital Additions, provides testimony on all of Valencia's capital additions as implemented during 2008 to 2012 and for all projected capital additions for years 2013 to 2015. Exhibit 2 includes a listing of all capital additions, along with narrative testimony and supporting documentation for the larger projects. Exhibit 3 presents Valencia's Capital Investment Plan for 2013 to 2016 (near term) and to 2050 (long term). These exhibits provide substantive support for the past, present, and near-term future growth in Utility Plant in Service reflected in Chapter 6 of Exhibit 1.

Chapter 7 of Exhibit 1 addresses depreciation and amortization accruals and reserves for the GRC study period. Applicant developed and used new straight line remaining life depreciation rates to compute depreciation accruals and reserve. The several tables included in this Chapter of the Results of Operations display information relating to depreciation rates, accruals, and reserves for the various plant accounts over the study period.

Chapter 8 of Exhibit 1 surveys the various elements involved in the determination of rate base, explaining the calculation or derivation of allowances for Utility Plant, Construction Work in Progress, Materials and Supplies, Working Cash, Reserve for Depreciation, Deferred Debits, Advances for Construction, Contributions in Aid of Construction ("CIAC"), Deferred Income Taxes, and other factors. Table 8-1 presents the calculation of rate base for the study years of this application. Table 8-2 details the calculation of Applicant's Working Cash

allowance for the Test Years. Tables 8-3, 8-4, and 8-5 calculate Advances, CIAC, and Deferred Debits, respectively, for the relevant calendar years.

## 2.4 Taxes

The various taxes that are included in or affect Applicant's revenue requirement are addressed in Chapter 9 of Exhibit 1. Computation of income tax at present rates is shown in Table 9-3. Federal and state income taxes have been computed based on statutory rates, 34% for federal and 8.84% for state.

Table 9-5 shows both state and federal income tax depreciation for estimated year 2013 and the two Test Years.<sup>4</sup> The deferred taxes associated with CIAC are shown on Tables 9-6 (state) and 9-7 (federal). The deferred taxes associated with past taxable advances as refunds are shown in Table 9-8. Applicant detailed the computations of deferred revenues and their amortization in Table 9-9. The investment tax credit amortization is calculated in Table 9-10. The calculation of the federal domestic production activities deduction ("DPAD") is shown in Table 9-11.

## 2.5 Revenue Requirement

Valencia's revenue requirement for Test Years 2014 and 2015 is developed in Chapter 11 of Exhibit 1 (Results of Operations) and in workpapers supporting that report. Applicant lists the revenues required to provide a fair return on rate base with normal water usage for the Test Years in Table 11-1.

For reasons explained in Chapter 11, Valencia is proposing a rate of return on rate base of 8.28% for Test Year 2014, which results in a revenue requirement of \$29,144,000,

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<sup>4</sup> Chapter 9 of Exhibit 1 includes Applicant's statement regarding the details of its tax calculation procedures and its choice among optional methods to calculate depreciation deductions for income tax purposes.

which amounts to an increase of \$4,013,000 and an increase in rates of 15.97%. Applicant is proposing that the rate of return on rate base be maintained at 8.28% for Test Year 2015, which results in a revenue requirement of \$30,163,000. This would result in a revenue increase of \$858,000, which represents a rate increase of 2.93%. Lastly, Valencia is proposing a revenue increase of \$1,270,000 or 4.23% for Escalation Year 2016.

Table 11-2 provides a computation of earnings based on normalized water usage for the Test Years. Table 11-1 provides for uncollectibles and franchise expenses, while all other expenses are provided for in other chapters of Exhibit 1. Table 11-3 details state and federal income taxes computed at the proposed rates for the Test Years.

## 2.6 Rate Design

Applicant is proposing to maintain the rate design approved by the Commission in D.10-12-029 (resolving Valencia's last GRC, A.10-01-006) and D.12-01-005 (resolving Valencia's dedicated irrigation metered customer rate design, A.11-08-015), with a few changes to the rate design as discussed below.

Valencia's proposed rates to be implemented January 1, 2013, are set forth in simplified form in Table 12-1 in Chapter 12 of Exhibit 1, Results of Operations. The allocation of the total revenue requirement into fixed and variable costs, consistent with the rate design policy specified in D.86-05-064, is shown in Table 12-2. The steps involved in calculating rate design are specified in the text and tables of Chapter 12 of Exhibit 1. First, the equivalent untreated/recycled service usage is computed in Table 12-3. The calculated general metered usage rate (or Single Quantity Rate, "SQR") is the basis for developing the residential and dedicated irrigation tiered usage rates. Next, the service charge rate components are computed in Table 12-3. Lastly, actual service charge rates are computed by multiplying the computed

base service charge rate components by the capacity ratio for each meter size as described in Table 12-4. Revenues at proposed rates are shown in Table 12-5.

Chapter 12 also provides, in Tables 12-6 and 12-7, a comparison of monthly bills at various combinations of meter size and usage level based on present rates and at the rates proposed for the two Test Years. Table 12-8 presents a comparison of revenues at present and proposed rates by customer class. Table 12-9 compares Valencia's present and proposed rates with the current rates of the other retail water purveyors in the Santa Clarita Valley where Valencia serves.

