

Decision 12-09-004 September 13, 2012

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Apple Valley Ranchos Water Company (U346W) for Authority to Increase Rates Charged for Water Service by \$3,896,586 or 20.0% in 2012, \$547,241 or 2.35% in 2013, and \$786,254 or 3.32% in 2014.

Application 11-01-001
(Filed January 3, 2011)

**DECISION ADOPTING A PARTIAL SETTLEMENT AND RESOLVING
ALL LITIGATED ISSUES FOR APPLE VALLEY RANCHOS WATER
COMPANY'S TEST YEAR 2012 GENERAL RATE CASE**

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DECISION ADOPTING A PARTIAL SETTLEMENT AND RESOLVING ALL LITIGATED ISSUES FOR APPLE VALLEY RANCHOS WATER COMPANY'S TEST YEAR 2012 GENERAL RATE CASE

1. Summary

Today's decision adopts a partial settlement between Apple Valley Ranchos Water Company and the Division of Ratepayer Advocates and resolves all other litigated disputed matters necessary to adopt the revenue requirement for a test year 2012 and two years of subsequent adjustments. This decision results in an overall rate increase of 14.7% for 2012. This proceeding is closed.

2. Background

On January 3, 2011, Apple Valley Ranchos Water Company (Ranchos) filed Application (A.) 11-01-001 requesting authority to increase general rates by \$3,896,586 or 20.0% in 2012, \$547,241 or 2.35% in 2013, and \$786,254 or 3.32% in 2014. Ranchos is a Class A Water Company subject to the jurisdiction of this Commission and the current requirements of Decision (D.) 07-05-062 which adopted a revised Rate Case Plan for Class A water utilities (Rate Case Plan). A scoping memorandum was issued on March 3, 2011. A duly noticed settlement conference was held, and subsequently, on September 15, 2011, Ranchos and the Division of Ratepayer Advocates (DRA) filed a motion for the adoption of a partial settlement. No comments were filed on the partial settlement.

Evidentiary hearings on the unresolved issues were held from June 20 through June 22, 2011. Ranchos and DRA filed timely opening and reply briefs. No other party filed briefs. The proceeding was submitted on June 26, 2012.

3. Standard of Review

Applicant bears the burden of proof to show that the regulatory relief it requests is just and reasonable.

4. Proposed Partial Settlement

We find as required by Rule 12.1 of the Commission's Rules of Practice and Procedure (Rules), that the proposed partial settlement is reasonable in light of the whole record, consistent with law, and in the public interest. The settled positions are a balance between the positions as otherwise litigated in the prepared testimony of Ranchos and DRA. We therefore adopt the settlement (Attachment A) without further discussion. No item settled in this proceeding is dispositive of the appropriate rate treatment in subsequent proceedings. (Rule 12.5.)

5. Litigated Issues

Based upon our review of prepared testimony, the evidentiary hearings, and a comprehensive briefing of litigated issues, we find that Ranchos met its burden of proof in this proceeding. On an issue-by-issue basis we determine whether Ranchos or DRA was the most persuasive in the disposition of individual disputed issues which were litigated and excluded from the proposed partial settlement.

Ranchos and DRA identified 12 individual disputed issues which were litigated and excluded from the proposed partial settlement. We therefore review and resolve the following issues in the remainder of this decision:

Payroll-Related Issues

1. New Employees (Section 6.)
2. Merit Pay Increases (Section 7.)
3. Bonuses (Section 8.)
4. Medical and Dental Insurance (Section 9.)
5. 401(k) Retirement (Section 10.)
6. Group Pension (Section 11.)
7. Group Pension Balancing Account (Section 12.)

8. Employee Assistance Program & Wellness (Section 13.)
Plant-Related Issues
9. Pressure Reducing Valve Memorandum Account (Section 14.)
10. Office Expansion (Section 15.)
Other Issues
11. Escalation Year Methodology – Employee and Retiree Health Care (Section 16.)
12. Carlyle Transaction Contingency (Section 17.)

6. New Employees

6.1. Summary

Ranchos proposed to create four new positions: (1) a Customer Service Representative; (2) a Water Audit Conservation Specialist; (3) an Asset Management Project Coordinator; and (4) a Water Quality Control Specialist (Exhibit AVR-1 at 29.) and make a fifth temporary position permanent. As discussed below, we find Ranchos is more persuasive than DRA that all five of the positions are necessary. We are concerned, however, that any of the vacant new positions should be promptly filled, and therefore, we will adopt the request, but, as discussed below, make the increase in revenues refundable while these positions are vacant or any new incumbent's prior position remains vacant.

6.2. Disputed Positions

DRA argues that there is technically a fifth new position, the Assistant General Manager position, which is an upgrade at substantial cost. DRA does not object to this position; it merely points out it is one of two new positions that DRA agrees are reasonable. DRA does support the first of the four new positions, a Customer Service Representative, which DRA believes is really a temporary position to be made permanent now. Thus these two positions are

adopted and we discuss the remaining three disputed positions below.

(DRA Opening Brief at 2 - 3.)

Water Audit Conservation Specialist

Ranchos asks for a new Water Audit Conservation Specialist arguing that the duties of this position are currently performed by its meter readers and this reduces their efficiency.

Ranchos argues that the work is extensive, including duties related to the conservation objectives in the Commission's Water Action Plan and related decisions, and that Ranchos is expected to have and maintain water conservation plans, programs, and conservation opportunities for its customers. Additionally, Ranchos argues the Urban Water Management Planning Act Demand Management Measure #1 requires it to provide water survey programs for single-family and multi-family residential customers. (Ranchos Opening Brief at 6.) DRA disputes the backlog of work for meter readers and argues that they are currently adequately performing the conservation audits. (DRA Opening Brief at 3.)

It is our policy to encourage water conservation and water audits are one important facet. We will therefore allow the position. We are also concerned that the position be promptly filled and therefore we will require that on a monthly basis, if the position remains empty, Ranchos must credit the position's full salary to its Water Revenue Adjustment Mechanism. If the position is filled with an existing employee, the full monthly salary for that employee's prior

position must be credited if it remains unfilled.¹ We use the Water Revenue Adjustment Mechanism as a convenient mechanism to refund any excess revenue. The relatively small amount of money this may involve will not materially alter the account's over- or under-collection, but its use ensures that ratepayers do not fund phantom positions, i.e., positions which are requested in a rate case but are not promptly filled or ever filled.

Asset Management Project Coordinator

Ranchos asks for a new Asset Management Project Coordinator arguing that the duties of this position are important to timely move forward on new projects and that prior attempts to allocate the duties for this proposed new position among existing fixed asset personnel were unsuccessful. Ranchos argues that trying to do both tasks with the same personnel was inefficient and was detrimental to both tasks being done timely and well. (Ranchos Opening Brief at 10.)

DRA counters that it included the costs of two temporary positions in its forecast, while Ranchos did not – Ranchos instead asks for the new position – and the allowance of the temporary positions is sufficient. (DRA Opening Brief at 4 – 5.)

We find it is more reasonable to estimate the cost of the one new specific position rather than substitute the historical effect of two temporary positions. DRA does not appear to dispute the need for the new full time position. Further,

¹ This is intended to be both an incentive to fill the position as well as a ratepayer protection; we will not require any proration. If the position is filled, even on the last day of the month, no refund is required.

DRA does not assert that its estimate is equal to, or more accurate than Ranchos' estimate. We therefore use Ranchos' position specific estimate.

We are again concerned that the position be promptly filled and therefore we will require that on a monthly basis, if the position remains empty that Ranchos must credit the full salary to its Water Revenue Adjustment Mechanism.

Water Quality Control Specialist

Ranchos asks for a new Water Quality Control Specialist arguing that the duties of this position are currently handled by the Production Supervisor whose other duties include overseeing conservation (Water Use Efficiency Plan), the Urban Water Management Plan, Annual Water Quality Report, Annual Consumer Confidence Report, and NFPA 70(e) arc flash hazard (an electrical safety system risk).² As a result, Ranchos proposes a separate, new position, to deal solely with water quality. (Ranchos Opening Brief at 7 – 8.)

DRA counters that Ranchos is in compliance with water quality and has not shown the Production Supervisor is not coping with all of his duties. (DRA Opening Brief at 3.)

We find Ranchos persuasive that in fact the multiple duties of the Production Supervisor are sufficient to warrant an additional employee dedicated to water quality. We will not wait for Ranchos to be out of compliance on either water quality or operational safety before considering an additional position, and we wish to emphasize that water quality is a core responsibility of

² An arc flash is an electrical breakdown of the resistance of air resulting in an electric arc. An arc flash can occur where there is insufficient voltage in an electrical system and a path to ground or lower voltage.

any water utility. Water quality should not be reduced to one of many chores. We will therefore allow the position. We are also concerned that the position be promptly filled and therefore we will require that on a monthly basis, if the position remains empty that Ranchos must credit the full salary to its Water Revenue Adjustment Mechanism.

7. Merit Pay Increases

Ranchos asserts that it pays its employees on a competitive basis, offering both cost of living adjustments and merit increases. Ranchos asks for a 2% overall allowance for merit increases in 2012. It further argues that although it did not grant any merit increases in 2009, it did grant them in 2010 and 2011, even though the last rate case only included a 2009 allowance. Finally, Ranchos argues that notwithstanding the general economic woes in the economy, as a Class A water utility, it is not seeing a decrease in business activity and it must maintain its wage levels in order to retain its work force. (Ranchos Opening Brief at 14 - 17.)

DRA argues the merit increase is unwarranted and unjustified. DRA cites to 2009 when there were no merit increases. DRA also argues the increases are so pervasive (other than in 2009) they are not truly merit based, and DRA disputes that Ranchos has a problem retaining employees. (DRA Opening Brief at 5 - 6.)

We find Ranchos' argument more persuasive; the merit increases are separate from any cost of living adjustment. We will therefore allow the merit increases in the test year revenue requirement.

8. Bonuses

Ranchos proposes a bonus allowance based upon the historical five-year average of actual bonuses, or, escalated to 2012, \$21,659. DRA argues the

allowance should be equal to the 2010 actual bonus payments, which were \$10,000. (Ranchos Opening Brief at 18 and DRA Opening Brief at 6.)

We find that a five-year average is a reasonable budget method and that to use 2010 actual would imply adopting an historical allowance rather than a reasonable future projection. We will adopt Ranchos' budget of \$21,659 and note that we expect in the next rate cycle that any request for a bonus allowance should be justified in both the likelihood of its usage and its consistency with recent practice over at least five years.

9. Medical and Dental Insurance

The budget forecast for medical and dental insurance by Ranchos departs drastically from the overall trend in inflation. Essentially, the disagreement between Ranchos and DRA centers on how the 2010 actual premiums should be escalated for 2011 and 2012. Ranchos escalates 2010 medical costs by 23% for 2011 and a further 8.5% for the 2012 estimate based on an actuarial study. Similarly, it escalates dental in 2012 by 5%. (Ranchos Opening Brief at 19 - 20.)

DRA proposes using 3%, which is the labor escalation otherwise used in the proposed settlement. (DRA originally used 1.9% in its testimony but later switched to the settlement rate.)

We find that such a large difference is difficult to rationalize. We realize that medical and dental insurance costs have been increasing at rates which do not fit the general labor rate trends and therefore DRA's forecast is highly likely to be too low. DRA does not persuade us that the use of a non-medical cost index is reasonable. We therefore believe that the best approach is to set rates now using Ranchos' forecast, but allow a balancing account for medical and dental insurance costs to adjust to actual expense for 2012, 2013 and 2014.

We note that DRA has not discussed whether Ranchos offers a reasonable choice of medical insurance options to employees; whether there is an employee contribution; or any other analysis of the coverage provided. DRA does raise the red-herring that perhaps, by 2018, the offered plans may be viewed as high-cost “Cadillac” plans. Short-changing funding does not address the core question of whether the plans are reasonably structured, equitable to employees, and consistent with compensation packages elsewhere in the local economy.

Competitive total compensation local to Apple Valley would include not just wages and salaries, but also pensions and retirement, and health care. We are concerned that neither Ranchos nor DRA address the total compensation package but instead look at the issue in piecemeal fashion – merit increase, bonuses, pension, and health care, etc. There is no total package analysis before us. Therefore we will order Ranchos to present detailed testimony in its next general rate case to justify its total compensation package for all levels of workers in terms of both the local Apple Valley labor market as well as the water industry in California.

10. 401(k) Retirement

In determining the allowance for 401(k) retirement costs, we use Ranchos’ employee forecast of labor costs as well as its forecast for employee contributions to the program which is consistent with the settled and litigated labor costs.

Ranchos assumes that employees will contribute 3% of payroll which will be matched by the company. Therefore, the company applies that 3% to its forecast of payroll costs. Elsewhere in this decision we adopt Ranchos’ forecast of payroll. Ranchos bases its 3% forecast on several recent reports of an increasing trend for employee contributions to 401(k) retirement funds. Ranchos also asserts that DRA made several calculation errors in deriving its forecast.

DRA relies on a 2010 recorded contribution rate, or a single data point. It also adjusted the payroll amount to reflect this position on the number of new hires that should be authorized in the test year.

We find it is not reasonable to rely upon a single 2010 recorded contribution rate: a single data point is not a particularly reliable forecast tool. We also reviewed and tend to agree with Ranchos that DRA made some calculation errors as well. We will adopt the Ranchos forecast because it is the most robust and reliable forecast before us. In subsequent rate proceedings, we require Ranchos (and expect DRA) to carefully and fully discuss the accurate historical trend in Ranchos employee contributions to 401(k) plans. We also expect a full discussion of the overall economic trends of employees generally in the California economy in contributing to 401(k) plans. This should be included in the study of total compensation.

11. Group Pension

We use Ranchos' 2012 forecast of group pension expense, which is based upon their payroll expense forecast (as adopted elsewhere in this decision), as well as its forecast from the actuarial study for necessary contributions.

Ranchos uses an Expected Return on Plan Assets of 3.65%, which it states as the average return earned by the pension fund over the prior 10 years. This is substantially below the 5% estimate in the 2010 report from Ranchos' actuarial study. Ranchos argues that there are flaws in DRA's calculations. For example, Ranchos claims that if you use the 2006 recorded expense and escalated that value to 2010, under DRA's method there would be a significant shortfall for the actual 2010 expense incurred by Ranchos. (Ranchos Opening Brief at 26.) Ranchos also uses a lower discount rate of 5.25%, which it argues is the more current and appropriate discount rate rather than the higher rate of 5.75% found

in the 2010 actuarial report. (*Id.* at 28.) Ranchos also asserts that other errors were made by DRA.

DRA uses what it argues is a historical trend in both earnings rates and discount rates to calculate pension expenses as well as using its own lower forecast for payroll expense. DRA also complains that Ranchos would not have its actuary prepare a new study with different input data without an assurance that it could recover the costs for the actuary to perform the study, but DRA did not agree to supporting that cost recovery.

We find Ranchos used more recent economic data which is more consistent with the actual earnings for the pension fund and is more consistent with the actual discount rate that should be assumed in the present economic environment. We therefore adopt Ranchos' forecast. We note, however, that if this proves to result in a higher contribution than actual economic conditions in 2012 through 2014 warrant, ratepayers are not directly harmed because this slightly over-funds ratepayers' contributions to fund Ranchos' pension obligation. Ratepayers could see a benefit from any slight over-funding in future periods which would reduce the funding requirements in subsequent years. These allowances are only forecast and over time ratepayers will only pay the necessary minimum cost of the pension plan. We also note that if DRA expects the company's consultant to run an alternative scenario not mandated by the Commission then Ranchos should have a reasonable opportunity to recover that cost.

12. Group Pension Balancing Account

We find it is reasonable to grant Ranchos a balancing account to track the difference between actual and forecast pension expense. Ranchos asked for a

balancing account comparable to those allowed other Class A water utilities. DRA proposed a memorandum account instead.

There is an important regulatory distinction between a balancing account and a memorandum account: the Commission has clearly established that a balancing account is used where recovery is essentially assured, subject to determining the reasonableness of the amounts incurred, so that ratepayers as well as shareholders are protected from forecast error. A memorandum account on the other hand has no assurance of recovery until the underlying program or project is subsequently deemed reasonable.³ Thus for example we have sometimes authorized memorandum accounts for pending litigation costs where we have yet to determine whether it would be reasonable for the company to recover any of the costs it incurs for that litigation. Only after we determine whether the company is reasonable in its actions and that it is reasonable for ratepayers to bear the cost do we allow the utility to recover the balance in the memorandum account. This differs from the certainty of recovering such costs as purchased water, for example, where we know that the company needs to purchase water at an uncertain market price, and ratepayers are obliged to pay for it, but we need to determine whether the company reasonably managed procurement cost. Thus, for purchased water we would use a balancing account.⁴ In this instance, we know Ranchos must incur costs for its pension expense, but there is some uncertainty as to the actual amount. Therefore a

³ See D.03-06-013 at 4 - 5, including footnotes 5 and 6.

⁴ There is another distinction as well: a balancing account usually has a revenue stream attached to it so that the cost is tracked against the initial amount of revenue provided in rates. A memorandum account by contrast usually only records the expenses which will be considered for recovery later.

balancing account will allow us to protect the ratepayers from contributing too much while at the same time providing shareholders an opportunity for the company to recover its reasonable pension expense. The purpose of a balancing account is simply to protect against over- or under-collections, unlike a memorandum account where we have yet to determine that the expense category is eligible for recovery from ratepayers.

DRA argues that the Commission should review the reasonableness of Ranchos' management of its pension assets for this test year cycle in the next general rate case. As noted above, we have adopted Ranchos' forecast of pension expense. We are not persuaded by DRA that there is any unreasonable action by Ranchos to be subsequently reviewed. As a result, although DRA argues that we should put all the pension costs in a memorandum account until the next general rate case, we decline to do so. DRA has not correctly recognized and applied the distinction between a balancing account and a memorandum account. Even if we agreed at this time with DRA that Ranchos was not properly managing its pension fund, we would still place the costs in a balancing account because we have essentially determined the reasonableness of pension expenses to be a recoverable category but the final reasonable cost is unknown.

13. Employee Assistance Program & Wellness

We adopt Ranchos' estimate of Employee Assistance Program and Wellness costs.

DRA and Ranchos dispute whether to use Ranchos' most recent budget escalated for the test year, or whether to use a five-year trend average as proposed by DRA. We find that Ranchos is persuasive that an Employee Assistance Program and other related Wellness costs are an important tool to try and control medical costs for employees. As such, we are not convinced that a

simple five-year trend of prior expenses for this category of costs is justified. As noted elsewhere, we are not persuaded that DRA is reasonable in its forecast of medical costs and that its failure to acknowledge the continued sharp and drastic changes in medical expenses also clouds its view on the appropriate level expense for an Employee Assistance Program and related Wellness costs. These costs do not lend themselves to the stubborn application of a mechanical forecast based on historical trending.

14. Pressure Reducing Valve Memorandum Account

This decision authorizes Ranchos to establish a Pressure Reducing Valve Memorandum Account to record the costs incurred as it reviews the possibility of deploying new technology. We defer all issues of reasonableness which will control any cost recovery to the next general rate case. Ranchos must then demonstrate that any costs were reasonable and were not duplicative of other studies authorized elsewhere.

Ranchos seeks to establish a Pressure Reducing Valve Memorandum Account to record project expenses and preserve its ability to seek reimbursement at a later time for any expenditures that can be established as reasonable. (Ranchos Opening Brief at 34.) Ranchos states that it wants to be “proactive” in evaluating emerging technologies that could result in the recovery of energy through the use of modern electrical regenerative flow control valve technology. Ranchos states that any actual savings in energy costs will be tracked in its Modified Cost Balancing Account (as a reduction in expenses) which would flow through to benefit ratepayers. (*Id.* at 35.)

DRA opposes establishing a memorandum account for Ranchos. It argues that other memorandum accounts that were authorized (see Water Resolution W-4854) were very narrowly defined and limited. (DRA Opening Brief

at 14 - 16.) DRA believes that the existing authorization is narrowly limited to only four companies, and should not be construed as allowing other water companies to engage in similar research and development projects.

We believe DRA misunderstands the appropriate use of memorandum accounts for a project such as this. Memorandum accounts, as discussed above, are precisely intended to allow the company to enter into an action where it bears the full risk of future rate recovery based upon a later reasonableness review. DRA's misunderstanding extends to the false conclusion that the memorandum account exposes the ratepayers to "unreasonable and significant economic risk." (*Id.* at 16.) Ranchos will have to meet the Commission's usual prudent manager's standard of reasonableness for any future cost recovery. DRA does reasonably raise the issue that Ranchos may wastefully indulge in duplicative studies to those previously authorized in Water Resolution W-4854. Therefore we can reasonably condition any future recovery for Ranchos by requiring that the company demonstrate that any tests, experiments, or other studies that it may perform are not duplicative of any study that is already authorized elsewhere. On the other hand, if Ranchos can show that it built on and advanced the research, rather than merely duplicated those studies, then it may attempt to justify that this additional work was reasonable and should be recovered. It is also possible that Ranchos could demonstrate that any analysis that it performs is clearly unique and distinct from the work authorized in Water Resolution W-4845 and that might justify recovery from ratepayers.

Therefore we authorize the Pressure Reducing Valve Memorandum Account as conditioned above, effective January 1, 2012, with no current impact on rates.