Valencia is proposing several changes to its existing miscellaneous service fees, described in Chapter 4 of Exhibit 1 (Results of Operations). Additionally, Valencia is requesting a "Sales Reconciliation Mechanism" for the escalation years of this GRC, which would adjust the adopted sales forecast for the escalation years by 50% if recorded aggregate sales were more than 5% higher or lower than the adopted Test Year sales. Valencia also proposes to increase its reconnection charge from \$25 to \$30 during normal business hours and \$40 to \$50 outside of normal business hours. Further, Valencia seeks to increase its returned payment fee from \$10 to \$15 for bad checks or electronic payments that are not honored by the customer's financial institution. Lastly, Valencia requests approval of a new Backflow Testing Fee of \$70 per test.

## 2.7 Proposed Tariff Changes

Attachment D to this Application details Valencia's current and proposed tariffs.

Valencia is proposing seven changes to current tariffs, as detailed below:

- The Preliminary Statement is modified to reflect the memorandum account changes discussed in Section 3.6 and proposed in Exhibit 5, Balancing and Memorandum Accounts, bound separately and served with this Application.

- The Rate Schedules are modified to reflect the proposed increased LIRA surcharge as proposed in Exhibit 5, addressing Balancing and Memorandum Accounts.
- Schedule No. 1-R, Residential General Metered Service, is modified to remove the limit of 10,000 square feet landscaped area for calculating the outdoor water allocation.
- Schedules No. VAR and Form No. 10 are modified to reflect changes in the variance requirements for the Water SMART Program as proposed in Exhibit 4, Water SMART Program and Tiered Rates, bound separately and served with this Application.
- Rule No. 9, Rendering and Payment of Bills, Section B.2., is modified to reflect the proposed increased fee for bad checks or electronic fund transfers not honored by the customer's financial institution as proposed in Chapter 4 of Exhibit 1, Results of Operations, bound and served separately from this Application.
- Rule No. 11, Discontinuance and Restoration of Service, Section C.1., is modified to reflect proposed increases in reconnection charges as proposed in Chapter 4 of Exhibit 1, the Results of Operations.
- Rule No. 16, Service Connections, Meters, and Customer's Facilities, Section C.4., is modified to add a backflow testing fee as proposed in Chapter 4 of Exhibit 1, the Results of Operations.

These proposed tariff changes are detailed in Exhibit 1, the Results of Operations, and Exhibit 4, which addresses the Water SMART Program and Tiered Rates. Table 12-10 of Exhibit 1 provides a summary of these rate increase proposals.

### 3.0 Related Matters

The Rate Case Plan requires Class A water utilities to include in their GRC applications reports on several related matters, including transactions with corporate affiliates, use of utility assets or employees for unregulated activities, water supply and quality issues,

and real property subject to the Water Infrastructure Improvement Act of 1996 (the “Infrastructure Act”). In this section of its Application, Valencia describes and summarizes the materials it is providing in response to these requirements. Valencia addresses the status of its memorandum and balancing accounts and requests approval for the elimination of five of its current memorandum accounts in this proceeding. Applicant also addresses sales of real property and notes a prospective change in ownership of Valencia's capital stock that may occur prior to Test Year 2014.

### 3.1 Transactions with Corporate Affiliates

In January 2004, the Commission authorized the acquisition by Lennar Corporation and LNR Property Corporation of indirect control over Valencia. As one of the conditions on its authorization, the Commission’s D.04-01-051 required Valencia to comply with a specific set of rules governing transactions with affiliated companies and to file an annual report regarding affiliated transactions in the prior calendar year. This requirement has subsequently been modified by the Commission in D.10-10-019, which set forth standard rules for all Class A water utilities regarding affiliate transactions (“Affiliate Transaction Rules”), which are recorded in Appendix A to D.10-10-019. The Commission modified the adopted Affiliate Transaction Rules in D.11-10-034. The currently applicable Affiliate Transaction Rules are presented in Appendix A to D.11-10-034.

In accordance with the Rate Case Plan’s requirement to identify and explain all transactions with corporate affiliates involving utility employees or assets or resulting in costs to be included in revenue requirement, Valencia submits testimony identified as Exhibit 6, Affiliate Transaction Reports, accompanying this Application as Attachment F. Included in Exhibit 6 (Attachment F) is Valencia’s Annual Report on Affiliate Transactions for years 2007

through 2011, filed with the Commission’s Water Division pursuant to D.10-10-019, the associated Affiliated Transaction Rules Compliance Plan, Section VIII.F, and D.11-10-034.

Consistent with the Affiliate Transaction Rules, Exhibit 6 (Attachment F) reports summary information about services provided by Valencia to affiliated companies and services provided by affiliated companies to Valencia, transfers of assets and employees between Valencia and affiliated companies, financing arrangements between Valencia and its affiliates (none during the reporting period), and services provided by and assets transferred between Valencia and its Parent Holding Company to affiliated companies (none during the reporting period). As indicated in Exhibit 6 (Attachment F), the only service provided by Valencia to its affiliates during 2011 was the sale of water in accordance with Commission-approved tariffs. Accordingly, no services were provided by Valencia to its affiliates pursuant to any special contract, nor was there any occasion for reimbursement for services based on a calculation of fully allocated costs, as referenced in the Rate Case Plan.

### 3.2 Unregulated Transactions

Valencia has not engaged in any unregulated transactions during the study period for this GRC.