15. Office Expansion

Ranchos proposes to rebuild or remodel its general office which would greatly expand office space, meeting room and training space, and other facilities to meet the needs of providing service in Apple Valley. We find Ranchos convincing of this need, however, we do not add this plant to rate base at this time. Instead, we create a balancing account to track the revenue requirement associated with building modification and Ranchos can recover those costs if and when the building changes are actually constructed and completed. The initial recovery is limited to the forecast amount for construction costs and then calculated as an annual revenue requirement. This revenue requirement may be recorded in a New Office Balancing Account which is subject to a complete reasonableness for the cost and scope of the final project.⁵

Ranchos was persuasive that its current office facilities including meeting space, training space, and other office facilities are inadequate for the modern requirements of providing safe and reliable service in Apple Valley. (Ranchos Opening Brief at 38 - 41.) Ranchos argues that it has difficulties in finding space for meetings and training, and the office space generally is inadequate for efficient daily operations.

DRA argues that Ranchos has not demonstrated to its satisfaction that the company needs a reconfigured office building for meeting and training space, etc., or that the planning is sufficiently complete. The dispute concerning the

⁵ In comments Ranchos and DRA correctly point out the proposed decision mischaracterized these changes as a “new building” whereas the changes are really modifications and reconfigurations to the existing building which effectively result in a “new office space.” This correction of characterization does not affect the finding that the project need has been justified subject to the recovery restrictions included herein.

size of the building hinges primarily on arguments over the minimum number of square feet per employee that is required by the building code and the Fire Marshall's interpretation of the code. (DRA Opening Brief at 18 – 21.)

The record is sufficiently clear that Ranchos needs a reconfigured office building or other improvements. It is also apparent that Ranchos has not completed all the planning and design necessary for the project. By ruling submission was set aside on June 20, 2012 and Ranchos was directed to update the status of the permitting and design of the building project. The company replied on June 26, 2012. Much of the reply exceeded the scope of the directive and is disregarded where Ranchos strayed into further and new arguments in support of the project. What is clear is that Ranchos is still pursuing the design and permit process. However, it would be unreasonable to exclude the project for the life of the rate case cycle. Therefore we will do the following: Ranchos may have a balancing account, that will be subject to a reasonableness review, to recover the revenue requirement for the project effective once the construction is completed.

We are not persuaded by DRA that Ranchos has not appropriately described the project. DRA argues that Ranchos misapplies the building code using a net rather than the gross square footage. DRA also argues that the advice of the local fire marshal is not documented. We do not have a requirement that buildings be built to the absolute minimum specification: although we have made specific rate disallowances when buildings are excessive.⁶ We believe Ranchos has demonstrated the need for and offered a

⁶ See D.09-06-027 at 63: “[San Gabriel Valley Water Company] has not met its burden of proof regarding the space allocations and resulting size of the Office Complex and its

Footnote continued on next page

reasonable initial estimate of the costs of a reconfigured office building suitable to its need.

The adopted rate recovery for the test year 2012 and the attrition years will be limited to the forecast amount for construction costs and then calculated as an annual revenue requirement. This revenue requirement may be recorded in an Office Remodel Balancing Account.⁷ This account is subject to a reasonableness review. Thus, if Ranchos fails to reconfigure the office building during the current rate case cycle, ratepayers have contributed nothing for a project that does not materialize. If, however, Ranchos builds the project, it may collect its reasonable revenue requirement. We put Ranchos on notice that if it spends more than the current forecast of \$702,000, including any allowance for funds used during construction, it cannot collect any revenue requirement associated with that overrun without first being subject to reasonableness review in the next general rate case. Any revenue requirement during the current rate case cycle or cost over \$702,000 cannot be recorded in the balancing account. In other words, Ranchos is at risk for all overruns unless and until it can justify the reasonableness of the costs in the next general rate.

construction method. Therefore, rates will be subject to refund with interest for the revenue requirement associated with the Office Complex pending a review of the reasonableness of these two items in the next [general rate case].” That decision allowed the company to justify the reasonableness of costs in the next general rate case which is currently pending in A.11-07-005.

⁷ As discussed elsewhere this would be a balancing account because the reasonableness of the project has been determined herein; only the timing and the reasonable final cost are unknown and therefore subject to later review.

16. Escalation Year Methodology – Employee and Retiree Health Care

We adopt the specific employee and retiree health care expense amounts based on actuarial medical cost trend projections subject to a balancing account to recover the difference between actual and forecast expenses.

Ranchos proposes specific employee and retiree health care expense amounts based on actuarial medical cost trend projections instead of the default escalation year methodology that uses the consumer price index for utilities' escalation factors. Ranchos argues that the indexed rates are significantly below the actuarial forecast and would not adequately compensate the company for the likely expense. The differences in the rates of escalation range from 3% - 3.45% (2013 and 2014) per year for dental expense and 4.55 - 5.7% (2013 and 2014) for medical. (Ranchos' Opening Brief at 36.)

DRA argues that the company's proposal violates the guidelines in the rate case plan to use the labor factor of the consumer price index. (DRA Opening Brief at 18 citing to D.07-05-062, Appendix A at A-19.)

Ranchos indicated in its application that the proposed rate increase was driven by at least eight specific factors, including health and welfare benefits (item 7 at page 3). Thus Ranchos provided notice to parties that it was requesting specific relief for these cost increases. The rate case plan (D.07-05-062) is not an absolute mechanical rule, although it has many default mechanical processes. The concept of attrition rate relief as adopted in the rate case plan is inherently meant to be more mechanical (e.g. based on indexed adjustments for many expense categories) and less than a fully litigated rate proceeding for each year between rate cases (which would be extremely resource intensive for the Commission and the utilities). Nevertheless, many items expected to occur in the attrition years are, with notice and an opportunity to be heard, specifically

litigated as a part of the rate case proceeding beyond the limit of the test year itself. In this way unique events foreseeable in the interim or attrition years can be properly addressed in rates.

In this instance, Ranchos asked for, and offered a justification, to depart from the mechanical indexing of attrition year health costs. DRA did not challenge the competence, methodology, or the accuracy of the actuarial forecast for health costs offered by Ranchos. We find that it is not reasonable to rely on a strict mechanical adherence to the rate case plan guidelines when persuasive testimony suggests that such an indexing is likely to provide an insufficient attrition adjustment to cover a necessary cost of doing business. We will therefore adopt Ranchos' forecast but we will require a balancing account to record and recover the difference between the adopted forecast and the actual costs of employee and retiree health care expense.

17. Carlyle Transaction Contingency

In a separate proceeding, A.11-01-019, Ranchos and its parent Park Water Company jointly filed an application for a transfer of control to Western Water Holdings LLC. The latter is wholly owned by Carlyle Infrastructure Partners Western Water L.P., which in turn is wholly owned by Carlyle Infrastructure Partners L.P. (collectively, Carlyle). Ranchos and DRA agreed to various benefits as a part of their proposed settlement in that proceeding. Ranchos argues that it did not presume the approval of the application in A.11-01-019 or attempt to incorporate any cost impacts resulting from the transfer to Carlyle. (Ranchos Opening Brief at 42 - 43.)

The transaction was approved by the Commission, in D.11-12-007, dated December 1, 2011. We therefore see no need to provide for any contingency due to a delay in the transfer of control.

18. Interim Rate Relief

Ranchos was granted interim rate relief pursuant to the rate case plan's allowance by ruling dated November 21, 2011.⁸ The difference between current rates and the rates adopted herein is recorded in an Interim Rates Memorandum Account. With the adoption of today's decision Ranchos must file to amortize the balance in the account.

19. Comments on Proposed Decision

The proposed decision of the ALJ in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Timely Comments and reply comments were filed by Ranchos and DRA. Minor corrections and clarifications have been made based on the comments. Where parties again argue the issues we disregard those comments.

DRA objects to using the WRAM to refund any over collections for new positions. We do not see that this offset in any way interferes with the primary purpose of the WRAM to offset the effect of decoupling rate recovery from conservation. Ranchos comments that one new position is already occupied and need not be subject to refund. As long as that position remains occupied Ranchos will not need to make a refund. Nevertheless it is a newly authorized position and therefore the ratepayers will have some protection if this position does not remain occupied and provide benefits during the rate case cycle.

We are not persuaded by DRA that we cannot on our own motion establish a memorandum or balancing account to protect both ratepayers and

⁸ <http://docs.cpuc.ca.gov/EFILE/A/129081.htm>.

Ranchos from either forecast errors for such items as health care costs or pension expense, or the failure to construct or acquire new plant during the rate case cycle. These solutions are a reasonable alternative to forecasting error or operational decisions to defer construction projects included in rates.

20. Assignment of Proceeding

Michael R. Peevey is the assigned Commissioner and Douglas M. Long is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. Ranchos is a Class A water company subject to the Commission's jurisdiction.
2. There is an adequate record composed of all filed and served documents.
3. The proposed partial settlement is a balance between the positions as otherwise litigated in the prepared testimony of Ranchos and DRA.
4. Ranchos needs several new positions. It is uncertain whether these positions will be timely filled.
5. Making the new positions' salaries refundable will protect ratepayers.
6. Ranchos will likely make merit pay increases in the test year.
7. Ranchos will likely give employees bonuses at its five year average rate.
8. There is not a total compensation analysis in the record to determine whether Ranchos' employees are fairly compensated in terms of both the local Apple Valley labor market as well as the water industry in California.
9. Medical and dental expenses are likely rising at a rate greater than the consumer price index rate for both the test year and the escalation years.
10. The medical plan offered by Ranchos is not excessive.
11. Ranchos will likely contribute 3% of salary to 401(k) savings plans in the test year.

12. The pension plan will likely earn less than the rate forecast by the actuary.

13. A pension balancing account allows Ranchos to recover reasonable costs and protects ratepayers from forecast errors.

14. Ranchos has made a reasonable forecast of Employee Assistance and Wellness program costs.

15. A Pressure Reducing Valve Memorandum Account will allow Ranchos to recover costs it spends in looking at the technology.

16. Ranchos should not duplicate any research being performed by other utilities as authorized in Water Resolution W-4854.

17. Ranchos needs a reconfigured office building but has not sufficiently completed the planning and design.

18. A Office Remodel Balancing Account will protect ratepayers if the new office remodel is not completed, or if Ranchos spends more than its current forecast.

19. Ranchos must subsequently demonstrate that final building costs are reasonable.

20. The transfer of control to Carlyle was approved in D.11-12-007 and there is no need for a contingency allowance.

Conclusions of Law

1. Ranchos bears the burden of proof to show that its requests are reasonable.

2. The proposed partial settlement is reasonable in light of the whole record, consistent with law, and in the public interest, and should be adopted.

3. The Commission has the discretion and authority to resolve issues which were not addressed in the settlement.

4. It is reasonable to make new unfilled positions' salaries refundable.

5. Making new position salaries subject to refund if unfilled will protect ratepayers.

6. A total compensation study would determine whether Ranchos' employees are fairly compensated in terms of both the local Apple Valley labor market as well as the water industry in California.

7. Balancing accounts and memorandum accounts will protect ratepayers from excessive or unreasonable rates and allow Ranchos an opportunity to recover reasonably incurred costs.

8. There is no need for a contingency allowance for the transfer of control over Ranchos to Carlyle.

9. This decision should be effective today.

10. This proceeding should be closed.

O R D E R

IT IS ORDERED that:

1. The proposed test year 2012 ratemaking settlement and attrition for both 2013 and 2014 (Attachment A) between Apple Valley Ranchos Water Company and the Division of Ratepayer Advocates is adopted.

2. The test year 2012 revenue requirement and rate design for Apple Valley Ranchos Water Company (Ranchos), which was calculated using the results of the adopted settlement (Attachment A) between Ranchos and the Division of Ratepayer Advocates and the litigated outcomes of this decision, is adopted and set forth in Attachments B through H to this decision.

3. Apple Valley Ranchos Water Company must file a Tier 1 advice letter within 14 days of this decision to implement the rates and charges adopted in this decision and Attachments A and B.

4. Apple Valley Ranchos Water Company (Ranchos) must cease tracking the difference between the rates in effect before this decision and the final rates adopted herein upon implementation of the rates adopted in Ordering Paragraph 2. Ranchos must file a Tier 2 advice letter to amortize the balance in its Interim Rates Memorandum Account consistent with Commission amortization practices. The account shall remain in effect until the balance is fully amortized.

5. Apple Valley Ranchos Water Company must timely file Tier 1 advice letters in conformance with General Order 96-B proposing new revenue requirements and corresponding revised tariff schedules for post test year rates effective on January 1, 2013 and January 1, 2014 as set forth in the Commission's Rate Case Plan (Decision 07-05-062) for Class A water utilities. The advice letters must include appropriate supporting work papers. These filings must also comport with and comply with the settlement as adopted in Ordering Paragraph 1 of this Decision and the outcomes adopted in Ordering Paragraph 2 of this Decision.

6. Apple Valley Ranchos Water Company must timely file a Tier 1 advice letter to create and implement the Office Remodel Balancing Account with a cap of \$702,000 including an allowance for funds used during construction.

7. Apple Valley Ranchos Water Company must timely file a Tier 1 advice letter to create and implement a refund to the Water Revenue Adjustment Mechanism for the salaries for unfilled positions beginning January 1, 2012.

8. Apple Valley Ranchos Water Company must timely file a Tier 1 advice letter to create and implement an Employee and Retiree Health Care Balancing Account to record and recover the difference between the adopted forecast and the actual costs of employee and retiree health care expense beginning January 1, 2012.

9. Apple Valley Ranchos Water Company must timely file a Tier 1 advice letter to create and implement the Pension Expense Balancing Account to record the difference between the actual pension contributions and the authorized revenue requirement beginning January 1, 2012.

10. Apple Valley Ranchos Water Company (Ranchos) must timely file a Tier 1 advice letter to create and implement the Pressure Reducing Valve Memorandum Account beginning January 1, 2012. Ranchos may not recover the costs for any duplicate analysis otherwise authorized by Water Resolution W-4845.

11. Apple Valley Ranchos Water Company must present a detailed study and testimony in its next general rate case to justify its total compensation package for all levels of workers in terms of both the local Apple Valley labor market as well as the water industry in California.

12. Application 11-01-001 is closed.

This order is effective today.

Dated September 13, 2012, at San Francisco, California.

MICHAEL R. PEEVEY

President

TIMOTHY ALAN SIMON

MICHEL PETER FLORIO

CATHERINE J.K. SANDOVAL

MARK J. FERRON

Commissioners

ATTACHMENT A



FILED

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EXHIBIT A

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Apple Valley)
Ranchos Water Company (U 346 W) for Authority)
to Increase Rates Charged for Water Service by)
\$3,896,586 or 20.0% in 2012, \$547,241 or 2.35%)
in 2013, and \$786,254 or 3.32% in 2014.)
_____)

APPLICATION NO. 11-01-001
(Filed January 3, 2011)

Article I. SETTLEMENT AGREEMENT

1.00 General

1.01 The Parties to this Settlement Agreement (“Settlement”) before the California Public Utilities Commission (“Commission”) are the Division of Ratepayer Advocates (“DRA”) and Apple Valley Ranchos Water Company (“AVR”) – collectively, the “Parties”.

1.02 The Parties agree that no signatory hereto nor any member of the Staff of the Public Utilities Commission assumes any personal liability as a result of this Settlement. The Parties agree that no legal action may be brought in any state or federal court, or in any other forum, against any individual signatory representing the interest of DRA, its staff, its attorneys, or the DRA itself regarding this Settlement. All rights and remedies are limited to those available before the California Public Utilities Commission.

1.03 AVR acknowledges that DRA is charged with representing the interests of customers of public utilities in the State of California, as required by Public Utilities Code Section 309.5, and nothing in this Settlement is intended to limit the ability of DRA to carry on that responsibility.

1.04 Since this Settlement represents a compromise by them, the Parties have entered into the Settlement on the basis that its approval by the Commission not be construed as an admission or concession by either Party regarding any fact or matter of law in dispute in this proceeding. Furthermore, that the Parties intend that the approval of this Settlement by the Commission not be construed as a precedent or statement of policy of any kind except as it relates to the current and future proceedings addressed in the Settlement. (Rule 12.5, Commission Rules of Practice and Procedure.)

1.05 The Parties agree that this Settlement, even though it is not a complete resolution of all issues in this proceeding, is an integrated agreement, so that if the Commission rejects any portion of this Settlement, each Party has the right to withdraw. Furthermore, the Settlement is being presented as an integrated package such that Parties are agreeing to the Settlement as a whole, as opposed to agreeing to specific elements of the Settlement.

1.06 The Parties' negotiations have resulted in the resolution of most of the issues identified in DRA's Report on the Results of Operations of Apple Valley Ranchos Water Company ("Report") dated May 10, 2011.

1.07 Unresolved Issues between the Parties: This agreement settles all outstanding issues in this proceeding except the following ones: DRA and AVR do not agree on the Office Expansion capital project proposed by AVR. DRA and AVR do not agree on several payroll issues including the new employee positions of Water Audit Conservation Specialist, Water Quality Specialist, and Asset Management Project Coordinator proposed by AVR, merit pay, and bonuses. DRA and AVR further do not agree on the benefit issues of Medical and Dental insurance, 401K, Group Pension, and EAP/Wellness. DRA and AVR agree that a regulatory account for Group Pension is appropriate but disagree on whether it should be a Balancing Account or Memorandum Account. DRA and AVR do not agree on the Pressure Reducing Valve Memorandum Account proposed by AVR. DRA and AVR do not agree on the escalation year methodology for healthcare and retiree healthcare proposed by AVR. While DRA and AVR agree on the impacts of the Carlyle Transaction on the expenses for 2012-2014, they do not agree on the appropriate way to deal with the contingency that the transaction will not close by

January 1, 2012. The unresolved issues are identified in the Parties’ Briefs as Office Expansion, Payroll, Employee Benefits, Regulatory Accounts (Group Pension and Pressure Reducing Valve memo account), Escalation Year Methodology and the contingency that the Carlyle Transaction will not close by January 1, 2012.

1.08 AVR has two “systems”, one is designated as the Domestic system and the other the Irrigation system. The Irrigation System consists of a small gravity irrigation system that serves non-potable (un-treated) water from an irrigation well with return flow to the Mojave River and has a single customer. All other customers are part of the Domestic system that is a pressurized potable water system.

1.09 Cross references (in the form of footnotes) to the record of this proceeding including AVR’s Revenue Requirements Report (“AVR Report”), General Office Report (“GO Report”), DRA’s Report on the Results of Operations of Apple Valley Ranchos Water Company (“DRA Report”), and AVR’s rebuttal testimony are contained in the Settlement. References in the Settlement to AVR’s application include both the application and the exhibits filed in support of the application including the AVR Report and GO Report.

2.00 Customers, Water Sales, and Operating Revenues

2.01 Uncontested Issues

2.01.1 – Customers:

There were no issues concerning the customers for the Industrial, Public Authority, Irrigation – Public Authority, and Irrigation – Gravity. Therefore, the Parties agree to the number of customers in AVR’s application.¹

	<u>2012</u>	<u>2013</u>	<u>2014</u>
Industrial	2	2	2
Public Authority	42	42	42
Irrigation – Public Authority	5	5	5
Irrigation – Gravity	1	1	1

¹ AVR Report p. 17-18, DRA Report p. 2-4

2.01.2 – Water Sales (Ccf per customer):

While the Parties used different methodologies to estimate water sales for Residential customers, DRA and AVR agree to the estimated value proposed in AVR’s application.²

	<u>2012</u>	<u>2013</u>	<u>2014</u>
Residential	233.2	233.2	233.2

2.02 Resolved Issues

2.02.1 – Customers:

For the Residential customer class, the Parties agree to use the number of customers proposed in DRA’s Report.

For the Business, Private Fire, and Pressure Irrigation customer class, the Parties agree to use the five-year average increase from 2005-2006 to 2009-2010. For the Temporary Construction customer class the Parties agree to use the estimated customer growth in the Business customer class as the number of Temporary Construction customers for each year. The Parties agree to include the Apple Valley Country Club as a separate customer class as proposed in DRA’s Report.³

	<u>2012</u>	<u>2013</u>	<u>2014</u>
Residential	17,476	17,526	17,576
Business	1,345	1,358	1,371
Private Fire Service	255	277	299
Irrigation Pressure	184	199	214
Temporary Construction	13	13	13
Apple Valley Country Club	1	1	1

² AVR Report p. 18-19, DRA Report p. 2-9—2-12

³ AVR Report p. 17-18, DRA Report p. 2-4—2-8, Howard Rebuttal p. 5-6

2.02.2 – Water Sales Excluding Residential (Ccf per customer):

The Parties have different methodologies for estimating the unit water sales for all customer classes, but after thorough review of historic and recent data agree to the values below.

For the Business customer class, the Parties agree to use 95% of the five-year average unit water sales in recognition of the observed downward trend. For the Irrigation - Public Authority customer class, the Parties agree to use unit water sales estimates that are midway between the Parties’ proposals using 90% of its regression analysis value (AVR) and the five-year average (DRA).

For the Industrial, Private Fire Service, Irrigation Pressure, and Irrigation Gravity customer classes, the Parties agree to use the five-year average unit water sales. For Public Authority, the Parties agree to use AVR’s estimate based on its regression analysis due to plans for continued conservation efforts by the Apple Valley Unified School District.

For the Temporary Construction customer class the Parties agree to use an estimate based on 90% of the five-year average unit water sales in recognition of the observed downward trend.

AVR did not project any water sales for the Apple Valley Country Club as a separate customer class, or within any other customer class, in its application. DRA projected water sales for the Apple Valley Country Club based on the tariff deviation agreement between the AVR and the Town of Apple Valley filed subsequent to AVR’s application in AVR Advice Letter 165-W. AVR’s Advice Letter 165-W was approved on July 15, 2011 in Resolution W-4882. The Parties agree to include the Apple Valley Country Club as a separate customer class with its five-year average unit water sales.⁴

The Parties agree to customer unit consumption estimates listed below:

	<u>2012</u>	<u>2013</u>	<u>2014</u>
Business	658	658	658
Industrial	706	706	706

⁴ AVR Report p. 18-19, DRA Report p. 2-12—2-16

Public Authority	7,038	7,038	7,038
Private Fire Service	6	6	6
Irrigation - Public Authority	5,909	5,909	5,909
Irrigation - Pressure	2,290	2,290	2,290
Irrigation – Gravity	540,481	540,481	540,481
Temporary Construction	2,542	2,542	2,542
Apple Valley Country Club	143,748	143,748	143,748

2.02.3 – Present Rate Revenues:

Revenue at present rates consists of Service Charge Revenue, Commodity Charge Revenue, and Miscellaneous Revenue. Service Charge Revenue is based on the number of customers multiplied by the appropriate tariff and Commodity Charge Revenue is calculated by multiplying the number of customers by their applicable water use and the appropriate tariff. AVR mistakenly included the proposed increase in fees for Non Sufficient Funds (NSF) checks and reconnection fees (Section 2.02.4) in present rate revenues rather than only in the proposed rate revenues. After adjustment for the revenues associated with AVR’s proposed fee increases, any differences between the Parties’ original projections of total operating revenue stemmed from differences on numbers of customers or water sales. With the Settlement of these issues, there is then no difference between the Parties in calculating revenues at present rates.⁵

2.02.4 – Miscellaneous Revenue at Proposed Rates:

The Miscellaneous Revenue at Proposed Rates is applied as a reduction to the Revenue Requirement for the purpose of determining the amount of revenue to be generated from rates. The Parties agree to use the five-year recorded average with the exception of the increases proposed by AVR for NSF Check and Reconnections. In its rebuttal testimony, AVR provided DRA with information regarding the proposed fee increases. DRA agrees to accept AVR’s estimate for NSF checks and the Parties agree to increase the Reconnection fees to an amount less than AVR proposed in its application in

⁵ AVR Report p. 20, DRA Report p. 2-19

recognition of the customer impact of the proposed fee increase. The Parties have reached a settlement on the issue of the fee increases (discussed in Section 11.02.01) in which the NSF fees and Reconnection fees are increased.⁶

The Parties agree to Miscellaneous Revenues of \$77,400, consistent with the increased fees for NSF Checks and Reconnection Fees. The increase is calculated by taking the two-year recorded average of occurrence by NSF Checks multiplied by the increased fee and the five-year recorded average of occurrence for reconnection fees multiplied by the increased fee.

2.02.5 – Unaccounted for Water (Domestic System):

DRA disagreed with AVR's estimate of 9.0% unaccounted for water for AVR's Domestic System. DRA estimates 8.0% unaccounted for water based on the potential for further reduction in unaccounted for water.⁷

The Parties agree to estimate unaccounted for water for the Domestic System at 8%.

2.02.6 – Unaccounted for Water (Irrigation System):

The Parties agree to estimate unaccounted for water for AVR's Irrigation System using the updated, most recent two-year recorded average for 2009 and 2010, which equals 78.6%.⁸

2.02.7 - Total Water Supply:

The total water supply represents the sum of water sales and unaccounted-for water. With the resolution of customers (Section 2.02.1), water sales (Section 2.02.2), and unaccounted for water (Sections 2.02.5 and 2.02.6), there is no difference in the estimates of total water supply.⁹

⁶ AVR Report p. 111, DRA Report p. 15-11—15-12

⁷ AVR Report p. 34, DRA Report p. 2-16—2-18, Jackson Rebuttal p. 1

⁸ AVR Report p. 34-35, DRA Report p. 2-19, Jackson Rebuttal p. 2

⁹ DRA Report p. 2-16—2-18

	<u>2012</u>	<u>2013</u>	<u>2014</u>
Residential	4,075,403	4,087,063	4,098,723
Business	885,010	893,564	902,118
Industrial	1,412	1,412	1,412
Public Authority	295,613	295,613	295,613
Private Fire Service	1,530	1,662	1,794
Irrigation - Public Authority	29,545	29,545	29,545
Irrigation - Pressure	421,360	455,710	490,060
Temporary Construction	33,046	33,046	33,046
Apple Valley Country Club	143,748	143,748	143,748
Total Domestic Sales	5,886,667	5,941,363	5,996,059
Domestic Unaccounted for Water (8%)	511,884	516,640	521,396
Irrigation – Gravity	540,481	540,481	540,481
Irrigation – Gravity			
Unaccounted for Water (78.6%)	1,985,131	1,985,131	1,985,131
Total Water Supply	8,924,163	8,983,615	9,043,068

3.00 Operation and Maintenance Expenses

3.01 Uncontested Issues

3.01.1 Allocation Factors from Domestic System to Irrigation System:

When allocating expenses from the Domestic System to the Irrigation System, the Parties used 0.29%. When allocating capital related items from the Domestic System to the Irrigation System, the Parties used 0.77%. Any difference in the Parties original position is a result of differing expense and capital estimates for the Domestic System.¹⁰

¹⁰DRA Report p. 3-15

3.01.2 Uncollectible Expense

The Parties did not have a contested issue on the appropriate uncollectible percentage rate.¹¹

The Parties agree to calculate the uncollectible expense using the uncontested uncollectible percentage (0.34%) consistent with the adopted 2012 revenue requirement.

3.02 Resolved Issues

3.02.1 Expense Estimating Methodology

In general, AVR's expense estimates were based on a five-year average of recorded expenses (2006 – 2010) escalated to the Test Year. The 2010 data used by AVR were partially estimated because that was the most current data available to AVR at the time its application was prepared. AVR provided DRA with an update of the recorded 2010 data and an updated five-year average of recorded expense (2006 – 2010) from which DRA estimates are based. Parties agree to use the updated averages in the resolution of settlement items 3.02.5, 3.02.8, 3.02.9, and 3.02.11 where Parties agree to the use of a five-year average for estimating costs. DRA's five-year average calculation is erroneous because it does not correctly escalate the 2006-2010 recorded data. The Parties agree to use the correct, composite, cumulative escalation factors to inflate the recorded dollars to base year 2010 prior to averaging and this is reflected in the resolution of settlement items 3.02.5, 3.02.8, 3.02.9, 3.02.11, 3.02.12, 3.02.13, 4.01.8, 4.01.9, and 4.01.11.¹²

3.02.2 Billing Frequency – Monthly or Bi-Monthly:

AVR proposed a change from bi-monthly to monthly billing starting in the Test Year. Parties agree to retain bi-monthly billing for this rate case cycle and the amounts shown below are the increase in expenses associated with monthly billing requested by AVR which the Parties now agree to remove. The total effect of removing the costs associated with monthly billing is approximately a \$176,529 reduction to AVR's proposed expense estimates.

¹¹ AVR Report p. 34, DRA Report p. 3-10

¹² AVR Report p. 41, Jackson Rebuttal p. 3

Customers-Other (Temp Labor-Cust Acct Mtr Rdg)	\$16,501
Customers-Other (Temp Labor-Cust Acct Rec/Coll)	\$18,269
Customers-Other (Customer-Billing & Related)	\$69,617
Customers-Other (Oth-Cust Acct Rec/Coll)	\$33,628
Customers-Other (Mailing Service)	\$14,954
Customers-Other (Customer Service Forms)	\$7,564
Clearings-Other (Fuel-Trans Cl)	\$1,619
A&G-Other (Bank Fees)	\$14,377

The Parties also agree to calculate working cash consistent with the revenue lag day of 50.84 to reflect the retention of bi-monthly billing.¹³

The Parties agree that AVR will not implement monthly billing in this rate case cycle.

3.02.3 Escalation Factors – Labor:

DRA and AVR used different labor escalation factors in calculating Test Year expense estimates. DRA used the Labor Index as provided by DRA’s memorandum dated February 2011, resulting in an escalation factor of 1.6% for 2011 and 1.9% for 2012. AVR used an estimate of 2.0% for its escalation factor for 2011 and 2012. The Parties agree to use the latest DRA memorandum which is the May 31, 2011 memorandum.¹⁴

The Parties agree to use a labor escalation factor of 1.6% for 2011 and 3.0% for Test Year 2012.

3.02.4 Escalation Factors - Non-Labor:

DRA and AVR used different non-labor escalation factors in calculating Test Year expense estimates. DRA used a 60/40 weighting of the Non-Labor Index and the Compensation Per Hour Index as provided by DRA’s memorandum dated February 2011, resulting in an escalation factor of 2.6% for 2011 and 2.2% for 2012. AVR used an

¹³ AVR Report p. 27-28, DRA Report p. 12-1—12-8

¹⁴ AVR Report p. 29, DRA Report p. 3-3, Jackson Rebuttal p. 2-3

estimate of 3.75% for its escalation factor for 2011 and 2012. The Parties agree to use the latest DRA's memorandum which is the May 31, 2011 memorandum.¹⁵

The Parties agreed to use, for all non-labor or related expenses an escalation factor of 4.38% for 2011 and 2.44% for Test Year 2012.

3.02.5 Operations-Other:

There were three issues within this expense category including water treatment expense, SCADA and uniforms. With the exception of the expense categories associated with water treatment expense and uniforms, both Parties used the same methodology to estimate Test Year 2012 expense. This expense category is subject to the agreement on the expense estimating methodology (Section 3.02.1) and escalation factors (Section 3.02.4).¹⁶

3.02.5(a) Operations-Other – Water Treatment:

AVR used specific expense estimates for water treatment expense. Parties agree to AVR's application amount of \$55,154 for water treatment expense for Test Year 2012 based on the scheduled laboratory testing required by federal and state regulations .¹⁷

3.02.5 (b) Operations-Other - SCADA:

The Parties agree to \$38,000 based on the agreement on expense estimating methodology (Section 3.02.01) and escalation factors (Section 3.02.4).¹⁸

3.02.5 (c) Operations-Other – Uniforms:

Differences in the Parties' estimate of uniforms are attributed to the unresolved issue of new employee additions.¹⁹

¹⁵ AVR Report p. 33, DRA Report p. 3-3, Jackson Rebuttal p. 2-3

¹⁶ AVR Report p. 33-34, DRA Report p. 3-4, Jackson Rebuttal p. 3-4

¹⁷ AVR Report p. 33-34, DRA Report p. 3-4, Jackson Rebuttal p. 3-4

¹⁸ AVR Report p. 33-34, DRA Report p. 3-4, Jackson Rebuttal p. 3-4

¹⁹ AVR Report p. 33-34, DRA Report p. 3-4, Jackson Rebuttal p. 3-4

3.02.6 Purchased Power, Replenishment Charges and Leased Water Rights – AVR Domestic System:

The difference in the Parties' original estimates were a function of the Parties' different estimates of total production which resulted from the differences in customers, consumption and unaccounted for water described above in Section 2 and an error in DRA's calculation.

The Parties had no issue with regard to the unit costs of production used in the calculation of Purchased Power. The Parties used the same rates from Southern California Edison and Southwest Gas and the same methodology incorporating ratio of power consumption to water production to calculate Purchased Power expense. The Parties agree to remove the fixed charges associated with Well No. 24, which has been taken out of service and will serve as a standby well. DRA's calculation eliminated the production assumed from Well 24 rather than re-allocating that production to other wells. The Parties agree to re-allocate the production to other wells.

The Parties used the same methodology and the same per acre-foot rates for the three components (Make-up Assessment, Administrative Assessment and the Biological Assessment) of the Replenishment Charges to calculate this expense. The Parties used the same methodology and the same per acre-foot rate to calculate the Leased Water Rights expense. The Parties agree to assume that the Leased Water Rights for the water production associated with the Apple Valley Country Club will be provided to AVR at no cost consistent with the tariff deviation agreement between AVR and the Town of Apple Valley (Section 2.02.2) as authorized by Commission Resolution W-4882 dated July 15, 2011.²⁰

The Parties agree that the estimates of production costs should be based on an estimate of total water production which incorporates both the uncontested issues and the settled positions on the contested issues, from Section 2 above, as they pertain to customers, customer unit consumption and unaccounted for water.

²⁰ AVR Report p. 38-41, DRA Report p. 3-5—3-7, Jackson Rebuttal p. 5

3.02.7 Purchased Power & Replenishment – AVR Irrigation System:

There are no methodological differences between DRA's and AVR's estimates of purchased power and replenishment. The original differences between DRA's and AVR's estimates result from the different estimates of water sales and unaccounted for water, that together equal the total water supply.²¹

The Parties agree to use the uncontested methodology and expense rates as used in AVR's application consistent with the resolution of the total water supply.

3.02.8 Chemicals Expenses:

Both Parties used the same 5-year historical period and methodology to estimate Test Year 2012 expense.²²

Based on the agreement on estimating methodology (Section 3.02.1) and escalation factors (Section 3.02.4) the Parties agree to the estimate of \$27,312 for the Test Year expense.

3.02.9 Customer Accounts – Other (excluding Conservation):

Both Parties used the same methodology to estimate Test Year 2012 expense. The methodology incorporated both a 5-year historical average and specific forecasted estimates. With the resolution of the issue of billing frequency (Section 3.02.2) and the agreement on estimating methodology (Section 3.02.1) and escalation factors (Section 3.02.4) there is no difference between the Parties' estimates of the accounts impacted by billing frequency.²³

The Parties agree to use a revised estimate of \$170,920 for Test Year 2012.

3.02.10 Conservation:

In its application, AVR proposed a conservation budget that was based on a preliminary draft of its Water Use Efficiency Plan (WUEP). DRA recommended a reduced conservation budget based on its analysis and review of actual and authorized

²¹ AVR Report p. 37, DRA Report p. 3-4—3-7

²² AVR Report p. 33, DRA Report p. 3-8, Jackson Rebuttal p. 5-6

²³ AVR Report p. 33, DRA Report p. 3-8, Jackson Rebuttal p. 6

conservation expenses and the fact that AVR had not completed its WUEP. DRA also recommended reporting requirements from the PD on Phase II of the Conservation OII, which subsequently were adopted by the Commission. Subsequent to the issuance of DRA’s Report, AVR’s consultant completed the WUEP and AVR provided a copy of it to DRA.

Since the Commission, in the Final Decision on Phase II of the Conservation OII, has adopted the reporting requirement for conservation programs recommended by DRA, AVR will comply with that decision and the issue is moot. After additional discussion the Parties agree to base the total conservation expenses for 2012-2014 on the recommendations in the completed WUEP and the Parties agree to DRA’s recommendation to establish a one-way capped balancing account for conservation expenses that, because conservation costs may not be incurred evenly throughout the rate case cycle, will cover the entire rate cycle versus a yearly cap. In the event that AVR does not spend the amount of the total cap for the conservation programs during this rate case cycle (\$321,126), AVR would refund to customers any unspent amount in its next rate case. Specifically, the Parties agree as follows:

The Parties agree that AVR, for the 3-year GRC rate cycle, will implement its WUEP which includes the five (5) components listed below:

1. Public Information and Outreach	\$21,438 annually (2012 dollars)
2. Home Owners Assoc. and Large Landscape, High Efficiency Nozzles distribution	\$16,405 annually (2012 dollars)
3. Multi-Family High Efficiency Toilet Direct Install	\$55,115 annually (2012 dollars)
4. Single Family Landscape Survey and Nozzle Distribution	\$10,936 annually (2012 dollars)
5. Cash for Grass Turf Removal Incentive Program	To be funded by adjustment of other measures budgets

- AVR's annual conservation budgets, as described in the WUEP, are:

Test Year 2012 - \$103,894

Esc. Year 2013 - \$107,011

Esc. Year 2014 - \$110,221

Individual program budgets are assumed to escalate for 2013 and 2014 by the same percentage as the annual conservation budget.

- AVR will not spend more than \$30,000 in any year (2012 -2014) on Public Information and Outreach programs, and will implement the five components of the WUEP listed above. Otherwise, AVR will have flexibility in the annual budgets for specific programs proposed in the WUEP, provided that all conservation spending is for programs that meet California Urban Water Conservation Council (CUWCC) BMPs, consistent with the intent of AVR's MOU with the CUWCC to continuously maintain an economically efficient conservation plan designed to meet conservation goals. AVR shall utilize this flexibility to provide some funding for the Cash for Grass Turf Removal Incentive Program (depending on participation by customers) that is no longer to be funded by Mojave Water Agency.
- AVR will track all conservation expenses for the 3 years of this rate cycle (2012 to 2014) in a One-Way Balancing Account to be capped at the total amount, as provided in the WUEP (see attached pages 83-84), or \$321,126 total for the 3 years (2012, 2013 and 2014) GRC.
- For AVR's next GRC application, AVR will provide an explanation of budget changes made to the WUEP during the three-year implementation of the WUEP (2012 through 2014). AVR will provide justifications for any deviations from the five components in the Plan, and describe what alternate BMPs and programs were implemented, and the cost-effectiveness calculations and water savings estimates from these BMPs and programs.²⁴

²⁴ AVR Report 11-12, DRA Report p. 3-15—3-20, Jackson Rebuttal p. 6-9

3.02.11 Maintenance – Other:

With the exception of the expense categories related to well maintenance, both Parties used the same 5-year historical average methodology to estimate Test Year 2012 expense and differences are resolved by the agreement on estimating methodology (Section 3.02.1) and escalation factors (Section 3.02.4). For well maintenance expense, AVR used specific expense estimates to reflect its proposed preventive maintenance program and DRA used a 5-year historical average.²⁵

The Parties agree to the estimate of \$700,111 for Test Year expense using DRA's recommended methodology adjusted per Section 3.02.1.

3.02.12 Clearings – Payroll:

There are no methodological differences between DRA and AVR. The original differences between DRA's and AVR's estimates resulted from the different estimates of payroll due to escalation and the unresolved issues of merit increases and new employee additions.²⁶

The Parties agree to recalculate clearings payroll using the uncontested methodology used in AVR and DRA's estimates, consistent with the stipulation on escalation factors and consistent with the resolution of payroll.

3.02.13 Clearings – Other:

There were four issues in this expense category including license fees, fuel, vehicle insurance, and payroll related accounts. There are no methodological differences between DRA and AVR. The original differences between DRA's and AVR's estimates resulted from different estimates of escalation, payroll, expenses associated with monthly billing, and the expense estimating methodology issue (Section 3.02.1).²⁷

With the settlement on escalation factors (Section 3.02.4), expense estimating methodology (Section 3.02.1), and billing frequency (section 3.02.2), the Parties agree to the estimate of \$14,700 for license fees, \$90,700 for fuel expense, and \$53,600 for

²⁵ AVR Report p. 33-34, DRA Report p. 3-9, Jackson Rebuttal p. 10

²⁶ AVR Report p. 29-33, DRA Report p. 3-9, Jackson Rebuttal p. 10

²⁷ AVR Report p. 33-34, DRA Report p. 3-101, Jackson Rebuttal p. 11

vehicle insurance. The Parties agree to recalculate the remaining accounts within the expense category of clearings-other using the methodology used in AVR and DRA's estimates, consistent with the stipulation on escalation factors and consistent with the resolution of payroll.

4.00 Administrative and General Expenses

4.01 Resolved Issues

4.01.1 Direct Charged Payroll to AVR

There are no methodological differences between DRA and AVR to estimate the direct charged payroll from General Office and Central Basin Division. The original differences between the Parties' estimates resulted from an error in DRA's payroll schedule. The difference between the Parties' proposed estimates are due to the unresolved payroll merit issue.²⁸

The Parties agree to recalculate the direct charged payroll using the methodology used in AVR's application consistent with the resolution of payroll issues.

4.01.2 Employee Benefits – PBOP

DRA applied a percentage reduction to AVR's estimate of PBOP on the basis of the differences in the Parties' estimates for payroll.²⁹

The Parties agree to use AVR's application estimate of \$172,100 for PBOP in 2012 because this benefit is not based on payroll.

4.01.3 Employee Benefits – 401(a) – AVR

There are no methodological differences between DRA's and AVR's estimates. The differences between the Parties' estimates result from differences in the number of employees eligible for this benefit.³⁰

The Parties agree to use the methodology used in AVR and DRA's estimates consistent with the resolution of payroll issues.

²⁸ AVR Report p. 4-3, Jackson Rebuttal p. 4

²⁹ AVR Report p. 42-43, DRA Report p. 4-18—4-19, Martinet Rebuttal p. 21

³⁰ AVR Report p. 43, DRA Report p. 4-12—4-13

4.01.4 Employee Net Benefits Adjustment (credit)

There are no methodological differences between DRA and AVR. The original differences between DRA's and AVR's estimates resulted from different estimates of payroll due to escalation and the unresolved issues of merit increases and new employee additions.³¹

The Parties agree to recalculate employee net benefits adjustment using the methodology used in AVR and DRA's estimates, incorporating the settlement on escalation factors (Section 3.02.3), and consistent with the resolution of the payroll issues.