### 3.3 Water Supply and Quality

#### 3.3.1 Water Supply for the Santa Clarita Valley

The water supply available to Valencia includes local groundwater from the Alluvial aquifer and the Saugus Formation, imported water from the State Water Project and other imported water sources supplied by the Castaic Lake Water Agency (“CLWA”), recycled water, dry year supplies from CLWA’s various groundwater banking programs, and on-going conservation programs managed by Valencia, CLWA, and the other retail water purveyors in

the Santa Clarita Valley. Valencia believes its supplies are part of a diverse water supply portfolio that ensures reliable service to its customers.

More in-depth testimony and analysis of the availability of these supplies are provided in Exhibit 8, Water Supply and Quality, bound separately and served with this Application, Valencia's 2010 Urban Water Management Plan ("UWMP"), and the 2011 Santa Clarita Valley Water Report. The 2010 UWMP was prepared by CLWA with the cooperation of Valencia and the three municipally-owned retail water purveyors also serving portions of the Santa Clarita Valley. This cooperative approach for describing and assessing the regional water resources of the Santa Clarita Valley is encouraged by the California Department of Water Resources ("DWR"), with which the UWMP is filed pursuant to state law. The results of the 2010 UWMP indicate that there are adequate supplies to meet demand over the next forty years. As discussed in Section 3.5 below, Valencia is submitting its UWMP as Exhibit 10, bound separately and served with this Application.

The groundwater basins underlying the Santa Clarita Valley are unadjudicated. Therefore, neither Valencia nor the other retail purveyors have separately defined "water rights" that dictate their water supply as would be the case in an adjudicated basin. The total supply available to all purveyors in the basin and the ability of Valencia to access those supplies determine the amount available to Valencia to meet its long-term supply needs. In 2003, CLWA, with the cooperation of Valencia and the other retail water purveyors, adopted a formal Groundwater Management Plan pursuant to California Water Code Section 10753. Appendix A to Exhibit 8, Water Supply and Quality, is a copy of Valencia's water supply permit showing all water sources with corresponding permit numbers.

Among the elements of the adopted Groundwater Management Plan, referenced above, is the preparation of annual reports, such as the Santa Clarita Valley Water Report, to

provide information about local groundwater conditions, imported water supplies, water conservation, and recycled water. The 2011 Santa Clarita Valley Water Report, prepared annually by CLWA and the four retail water purveyors, provides an up-to-date assessment of water availability from all sources and actual deliveries to the purveyors, complementing the five-year effort represented by the UWMP. The 2011 Santa Clarita Valley Water Report is identified as Exhibit 11, bound separately and served with this Application.

In August 2005, Valencia, CLWA, and the other Santa Clarita Valley water purveyors commissioned a Basin Yield Study to analyze the yield of the local groundwater basin. Updated in 2009, the Basin Yield Study concludes that continuation of the region's current groundwater operating plan is sustainable. A copy of the Basin Yield Study is included in Exhibit 8 as Appendix B.

### 3.3.2 Compliance with Water Quality Standards

Since its last GRC, Valencia has complied with all California Department of Public Health ("DPH") safe drinking water standards. During this period, Valencia has not exceeded any maximum contaminant level ("MCL"). Included in Exhibit 8 as Appendix C are Valencia's annual Consumer Confidence Reports ("CCRs") for the years 2010, 2011, and 2012, which document Valencia's provision of high-quality water to its customers.

Valencia has not been subject to any citations by DPH. Included in Exhibit 8 as Appendix D is the DPH report on the annual inspection of Valencia's water system completed in 2011, as well as Valencia's response to that report. Based on this showing, Valencia respectfully requests that the Commission specifically find that Valencia has operated in compliance with all applicable water quality standards during the period since its last GRC.

### 3.3.3 Perchlorate Litigation and Settlement

In 1997, perchlorate was first detected in groundwater in the Santa Clarita Valley. The source of the perchlorate is believed to be the former Whittaker-Bermite property, a site used for manufacturing activities. Valencia's Well 157 was one of four wells located near the property that tested positive for perchlorate. This well has been permanently closed and replaced with a new well located far from the source of contamination. Since the discovery of perchlorate in their service areas, Valencia, CLWA, and the other retail water purveyors have taken a number of significant actions to address the problem. Those actions have included filing litigation against the responsible parties to ensure clean-up and cost recovery, supporting a U.S. Army Corps of Engineers groundwater characterization study, and developing and implementing a clean-up plan for the property and for off-site groundwater.

In 2007, the parties reached a settlement of the litigation that provides funding to remediate the perchlorate problem. In 2010, Valencia detected perchlorate in its Well 201 and immediately took this well out of service. Valencia, in coordination with DPH, is working with the responsible parties to develop a solution to put the Well 201 back in service. More complete testimony regarding this topic can be found in Exhibit 9, Perchlorate Litigation Summary, bound separately and served with this Application. This topic is also addressed in Exhibit 10, the 2010 Urban Water Management Plan Appendix I, and in Exhibit 11, the 2011 Santa Clarita Valley Water Report.

### 3.4 Water Conservation and Recycling

Two of the aspects of water resources planning to which Valencia has given particular attention over the years have been water conservation and water recycling. With the Commission's Water Action Plan setting a priority on strengthening water conservation

programs and increasing the use of recycled water, Valencia sees those efforts as an even more prominent aspect of its UWMP for this GRC cycle and for years to come.