4.01.5 Insurance:

There are no methodological differences between the Parties. The original differences between DRA's and AVR's estimates resulted from differences in the Parties' estimates of payroll due to escalation and the unresolved issues of the new staffing positions.³²

The Parties agree to recalculate insurance using the uncontested methodology used in AVR's application, incorporating the settlement on escalation factors (Section 3.02.3), consistent with the resolution of the payroll issues.

4.01.6 Regulatory Commission Expense:

DRA and AVR used the same methodology but different escalation factors to derive test year expense estimates, with DRA's escalation being a higher percentage than the percentage used by AVR. The Parties agree to use a revised estimate of \$98,468 for Test Year 2012 which incorporates the settlement on escalation factors (Section 3.02.4).

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³¹ AVR Report p. 42, DRA Report p. 4-12—4-13

³² AVR Report p. 41, DRA Report p. 3-11

³³ AVR Report p. 43, DRA Report p. 3-12, Jackson Rebuttal p. 13

4.01.7 Franchise Requirements:

The Parties had different estimates of expense based on different estimates of the appropriate franchise requirement percentage rate and the revenues to which the rate is applied. AVR estimated a franchise fee rate of 1.0%. DRA estimates a franchise fee rate of 0.95% based on a five-year recorded average that includes recorded data for 2010. AVR accepts DRA's recommendation.³⁴

The Parties agree that the franchise requirement rate (0.95%) should be applied to the adopted 2012 revenue requirement to estimate the Franchise Requirements.

4.01.8 Outside Services:

Both Parties based their estimate of outside services on a 5-year historical average. AVR proposed an additional \$25,000 for compliance with the requirements of Commission Decision 10-10-019 for affiliate transactions. After review of rebuttal and discussion with witnesses, the Parties agree to a revised estimate of \$259,637 for Test Year 2012 which is a \$9,000 reduction to AVR's original estimate of outside services. The stipulated estimate incorporates the settlement on escalation factors (Section 3.02.3) and expense estimating methodology (Section 3.02.1).³⁵

4.01.9 A&G Other:

AVR estimated some expenses in this category using a 5-year historical average and others using specific forecasted estimates. For the expenses that are impacted by employee count both Parties adjusted the five-year average by their respective estimates of the annual change in the number of employees. For bank fees, dues and memberships, and the Corporate A&G allocation, AVR used specific expense estimates while DRA's estimates were based a 62% disallowance of AVR's estimate of dues and membership and on 5-year historical averages for the other expenses.³⁶

With the resolution of the issue of billing frequency (Section 3.02.2), escalation factors (Section 3.02.4) and expense estimating methodology (Section 3.02.1), AVR

³⁴ AVR Report p. 43, DRA Report p. 3-12

³⁵ AVR Report p. 43, DRA Report p. 3-13

³⁶ AVR Report p. 41, DRA Report p. 3-13—3-14, Jackson Rebuttal p. 12-13

agrees to use a 5-year average to determine the bank fees. The Parties agree to use a revised estimate of \$25,365 for bank fees for Test Year 2012. The Parties agree to a revised estimate of \$30,000 for dues and memberships for Test Year 20120. The Parties agree to calculate the Corporate A&G allocation consistent with the stipulated General Office payroll. For the expenses that are impacted by the number of employees, the Parties agree to calculate those expenses consistent with the resolution of the new staffing positions.

4.01.10 Administrative Expense Transferred:

There are no methodological differences between DRA and AVR. The Parties agree that the Administrative Expense Transferred should be calculated using the uncontested methodology proposed in AVR's application and the stipulated balances of capital expenditures and the resolution of the unresolved issue of the Office Expansion project.³⁷

The Parties agree to calculate the administrative expense transferred incorporating the adopted plant additions.

4.01.11 A&G Rents:

There are no methodological differences between DRA and AVR. Both Parties used a 5-year historical average to estimate A&G rents. The original differences between DRA's and AVR's estimates resulted from the use of different escalation factors (Section 3.02.4) as well as the issue of expense estimating methodology (Section 3.02.1).³⁸

The Parties agree to the estimated amount of \$17,564 for the Test Year 2012 for A&G rents using the methodology used in AVR and DRA's estimates consistent with the stipulation on escalation factors and expense estimating methodology.

4.01.12 General Office Allocation:

AVR proposed allocation factors for its General Office based on the four-factor allocation methodology. DRA reviewed AVR's calculation of the allocation factors and

³⁷ DRA Report p. 3-4, Jackson Rebuttal p. 14

³⁸ AVR Report p. 41, DRA Report p. 3-14

recommended the use of the updated allocation factors in use during 2011. AVR agrees to use DRA's recommended allocation factors of 30.28% and 0.24%, for the Domestic and Irrigation Systems respectively. The settlement allocation factors differ only slightly from the allocation factors used by AVR in its application and therefore any difference in the Parties original position of the General Office Allocation is primarily a result of differing estimates of General Office expenses.³⁹

The Parties agree to calculate the allocations of General Office expenses to incorporate the settlement allocation factors and the settlement positions on the overall estimates of General Office expense of both Parties, described in detail in Section 16, as well as the resolution of the unresolved issues in General Office expense.

5.00 Taxes Other Than Income Tax

5.01 Resolved Issues:

5.01.1 Ad Valorem Taxes:

DRA accepted AVR's methodology for estimating ad valorem taxes, based on the assessment methodology used by the San Bernardino County Assessor's Office. The original differences between DRA's and AVR's estimates resulted from the different estimates of AVR's utility plant in service, a calculation error in AVR's schedule, and the resolved issue of deferred taxes (Section 9.02.5). As the remaining contested issues for utility plant in service, impact test year 2013 only, there is no difference between the Parties for test year 2012. AVR's estimate increased from the original position based upon correction of the calculation error.⁴⁰

The Parties agree that the ad valorem taxes should be calculated using AVR's corrected Settlement methodology, the resolved issue on deferred taxes, and incorporating the adopted utility plant in service.

5.01.2 Payroll Taxes:

There are no methodological differences between DRA's and AVR's estimates of payroll taxes. The original differences between DRA's and AVR's estimates resulted

³⁹ AVR Report p. 3-4, DRA Report p. 3-15

⁴⁰ AVR Report p. 51, DRA Report p. 5-1—5-2

from the different estimates of payroll and a calculation error in DRA's estimate of the direct payroll charged to AVR from Park.⁴¹

The Parties agree that payroll should be calculated using the uncontested methodology contained in AVR's application consistent with the resolution of payroll issues.

6.00 Income Taxes

6.01 Resolved Issues

6.01.1 Tax Depreciation Deduction:

There are no methodological differences between DRA's and AVR's estimates of the ratemaking tax depreciation deduction. The original differences between the DRA's and AVR's estimates result from the different estimates of plant additions.⁴²

The Parties agree that tax depreciation should be calculated using the methodology used in AVR and DRA's estimates consistent with the adopted utility plant.

6.01.2 Qualified Production Deduction (Federal Income Tax Only):

The tax code and tax forms refer to this as the Domestic Production Activities Deduction ("QPD"). DRA's Report did not propose a different methodology for calculation of this tax deduction from that proposed by AVR. During settlement discussions the Parties determined that the spreadsheet used by both AVR and DRA contained a formula error which the parties agreed to correct. The issue of the availability of all or part of the QPD due to the impact of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 ("Tax Relief Act") raised in AVR's rebuttal is resolved between the Parties by Parties agreement not to incorporate the impact of the Tax Relief Act in this rate case but instead to track those impacts in AVR's 2010 Tax Act Memorandum Account established pursuant to Resolution L-411A.

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⁴¹ AVR Report p. 51, DRA Report p. 5-2—5-3

⁴² AVR Report p. 92, DRA Report p. 6-2—6-3

⁴³ AVR Report p. 93, DRA Report p. 6-3—6-4

The Parties agree to calculate this income tax deduction based upon the methodology used for preparing AVR's most recent federal tax return (including percentages to determine applicable revenues and deductions. The Parties agree that the QPD tax deduction should be estimated by taking 9% of the production-related portion (48.22%) of AVR's Federal Taxable Income prior to the state tax deduction ((Fed. Taxable Income less state tax deduction) x .4822 x .09).

6.01.3 All Other Income Tax Components:

Other than the items in Sections 6.01.1 and 6.01.2, DRA agreed with methods used by AVR to calculate income tax expense. Any differences in the Parties original positions stemmed from estimates of revenues, expenses, and utility plant.⁴⁴

The Parties agree that Income Tax expense should be calculated using the methodology used in AVR and DRA's estimates and consistent with all other aspects of the Settlement and resolution of the unresolved issues including adopted utility plant.

7.00 Utility Plant in Service

7.01 Uncontested Issues

7.01.1 Real Property Subject to Water Infrastructure Improvement Act of 1996:

Since AVR's last rate case application there has been no real property determined to be no longer necessary or useful.

The Parties agree that there is no real property to report that is subject to the Water Infrastructure Improvement Act of 1996.⁴⁵

7.02 Resolved Issues

7.02.1 Plant Additions:

AVR presented testimony in support of its recommended capital budget of \$4,252,277 in 2011, \$4,351,158 in 2012, and \$4,503,758 in 2013. DRA reviewed and analyzed AVR's application, testimony, workpapers, and responses to data requests.

DRA's report recommended a capital budget of \$2,451,757 in 2011, \$2,866,998

⁴⁴ AVR Report p. 93, DRA Report p. 6-1—6-2

⁴⁵ AVR Report p. 68

in 2012, and \$2,718,554 in 2013. The Parties stipulate to a complete settlement of all the utility plant issues identified in DRA's report with the exception of the unresolved issue of the Office Expansion project. The Parties agree to a stipulated capital budget, for expenditures other than the Office Expansion project, of \$3,421,964 in 2011, \$3,697,851 in 2012, and \$3,781,997 in 2013. The individual components of the stipulated capital budget are discussed below.⁴⁶

The Parties agree that the utility plant in service will be calculated using the stipulated balances of plant in service, and consistent with the resolution of the Office Expansion project.

7.02.2 Capital Escalation Factor:

Both Parties used an escalation factor to develop estimates for certain capital projects for years 2011 through 2013. AVR used a five-year average (2005 – 2009) of the Construction Cost Index to develop an annual escalation rate of 3.42%. DRA used the same methodology but updated the five-year average to include recorded data for 2010. AVR agrees to DRA's recommendation.⁴⁷

The Parties agreed to use DRA's recommended capital escalation factor of 3.21%.

7.02.3 Mockingbird Booster Pump Station:

AVR presented testimony in support of the Mockingbird Booster Pump Station project that was deferred from 2009 and authorized in AVR's prior rate case. AVR proposed that the project would be initiated and completed in 2011 for \$640,000. DRA's report recommended disallowance of the project and the associated main (Del Oro Main extension) because DRA was concerned that 2010 supply and demand conditions did not warrant the construction of the project. AVR's rebuttal included information regarding the loss of production from AVR Wells 24 and 36 and projected increase in demand in 2012-2014 from 2010. The Parties agree to use AVR's application amount of \$640,000.

The Parties agree that the project will start in 2011 but that the project will close

⁴⁶ AVR Report p. 54, DRA Report p. 7-1—7-4

⁴⁷ DRA Report p. 7-4, Dalton Rebuttal p. 13-17

in Test Year 2012 rather than 2011 and to reflect a balance of \$320,000 in Construction Work in Progress as of December 31, 2011.⁴⁸

7.02.4 Main Replacements:

AVR requests capital budget for main replacements of \$1,230,961 in 2011, \$1,247,130 in 2012, and \$1,857,962 in 2013. DRA recommended \$587,912 in 2011, \$787,277 in 2012, and \$888,957 in 2013. After review of AVR's rebuttal and discussion with witnesses, the Parties agree to revised main replacements of \$994,432 in 2011, \$1,068,618 in 2012, and \$1,570,902 in 2013. The stipulated main replacements for 2011 include the Roanoke/St Timothy project, Hilltop Tank 1 Northside Piping project, and the Seneca 16" project proposed by AVR. The stipulated main replacements for 2012 include the Highway 18/Apple Valley Road project, Tract 4053 South project, Yucca Loma Bridge project, Hilltop Above Ground West and Hilltop Above Ground East projects. The stipulated main replacements for 2013 include the Rancherias project, Arcata/Lodema project, Hilltop From Above Ground to Sitting Bull project and the Hilltop Above Ground to Lyon's Park project. AVR agreed to defer 4 major main replacements from this rate case cycle as recommended by DRA. AVR also agreed to use the 8-inch PVC unit cost recommended by DRA for all 8-inch PVC main replacement projects. The Parties agree to use DRA's recommended emergency main replacements of \$372,814 in 2011, \$384,791 in 2012, and \$397,153 in 2013. For emergency main replacements, the Parties' estimates differed due to the use of different escalation factors. Consistent with the resolution of the escalation factors (Section 7.02.2) AVR agreed to DRA's recommendation.

The Parties further agreed that AVR will include in its next general rate case the details of the Asset Management Program for mains. The Asset Management Program will contain statistics and quantification of targets and goals of AVR's main replacement program.⁴⁹

7.02.5 Del Oro Main Extension:

⁴⁸AVR Report p. 62, DRA Report p. 7-5—7-9, Dalton Rebuttal p. 13-17.

⁴⁹AVR Report p. 54-59, DRA Report p. 14-1—14-21, Dalton Rebuttal p. 4-12

As stated in Section 7.02.3, this pipeline project is associated with the Mockingbird Booster Pump Station. In its report DRA recommended disallowance of this project. After review of AVR's rebuttal and in consideration that this project represents completion of the system connection adopted in AVR's prior GRC, DRA agrees to include this project.

The Parties agree that the project will be constructed in Test Year 2013, rather than Test Year 2012 as originally proposed by AVR at a cost equal to AVR's application amount of \$179,000.⁵⁰

7.02.6 AMR:

The Parties agree to use revised plant additions of \$422,841 in 2011, \$470,933 in 2012, and \$434,445 in 2013. In determining the revised amounts, the Parties agreed to use an updated unit cost that is based on the actual 2011 unit cost as reflected in AVR's rebuttal testimony.⁵¹

7.02.7 Well Site Improvements:

AVR requested a capital budget of \$100,000 in 2011, \$300,000 in 2012, and \$200,000 in 2013. AVR's request for 2012 included \$100,000 in specific site improvements for Well 18 including site grading and pedestal reconstruction. The Parties had no difference over the well site improvements for Well 18. AVR requested an increase in expenditures above average historical levels in order to initiate a proactive well maintenance program. The Parties agree to use revised plant additions of \$73,500 in 2011, \$224,600 in 2012, and \$125,400 in 2013.⁵²

7.02.8 Pump/Motor Replacements:

AVR requested a capital budget of \$300,081 in 2011, \$310,334 in 2012, and \$320,957 in 2013. As described above in Section 7.02.7, AVR has requested an increase in expenditures above average historical levels to initiate a more proactive program for

⁵⁰ AVR Report p. 58, DRA Report p. 7-5—7-9

⁵¹ AVR Report p. 61, DRA Report p. 7-14.

⁵² AVR Report p. 61-62, DRA Report p. 7-23.

well testing and maintenance. After review of rebuttal and discussion with witnesses, the Parties agree to use revised plant additions of \$173,987 in 2011, \$180,084 in 2012, and \$187,702 in 2013.⁵³

7.02.9 SCADA(Supervisory Control and Data Acquisition):

AVR requested a capital budget of \$324,000 in 2011, \$189,000 in 2012, and \$148,446 in 2013. AVR requested expenditures above average historical levels in order to facilitate the conversion of its SCADA system to current technology (Ethernet radio communication system) needed to improve system reliability.

The Parties agree to use revised plant additions of \$255,350 in 2011, \$190,850 in 2012, and \$173,673 in 2013.⁵⁴

7.02.10 Air/Vacuum Installation:

After review of AVR's rebuttal, The Parties agree to use AVR's application amounts of \$40,800 in 2011, \$42,195 in 2012, and \$43,638 in 2013.⁵⁵

7.02.11 Valves:

Based on review of recorded 2010 data, The Parties agree to use AVR's application amounts of \$31,598 in 2011, \$32,654 in 2012, and \$33,767 in 2013.⁵⁶

7.02.12 Hydrants:

Based on review of recorded 2010 data, The Parties agree to use AVR's application amounts of \$37,463 in 2011, \$38,745 in 2012, and \$40,069 in 2013.⁵⁷

7.02.13 Service Lines:

Based on review of recorded 2010 data, the Parties agree to use AVR's application amounts of \$192,369 in 2011, \$200,534 in 2012, and \$206,441 in 2013.⁵⁸

⁵³ AVR Report p. 61, DRA Report p. 7-24, Dalton Rebuttal p. 20-21

⁵⁴ AVR Report p. 63-64, DRA Report p. 7-26—7-28, Dalton Rebuttal p. 21

⁵⁵ AVR Report p. 60, DRA Report p. 7-28, Dalton Rebuttal p. 21-22

⁵⁶ AVR Report p. 59-60, DRA Report p. 7-30

⁵⁷ AVR Report p. 60, DRA Report p. 7-31

7.02.14 Vehicles:

AVR requested a budget of \$107,100 in 2011, \$78,186 in 2012, and \$150,490 in 2013 for vehicle purchases. AVR agrees to use the budget amounts recommended by DRA, except for 2011. For 2011, the Parties agree to an addition of one new Explorer at \$31,500, instead of one Ranger at \$25,200 as recommended by DRA.⁵⁹

The Parties agree to amounts of \$81,900 in 2011, \$52,100 in 2012, and \$111,600 in 2013.

7.02.15 Vactor Trailer:

AVR requested \$82,731 in 2012 to purchase a Vactor trailer. AVR agrees to DRA's recommended cost of \$52,000 that is based on a current price quote for the Vactor trailer.⁶⁰

7.02.16 Utility Plant- Irrigation System:

The Parties both estimated average utility plant balances for the Irrigation system (exclusive of the general plant allocated from the Domestic system) of \$568,605 for 2012 and 2013. There is a difference, however, in total utility plant that is caused by differences in the general plant allocation from the Domestic system. The general plant allocation is determined by multiplying the general plant allocation factor by the general plant balance. The general plant allocation factor of 0.77% was used by both Parties. Differences in the Parties estimates of the allocated amounts of general plant are caused by the contested utility plant issues described in section 7.02.1.⁶¹

The Parties agree that General Plant allocated to the Irrigation System should be calculated using the adopted balances of plant in service.

8.00 Depreciation Expense

8.01 Uncontested Issues

⁵⁸ AVR Report 60-61, DRA Report p. 7-31

⁵⁹ AVR Report p. 64-65, DRA Report p. 7-20

⁶⁰ AVR Report p. 65, DRA Report p. 7-22.

⁶¹ AVR Report p. 88, DRA Report p. 1-7

8.01.1 Depreciation Rates (Domestic System):⁶²

DRA agreed with the depreciation rates proposed by AVR.

	SOURCE OF SUPPLY	PRESENT	PROPOSED
311	STRUCTURES & IMPROVEMENT	2.53%	1.71%
315	WELLS & SPRINGS	2.72%	2.67%
317	OTHER SOURCES & SUPPLY	2.59%	2.55%
	PUMPING PLANT		
321	PUMPING-STRUCT./IMPROV.	3.32%	3.33%
324	OTHER PUMPING EQUIP.	3.65%	3.80%
	WATER TREATMENT PLANT		
332	WATER TREATMENT EQUIP.	3.41%	4.20%
	TRANSMISSION & DISTRIBUTION PLANT		
342	RESERVOIRS & TANKS	1.97%	1.97%
343	T & D MAINS	2.42%	2.41%
345	T & D SERVICES	2.62%	2.59%
346	T & D METERS	2.64%	2.82%
348	T & D HYDRANTS	2.28%	2.29%
	GENERAL PLANT		
371	STRUCTURES & IMPROVEMENT	2.90%	2.88%
372	OFFICE FURNITURE & EQUIPMENT	6.26%	7.96%
373	TRANSPORTATION EQUIPMENT	7.77%	14.83%
375	TOOLS & SHOP EQUIP.	5.06%	5.94%
376	LABORATORY EQUIPMENT	7.74%	1.17%
377	POWER OPERATED EQUIP.	5.59%	5.41%
378	COMMUNICATION EQUIP.	6.11%	8.41%
372	COMPUTER EQUIP. -DESKTOPS	7.63%	13.16%
372	COMPUTER EQUIP. - SYSTEM	8.82%	9.95%
372	OTHER TANGIBLE PROPERTY	4.00%	4.00%

⁶² AVR Report p. 80, DRA Report p. 1-7

8.01.2 Depreciation Rates (Irrigation System):⁶³

DRA agreed with the depreciation rates proposed by AVR.

SOURCE OF SUPPLY		PRESENT	PROPOSED
315	WELLS & SPRINGS	3.47%	1.26%
PUMPING PLANT			
321	PUMPING STRUCT/IMPROVE.	3.55%	2.97%
324	PUMPING EQUIPMENT	4.15%	4.09%
TRANSMISSION & DISTRIBUTION PLANT			
343	T & D MAINS	2.68%	2.38%
345	T & D SERVICES	2.58%	2.48%
346	T & D METERS	3.45%	3.26%

8.02 Resolved Issues

8.02.1 Depreciation Expense and Reserve (Domestic System):

There are no methodological differences between DRA and AVR. There was no issue regarding the depreciation rates proposed by AVR (AVR Report page 78). The difference was due to the issues on plant. The Parties continue to have different estimates due to the unresolved issues involving the Office Expansion capital project.⁶⁴

The Parties agree that the depreciation expense and accumulated depreciation reserve should be calculated using the depreciation rates proposed in AVR’s application and the stipulated balances of plant in service incorporating stipulated adjustments, additions, retirements, and the resolution of the unresolved plant issue.

8.02.2 Depreciation Expense and Reserve (Irrigation System):

There are no methodological differences between DRA and AVR pertaining to AVR’s Irrigation System. The difference in total depreciation expense is due to differences in the General Plant allocation from the Domestic System explained in section 7.02.01.⁶⁵

⁶³ AVR Report p. 79

⁶⁴ AVR Report p. 77-78, DRA Report p. 8-1—8-3

⁶⁵ AVR Report p. 83, DRA Report p. 1-7

The Parties agree to use the methodology used in AVR and DRA's estimates for depreciation expense and depreciation reserve. The Parties further agree that depreciation expense should be calculated using the adopted balances of plant in service and uncontested depreciation rates applicable to the individual accounts.

9.00 Ratebase – Domestic System

9.01 Uncontested Issues

9.01.1 Construction Work in Progress:

Both Parties originally used amounts for Construction Work in Progress of \$0 for both 2012 and 2013, respectively. The Parties agree to update the Construction Work in Progress consistent with the resolution of the Mockingbird Booster Pump Station project (See Section 7.02.3). The Parties agree to an average balance of \$160,000 for 2012 and \$0 for 2013.⁶⁶

9.01.2 Other Rate Base Components:

Both Parties used the following estimates:

Unamortized Investment Tax Credit - \$61,418 (2012) and \$56,581 (2013)

Method 5 Adjustment (to account for the ratemaking treatment of the taxability of contributions as mandated by TRA -86) - \$1,381 (2012) and \$995 (2013)⁶⁷

9.02 Resolved Issues

9.02.1 Material and Supplies:

There are no methodological differences between DRA's and AVR's estimates of materials and supplies. The original differences between DRA's and AVR's estimates resulted from the different estimates of the number of customers.⁶⁸

The Parties agree to use the methodology used in AVR and DRA's estimates for materials and supplies. The Parties further agree that materials and supplies should be

⁶⁶ AVR Report p. 83, DRA Report p. 9-4

⁶⁷ AVR Report p. 86, DRA Report p. 9-4

⁶⁸ AVR Report p. 83, DRA Report p. 9-1—9-2

calculated using the stipulated number of customers. The Parties agree to use \$310,792 in 2012 and \$311,971 in 2013.

9.02.2 Working Cash:

There are no methodological differences between DRA and AVR. The differences in the Parties' original working cash estimates resulted from differences in revenues, expense estimates and utility plant used in the total working cash calculation and errors in DRA's schedule. The Parties further agreed to correct errors in AVR's schedules used to calculate the fixed portion of working cash for Work Order Deposits and Supply Facilities Fees. Pursuant to the resolution of the issue of billing frequency (Section 3.02.2), the Parties agree to use the revenue lag of 50.84 days consistent with bi-monthly billing.⁶⁹

The Parties agree that working cash should be calculated using the revenue lag consistent with bi-monthly billing, stipulated and adopted expenses and utility plant in service consistent with the Commission's Standard Practice U-16.

9.02.3 Advances for Construction ("Advances"):

There are no methodological differences between DRA's and AVR's estimates of advances. The original differences between DRA's and AVR's estimates resulted from DRA's use of recorded data for 2010 and different estimates of Supply Facilities Fees and Source Capacity Fees collected for new business development in accordance with AVR's Rule 15, Main Extension. The 2010 data used by AVR was partially estimated because that was the most current data available to AVR at the time its application was prepared. AVR agrees with DRA's recommendation.⁷⁰

The Parties agree to incorporate the 2010 recorded data and reflect the amount of advance fees consistent with the stipulated customer growth for the Business customer class. The Parties agree to use \$31,082,962 in 2012 and \$31,246,114 in 2013.

⁶⁹ AVR Report p. 83, DRA Report p. 9-2

⁷⁰ AVR Report p. 85, DRA Report p. 9-2

9.02.4 Contributions in Aid of Construction (“Contributions”):

There are no methodological differences between DRA’s and AVR’s estimates of contributions. The original differences between DRA’s and AVR’s estimates resulted entirely from DRA’s use of recorded data for 2010. The 2010 data used by AVR was partially estimated because that was the most current data available to AVR at the time its application was prepared. AVR agrees with DRA’s recommendation.⁷¹

The Parties agree to incorporate the 2010 recorded data and use the methodology used in AVR and DRA’s estimates for contributions. The Parties agree to use \$2,022,998 in 2012 and \$1,920,943 in 2013.

9.02.5 Deferred Taxes:

Both Parties used the same methodology to estimate the Test Year 2012 deferred taxes. The Parties estimates differed for two reasons. First, DRA recommended incorporating the impacts of the Tax Relief Act. DRA’s estimates of bonus depreciation contained errors in its application of the Tax Relief Act. Second, the Parties used different estimates of utility plant additions. The Parties agree not to incorporate the impact of the Tax Relief Act in this rate case but this impact will instead be tracked in AVR’s 2010 Tax Act Memorandum Account established pursuant to Resolution L-411A. In compliance with Resolution L-411A, AVR filed Advice Letter 168-W on August 1, 2011, to establish its 2010 Tax Memorandum Account. The remaining difference between the positions of the Parties stems from the unresolved utility plant issue.⁷²

The Parties agree to use AVR’s methodology to calculate the deferred taxes. The Parties further agree that deferred taxes will incorporate the resolution of the unresolved utility plant issue.

9.02.6 Net-to-Gross Multiplier:

Both Parties’ original estimates of the net-to-gross multiplier contained calculation errors. DRA’s calculation assumed the increase in state taxes to be deductible in the same year and that all the incremental increase in income was subject to 9.0%

⁷¹ AVR Report p. 85, DRA Report p. 9-4

⁷² AVR Report p. 85-86, DRA Report p. 9-2—9-3

Qualified Production Deduction (QPD) rather than just the production related portion (48.22%). AVR's calculation did not incorporate any impact of the QPD.⁷³

After discussions of actual tax return preparation Parties agree to correct the methodology to eliminate the assumption that the increase in state taxes is deductible in the same year and to incorporate the impact of the increased income on the QPD consistent with the settlement on that issue in Section 6.01.2. The Parties agree to a net-to-gross multiplier of 1.72717.

10.00 Ratebase – Irrigation System

10.02 Resolved Issues

10.01.1 Ratebase Components:

Both Parties used the following estimates:⁷⁴

Contributions (CIAC) - \$42,743 (2012) and \$41,440 (2013).

Construction Work in Progress - \$0 (2012) and \$0 (2013).

10.01.2 Working Cash:

The Irrigation System's working cash is an allocation of the total working cash. The Parties agree to the percentage (0.77%) used to allocate working cash. The differences in the Parties' original working cash estimates resulted from difference in revenues, expense and utility plant used in the total working cash calculation. The Parties' current estimates incorporate the effects of all settled issues.⁷⁵

The Parties agree to use the methodology described in Section 9.02.5. The Parties further agreed to incorporate the adopted revenue, expense, and plant additions.

10.01.3 Deferred Taxes:

There are no methodological differences between DRA's and AVR's estimates of deferred taxes. The original differences between DRA's and AVR's estimates resulted from the differences in the general plant allocation to the Irrigation system from AVR's

⁷³ AVR Report p. 99, DRA Report p. 9-3, Jackson Rebuttal p. 14-16

⁷⁴ AVR Report p. 88

⁷⁵ AVR Report p. 83, DRA Report p. 9-2

Domestic system. With the stipulation of the Domestic system utility plant issues, parties agree to use the estimate of \$8,541,077 for Test Year 2012 but there remains a difference in the Parties' estimates for Test Year 2013.⁷⁶

The Parties agree to use the uncontested methodology used in AVR and DRA's estimates to calculate the deferred taxes incorporating the resolution of the utility plant additions.

11.00 Rate Design

The Parties agree that the rate design described below should be applied to the adopted revenue requirement to determine the adopted rates.

11.01 Uncontested Issues

11.01.1 Rate Design – Residential Customers:

The Parties agree to continue the current conservation rate design program that includes increasing block rates, as contained in the settlement agreement reached between AVR and DRA dated June 20, 2008 and authorized by the Commission in D.08-09-026. The Parties agree to the following adjustments to the rate design: (1) update the breakpoints between the three increasing block rate tiers to reflect a more recent proxy for average indoor water usage based on 2009 bills, and (2) adjust the price differential between the three increasing block rate tiers from 5% to 10%. The rate design uses the California Urban Water Conservation Council ("CUWCC") Best Management Practice ("BMP") 11 on conservation rates by using the threshold guideline of having more than 70% of its revenue generated by the commodity charge.⁷⁷

11.01.2 Rate Design – Non-Residential Customers:

The Parties agree to maintain the single quantity rate design because developing increasing block rates is not currently feasible. DRA agreed with AVR's proposal and recommended adoption because the usage characteristics of the non-residential customers

⁷⁶ AVR Report p. 85-86, DRA Report p. 9-2

⁷⁷ AVR Report 106-107, DRA Report 15-3—15-9

provide no apparent manner in which to divide these customers. The non-residential rate design also meets the criteria of CUWCC BMP 11.⁷⁸

11.01.3 Rate Design – Gravity Irrigation Service (Irrigation System):

For the Gravity Irrigation customer, the Parties agree to use the same service charges adopted for potable water service and a single quantity rate design. The quantity charge will be based on a cost of service study performed for this single customer based on the finalized consumption and expenses for the Gravity Irrigation customer.

11.02 Resolved Issues

11.02.1 Other Rates and Fees (Revenues):

The Parties had a difference in Miscellaneous Revenues at Proposed Rates (Section 2.02.4) based upon their different positions on the fees which AVR proposed to increase and these increases were opposed by DRA. In rebuttal, AVR provided the actual or estimated costs for activities for which the fees were to be charged and the purpose and reason for each of the proposed fee increases.⁷⁹

The Parties agree to increase the Reconnection Fee from \$15 (during business hours) and \$20 (after business hours) to \$30 and \$60, respectively. The Parties further agreed to increase the NSF Check fee from \$10.50 to \$12.00.

	Present	Proposed
	Rate	Rate
Reconnection Fee (during business hours)	\$15.00	\$30.00
Reconnection Fee (after business hours)	\$20.00	\$60.00
NSF Fee Check Fee	\$10.50	\$12.00

11.02.2 Customer Deposit:

AVR proposed to increase the customer deposit from \$35 monthly/\$75 bi-monthly to twice the average estimated bill. DRA’s report argued that the application did not provide sufficient justification for the proposed increase in the deposit fee and

⁷⁸ AVR Report p. 107-110, DRA Report p. 15-9—15-10

⁷⁹ AVR Report p. 110, DRA Report p. 15-11

recommended no change to the existing fee. In rebuttal, AVR provided further explanation and documentation for its proposal.⁸⁰

The Parties agree to the updated customer deposit proposed by AVR.

11.02.3 Other Rates and Fees (Advances):

AVR proposed to update the Supply Facilities Fee and Supplemental Water Acquisition Fee in Rule No. 15. The Supply Facilities Fee would increase from \$800 to \$900 for a 5/8-inch meter, with increases to larger meter sizes based on the Commission’s service charge ratios. The Supplemental Water Acquisition Fee would increase from \$3,500 to \$5,000 per residential lot or average residential equivalent. AVR’s proposed increases are based on its increased costs of well construction and water acquisition respectively. DRA contested the updated fees. The change in fees was incorporated in AVR’s estimate of advances. After reviewing AVR’s rebuttal testimony and the ratepayer benefits associated with AVR’s proposal, and the fact that AVR “flowed through” those benefits in its calculation of the revenue requirement, DRA concluded that the updated fees were reasonable.⁸¹

The Parties agree to the updated fees for facilities and supplemental water acquisition proposed by AVR.

11.02.4 Other Rates and Fees (advances) Proposed:

Supply Facilities Fees

<u>Service Size</u>	<u>Facilities Fee</u>
5/8-inch	\$ 900.00
3/4-inch	\$ 1,350.00
1-inch	\$ 2,250.00
1 1/2-inch	\$ 4,500.00
2-inch	\$ 7,200.00
3-inch	\$ 13,500.00
4-inch	\$ 22,500.00
6-inch	\$ 45,000.00
8-inch	\$ 72,000.00
10-inch	\$103,500.00

⁸⁰ AVR Report p. 111, DRA Report p. 15-13, Jackson Rebuttal p. 27

⁸¹ AVR Report p. 111, DRA Report p. 15-13, Jackson Rebuttal p. 27-28

Supplemental Water Acquisition Fees

Residential developments	\$5,000 per lot
Commercial, Industrial, or other developments	\$5,000 per equivalent average residential water use based on the water use of similar business or facility.

12.00 Low-Income Assistance Program

12.01 Resolved Issues

AVR's low-income program is known as California Alternative Rates for Water ("CARW"). The Parties agree to DRA's recommendation to increase both the discount of \$5.83 and surcharge of \$0.49 by the overall percentage increase granted in this proceeding. The Parties agree that AVR should be authorized to file a Tier 1 advice letter to recover the under-collected balance recorded December 31, 2010. The Parties agree that AVR will include a low-income participation estimate in its next GRC pursuant to the requirements of Commission Decision 11-05-020.⁸²

The Parties agree to increase the existing CARW discount and surcharge by the overall percentage increase granted in this proceeding. The Parties further agree that the CARW Balancing Account continues to be necessary to track the balance of collected surcharges and discounts. The Parties further agree that AVR be authorized to file a tier 1 advice letter to amortize the under-collected balance in the CARW Revenue Reallocation Balancing Account as of December 31, 2010. That balance is \$104,215.⁸³

13.00 Regulatory Accounts

13.01 Uncontested Issues

13.01.1 WRAM/MCBA

The Parties agree that AVR should continue its conservation rate design program that includes conservation rates, a Water Revenue Adjustment Mechanism (WRAM) and Modified Cost Balancing Account (MCBA).⁸⁴

DRA had recommended the Commission require the revenue from both Public Authority – Irrigation (James Woody Park) and AVCC be excluded from WRAM

⁸² AVR Report p. 12-13, DRA Report p. 15-14—15-15, Jackson Rebuttal p. 24-25

⁸³ See AVR Report workpaper 11-31rrB

⁸⁴ AVR Report p. 100-101, DRA Report p. 12-12—12-15

revenue reporting since these customers are not subject to WRAM surcharges.⁸⁵ DRA made this recommendation in order to ensure that residential customers do not pay higher WRAM Surcharges to cover under-collections from these two irrigation use customers.⁸⁶ AVR holds that: 1) these customers are served under tariff deviation agreements, based on cost-benefit analyses, authorized by the Commission to avoid bypass; 2) AVR's ratepayers benefit from keeping these customers on AVR's system at the rates in the agreement; and 3) the rates in the agreements are set at the greatest amount that will still provide a financial incentive for the customers to continue to take service from AVR. These customers are excluded from surcharges to maintain their financial incentive to remain on the AVR system. At this time, the Parties agree to include these revenues in the WRAM revenue.

The Parties agree that AVR should continue its conservation rate design program. Parties acknowledge that the Commission is reviewing the recovery mechanism and amortization period for AVR and Park's existing WRAM/MCBAs in the currently open proceeding A.10-09-017.

13.01.2(a) Incremental Cost Balancing Account-Domestic System:

AVR proposed that the under-collected balance of \$205,667 (as of December 31, 2010) recorded in 2008 be authorized for recovery through a 12-month surcharge. The DRA report reflects concurrence with AVR's proposal.⁸⁷

The Parties agree that the recovery be authorized by Tier 1 advice letter.

13.01.2(b) Incremental Cost Balancing Account-Irrigation System:

AVR proposed that the under-collected balance of \$10,615 (as of December 31, 2010) recorded in 2009 be authorized for recovery through a 12-month surcharge. The DRA report reflects concurrence with AVR's proposal.⁸⁸

⁸⁵ DRA Report p. 15-10, footnote 271

⁸⁶ Id.

⁸⁷ AVR Report p. 100, DRA Report p. 12-8—12-10

⁸⁸ AVR Report p. 100, DRA Report p. 12-10—12-12

AVR also proposed that the under-collected balance of \$28,192 (as of December 31, 2010) recorded in 2010 be authorized for recovery through a 12-month surcharge. The DRA report reflects concurrence with AVR's proposal.⁸⁹

The Parties agree that the recovery be authorized by Tier 1 advice letter.

13.01.3 Conservation Proceeding Memorandum Account

AVR proposed that the under-collected balance of \$36,339 (as of December 31, 2010) recorded in the Conservation Proceeding Memorandum Account be authorized for recovery through a 12-month surcharge. The DRA report reflects concurrence with AVR's proposal.⁹⁰

The Parties agree that the recovery be authorized by Tier 1 advice letter and the account closed.

13.01.4 Conservation BMP Memorandum Account

AVR proposed that the under-collected balance of \$110,094 (as of December 31, 2010) recorded in the Conservation BMP Memorandum Account be authorized for recovery through a 12-month surcharge. The DRA report reflects concurrence with AVR's proposal.⁹¹

The Parties agree that the recovery be authorized by Tier 1 advice letter.

13.01.5 Outside Services Memorandum Account

AVR proposed that the under-collected balance of \$131,126 (as of December 31, 2010) recorded in the Outside Services Memorandum Account be authorized for recovery through a 12-month surcharge. Because this program will continue through this rate case cycle, AVR requests that the Commission authorize its continuance until December 31, 2014. The DRA report reflects concurrence with AVR's proposal.⁹² In addition, DRA recommends a cap of \$205,000.

⁸⁹ AVR Report p. 100, DRA Report p. 12-10—12-12

⁹⁰ AVR Report p. 102, DRA Report p. 12-16—12-17

⁹¹ AVR Report p. 102, DRA Report p. 12-18—12-19

⁹² AVR Report p. 102, DRA Report p. 12-19—12-21

The Parties agree that the recovery be authorized by Tier 1 advice letter and the balance as of December 2014 should not exceed \$205,000.

13.02 Resolved Issues

13.02.1 Healthcare Memorandum Account

The Parties agree that AVR has withdrawn its request to establish a new Healthcare Memorandum Account to track increases to medical expenses resulting from newly enacted national health care legislation.⁹³

14.00 Water Quality

AVR presented testimony in its application describing its water quality and requested a Commission finding that the water quality service provided meets or exceeds State and Federal drinking water standards. DRA consulted with engineers from the California Department of Public Health (CDPH) assigned to the AVR water system and reviewed the Report on Water Quality for Apple Valley Ranchos Water Company prepared by the Division of Water and Audits. DRA finds that AVR is in compliance with the CDPH water quality standards.⁹⁴

The Parties recommend that the Commission find that AVR is in compliance with the California Department of Health water quality regulations and Federal drinking water standards.

15.00 Step Rate Increases

The Parties agree that AVR should be authorized to file advice letters for escalation year rate adjustments for escalation years 2013 and 2014. The Parties agree that the advice letters will be filed in accordance with Section VII. Escalation and Attrition Advice Letter Procedure, Appendix A, of the Opinion adopting Revised Rate Case Plan For Class A Water Utilities, D.07-05-062.

The Parties have an unresolved issue regarding AVR's request to remove healthcare expense and retiree healthcare expense from the calculations of the revenue

⁹³ AVR Report p. 102-103, DRA Report p. 13-3—13-9

⁹⁴ AVR Report p. 96-98, DRA Report p. 7-32—7-33 c

requirement changes for escalation years 2013 and 2014. AVR recommends that specific employee and retiree healthcare expense estimates be used in the 2013 and 2014 escalation year filings. DRA recommends the standard escalation methodology be used.⁹⁵

16.00 Park Water Company (“Park”) General Office (“General Office”)

All dollar amounts provided in Section 16 of this Settlement are prior to allocation to AVR – Domestic or AVR – Irrigation.

16.01 Uncontested Issues

16.01.1 Depreciation Rates:⁹⁶

DRA agreed with the depreciation rates proposed by Park.

PUC	Description	Present	Proposed
372	Office Furniture and Equip	23.35%	7.68%
373	Transportation Equip	18.04%	14.95%
375	Laboratory Equip	0.59%	00.00%
376	Communication Equip	5.90%	10.83%
372	Computer Equip – System	8.35%	11.35%
372	Computer Equip – Desktops	13.67%	10.07%
372	Computer Equip – Software	9.63%	1.77%

16.01.2 Expenses excluding Payroll, Benefits, and Outside Services:

With the exception of the expense categories of Payroll, Maintenance – Other-General Plant – Other, Benefits, Insurance, and Outside Services, DRA accepts Park’s use of both specific expense estimates and a five-year average (2006 – 2010) for all expenses. The Parties agree that the expenses should be recalculated consistent with the settlement on expense estimating methodology (Section 3.02.1) and escalation factors (Section 3.02.4).⁹⁷

⁹⁵ AVR Report p. 100, DRA Report p. 16-1—16-2

⁹⁶ GO Report p. 17

⁹⁷ GO Report p. 9-10, Jackson Rebuttal 15-19

16.02 Resolved Issues

16.02.1 Depreciation Expense and Reserve:

There are no methodological differences between DRA and Park. There was no issue regarding the depreciation rates proposed by Park (General Office Report page 78).