#### 3.4.1 Water Conservation

Valencia has long recognized water conservation as an important water supply program for its customers and for the State of California, as detailed in testimony provided in Valencia's Water Conservation Plan, bound separately and served as Exhibit 12 to this Application. Conservation is necessary to ensure efficient use of California's precious and limited water resources and a long-term sustainable water supply. Valencia is committed to cooperative efforts with the other Santa Clarita Valley water purveyors and CLWA, the regional wholesale water agency, to educate customers about the value of conservation and provide them the means necessary to achieve it.

In 2008, Governor Arnold Schwarzenegger issued a proclamation calling on all Californians to reduce their per capita water consumption by 20 percent by the year 2020. In November 2009, the Governor and California's Legislature reached a historic agreement on means for ensuring long-term water supply reliability for California as well as restoring and protecting the Sacramento-San Joaquin Delta and other ecologically sensitive areas. That plan is comprised of four policy bills and a proposal, subject to voter approval, for an \$11.4 billion bond measure. Valencia has implemented these laws as appropriate, continues to track the on-going developments regarding these new laws, and is prepared to carry out programs and other initiatives as required.

California's urban water conservation programs are coordinated by the California Urban Water Conservation Council ("CUWCC"). Founded in 1991, CUWCC is charged with developing and encouraging conservation by implementing best management practices

“BMPs”<sup>5</sup>. Many of the State’s large urban water agencies have implemented conservation programs through the Memorandum of Understanding Regarding Urban Water Conservation in California (“MOU”), an agreement that commits signatories to carry out the water conservation BMPs. In 2008 the CUWCC revised the MOU and BMPs when it was recognized that a single implementation method would not be appropriate for all water agencies. The revised BMPs now contain two categories of BMPs – Foundational and Programmatic. Further, compliance with the BMPs can be achieved by one of three methodologies – Traditional BMP, Flex Track, and Gallons Per Capita Day (“GPCD”).

Valencia has been voluntarily complying with the 14 BMPs since 2002, formally signed the MOU in June 2006, and complies with the biennial reporting requirement to CUWCC regarding the results of BMP implementation. Following the revised MOU, Valencia elected, and is complying with, the GPCD method.

In December 2005, the Commission adopted the Water Action Plan. One of the objectives of the Water Action Plan was to “strengthen water conservation programs to a level comparable to those of Energy Utilities.” The Commission approved an updated Water Action Plan in October 2010, which retains the objectives set forth in the 2005 Plan.

In September 2008, Valencia and CLWA completed the Santa Clarita Valley Water Use Efficiency Strategic Plan (the “Efficiency Plan”), a complete copy of which is provided as Attachment 1 to Exhibit 12, Valencia’s Water Conservation Plan. Valencia is working with CLWA to implement six programs as part of the Efficiency Plan including: (1) a high efficiency toilet rebate program; (2) commercial, industrial, and institutional audits and incentive programs; (3) large landscape audits and incentive programs; (4) a landscape

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<sup>5</sup> Under the 1991 MOU, the CUWCC developed 14 BMPs for its members to follow, which were considered the state standards for conservation.

contractor certification and weather-based controller program; (5) a high efficiency washer rebate program; and (6) an information and education program. The costs to implement all BMPs and other conservation measures are described in Section V of Exhibit 12.

In the context of all these policy and regulatory developments, Valencia has developed a comprehensive water use reduction strategy, which is presented in Section II of Exhibit 12. Valencia's comprehensive strategy recognizes that substantial portions of the water use reductions targeted for achievement by 2015 and 2020, pursuant to the State's policy goals, will be achieved by "passive conservation" that will naturally occur due to replacements, remodeling, and demolitions in the context of today's water-efficient plumbing code. Further major elements of the water use reduction targets will be achieved by the specific water use efficiency programs being implemented by CLWA on behalf of Valencia and other water retailers, by Valencia's own Programmatic Conservation programs identified and discussed in the Water Conservation Plan, and by increased delivery and use of recycled water. Finally, Valencia forecasts an element of "Undefined Conservation Savings" that will result from Valencia's historic compliance with CUWCC program requirements, ongoing implementation of the foundational BMPs, conservative estimates of projected water savings, and the effects of already mandated building code requirements that will improve the water and energy efficiency of future residential and commercial construction and landscaping.

Valencia's implementation of the 2010 Water Action Plan also includes its Water SMART Allocation ("WSA") Program, which has set water allocations or budgets for residential customers since approval by the Commission in D.10-12-029 and for dedicated irrigation metered customers since approval by the Commission in D.12-01-005. Testimony regarding Valencia's WSA discusses these programs in greater detail in Exhibit 4, Water SMART Allocation and Tiered Rates Programs, bound separately and served with this

Application. The WSAs are tied to a tiered rate structure also approved in D.10-12-029 and D.12-01-005, as discussed in narrative testimony in Exhibit 4. Exhibit 4 also discusses the conservation rates in effect for Valencia's non-residential customer classifications. Associated conservation rate impacts are further discussed in Chapter 12 of Exhibit 1, the Results of Operations.

Conservation measures for the Santa Clarita Valley are discussed in further detail in Exhibit 10, the 2010 Urban Water Management Plan, and Exhibit 11, the 2011 Santa Clarita Valley Water Report. Valencia's conservation programs and their ratemaking impacts are also addressed in Chapters 3, 5, and 12 of Exhibit 1, the Results of Operation, and in Exhibit 3, Valencia's Capital Investment Plan.