The Parties agree that the depreciation expense and accumulated depreciation reserve should be calculated using the depreciation rates proposed in AVR's application and the stipulated balances of plant in service incorporating stipulated adjustments, additions, and retirements.⁹⁸

16.02.2 Ad Valorem Taxes:

There are no methodological differences between DRA and Park. Differences between the Parties' estimates were due to issues of plant in service.⁹⁹

The Parties agree to use the uncontested methodology used in AVR's application incorporating the stipulated utility plant in service.

16.02.3 Administrative Expense Transferred:

There are no methodological differences between DRA and Park. Differences between the Parties estimates were due to issues of plant in service.¹⁰⁰

The Parties agree to calculate the administrative expense transferred based on the stipulated balances of plant in service incorporating stipulated adjustments, additions, and retirements.

16.02.4 Allocation Factors:

AVR accepts DRA's recommendation to use the allocation factors in use during 2011. The basis for the settlement is identical to the comments in Section 4.01.12 and will not be repeated here.¹⁰¹

⁹⁸ GO Report p. 16, DRA Report p. 8-1—8-5

⁹⁹ GO Report p. 11, DRA Report p.

¹⁰⁰ Jackson Rebuttal p. 18-19.

¹⁰¹ GO Report p. 3, DRA Report p. 11-9—11-10

16.02.5 Payroll:

There were several contested issues in the payroll expense category. For the issue of the escalation factor that is identical to the comments in Section 3.02.3, the basis for the settlement will not be repeated as the Settlement provides for a consistent resolution on those issues in this category as well.

DRA contested AVR's request for the three new positions of Network/Field Systems Support Specialist, Information Security/Document Retention Specialist, and the Senior Tax Accountant based on its review of General Office overtime costs and analysis of the job duties of the requested positions. Parties agree to add in the revenue requirement the Network/Field Systems Support Specialist and the Senior Tax Accountant positions. Parties agree to DRA's recommended disallowance of the Information Security/Document Retention Specialist. The Parties further agree to a reduction of \$14,000 in outside services for Test Year 2012 (prior to allocation to AVR) in recognition that the Senior Tax Account position should gradually reduce the work requirements presently performed by Park's independent outside auditors.

DRA contested Park's request for bonus payroll that was based on a specific forecasted estimate. After review of rebuttal and discussions with witnesses, the Parties agree the amount for payroll bonus of \$36,967.

DRA contested the proposed salary of Park's Co-CEO, who will become the new President/CEO upon consummation of the Carlyle transaction. After review of AVR's rebuttal the Parties agree to a revised estimate of \$416,000 for the Co-CEO's salary that results from a \$78,500 reduction to Park's original estimate.¹⁰²

The Parties still disagree over Park's inclusion of a 2.0% merit increase for employees. Differences in the Parties' final positions are due to the unresolved merit increase issue.

The Parties agree to calculate the stipulated payroll expense as described above consistent with the resolution of the merit increase issue.

¹⁰² GO Report p. 5-8, DRA Report p. 11-2—11-8

16.02.6 Payroll Taxes:

There are no methodological differences between DRA and AVR. The Parties agree that the Payroll Taxes should be calculated using the methodology used in AVR and DRA's estimates and the stipulated payroll consistent with the resolution of unresolved merit pay issue.¹⁰³

16.02.7 Maintenance Other – General Plant Expense:

The expenses contained in this category of expense include the services provided by Park's affiliate SICC. DRA's report recommended the disallowance of the total expenses within this category of expense should Park fail to provide evidence that the services provided by SICC will be provided at market rates or at the rate that would have been charged by an unaffiliated party for comparable services. AVR provided testimony on market rates for activities performed by SICC and on the amount of the expense in this category associated with SICC.¹⁰⁴

The Parties agree to use a revised estimate of \$39,700 for the services provided by Park affiliate SICC for Test Year 2012 which is a \$13,900 reduction to Park's original estimate. The Parties further agreed to specific conditions for affiliate transactions as described in Section 16.02.15. The Parties agree that there are expenses within this category unrelated to SICC. For the expenses within this category that are unrelated to SICC, the Parties agree to a revised estimate of \$91,100 for Test Year 2012. The Parties agree to a combined total of \$130,800 for the expense category of Maintenance Other – General Plant – Other.

16.02.8 Employee Benefits – PBOP:

This issue is identical to the comments in Section 4.01.2, the basis for the settlement will not be repeated as the Settlement provides for a consistent resolution for this issue.¹⁰⁵

The Parties agree to use Park's application amounts of \$140,600 in 2012 for PBOP.

¹⁰³ GO Report p. 13, DRA Report p. 5-2—5-3

¹⁰⁴ GO Report p. 11-11—11-13, Jackson Rebuttal p. 20-22

¹⁰⁵ GO Report p. 9, DRA Report p. 4-18, Martinet Rebuttal p. 21-22

16.02.9 Employee Benefits – 401(a):

There are no methodological differences between DRA’s and AVR’s estimates. The differences between the Parties’ estimates resulted from differences in the number of employees eligible for this benefit. With the stipulation reached on the staffing levels, there is no difference in the Parties’ estimates.¹⁰⁶

The Parties agree to the methodology in AVR and DRA’s estimates consistent with the stipulation on the number of eligible employees.

16.02.10 Utility Plant Additions:

DRA agreed with the plant additions proposed by Park for Test Year 2012 and Test Year 2013 with the exception of the Corporate Pool Vehicle, Information Technology capital expenditures, Document Retention project, and CIS Enhancements.

The Parties agreed to a stipulation regarding the issues identified in DRA’s Report. The resolution of each issue is described below.¹⁰⁷

16.02.11 Corporate Pool Vehicle:

Park proposed the replacement of an aging vehicle in its corporate fleet. DRA recommends that Park reduce its corporate fleet by one vehicle instead of purchasing a replacement vehicle. Park agrees to DRA’s recommendation.¹⁰⁸

Parties agree to exclude the plant addition of \$31,500 in Test Year 2012 for the Corporate Pool Vehicle.

16.02.12 Information Technology (IT) Capital Budget:

In recommending the disallowance of the IT capital budget, DRA states that Park failed to provide sufficient justification of the cost estimation methods used to develop the estimated amounts. After review of AVR’s rebuttal which included cost estimates from outside vendors the Parties agree to revised estimates of \$121,460 for Test Year

¹⁰⁶ DRA Report p. 4-20, Martinet Rebuttal p. 22

¹⁰⁷ GO Report p. 23, DRA Report 11-18—11-19, Young Rebuttal p. 11-12

¹⁰⁸ GO Report p. 22-23, DRA Report p. 11-17

2012 and \$125,230 for Test Year 2013 that result from a \$20,000 reduction (annual) to Park's original estimates.¹⁰⁹

16.02.13 Document Retention Project:

In recommending a reduction to the Document Retention project budget, DRA expressed concern that the project was not fully developed and that the cost estimate was not justified. After review of AVR's rebuttal and in recognition of regulatory and compliance requirements associated with information privacy and security, the Parties agree to the amounts requested by Park, \$70,000 for Test Year 2012 and \$100,000 for Test Year 2013.¹¹⁰

16.02.14 Customer Information System (CIS) Enhancements Project:

DRA based its recommendation to disallow a portion of the costs estimates proposed by Park on its understanding of how the CIS licenses work. DRA recommended that Park evaluate which employees are assigned licenses to obtain greater efficiencies. In recognition that Park's licenses are concurrent and shared by employees, the Parties agree to revised estimates of \$16,500 for Test Year 2012 and \$16,500 for Test Year 2013 that result from a \$1,000 (annual) reduction to Park's original estimates based on current license costs.¹¹¹

16.02.15 Affiliate Transactions:

In its report, DRA had concern over the pricing of the services provided by Park's affiliate SICC and recommended the disallowance of the SICC estimates contained in the rate case. In its rebuttal testimony and subsequent discussions, AVR provided DRA with supporting information and documentation. The Parties agree that AVR and Park will take the following actions to address DRA's concerns regarding the services performed by a non-regulated affiliate:

¹⁰⁹ GO Report p. 23, DRA Report p. 11-18—11-19, Young Rebuttal p. 11-12

¹¹⁰ GO Report p. 19-20, DRA Report p. 11-17—11-18, Young Rebuttal p. 8-9

¹¹¹ GO Report p. 18, DRA Report p. 11-18, Young Rebuttal p. 10-11

The Parties agree that that any recurring affiliate provided service or capital project (e.g., landscaping, janitorial services, tank coatings, etc.) will be priced at the lower of fully loaded cost or fair market value in accordance with Rule VI.F. of D.10-10-019.

DRA and Park further agree that Park, its successors and assigns, will identify in all subsequent GRC filings any and all recurring affiliate provided service or capital project (e.g., landscaping, janitorial services, tank coatings, etc.) and any and all costs associated therewith.

DRA and Park agree that Park, its successors and assigns, will maintain and retain adequate documentation, including, but not limited to, documentation of competitive bidding, from any vendors for any recurring service or capital project to be performed by any affiliate and provide such documents to DRA at its request.¹¹²

16.02.16 Carlyle Transaction:

DRA's report assumed that the transfer of the stock of Park Water Company to Western Water Holdings, LLC, a subsidiary of Carlyle Infrastructure Partners (Carlyle), as proposed in A.11-01-019, would be completed and in effect by January 1, 2012. DRA therefore recommended that the impacts of the Carlyle acquisition be incorporated into this rate case. AVR's application did not anticipate the Carlyle transaction or any impacts of the completion of that transaction on Park's General Office expenses.¹¹³

After discussions with witnesses, while the Parties have not agreed upon any mechanism to address the possibility that the transaction will not have closed by January 1, 2012, the Parties agree that the following Sections 16.02.16 (a) through 16.02.16 (e) are the appropriate ratemaking impacts of the transfer of the stock of Park Water Company to Western Water Holdings, LLC (as proposed in A.11-01-019).

16.02.16(a) Payroll and Payroll Related Costs for President and Assistance Corporate Secretary:

¹¹² DRA Report p. 11-11—11-13, Jordan Rebuttal p. 7-10

¹¹³ DRA Report p. 11-14—11-15, Jordan Rebuttal p. 7-10

Parties agree that the payroll and active-employee payroll-related costs associated with the President (Henry H. Wheeler, Jr.) and the Assistant Corporate Secretary (Chayre M. Wheeler), who will retire as a result of completion of the transaction, will not be included in the ratemaking expenses for Park's General Office nor will any direct charges or allocations of those costs be included in the ratemaking expenses of Park's operating divisions or utility subsidiaries, including AVR. The payroll costs to be excluded are \$317,700. The payroll-related costs to be excluded are workers' compensation insurance (\$1,200), payroll taxes (\$15,100), and associated active-employee benefits (\$18,200). (As neither Mr. nor Ms. Wheeler are eligible for Pension benefits or has ever participated in the 401(k) plan, there were no costs forecasted in the application for these categories; as Mr. and Ms. Wheeler are fully vested in Park's Post-retirement Benefits Other than Pension ("PBOP") plan, their retirement does not affect Park's PBOP cost.)¹¹⁴

16.02.16(b) Board of Director Fees:

Parties agree that the amount of Board of Director Fees to be recognized as utility expense in calculating revenue requirement for ratemaking purposes will be set at \$100,000 (in 2012 dollars) per year for the period 2012-2014. This amount will be included in the Park General Office expenses, which are allocated to Park's operating divisions and utility subsidiaries, including AVR.¹¹⁵

16.02.16(c) Outside Services:

Parties agree that consulting fees incurred by Park under any consulting agreement or arrangement with Henry H. Wheeler, Jr. will be recognized as utility expense in calculating revenue requirement for ratemaking purposes in the amount of \$63,000 (in 2012 dollars) for 2012 and 2013 and zero in 2014. Specifically, \$63,000 will be added to the expenses otherwise estimated in the Park General Office "Outside Services Expense" category for Test Year 2012, prior to allocation to AVR. Together parties agree to total Outside Services of \$684,900 for Test Year 2012. In 2014, \$63,000 (in 2012 dollars) will be deducted from the adopted 2013 Outside Services expense prior

¹¹⁴ DRA Report p. 11-3, Jackson Rebuttal p. 19

¹¹⁵ AVR Report p. 10, DRA Report p. 11-9, Jackson Rebuttal p. 19

to applying the appropriate escalation factor to arrive at the 2014 expense in the escalation year filing.¹¹⁶

16.02.16(d) Future Identification of Wheeler Consulting Fees:

Parties agree that in future General Rate Increase applications for Park or AVR, those companies agree to specifically identify any consulting fees contained in the historic expenses incurred under any consulting agreement or arrangement with Henry H. Wheeler, Jr. so that DRA will have the information to propose any adjustment it may consider appropriate.¹¹⁷

16.02.16(e) Acquisition Costs:

Parties agree that the ratepayers of Park and AVR shall not incur, directly or indirectly, any transaction costs or other liabilities or obligations arising from the proposed transaction. In particular, any expenses incurred by Park or AVR due to the proposed transaction or the related Commission proceeding, A.11-01-019 (such as outside legal expense and travel costs) shall be accounted for as non-utility expense and shall not be included in the recorded base of any account included in the calculation of revenue requirement for future rate cases.¹¹⁸

17.00 Requests to the Commission

As a result of this Settlement, the Commission should act to resolve AVR's requests in this proceeding. The Parties are providing a list of these requests under paragraph 18.01 below in an effort to ensure the Commission takes notice of necessary findings and orders arising from this proceeding.

¹¹⁶ GO Report p. 9-10, DRA Report p. 11-8—11-9

¹¹⁷ GO Report p. 11-8, Jackson Rebuttal p. 9

¹¹⁸ DRA Report p. 11-14, Jordan Rebuttal p. 10

18.00 Requests as a Result of the Settlement

18.01 The Parties request that the Commission authorize a change in AVR's tariff fees pursuant to Sections 11.02.01 effective January 1, 2012. AVR's NSF Check fee would be \$12. Its Reconnection fee would be \$30 (during business hours) and \$60 (after business hours). Furthermore, that these fees would be effective January 1, 2012.

18.02 The Parties request that the Commission authorize a change in the deposit contained in AVR's Rule 7 pursuant to Section 11.02.2 effective January 1, 2012.

18.03 The Parties request that the Commission authorize a change in fees contained in AVR's Rule 15 pursuant to Sections 11.02.3 and the table therein for Facilities Fee and Supplemental Water Acquisition Fee effective January 1, 2012.

18.04 The Parties request that the Commission authorize a change in AVR's CARW discount (for qualifying customers) and a surcharge (for non-qualifying customers) pursuant to Section 12.0.

18.05 The Parties request that the Commission authorize the recovery of the under-collected balance recorded in the AVR's California Alternative rates for Water (CARW) Revenue Reallocation Balancing Account (\$104,215 as of December 31, 2010) pursuant to Section 12.0.

18.06 The Parties request that the Commission authorize the continuation of AVR's existing Water Revenue Adjustment Mechanism and Modified Cost Balancing Accounts pursuant to Section 13.01.1 effective January 1, 2012.

18.07 The Parties request that the Commission authorize a 12-month surcharge for recovery of the under-collected balance recorded in 2008 for AVR's Reserve Balancing Account balance (\$205,667 as of December 31, 2010) pursuant to Section 13.01.2.

18.08 The Parties request that the Commission authorize a 12-month surcharge for recovery of the under-collected balance recorded in 2009 for AVR's Incremental Cost Balancing Account balance (\$10,615 as of December 31, 2010) pursuant to Section 13.01.2.

18.09 The Parties request that the Commission authorize recovery of the under-collected balance recorded in 2010 for AVR's Incremental Cost Balancing Account balance (\$28,192 as of December 31, 2010) pursuant to Section 13.01.2.

18.10 The Parties request that the Commission authorize recovery of the under-collected balance in AVR's Conservation Proceeding Memorandum Account (\$36,339 as of December 31, 2010) pursuant to Section 13.01.3.

18.11 The Parties request that the Commission authorize recovery of the under-collected balance in AVR's Conservation (BMP) Memorandum Account (\$110,094 as of December 31, 2010) pursuant to Section 13.01.4.

18.12 The Parties request that the Commission authorize recovery of the under-collected balance in AVR's Outside Services Memorandum Account (\$131,126 as of December 31, 2010) and that the account remain in effect through December 31, 2014 pursuant to Section 13.01.5.

18.13 The Parties request that the Commission make a finding that AVR meets all applicable water quality standards pursuant to Section 14.0.

18.14 The Parties request that the Commission order the filing of advice letters to implement increases for escalation years 2013 and 2014 pursuant to Section 15.0.

19.00 Settlement

Rule 12.1(d) requires that a Settlement be "reasonable in light of the whole record, consistent with the law, and in the public interest." The Settlement between the Parties in this proceeding satisfies the criteria in Rule 12.1(d). The Commission should approve this motion, and adopt the Settlement which is supported by DRA and AVR.

19.01 Settlement is Reasonable

The Settlement taken as a whole provides a reasonable resolution of the issues settled in this proceeding. The reasonableness of the Settlement is supported by DRA's reports and testimony, and by the testimony, reports and rebuttal testimony of AVR. In addition, the parties considered the affordability of the rates in the districts, letters to the Commission, testimony at the public participation hearings, the financial health of AVR, and the Commission's Water Action Plan. The parties fully considered the facts and the law. Following extensive settlement negotiations, the parties reached a reasonable compromise on the various issues which were in contention. The settlement negotiations were accomplished at arm's length over the course of numerous weeks.

19.02 The Settlement is Lawful

The Parties are aware of no statutory provisions or prior Commission decision that would be contravened or compromised by the Settlement. The issues resolved in the Settlement are clearly within the scope of the proceeding. Moreover, the Settlement if adopted would result in just and reasonable rates to AVR's customers.

19.03 The Settlement Serves the Public Interest

The Settlement is in the public interest. The Commission has explained that a settlement which "commands broad support among participants fairly reflective of the affected interest" and "does not contain terms which contravene statutory provisions or prior Commission decisions" well serves the public interest. *Re San Diego Gas & Elec.*, D.92-12-019, 46 CPUC 2d at 552. In this proceeding the parties fairly represent the affected parties' interests. AVR provides water service to the customers in its service territory in San Bernardino County, and DRA is statutorily mandated with representing ratepayers in California, including those companies not directly at issue in this proceeding.

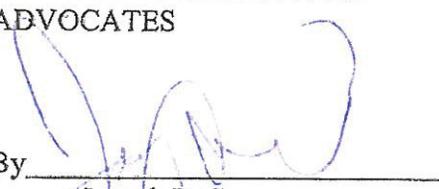
The principal public interest affected in this proceeding is the delivery of safe, reliable water service at reasonable rates. The Settlement advances these interests. In addition, Commission approval of the Settlement will provide speedy resolution of contested issues, which will conserve Commission resources.

19.04 The Settlement Conveys Sufficient Information

In addition, DRA and AVR believe that the Settlement conveys sufficient information for the Commission to discharge its future regulatory obligations. Thus taken as a whole, the Settlement will satisfy the Commission's standards for approving a settlement presented to it.