#### 3.4.2 Water SMART Allocation Program

Pursuant to D.10-12-029, which authorized Valencia's implementation of the WSA program in Valencia's last GRC for individually metered residential customers, and D.12-01-005, which authorized Valencia's implementation of the WSA program for dedicated irrigation metered customers, Valencia is providing more recent data and analysis for the Commission to evaluate in this GRC. Exhibit 4 analyzes the WSA program for a 24-month period ending June 30, 2012, for the residential customers in a study referred to as "ReMIS" and for the dedicated irrigation customers in a study referred to as "DIMIS."

The WSA program has only been in place for a relatively short period of time, since February 2011 for residential customers and February 2012 for dedicated irrigation metered customers, which makes it challenging to definitively assess the program. Nonetheless, so far Valencia has found that the WSA program is performing as intended. Therefore, Valencia is proposing only a few changes to the WSA program -- one to the 10,000 square foot landscape area limitation and others to the Variance process -- which are noted in the Current and

Proposed Tariffs report (Attachment D). Valencia is requesting that the landscaped area assigned to a residential customer for water allocation purposes no longer be limited to a stated maximum of 10,000 square feet. For the Variance process, Valencia is requesting an increase in the monthly allocation for each additional person, based on a standard four-person home, from 750 gallons per month for two additional persons to 1,650 gallons per month per additional person. Valencia is also asking to increase the allocation of 1,000 gallons per month per two additional persons in a licensed 24-hour care facility to 1,650 gallons per month per additional person. Lastly, Valencia is asking to add a provision to provide for changed allocations for residential customers who maintain and irrigate Erosion Control Zones, subject to City or County documentation substantiating the requested variance. These proposed changes as well as further information regarding the WSA program are described in Exhibit 4.

### 3.4.3 Tiered Rates

In order to provide a financial incentive for customers to reduce water consumption, Valencia proposed in its last GRC, and the Commission approved in D.10-12-029, a conservation rate design featuring increasing quantity rates (“IQRs” or “Tiered Rates”) for individually metered residential premises. Additionally, Valencia requested, and the Commission approved in D.12-01-005, a similar conservation rate design for dedicated irrigation metered customers. The proposed and adopted IQR rate design featured five tiers based on Valencia’s previous commodity rate, also known as the “Single Quantity Rate” (“SQR”), with rates for Tiers 1 and 2 set below or equal to the SQR, respectively. The rates for Tiers 3, 4, and 5 were set at graduated increases to provide financial disincentives for consumption above the customer’s WSA. In the present GRC, Valencia proposes to maintain its existing five-tier conservation rate design for metered residential customers and dedicated irrigation customers. More detailed information regarding the current and proposed IQR-based

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rate design are presented, including the criteria for sizing rate tiers and the development of the proposed rates within tiers, in Chapter 12 of Exhibit 1, Results of Operation and in Exhibit 4, Water SMART Allocation Program and Tiered Rates, bound separately and served with this Application.

#### 3.4.4 Recycled Water Program

Valencia recognizes that recycled water is an important and reliable source of non-potable water for its customers and residents of the Santa Clarita Valley. Valencia encourages the use of recycled water and is presently the only purveyor in the Santa Clarita Valley able to deliver recycled water due to the proximity of Applicant's facilities to the recycled water system owned and operated by the regional wholesale water agency, CLWA. For these reasons, Applicant continues to pursue opportunities to serve recycled water in its service territory where economically and operationally feasible. This includes delivering recycled water to both new customers as well as conversion of existing customers. Recycled water use is expected to make up about 12,200 acre-feet of Valencia's water supply within the next 40 years.

During this rate case cycle, CLWA will be extending its backbone recycled water system further into the southern portion of Valencia's service territory. This will provide Valencia the opportunity to convert several of its dedicated irrigation metered potable water customers to recycled water over the next several years.

More detailed information regarding recycled water for the Santa Clarita Valley is provided in Exhibit 10, the 2010 Urban Water Management Plan, and in Exhibit 11, the 2011 Santa Clarita Valley Water Report. Valencia's recycled water program and the ratemaking impacts of providing recycled water at discounted rates are addressed in Chapters 4 and 12 of Exhibit 1, the Results of Operations, in Exhibit 2, the Report on Capital Additions, in Exhibit 3,

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the Capital Investment Plan, and in Exhibit 4, addressing the Water SMART Program and Tiered Rates.

### 3.5 Urban Water Management Plan

In accordance with D.90-08-055 and as noted in Section 3.3, above, Applicant submits its current Urban Water Management Plan (“UWMP”), identified as Exhibit 10, with this Application. Valencia’s 2010 UWMP, dated June 2011, was prepared by CLWA in conjunction with the four Santa Clarita Valley retail water purveyors: Valencia, the Santa Clarita Water Division of CLWA, Newhall County Water District, and Los Angeles County Waterworks District No. 36.

The UWMP presented as Exhibit 10 addresses a broad range of issues relevant to water resources management and planning. After a brief introduction, Section 2 of Exhibit 10 provides a thorough description of historic and current water usage in the Santa Clarita Valley, the methodology used to project future water demand, and the new legislative requirements of a 20% reduction in per capita demand by 2020 (SBX7-7). Section 3 of Exhibit 10 describes the water resources available to CLWA and the retail water purveyors in the Santa Clarita Valley, including wholesale imported supplies, local groundwater drawn from the Alluvial and Saugus Formation aquifers, recycled water, and groundwater banking programs. Section 4 addresses current and future opportunities to make beneficial use of recycled water, while Section 5 describes water quality concerns, especially those relating to the control of perchlorate contamination associated with the former Whittaker-Bermite property. Section 6 provides an assessment of long-term water supply reliability, while Section 7 addresses goals and plans for water conservation and water demand management. Section 8 describes the water purveyors’ contingency planning for responding to various sorts of emergency situations that may interrupt or limit the delivery of water supplies.