DIVISION OF RATEPAYER
ADVOCATES

By



Joseph P. Como
Acting Director

California Public Utilities Commission
Division of Ratepayer Advocates
505 Van Ness Avenue
San Francisco, CA 94102

Dated: September 15, 2011

APPLE VALLEY RANCHOS WATER
COMPANY

By



Edward N. Jackson
Project Manager

Representative for
Apple Valley Ranchos Water Company
21760 Ottawa Road
Apple Valley, CA 92307

Dated: September 15, 2011

(END OF ATTACHMENT A)

ATTACHMENT B

APPENDIX B
1 of 1
APPLE VALLEY RANCHOS WATER CO. - DOMESTIC
TEST YEAR 2012
SUMMARY OF EARNINGS
(Dollars In Thousands)

	AT PRESENT RATES		ADOPTED	
	RANCHOS UPDATED	DRA UPDATED	AT PRESENT RATES	AT AUTHORIZED ROR
OPERATING REVENUES	19,612.5	19,612.5	19,612.5	22,495.3
MISCELLANEOUS REVENUES	(55.9)	(55.9)	(55.9)	(77.4)
TOTAL REVENUES	19,668.4	19,668.4	19,668.4	22,572.7
OPERATIONS & MAINTENANCE				
PAYROLL-OPERATIONS	791.5	724.4	791.5	791.5
OPERATIONS-OTHER	193.8	191.0	193.8	193.8
PURCHASED WATER	0.0	0.0	0.0	0.0
PURCHASED POWER	939.6	939.6	939.6	939.6
LEASED WATER RIGHTS	1,621.0	1,621.0	1,621.0	1,621.0
REPLENISHMENT CHARGES	209.6	209.6	209.6	209.6
CHEMICALS	27.3	27.3	27.3	27.3
PAYROLL-CUSTOMER	629.7	608.2	629.7	629.7
CUSTOMERS-OTHER	274.8	274.8	274.8	274.8
UNCOLLECTIBLES	66.9	66.9	66.9	76.7
PAYROLL-MAINTENANCE	419.8	405.5	419.8	419.8
MAINTENANCE-OTHER	700.1	700.1	700.1	700.1
PAYROLL-CLEARINGS	122.3	118.1	122.3	122.3
DEPRECIATION-CLEARINGS	271.3	271.3	271.3	271.3
CLEARINGS-OTHER	270.7	268.9	270.7	270.7
SUBTOTAL O & M	6,538.4	6,426.9	6,538.4	6,548.3
ADMINISTRATIVE & GENERAL				
A & G PAYROLL	1,690.0	1,537.2	1,690.0	1,690.0
EMPLOYEE BENEFITS	1,476.5	1,274.3	1,476.5	1,476.5
INSURANCE	769.2	730.2	769.2	769.2
UNINSURED PROP. DAMAGE	11.5	11.5	11.5	11.5
REG. COMM. EXPENSE	98.5	98.5	98.5	98.5
FRANCHISE REQUIREMENTS	186.3	186.3	186.3	213.7
OUTSIDE SERVICES	259.6	259.6	259.6	259.6
A & G - OTHER	486.1	479.4	486.1	486.1
A & G TRANSFERRED CREDIT	(225.1)	(209.7)	(209.7)	(209.7)
RENTS	17.6	17.6	17.6	17.6
GENERAL OFFICE ALLOCATION	2,113.2	2,022.3	2,113.2	2,113.2
AVR ALLOCATION	(32.1)	(29.8)	(32.1)	(32.1)
SUBTOTAL A & G	6,851.3	6,377.4	6,866.8	6,894.2
OTHER TAXES				
¹ PROPERTY TAXES	453.5	453.5	453.5	453.5
¹ PAYROLL TAXES	352.1	336.7	352.1	352.1
SUBTOTAL OTHER TAXES	805.5	790.1	805.5	805.5
¹ DEPRECIATION	2,793.9	2,793.9	2,793.9	2,793.9
CA INCOME TAXES	117.7	171.3	116.8	370.3
FEDERAL INCOME TAXES	432.5	611.6	429.6	1,362.1
TOTAL EXPENSE	17,539.3	17,171.3	17,551.1	18,774.3
NET REVENUES	2,129.1	2,497.1	2,117.3	3,798.4
RATE BASE	40,501.3	40,318.0	40,339.5	40,339.5
RATE OF RETURN	5.26%	6.19%	5.25%	9.42%
INCREASE IN DOLLARS			\$	2,882.72
INCREASE IN %				15%

¹ DEPRECIATION, AD VALOREM AND PAYROLL TAXES FROM PARK'S MAIN OFFICE

(END OF ATTACHMENT B)

ATTACHMENT C

APPENDIX C

Page 1 of 17

APPLE VALLEY RANCHOS WATER COMPANY

Schedule No. 1

RESIDENTIAL GENERAL METERED SERVICE

APPLICABILITY

Applicable to residential metered water service.

TERRITORY

Town of Apple Valley and vicinity, San Bernardino County.

RATES

Quantity Rates:

Tier 1 First 13 100 cu. ft.	\$ 2.438
Tier 2 Over 13 through 26 100 cu. ft.	\$ 2.742
Tier 3 All over 26 100 cu ft.	\$ 3.047

Service Charge:	<u>Per Meter</u> <u>Per Month</u>
-----------------	--------------------------------------

For 5/8 x 3/4-inch meter.....	\$ 22.34
For 3/4-inch meter.....	33.51
For 1-inch meter.....	55.85
For 1 1/2-inch meter.....	111.70
For 2-inch meter.....	178.72
For 3-inch meter.....	335.10
For 4-inch meter.....	558.50
For 6-inch meter.....	1,117.00
For 8-inch meter.....	1,787.20
For 10-inch meter.....	3,239.30

This Service Charge is a readiness-to-serve charge which is applicable to all metered services and to which is to be added the monthly charge computed at the Quantity Rates.

SPECIAL CONDITIONS

1. A late charge will be imposed per Schedule No. LC.
2. In accordance with Section 2714 of the Public Utilities Code, if a tenant in a rental unit leaves owing the Company, service to subsequent tenants in that unit will, at the Company's option, be furnished on the account of the landlord or property owner.
3. All bills are subject to the reimbursement fee set forth on Schedule No. UF.
4. As authorized by the California Public Utilities Commission, an amount of \$0.124 per Ccf is to be added to the quantity rate for a period of 24 months, beginning on the effective date of Advice Letter 158-W-A. This surcharge will recover the under-collection in the WRAM and MCBA Balancing Accounts as of December 31, 2009.
5. As authorized by the California Public Utilities Commission, an amount of \$0.143 per Ccf is to be added to the quantity rate for a period of 24 months, beginning on the effective date of Advice Letter 164-W. This surcharge will recover the under-collection in the WRAM and MCBA Balancing Accounts as of December 31, 2010.

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APPLE VALLEY RANCHOS WATER COMPANY

Schedule No. 2

GRAVITY IRRIGATION SERVICE

APPLICABILITY

Applicable to all water service from the Company's gravity irrigation system.

TERRITORY

Within the entire service area of the Company.

RATES

Quantity Rates:

For all water delivered, per 100 cu. ft.	\$ 0.345
	Per Meter
	<u>Per Month</u>

Service Charge:

For 5/8 x 3/4-inch meter	\$ 22.34
For 3/4-inch meter	33.51
For 1-inch meter	55.85
For 1 1/2-inch meter	111.70
For 2-inch meter	178.72
For 3-inch meter	335.10
For 4-inch meter	558.50
For 6-inch meter	1,117.00
For 8-inch meter	1,787.20
For 10-inch meter	3,239.30

SPECIAL CONDITIONS

1. Service under this schedule is limited to lands not developed for residential use.
2. All outlets for this water shall be protected by signs stating: NON-POTABLE WATER – NOT FOR HUMAN CONSUMPTION.
3. A late charge will be imposed per Schedule No. LC.
4. All bills are subject to the Public Utilities Commission Reimbursement Fee set forth on Schedule No. UF.

APPENDIX C
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APPLE VALLEY RANCHOS WATER COMPANY
Schedule No. 3

NON-RESIDENTIAL GENERAL METERED SERVICE

APPLICABILITY

Applicable to all non-residential metered water service.

TERRITORY

Town of Apple Valley and vicinity, San Bernardino County.

RATES

Quantity Rates:

All water delivered per 100 cu. ft. \$ 2.698

Service Charge:	Per Meter Per Month
For 5/8 x 3/4-inch meter	\$ 22.34
For 3/4-inch meter	33.51
For 1-inch meter	55.85
For 1 1/2-inch meter	111.70
For 2-inch meter	178.72
For 3-inch meter	335.10
For 4-inch meter	558.50
For 6-inch meter	1,117.00
For 8-inch meter	1,787.20
For 10-inch meter	3,239.30

SPECIAL CONDITIONS

1. A late charge will be imposed per Schedule LC.
2. In accordance with Section 2714 of the Public Utilities Code, if a tenant in a rental unit leaves owing the company, service to subsequent tenants in that unit will, at the Company's option, be furnished on the account of the landlord of property owner.
3. All bills are subject to the Public Utilities Commission Reimbursement Fee set forth on Schedule No. UF.
4. As authorized by the California Public Utilities Commission, an amount of \$0.124 per Ccf is to be added to the quantity rate for a period of 24 months, beginning on the effective date of Advice Letter 158-W-A. This surcharge will recover the under-collection in the WRAM and MCBA Balancing Accounts as of December 31, 2009.
5. As authorized by the California Public Utilities Commission, an amount of \$0.143 per Ccf is to be added to the quantity rate for a period of 24 months, beginning on the effective date of Advice Letter 164-W. This surcharge will recover the under-collection in the WRAM and MCBA Balancing Accounts as of December 31, 2010.

APPENDIX C

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APPLE VALLEY RANCHOS WATER COMPANY

Schedule No. 4

NON-METERED FIRE SERVICE

APPLICABILITY

Applicable for water service to privately-owned fire hydrant and fire sprinkler systems where water is to be used only for the purpose of fire suppression or for periodic system testing.

TERRITORY

Town of Apple Valley and vicinity, San Bernardino County.

RATES

Size of Service	Per Service Per Month
2-inch \$	34.65
3-inch	52.01
4-inch	69.23
6-inch	103.67
8-inch	138.32
10-inch	166.95
12-inch	194.96

SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility at the cost paid by the applicant. Such payment shall not be subject to refund.
2. The minimum diameter for fire protection service shall be two (2) inches, and the maximum diameter shall be not more than the diameter of the main to which the service is connected.
3. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.
4. Service hereunder is for private fire systems which are regularly inspected by the local fire protection agency having jurisdiction and to which no connections for other than fire suppression purposes shall be made. Service shall be installed according to specifications of the utility and shall be maintained to the satisfaction of the utility. The utility will install the detector meter listed by the Underwriters Laboratories, Inc. or other device to indicate unauthorized use, leakage, or waste of water. The cost of such installation and the cost of the meter or other device shall be paid by the applicant.
5. The utility undertakes to supply water only at such pressures as may be available at any time through the normal operation of its system.

(continued)

APPENDIX C

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APPLE VALLEY RANCHOS WATER COMPANY

Schedule No. 4

NON-METERED FIRE SERVICE

(Continued)

6. Any unauthorized use of water, other than for fire extinguishing purposes, shall be charged for at the regular established rate as set forth under Schedule No. 1, and/or may be the grounds for the immediate disconnection of the service without liability to the Company.
7. A late charge will be imposed per Schedule No. LC.
8. All bills subject to the reimbursement fee set forth on Schedule No. UF.

APPENDIX C

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APPLE VALLEY RANCHOS WATER COMPANY

Schedule No. LC

LATE PAYMENT CHARGE

APPLICABILITY

Applicable to all service.

TERRITORY

Within the entire service area of the Company.

RATES

Late Charge: A late charge of 1.5% on unpaid balance subject to special conditions and minimum charge below:

Minimum Charge: The minimum charge is \$1.00

SPECIAL CONDITIONS

1. The balance is unpaid and subject to a late charge if the bill is Past-Due, or delinquent, as defined in Rule No. 11, Section B.1.a.
2. The late charge should be imposed only once on a delinquent bill since the account would be shut off before a subsequent bill and then subject to the reconnection fee as authorized by Tariff Rule No. 11.
3. All bills shall be subject to the reimbursement fee as set forth on Schedule No. UF.

APPENDIX C

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APPLE VALLEY RANCHOS WATER COMPANY

Schedule No. UF

SURCHARGE TO FUND

PUBLIC UTILITIES COMMISSION

REIMBURSEMENT FEE

APPLICABILITY

This surcharge applies to all water and sewer bills rendered under all tariff rate schedules authorized by the Commission, with the exception of resale rate schedules where the customer is a public utility.

TERRITORY

This schedule is applicable within the entire territory served by the utility.

RATES

A 1.5% (.015) surcharge shall be added to all customer bills.

In 1982, the Legislature established the Public Utilities Commission Reimbursement Fee to be paid by utilities to fund their regulation by the Commission (Public Utilities (PU) Code Section 401-443). The surcharge to recover the cost of that fee is ordered by the Commission under authority granted by the PU Code Section 433.

APPENDIX C

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APPLE VALLEY RANCHOS WATER COMPANY

SCHEDULE NO. CARW

CALIFORNIA ALTERNATIVE RATES FOR WATER

APPLICABILITY

Applicable to residential domestic service to CARW households accommodation with a 1-inch or smaller meter, where the customer meets all the Special Conditions of this rate schedule.

TERRITORY

Town of Apple Valley and vicinity, San Bernardino County

RATES

Quantity Rate:

Customers will be charged per 100 cubic feet of water delivered at the quantity rate reflected in Schedule No. 1, Residential General Metered Service.

Service Charge

Customers will be charged a monthly service charge at the applicable mere size rate reflected in Schedule No. 1, Residential General Metered Service. Customers will receive a monthly CARW. Credit of \$6.69 prorated based on days of service, if service is not provided for a full month.

SPECIAL CONDITIONS

1. CARW Household: A CARW Household is a household where the total gross income from all sources is less than shown on the table below based on the number of persons in the household total gross income shall include income from all sources, both taxable and non-taxable. Persons who are claimed as dependent on another person's income tax return are not eligible for this program. For households with more than six persons, add \$7,700 annually for each additional person residing in the household.

<u>No of Persons In Household</u>	<u>Total Gross Annual Income</u>
1 or 2	\$31,800
3	\$37,400
4	\$45,100
5	\$52,800
6	\$60,500

(continued)

APPENDIX C

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APPLE VALLEY RANCHOS WATER COMPANY

SCHEDULE NO. CARW

CALIFORNIA ALTERNATIVE RATES FOR WATER

(continued)

SPECIAL CONDITIONS (continued)

2. **Application and Eligibility Declaration:** An application and eligibility declaration on a form authorized by the Commission is required for each request for service under this schedule. Renewal of a customer's eligibility declaration will be required every two years and may be required on an annual basis. Customers are only eligible to receive service under this rate schedule at one residential location at any one time, and the rate applies only to the customer's permanent primary residence. The schedule is not applicable where, in the opinion of the Utility, either the accommodation or the occupancy is transitory.
3. **Commencement of Rate:** Eligible customers shall be billed on this schedule commencing no later than one billing period after receipt and approval of the customer's application by the Utility.
4. **Verification:** Information provided by the applicant is subject to verification by the Utility. Refusal or failure of a customer to provide documentation of eligibility acceptable to the Utility, upon the request of the Utility, shall result in removal from this rate schedule.
5. **Notice from Customer:** It is the customer's responsibility to notify the Utility if there is a change in the customer's eligibility status.
6. Customer may be re-billed for periods of ineligibility under the applicable rate schedule.
7. All bills are subject to the Public Utilities Commission Reimbursement Fee set forth on Schedule No. UF.

APPENDIX C
Page 10 of 17
SCHEDULE NO. CARW-SC

CALIFORNIA ALTERNATIVE RATES FOR WATER

APPLICABILITY

Applicable to all metered water service, excluding Non-Metered Fire Service, Gravity Irrigation Service, and customers that receive a CARW credit.

TERRITORY

Town of Apple Valley and vicinity, San Bernardino County.

SPECIAL CONDITIONS

1. A surcharge of \$.55 per month is applicable to all metered customers, excluding customers receiving Non-Metered Fire Sprinkler Service, Gravity Irrigation Service, and customers that receive a CARW credit. The surcharge offsets CARW credits and CARW program costs and will be applied to each customer's bill.

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Rule No. 7

DEPOSITS

- A. Amount to Establish Credit
 - 1. Metered Service
 - a. To establish credit by deposit, the amount for all service will be twice the estimated average bill.
 - 2. Flat Rate Service
 - a. No deposit required, except where provided for temporary service.
- B. Amount to Re-establish Credit
 - 1. Former Customers
 - a. For an applicant who is a former customer and whose service was discontinued during the last 12 months of his former service for non-payment of bills, an amount equal to twice the estimated average monthly bill for the service desired.
 - 2. Present Customers
 - a. For a customer whose service has been discontinued for non-payment of bills an amount equal to twice his average monthly bill for that service.
- C. Applicability to Unpaid Accounts
 - 1. Deposits prescribed herein are applicable to unpaid bills for water service when such service has been discontinued.
- D. Return of Deposits
 - 1. Upon discontinuance of service, the utility will refund the customer's deposit or the balance in excess of unpaid bills for that service.
 - 2. After the customer has, for 12 consecutive months, paid bills for service on the average within 15 days after presentation, utility will refund the deposit with interest thereon, as provided in Paragraph E.
- E. Interest on Deposits
 - 1. The utility will pay interest on deposits at the rate of 7% per annum for the first 12 consecutive months during which a customer has paid bills for water service on the average within 15 days after presentation, however, that no interest shall accrue after mailing refund or notice that refund is due and payable to the customer at his last known address.
 - 2. No interest will be paid if service is discontinued within 12 months from date on which deposit was made.

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Rule No. 9

RENDERING AND PAYMENT OF BILLS

(Continued)

3. Proration of Bills (continued)

(2) Flat Rate Service

The billing period charge will be prorated on the basis of the ratio of the number of days in the period to the number of days in an average billing period.

(3) Average Billing Period

The number of days in an average billing period is defined as 365 divided by the number of billing periods in a year. (It is 30.4 days for a monthly billing period).

B. Payment of Bills

Bills for service are due and payable upon presentation and payment may be made at any commercial office of the utility or to any representative of the utility authorized to make collections. Collection of closing bills may be made at the time of presentation.

1. The utility may charge \$12.00 for any bad check or electronic transfer not honored.

APPENDIX C
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RULE NO. 11
(Continued)

DISCONTINUANCE AND RESTORATION OF SERVICE

- B. 4. For Unsafe Apparatus of Where Service is Detrimental or Damaging to the Utility or its Customers.

If an unsafe or hazardous condition is found to exist on the customer's premises, or if the use of water thereon by apparatus, appliances, equipment or otherwise is found to be detrimental or damaging to the utility or its customers, the service may be shut off without notice. The utility will notify the customer immediately of the reasons for the discontinuance and the corrective action to be taken by the customer before service can be restored.

5. For Fraudulent Use of Service

When the utility has discovered that a customer has obtained service by fraudulent means, or has diverted the water service for unauthorized use, the service to that customer may be discontinued without notice. The utility will not restore service to such customer until that customer has complied with all filed rules and reasonable requirements of the utility and the utility has been reimbursed for the full amount of the service rendered and the actual cost to the utility incurred by reason of the fraudulent use.

- C. Restoration of Service

1. Reconnection Charge

Where service has been discontinued for violation of these rules or for non-payment of bills, the utility may charge \$30.00 for reconnection of service during regular working or \$60.00 for reconnection of service at other than regular working hours when the customer has requested that the reconnection be made at other than regular working hours.

2. To Be Made During Regular Working Hours

The utility will endeavor to make reconnections during regular working hours on the day of the request, if conditions permit, otherwise reconnection will be made on the regular working day following the day the request is made.

APPENDIX C
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RULE NO. 15
(continued)

MAIN EXTENSIONS

B. 2. Refunds

If subsequent applications for water service are connected directly to the main extension contributed by the original individual customer, such subsequent applicants shall pay to the utility an amount equal to the cost of 100 feet of the original extension. Such amounts shall be immediately refunded by the utility to the initial customer who originally paid for and contributed the main extension to the utility. Total payments to the initial customer by subsequently applicants for water service who are connected directly to the extension shall not exceed the original cost of the extension. No refunds shall be made after a period of ten years from completion of the main extension.

C. Extensions to Serve Subdivisions, Tracts, Housing Projects, Industrial Developments, Commercial Buildings, or Shopping Centers.

1. Advances

- a. Unless the procedure outlined in Section C.1.c., is followed, an applicant for a main extension to serve a new subdivision, tract, housing project, industrial development, commercial building, or shopping center shall be required to advance to the utility, before construction is commenced, the estimated reasonable cost of the extension to be actually installed, from the nearest utility facility at least equal in size or capacity to the main required to serve both the new customers and a reasonable estimate of the potential customers who might be serve directly from the main extension. The costs of the extension shall include necessary service stubs or service pipes, fittings, gates and housing therefore, and meter boxes, but shall not include meters. To this shall be added the cost of fire hydrants when requested by the applicant for the main extension or required by public authority, whenever such hydrants are to become the property of the utility.
- b. If special facilities consisting of items not covered by Section C.1.a. are required for the service requested and, when such facilities to be installed will supply both the main extension and other parts of the utility's system, at least 50 percent of the design capacity (in gallons, gpm, or other appropriate units) is required to supply the main extension, the cost of such special facilities may be included in the advance, subject to refund, as hereinafter provided, along with refunds of the advance of the cost of the extension facilities described in Section C.1.a. above except as specified in Section C.1.e. below.

(continued)

APPENDIX C
Page 15 of 17

RULE NO. 15
(continued)

MAIN EXTENSIONS

MAIN EXTENSIONS

- C. 1. c. In lieu of providing the advances in accordance with Sections C.1.a. and C.1.b., the applicant for a main extension shall be permitted, if qualified in the judgment of the utility, to construct and install the facilities himself, or arrange for their installation pursuant to competitive bidding procedures initiated by him and limited to the qualified bidders. The cost, including the cost of inspection and supervision by the utility, shall be paid directly by applicant. The applicant shall provide the utility with a statement of actual construction cost in reasonable detail. The amount to be treated as an advance subject to refund shall be the lesser of (1) the actual cost, or (2) the price quoted in the utility's detailed cost estimate. The installation shall be in accordance with the plans and specifications submitted by the utility pursuant to Section A.5.b.
- d. If, in the opinion of the utility it appears that a proposed main extension will not, within a reasonable period, develop sufficient revenue to make the extension self-supporting, or if for some other reason it appears to the utility that a main extension contract would place an excessive burden on customers, the utility may require nonrefundable contributions of plant facilities from developers in lieu of a main extension contract.
- If an applicant for a main extension contract who is asked to contribute the facilities believes such request to be unreasonable, such applicant may refer the matter to the Commission for determination, as provided for in Section A.8. of this rule.
- e. A special facilities fee for water supply will be included in the advance in lieu of any domestic water supply requirement covered under Section C.1.b. The fees are shown below.