Valencia's 2010 UWMP includes the latest information on the SWP system provided in DWR's biennial Delivery Reliability Report concerning the long term reliability of the SWP supply. DWR issued a delivery reliability report in 2009, which the water purveyors considered in CLWA's assessment of supplies in Section 3 of the UWMP.

The 2011 Santa Clarita Valley Water Report, presented as Exhibit 11, bound separately and served with this Application, is an important annual supplement to Valencia's UWMP. The Water Report presents a "snapshot" of the past water year in the Santa Clarita Valley, offering guidance to the water purveyors for the upcoming year, and providing information that will assist them in adapting their water supply management practices to the available sources of supply. Valencia submits its 2010 UWMP (Exhibit 10) and the 2011 Santa Clarita Valley Water Report (Exhibit 11) as jointly comprising its Water Management Program for purposes of this GRC.

### 3.6 Memorandum and Balancing Accounts

Exhibit 5, bound separately and served with this Application, describes Applicant's Balancing and Memorandum Accounts. Table 1 of Exhibit 5 provides a summary of Valencia's balancing and memorandum accounts. This Exhibit also includes Tables detailing the balancing and memorandum accounts referenced below.

Applicant requests that the minor balance in its Purchased Power and Water Balancing Account be moved into its WRAM/MCBA and that the account be closed as of December 31, 2013, because, pursuant to D.10-12-029 (resolving Valencia's last GRC, A.10-01-006), Valencia recovered the balance of this account through a temporary surcharge such that only \$1,245 in under-collections remain in this account. Since Valencia's WRAM/MCBA is functioning as originally intended, Applicant requests that the WRAM/MCBA continue to operate without change, except for the modifications in amortization and reporting procedures

that recently were adopted for other Class A water utilities with a WRAM/MCBA mechanism in D.12-04-048, as detailed in Exhibit 5. Further, Applicant requests that its Water Quality Litigation Memorandum Account remain open due to the continued incidence of litigation expenses associated with the perchlorate litigation detailed in Exhibit 9, which addresses the Perchlorate Litigation Settlement and Update.

Valencia also seeks to close several other balancing and memorandum accounts. Applicant asks that the Conservation One-Way Balancing Account implemented pursuant to Valencia's last GRC decision (D.10-12-029) be closed at the end of the current rate case cycle, December 31, 2013. Applicant also requests that its 2010 Tax Act Memorandum Account, detailed in Table 8 of Exhibit 5, be closed as of December 31, 2013, because no amounts are or will be recorded in the account. Valencia further requests that the minor balance in its Credit/Debit Card Memorandum Account, required by Resolution W-4908, be transferred to its WRAM/MCBA account and that this account be closed as of December 31, 2013. Finally, Applicant asks to eliminate its Military Family Relief Program Memorandum Account, as it has not recorded any costs in this account since its inception in 2006.

Additionally, Applicant requests permission to continue to use its Low Income Ratepayer Assistance Memorandum ("LIRA") Account. Pursuant to D.11-05-020, in 2011, Valencia began to work on the implementation of its Low Income Data Sharing Program, and this work is resulting in increased enrollment of customers in the LIRA Program. These additional customers will receive a 50% discount off their monthly service charge, and the associated loss of revenue, plus the costs to implement D.11-05-020, were not anticipated when the original surcharge of \$0.04 per month was calculated. Therefore, Valencia requests that its LIRA surcharge of \$0.04 per month on the monthly service charges for all non-LIRA customers be increased to \$0.91 per month to account for revenue reduction associated with

additional enrolled customers. The calculations supporting this request are detailed in Table 3 of Exhibit 5. Valencia further requests a mechanism to annually adjust the LIRA surcharge via a Tier 2 advice letter that Valencia would file by October 31 of each year.

Valencia requests to amortize the remaining balance in its 2010 Cost of Capital Proceeding memorandum account by increasing its regulatory commission expense in years 2014 through 2016 by \$24,000 per year to fully amortize the balance in the account.

### 3.7 Real Property Subject to the Infrastructure Act

Since January 1, 1996, Applicant has not sold any real property that was at any time necessary or useful in the performance of its duties to the public.

### 3.8 Prospective Change of Ownership

CLWA, a public agency that obtains water from the State Water Project for sale on a wholesale basis to Valencia and other retail water purveyors in the Santa Clarita Valley, is pursuing a Superior Court action in eminent domain with the intention of acquiring all the capital stock of Valencia. Valencia expects that this change of ownership and control is likely to be completed no later than early 2013 but that it will not materially affect Valencia's revenue requirement for Test Year 2014.

### 4.0 Comparison Exhibit and Qualifications of Witnesses

Applicant's comparison exhibit, explaining any differences between the Proposed Application submitted November 1, 2012, and the showing in this Application, is provided as Attachment C to this Application. [Attachment C provided with the Proposed Application is blank.] The qualifications and prepared testimony of Applicant's witnesses are set forth in Exhibits 13 to 19, bound separately and served with this Application. Applicant will provide

any supplemental direct or rebuttal testimony and exhibits to all parties at least ten days in advance of the date to be set for hearing on this Application.

5.0 Notice to Local Governments and to Customers

Within twenty days after the filing of this Application with the Commission, Applicant will mail a notice to the following, stating in general terms the proposed increases in rates and also stating that a copy of the Application and related exhibits will be furnished by Applicant upon written request: (a) the County of Los Angeles, by mail to the County Counsel and the County Clerk, (b) the City of Santa Clarita, by mail to the City Attorney and the City Clerk; and (c), other persons who have requested such notice.

Within the period specified by California Public Utilities Code Section 454(a), Applicant will furnish notice of this Application to its customers with the information required by Section 454(a). Applicant has prepared these notices in consultation with the Commission's Office of the Public Advisor and the Commission's Water Division staff. If the Commission schedules one or more public meetings as provided for in the Rate Case Plan, these notices also will specify the date, time, and place of such meetings. A copy of Valencia's draft notice to customers accompanies this Application as Attachment E.

6.0 Compliance with Procedural Requirements (Including Proposed Schedule)

While the most relevant list of requirements for a Class A water utility's proposed GRC application is set forth in the Rate Case Plan adopted by D.07-05-062, additional procedural requirements are specified in the Commission's Rules of Practice and Procedure. Valencia here complies with such of those requirements as may not have been satisfied above.

6.1 Applicant's legal name is Valencia Water Company. Its principal place of business is at 24631 Avenue Rockefeller, Valencia, California 91355.

6.2 Applicant is engaged in the business of supplying and distributing water for domestic, commercial, industrial, and landscaping purposes in a service territory defined by its service area maps included in its tariffs filed with the Commission. Applicant's service territory is in the Santa Clarita Valley of northern Los Angeles County, including portions of the incorporated City of Santa Clarita and certain unincorporated portions of Los Angeles County.

6.3 Applicant is a California corporation, incorporated in 1965. A copy of Applicant's Articles of Incorporation, certified by the California Secretary of State, was submitted to the Commission in connection with Application 47250, filed January 11, 1965.

6.4 Applicant's most recent financial statements, consisting of a Balance Sheet as of September 30, 2012, and an Income Statement for the nine months ending September 30, 2012, are provided as Attachment B accompanying this Application.

6.5 General descriptions of Applicant's properties and the area of its operations have been set forth and shown in other Applications and proceedings before the Commission, in which authority has been sought and granted for authority to mortgage such properties, to issue and sell securities, and to increase rates, and for other purposes within the jurisdiction of the Commission. The most recent applications providing such information about Applicant's properties and operations were Application 95-01-025, an application for authority to include the cost of its new headquarters building in rate base; Application 99-12-025, a request for approval of its then-current UWMP; Application 06-07-002, its second-to-last GRC; and, Application 10-01-006, its most recent GRC. Further information about Applicant's properties and operations has been provided in Applicant's annual reports to the Commission, in Exhibits to this Application, especially Exhibit 1, the Results of Operations, Exhibit 2, the Report on Capital Additions, Exhibit 3, the Capital Investment Plan, Exhibit 8, Water Supply and Quality,

Exhibit 10, Applicant's 2010 Urban Water Management Plan, Exhibit 11, the 2011 Santa Clarita Valley Water Report, and in the workpapers supporting Exhibit 1.

6.6 Rule 3.2(a)(8) requires Applicant to provide a statement corresponding to the statement required by Section 2 of General Order No. 104-A as to all matters designated by that section for inclusion in Applicant's annual report but occurring or proposed subsequent to the period covered by that report. In compliance with Rule 3.2(a)(8), Applicant states that, as has been true for many years and has been reviewed in several prior general rate cases, Applicant's parent company, The Newhall Land and Farming Company (a California Limited Partnership) ("NLF"), has had an immaterial financial interest in certain recurring monthly inter-company transactions during the first nine months of 2012, including approximately \$112,000 in payments by Applicant to NLF for management, tax, and information system services NLF provides to Applicant. NLF also regularly makes contributions of utility plant required to extend water service to property owned by NLF. Valencia accounts for such contributions as Contributions in Aid of Construction ("CIAC"). See generally, Section 3.1 above, and Applicant's Attachment F to this Application, which consists of Applicant's most recent annual Affiliated Transactions Report to the Commission.

6.7 Correspondence and communications with respect to this Application should be addressed to:

Beverly Johnson  
Asst. Vice President and Controller  
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Telephone: (661) 294-0828  
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and to:

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Telephone: (415) 398-3600  
Facsimile: (415) 398-2438  
E-mail: [mmattes@nossaman.com](mailto:mmattes@nossaman.com)

6.8 Rule 6(a)(1) requires Applicant to provide the following information relevant to the scope of this GRC proceeding:

Proposed category: Rate setting.

Need for hearing: This Application is likely to require an evidentiary hearing. The scheduling of a public participation hearing within Applicant's service area may be appropriate.

Issues: The issues presented by this Application relate to projected revenues and costs of service, with the most significant and potentially contentious issues stated in Sections 1.1 and 1.2.