<u>Service Size</u>	<u>Facilities Fee</u>
? -inch	\$ 900.00
¾-inch	\$ 1,350.00
1-inch	\$ 2,250.00
1 ½-inch	\$ 4,500.00
2-inch	\$ 7,200.00
3-inch	\$ 13,500.00
4-inch	\$ 22,500.00
6-inch	\$ 45,000.00
8-inch	\$ 72,000.00
10-inch	\$ 103,500.00

This fee is applicable to all subdivisions requiring a main extension except those serving four or fewer residential lots or equivalent single-family dwelling units. The fee

(continued)

APPENDIX C
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RULE NO. 15
(continued)

MAIN EXTENSIONS

shall apply to every connection by all individuals or entities that apply for more than five connections in an 18-month period.

- C 1. f. A Supplemental Water Acquisition Fee will be charged to all applicants for a main extension to serve a new subdivision, tract, housing project, industrial development, commercial building, or shopping center as a refundable advance in order to address issues of long-term availability and cost of water supply. The purpose of the Supplemental Water Acquisition Fee will be to fund AVR's pre-purchase of Replacement Water from the Mojave Water Agency (MWA), or for AVR to acquire water rights should they become readily available. Pre-purchased Replacement Water purchased from MWA will be capitalized by AVR and amortized to expense over a 40-year period consistent with the life of the advance contract. The Supplemental Water Acquisition Fee will be calculated as follows:*

Residential developments..... \$5,000 per lot

Commercial, Industrial, or
other developments \$5,000 per equivalent
average residential water use
based on the water use of a similar
business or facility.

Applicants will have the option to either: 1) pay the entire fee at the time of completion of the main extension at the current rate; or 2) pay the fee for each lot, or equivalent, at the time the meter is set, subject to whatever changes to the rate or nature of the fee are in effect at that time.

*Development for which use of water rights is provided for under the Water Supply Agreement between AVR and Jess Ranch Water Company are exempt from this fee.

APPENDIX C

Page 17 of 17

RULE NO. 22

FIRE PROTECTION

A. Furnished Under Filed Rate Schedules

Fire protection service will be furnished by the utility only at the rates and under the conditions set forth in an appropriate rate schedule for the service filed as a part of these tariff schedules, except as service may be supplemented or amplified by more detailed contractual arrangements after authorization therefore has first been obtained from the Public Utility Commission.

B. Other Specific Considerations

Specifications, location, installation, and the responsibility for the maintenance of fire hydrants, public and private fire protection facilities, connecting mains, and their ownership may be subject to negotiation between the utility and the applicant. Fire hydrants and public and private fire protection facilities will be installed to the requirements of the utility and when owned by the utility will be subject to such conditions as the Public Utilities Commission may determine based upon the compensation received for service.

(END OF ATTACHMENT C)

ATTACHMENT D

APPENDIX D
APPLE VALLEY RANCHOS WATER COMPANY
COMPARISON OF RATES
TEST YEAR 2012

MONTHLY USAGE	PRESENT	ADOPTED	INCREASE	PERCENT
0	20.75	22.34	1.59	7.66%
10	42.32	46.72	4.40	10.40%
20	64.61	73.23	8.62	13.34%
28 AVG	82.83	95.77	12.95	15.63%
30	87.50	101.87	14.37	16.42%
50	135.44	162.81	27.37	20.21%

Note: Based on Monthly Charges According to Schedule No. 1
Residential Metered Comparison based on 5/8 x 3/4-inch meter
Rates do not include CPUC fees or surcharges that may appear on customer bills

(END OF ATTACHMENT D)

ATTACHMENT E

APPENDIX E
Page 1 of 5
APPLE VALLEY RANCHOS WATER COMPANY-DOMESTIC
ADOPTED QUANTITIES

Net-to-Gross Multiplier		1.72717		
Uncollectible Rate		0.34%		
Franchise Fee		0.9500%		
Federal Tax Rate		34.00%		
State Tax Rate		8.84%		
		2012	2013	2014
Water Consumption (KCcf)				
Domestic Water Sales		5,886.7	5,941.4	5,996.1
Unaccounted Water	8%	511.9	516.6	521.4
Total Water Production		6,398.6	6,458.0	6,517.5
Replenishment Charges				
Administrative/Biological Assessment (A.F.)		14,689	14,826	14,962
Cost per A.F.		<u>\$4.32</u>	<u>\$4.32</u>	<u>\$4.32</u>
Total Admin./Bio. Cost (\$)		\$63,457	\$64,046	\$64,636
Make-Up Assessment (A.F.)		1,218	1,218	1,218
Cost per A.F.		<u>\$120.00</u>	<u>\$120.00</u>	<u>\$120.00</u>
Total Make-Up Cost (\$)		\$146,160	\$146,160	\$146,160
Total Replenishment Cost		\$209,617	\$210,206	\$210,796
Leased Water Rights				
Leased Water Rights (A.F.)		4,543	4,658	4,765
Cost per A.F.		<u>\$356.81</u>	<u>\$356.81</u>	<u>\$356.81</u>
Total Leased Water Rights Cost		\$1,621,006	\$1,661,855	\$1,700,206
Purchased Power				
Electric				
Total Cost (\$)		\$919,825	\$924,401	\$928,969
Total Kilowatts (kWhs)		10,580,828	10,679,142	10,777,450
Cost/Kilowatt Hour		\$0.08693	\$0.08656	\$0.08620
Gas				
Total Cost (\$)		\$19,822	\$20,006	\$20,190
Total Therms		19,496	19,677	19,858
Cost/Therm		\$1.01672	\$1.01672	\$1.01672

APPENDIX E
Page 2 of 5
APPLE VALLEY RANCHOS WATER COMPANY-DOMESTIC
ADOPTED QUANTITIES
(Dollars in Thousands)

	2012	2013
<u>Utility Plant In Service</u>		
Beginning Of Year Balance	105,175.6	109,612.6
Additions	4,722.9	4,952.0
Retirements	285.8	294.4
End Of Year Balance	109,612.6	114,270.2
Average Balance	107,394.1	111,941.4
<u>Depreciation Reserve</u>		
Beginning Of Year Balance	25,941.9	28,700.6
Annual Accrual	3,055.9	3,208.3
Net Retirements	297.2	306.1
End Of Year Balance	28,700.6	31,602.7
Average Balance	27,321.2	30,151.7

Note: Unadjusted for General Plant Adjustments.

APPENDIX E
Page 3 of 5
APPLE VALLEY RANCHOS WATER COMPANY-DOMESTIC
ADOPTED QUANTITIES
(Dollars in Thousands)

RATE BASE SUMMARY

	2012	2013
AVERAGE BALANCES		
PLANT IN SERVICE	107,325.9	111,869.4
WORK IN PROGRESS	160.0	0.0
MATERIALS & SUPPLIES	310.8	312.0
WORKING CASH	934.7	772.5
SUBTOTAL	108,731.4	112,953.9
LESS:		
DEPRECIATION RESERVE	27,287.4	30,112.5
ADVANCES	31,083.0	31,246.1
CONTRIBUTIONS	2,023.0	1,920.9
UNAMORTIZED ITC	61.4	56.6
DEFERRED INCOME TAX	8,541.1	8,614.1
SUBTOTAL	68,995.9	71,950.3
PLUS:		
METHOD 5 ADJUSTMENT	1.4	1.0
NET DISTRICT RATE BASE	39,736.9	41,004.6
MAIN OFFICE ALLOCATION	602.5	594.4
TOTAL RATE BASE	40,339.5	41,599.0

APPENDIX E
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APPLE VALLEY RANCHOS WATER COMPANY-DOMESTIC
ADOPTED QUANTITIES
TEST YEAR 2012
(Dollars in Thousands)

<u>INCOME TAX CALCULATIONS</u>	<u>PRESENT RATES</u>	<u>AT AUTHORIZED RATE OF RETURN</u>
OPERATING REVENUES	19,668.4	22,572.7
EXPENSES		
OPERATIONS & MAINTENANCE	6,471.5	6,471.5
UNCOLLECTIBLES	66.9	76.7
ADMINISTRATIVE & GENERAL	6,680.5	6,680.5
FRANCHISE FEES	186.3	213.7
AD VALOREM TAXES	453.5	453.5
PAYROLL TAXES	352.1	352.1
MEALS ADJUSTMENT	-13.7	-13.7
SUBTOTAL	14,197.0	14,234.3
INCOME BEFORE TAXES	5,471.4	8,338.4
DEDUCTIONS		
CA TAX DEPRECIATION	2,697.8	2,697.8
INTEREST	1,452.2	1,452.2
TOTAL	4,150.0	4,150.0
TAXABLE INCOME FOR CCFT	1,321.3	4,188.4
CCFT RATE	8.84%	8.84%
CCFT	116.8	370.3
DEDUCTIONS		
FED. TAX DEPRECIATION	2,576.1	2,576.1
INTEREST	116.8	116.8
CA TAX	1,452.2	1,452.2
QUALIFIED PROD. DEDUCTION	62.6	187.1
TOTAL	4,207.7	4,332.1
FIT TAXABLE INCOME	1,263.7	4,006.3
FIT RATE	34.00%	34.00%
FIT (BEFORE ADJUSTMENT)	429.6	1,362.1
PRORATED ADJUSTMENT INVESTMENT TAX CREDIT	0.0	0.0
NET FEDERAL INCOME TAX	429.6	1,362.1

APPENDIX E
Page 5 of 5
APPLE VALLEY RANCHOS WATER COMPANY-DOMESTIC
ADOPTED QUANTITIES

	2012	2013	2014
<u>Number of Customers</u>			
Residential	17,476	17,526	17,576
Business	1,345	1,358	1,371
Industrial	2	2	2
Public Authority	42	42	42
Private Fire Service	255	277	299
Irrigation - Public Authority	5	5	5
Irrigation - Pressure	184	199	214
Temporary Construction	13	13	13
Apple Valley Country Club	1	1	1
Total	19,323	19,423	19,523

	2012	2013	2014
<u>Water Sales (Ccfs)</u>			
Residential	4,075,403	4,087,063	4,098,723
Business	885,010	893,564	902,118
Industrial	1,412	1,412	1,412
Public Authority	295,613	295,613	295,613
Private Fire Service	1,530	1,662	1,794
Irrigation - Public Authority	29,545	29,545	29,545
Irrigation - Pressure	421,360	455,710	490,060
Temporary Construction	33,046	33,046	33,046
Apple Valley Country Club	143,748	143,748	143,748
Total	5,886,667	5,941,363	5,996,059

	2012	2013	2014
<u>Consumption per Customer (Ccf per Customer)</u>			
Residential	233	233	233
Business	658	658	658
Industrial	706	706	706
Public Authority	7,038	7,038	7,038
Private Fire Service	6	6	6
Irrigation - Public Authority	5,909	5,909	5,909
Irrigation - Pressure	2,290	2,290	2,290
Temporary Construction	2,542	2,542	2,542
Apple Valley Country Club	143,748	143,748	143,748

(END OF ATTACHMENT E)

ATTACHMENT F

APPENDIX F
1 of 1
APPLE VALLEY RANCHOS WATER CO.-IRRIGATION
TEST YEAR 2012
SUMMARY OF EARNINGS
(Dollars In Thousands)

	AT PRESENT RATES		ADOPTED	
	RANCHOS UPDATED	DRA UPDATED	AT PRESENT RATES	AT AUTHORIZED ROR
OPERATING REVENUES	255.0	255.0	255.0	225.3
DEFERRED REVENUES	0.0	0.0	0.0	0.0
TOTAL REVENUES	255.0	255.0	255.0	225.3
OPERATIONS & MAINTENANCE				
PAYROLL-OPERATIONS	4.0	4.0	4.0	4.0
OPERATIONS-OTHER	0.0	0.0	0.0	0.0
PURCHASED POWER	75.6	75.6	75.6	75.6
LEASED WATER RIGHTS	0.0	0.0	0.0	0.0
REPLENISHMENT CHARGES	23.8	23.8	23.8	23.8
UNCOLLECTIBLES	0.0	0.0	0.0	0.0
PAYROLL-MAINTENANCE	0.0	0.0	0.0	0.0
MAINTENANCE-OTHER	1.2	1.2	1.2	1.2
CLEARINGS-OTHER	2.9	2.9	2.9	2.9
SUBTOTAL O & M	107.6	107.5	107.6	107.6
ADMINISTRATIVE & GENERAL	0.0	0.0		
A & G PAYROLL	0.0	0.0	0.0	0.0
EMPLOYEE BENEFITS	2.3	2.3	2.3	2.3
INSURANCE	1.6	1.6	1.6	1.6
REG. COMM. EXPENSE	0.0	0.0	0.0	0.0
FRANCHISE REQUIREMENTS	0.0	0.0	0.0	0.0
OUTSIDE SERVICES	5.2	5.2	5.2	5.2
A & G - OTHER	0.1	0.1	0.1	0.1
GENERAL OFFICE ALLOCATION	16.7	16.0	16.7	16.7
AVR ALLOCATION	32.1	29.8	32.1	32.1
SUBTOTAL A & G	58.1	55.1	58.1	58.1
OTHER TAXES				
PROPERTY TAXES	3.8	3.8	3.8	3.8
PAYROLL TAXES	0.9	0.9	0.9	0.9
SUB-TOTAL OTHER TAXES	4.7	4.7	4.7	4.7
DEPRECIATION	18.6	18.6	18.6	18.6
CA INCOME TAXES	5.0	5.3	5.0	2.4
FEDERAL INCOME TAXES	16.7	17.6	16.7	7.1
TOTAL EXPENSE	210.7	208.8	210.7	198.4
NET REVENUES	44.3	46.2	44.3	26.9
RATE BASE	285.1	284.9	285.1	285.1
RATE OF RETURN	15.53%	16.21%	15.53%	9.42%

DEPRECIATION, AD VALOREM AND PAYROLL TAXES FROM PARK'S MAIN OFFICE
HAVE BEEN INCLUDED IN THE APPROPRIATE LINE ITEM OF EXPENSE.

(END OF ATTACHMENT F)

ATTACHMENT G

APPENDIX G
Page 1 of 5
APPLE VALLEY RANCHOS WATER COMPANY-IRRIGATION
ADOPTED QUANTITIES

Net-to-Gross Multiplier		1.727170		
Uncollectible Rate		0.26%		
Franchise Fee		0.9800%		
Federal Tax Rate		34.00%		
State Tax Rate		8.84%		
		2012	2013	2014
<u>Water Consumption (Ccf)</u>				
Water Sales		540.5	540.5	540.5
Unaccounted Water	78.6%	1,985.1	1,985.1	1,985.1
Total Water Production		2,525.6	2,525.6	2,525.6
<u>Replenishment Charges</u>				
Biological Assessment (A.F.)		5,798	5,798	5,798
Cost per A.F.		\$0.77	\$0.77	\$0.77
Total Biological Assessment Cost		<u>\$4,464</u>	<u>\$4,464</u>	<u>\$4,464</u>
Make-Up Assessment				
Make-Up Assessment (A.F.)		161	161	161
Cost per A.F.		\$120.00	\$120.00	\$120.00
Total Make-Up Assessment Cost		<u>\$19,320</u>	<u>\$19,320</u>	<u>\$19,320</u>
Total Replenishment Charges		\$23,784	\$23,784	\$23,784
Purchased Power				
Electric				
Total Cost		\$75,568	\$75,568	\$75,568
Kilowatt Hours		1,241,257	1,241,257	1,241,257
Cost/Kilowatt Hour		\$0.06088	\$0.06088	\$0.06088

APPENDIX G
Page 2 of 5
APPLE VALLEY RANCHOS WATER COMPANY-IRRIGATION
ADOPTED QUANTITIES
(Dollars in Thousands)

<u>Utility Plant In Service</u>	2012	2013
Beginning Of Year Balance	568.6	568.6
Additions	0	0
Retirements	0	0
End Of Year Balance	568.6	568.6
Average Balance	568.6	568.6
<u>Depreciation Reserve</u>		
Beginning Of Year Balance	196.9	209.8
Annual Accrual	12.9	12.9
Net Retirements	0.0	0.0
End Of Year Balance	209.8	222.6
Average Balance	203.3	216.2

Note: Unadjusted for General Plant Adjustments.

APPENDIX G
Page 3 of 5
APPLE VALLEY RANCHOS WATER COMPANY-IRRIGATION
ADOPTED QUANTITIES
(Dollars in Thousands)

	2012	2013
<u>RATE BASE SUMMARY</u>		
AVERAGE BALANCES		
PLANT IN SERVICE	636.8	640.6
WORK IN PROGRESS	0.0	0.0
WORKING CASH	7.3	6.0
SUBTOTAL	644.0	646.6
LESS:		
DEPRECIATION RESERVE	237.1	255.3
ADVANCES	0.0	0.0
CONTRIBUTIONS	42.7	41.4
UNAMORTIZED ITC	0.0	0.0
DEFERRED INCOME TAX	83.8	87.2
SUBTOTAL	363.7	383.9
PLUS:		
METHOD 5 ADJUSTMENT		
NET DISTRICT RATE BASE	280.3	262.7
MAIN OFFICE ALLOCATION	4.8	4.7
TOTAL RATE BASE	285.1	267.4

APPENDIX G
Page 4 of 5
APPLE VALLEY RANCHOS WATER COMPANY-IRRIGATION
ADOPTED QUANTITIES
TEST YEAR 2012
(Dollars in Thousands)

<u>INCOME TAX CALCULATIONS</u>	<u>PRESENT RATES</u>	<u>AT AUTHORIZED RATE OF RETURN</u>
OPERATING REVENUES	255.0	225.3
EXPENSES		
OPERATIONS & MAINTENANCE	107.6	107.6
UNCOLLECTIBLES	0.0	0.0
ADMINISTRATIVE & GENERAL	58.1	58.1
FRANCHISE FEES	0.0	0.0
AD VALOREM TAXES	3.8	3.8
PAYROLL TAXES	0.9	0.9
MEALS ADJUSTMENT	(0.1)	(0.1)
SUBTOTAL	170.3	170.3
INCOME BEFORE TAXES	84.7	55.0
CA. CORP - FRANCHISE TAX (CCFT)		
CA TAX DEPRECIATION	17.4	17.4
INTEREST	10.3	10.3
TOTAL	27.7	27.7
TAXABLE INCOME FOR CCFT	57.0	27.3
CCFT RATE	8.84%	8.84%
CA INCOME TAX	5.0	2.4
FEDERAL INCOME TAX (FIT)		
FED. TAX DEPRECIATION	17.8	17.8
CA TAX	5.0	5.0
INTEREST	10.3	10.3
QUALIFIED PROD. DEDUCTION	2.5	1.2
TOTAL	35.5	34.3
FIT TAXABLE INCOME	49.2	20.8
FIT RATE	34.00%	34.00%
FIT (BEFORE ADJUSTMENT)	16.7	7.1
INVESTMENT TAX CREDIT	0.0	0.0
NET FEDERAL INCOME TAX	16.7	7.1

APPENDIX G
Page 5 of 5
APPLE VALLEY RANCHOS WATER COMPANY-IRRIGATION
ADOPTED QUANTITIES

	2012	2013	2014
<u>Number of Customers</u>			
Gravity Irrigation	1	1	1
<u>Water Sales (Ccfs)</u>			
Gravity Irrigation	540,481	540,481	540,481
Consumption per Customer (Ccf per Customer)			
Gravity Irrigation	540,481	540,481	540,481

(END OF ATTACHMENT G)

ATTACHMENT H

APPENDIX H
1 of 2
MAIN OFFICE
TEST YEAR 2012
SUMMARY OF OPERATING EXPENSES
(Dollars In Thousands)

	2012
PAYROLL - CUSTOMERS	0.0
PAYROLL - MAINTENANCE	39.3
MAINTENANCE - OTHER	415.0
PAYROLL-CLEARINGS	32.9
CLEARINGS-OTHER	25.5
A & G PAYROLL	72.5
PAYROLL - BENEFITS (NON-P/R	3,951.7
INSURANCE	1,240.4
UNINSURED PROP. DAMAGE	93.4
REG. COM. EXPENSE	0.3
OUTSIDE SERVICES	29.6
OFFICE SUPPLIES	684.9
A & G TRANSFERRED	407.1
MISCELLANEOUS	(13.8)
PROPERTY TAXES	22.5
PAYROLL TAXES	230.6
DEPRECIATION	315.6
	7,547.6
GRAND TOTAL	7,547.6
ALLOCATION TO AVR - DOMESTIC	30.28%
PROPERTY TAXES	6.8
PAYROLL TAXES	69.8
DEPRECIATION	95.6
A & G EXPENSES	2,113.2
	2,285.4
<u>ALLOCATION TO AVR - IRRIGATION (.24%)</u>	0.24%
PROPERTY TAXES	0.1
PAYROLL TAXES	0.6
DEPRECIATION	0.8
A & G EXPENSES	16.7
	18.1

**APPENDIX H
2 of 2
MAIN OFFICE
RATE BASE SUMMARY**

	2011	2012	2013
AVERAGE BALANCES			
PLANT IN SERVICE		9,398.1	9,618.7
CWIP		10.0	110.0
SUBTOTAL		9,408.1	9,728.7
LESS:			
DEPRECIATION RESERVE		6,812.4	7,073.4
DEFERRED INCOME TAX		635.7	689.5
SUBTOTAL		7,448.1	7,762.9
NET MAIN OFFICE RATE BASE	2,019.6	1,960.0	1,965.8
WEIGHTED AVERAGE RATEBASE		1,989.8	1,962.9
<u>FOUR FACTOR ALLOCATION</u>			
DOMESTIC	30.28%	602.5	594.4
IRRIGATION	0.24%	4.8	4.7

(END OF ATTACHMENT H)