Proposed Schedule: Rule 6(a)(1) requires Applicant to provide a proposed schedule for this GRC. The Rate Case Plan requires that the proposed schedule be consistent with the Rate Case Plan, allowing modifications of dates of up to ten days by mutual agreement of DRA and the utility, with all subsequent dates moved an equal number of days. The following proposed schedule deviates from the Rate Case Plan only in avoiding weekend dates and providing for the evidentiary hearing to start on a Monday. The proposed schedule also specifies particular dates for a prehearing conference and a public participation hearing, if necessary, and includes a possible due date for protests and responses (presuming the Application is noticed in the Daily Calendar on the next business day after filing).

EVENT	PER Rate Case Plan	DATE
1 Proposed Application tendered	-60	November 1, 2012
2 Deficiency Letter mailed	-30	December 3
3 Appeal to Executive Director	-25	December 7
4 Executive Director acts	-20	December 12
5 <b>Application filed</b>	<b>0</b>	<b>January 2, 2013</b>
6 Protests and responses are due	32	February 4
7 Prehearing Conference	40	February 11
8 Update of Applicant's Showing	45	February 15
9 Public Participation Hearing, if any	10-90	March 18
10 DRA & Intervenors, if any, distribute reports	97	April 8
11 Valencia distributes rebuttal testimony	112	April 23
12 Formal settlement negotiations begin	115	April 26
13 Evidentiary hearings	126-130	May 6-10
14 Opening briefs are due	160	June 10
15 Mandatory status conference	161	June 11
16 Reply briefs and Joint Comparison Exhibit are due	175	June 25
17 Water Division Technical Conference	180	July 1
18 ALJ's Proposed Decision mailed and e-mailed	240	August 29
19 Comments on Proposed Decision are due	260	September 18
20 Reply Comments are due	265	September 23
21 Commission Meeting to consider Proposed Decision	280	October 8

7.0 Prayer for Relief

WHEREFORE, Applicant is ready to proceed with its showing at this time, and respectfully requests that the Commission make and issue its findings and order, based on the evidentiary record to be developed in this proceeding, approving and authorizing the adjustments of rates to be charged by Applicant and the other tariff revisions as are set forth and substantiated by this Application and the accompanying exhibits, or approving and

authorizing such other adjustments of rates and tariffs as the Commission may deem appropriate, in order to provide Applicant a fair opportunity to earn a just and reasonable return on the rate base value of its property dedicated to public utility service during the three years of this general rate case cycle. In addition to a Commission order granting such other relief as is just and reasonable based on the evidentiary record to be developed here, Applicant further requests the following:

- A Commission finding that Valencia has operated in compliance with all applicable water quality standards during the period since its last GRC.
- A Commission finding that Valencia's Water Management Program, consisting of its 2010 UWMP together with the 2011 Santa Clarita Valley Water Report, is sufficient for the Commission's purposes.
- A Commission finding that the return on rate base as adopted in the Cost of Capital proceeding filed concurrently with this GRC shall be used in calculating the adopted revenue requirement.
- Commission authorization of the following changes to its tariffs: (1) changes to the WRAM/MCBA mechanism consistent with D.12-04-048, (2) removal of the 2010 Tax Memorandum Account, (3) removal of the Credit/Debit Card Memorandum Account, (4) removal of the Military Family Relief Program Memorandum Account, (5) an increase in the LIRA surcharge, (6) removal of the limit on landscaped area for calculating the outdoor water allocation for residential customers, (7) changes in the variance requirements for the WSA program as specified in Exhibit 4, (8) an increased fee

for bad checks or electronic fund transfers not honored by customer's financial institution, (9) an increased reconnection charge; and (10) a new backflow testing fee.

- Commission authorization of a Sales Reconciliation Mechanism and appropriate modification to the WRAM/MCBA in Valencia's Preliminary Statement tariff.
- Commission authorization for a waiver of notice for escalation years 2015 and 2016 rate increases.
- Commission authorization of the following changes to Valencia's balancing and memorandum accounts:
  - (1) that the balance in its Purchased Power and Water Balancing Account be moved into its WRAM/MCBA and that the account be closed as of December 31, 2013;
  - (2) that the Conservation One-Way Balancing Account be closed as of December 31, 2013;
  - (3) that the 2010 Tax Act Memorandum Account be closed as of December 31, 2013;
  - (4) that the balance in its Credit/Debit Card Memorandum Account be transferred to its WRAM/MCBA account and that this account be closed as of December 31, 2013;
  - (5) that the Military Family Relief Program Memorandum Account be eliminated;
  - (6) that the balance in the Cost of Capital Memorandum Account continue to be amortized over this general rate case cycle; and

(7) that the Water Quality Litigation Memorandum Account remain open for ongoing litigation costs.

- Commission authorization for a mechanism to annually adjust the LIRA surcharge via a Tier 2 advice letter that Valencia would file by October 31 of each year.
- Commission authorization of escalation year rate adjustments for 2015 and 2016 in the manner provided by the Rate Case Plan and prior Commission decisions.

Dated at Valencia, California, this 2nd day of January, 2013.

Respectfully submitted,



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Keith Abercrombie, General Manager  
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Attorneys for VALENCIA WATER COMPANY

## VERIFICATION

I am an officer of the Applicant company herein, and am authorized to make this verification on its behalf. The statements in the foregoing document are true of my own knowledge, except as to matters which are therein stated on information or belief, and as to those matters I believe them to be true.

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

Executed on December 18, 2012, at Valencia, California.



Keith Abercrombie, General Manager  
Valencia Water Company