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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)

REPLY OF

APPLE VALLEY RANCHOS WATER COMPANY (U 346 W)

TO THE ALJ RULING SETTING ASIDE SUBMISSION IN A.11-01-001

ISSUED ON JUNE 20, 2012

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June 29, 2012

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) APPLICATION NO. 11-01-001
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ISSUED ON JUNE 20, 2012

I. Introduction

Pursuant to the Ruling Setting Aside Submission in A.11-01-001 issued by ALJ Long on June 20, 2012 Apple Valley Ranchos Water Company (AVR), hereby files its Reply to the request of ALJ Long for an update on the contested issue in A.11-01-001 regarding AVR’s need for a new office building, specifically the request that “Ranchos must describe the current status and schedule of the proposed new office compared to the status at the time of evidentiary hearings.”

II. Status Update.

In A.11-01-001, AVR included in its proposed capital budget \$702,026 of capital expenditures for an office expansion project, \$21,000 in 2011 on a master plan, \$320,000 in construction costs in each of the years 2012 and 2013, and an additional \$31,000 for new furniture and equipment in 2013 (AVR Opening Brief, page 38). As explained below, subsequent to the GRC hearings, new information has caused AVR to revise its plans.

As a first step in refining the requirements for an office expansion AVR contracted with an engineering firm, Brown and Caldwell (B&C), to perform a seismic evaluation of the existing main building (in addition to the main building, many of AVR’s employees occupy temporary structures mentioned below – see AVR Opening Brief, page 39). The report from B&C concluded that the existing structure does not meet current seismic code requirements. This was due to more stringent seismic requirements since the structure was built. Those requirements have become more stringent even since the last time the building was seismically evaluated in 2001. Due to the importance of the office building for water system operation, the 2010 California Building Code requires that the building be assigned an Occupancy Category III. The

current code recognizes the criticality of the facility for water system operation after a major seismic event and requires that the building be assigned an importance factor of 1.25. When compared to past evaluations, which used an importance factor of 1.0, the seismic demand has increased by 25%. When this is combined with other changes in the code, including the requirement to account for slightly higher ground accelerations, major improvements to the existing structure would be required to meet the current codes. In fact, the report states that the entire roof and all interior walls would need to be demolished and the only salvageable elements of the building would be portions of the exterior walls. The report also concluded that, due to the costs to modify or rebuild the existing building, it was not practical to bring the existing building up to the current code requirements. It was recommended that a new building would be a more cost effective way to meet AVR's office building needs. Based on this recommendation and other factors, such as the need to have a facility that complies with current Americans with Disabilities Act (ADA) requirements (improved/widened access, handicapped restrooms, etc.), the need to replace temporary trailer office/meeting space, the desire to replace the World War II vintage Quonset hut, and the need to address current and future staffing levels AVR is now planning to construct a new building rather than to construct an addition to the existing building.

With this revision, AVR has a revised schedule of capital expenditures to address the office expansion issue. AVR has already spent \$14,902 in 2011 primarily for the seismic evaluation. AVR has initiated the process of obtaining a zoning change, performing a development permit application and preparing a site master plan. AVR estimates that the total cost for these processes will be \$ 80,487 split equally between the years 2012 and 2013. AVR plans to do the Design and development of Construction Documents in 2013 for an estimated cost of \$242,550. Under the revised schedule the capital expenditures (booked to Construction Work In Progress) for the office expansion project for the years covered by this proceeding are: \$14,902 in 2011; \$40,243 in 2012; and \$282,793 in 2013 (2014 is the attrition year in this proceeding for which no capital expenditures are expressly estimated). A summary of the actual and proposed costs for the planning and design elements described above are listed in Attachment 1 (Office Building Planning and Design Cost Estimate spreadsheet). Attachment 1 does not include any construction costs since the construction has now been deferred from the original schedule. AVR's goal is to have completed plans and construction estimates to use in its Test Year 2015 GRC application.

AVR has currently hired a consultant to begin the rezoning process. In order to obtain approval to construct a new building, rezoning is required to change from the current zoning of multi-family residential to commercial. A development permit application is required as a part of this process. Going through this process will eliminate the need for going through the more costly conditional use permit process. The rezoning process requires that some adjacent property owners also rezone their property. Discussions have taken place with the adjacent owners and they have indicated that they are willing to go through the process and a cost sharing agreement for the rezoning costs is in place. The attached cost estimate reflects only AVR's portion of the costs. Communication with the Town of Apple Valley indicates that they are receptive to this process.

AVR has also met with a local architect to discuss requirements and needs associated with the proposed new building. Those discussions were also used to obtain cost information included in the Office Building Planning and Design Cost Estimate spreadsheet. AVR will need to hire an architect to complete a site master plan, to complete a proposed design to submit to the Town planning commission and to complete a final design with construction documents. While the actual square footage and configuration of the proposed building is yet to be determined, AVR's goal is to provide a cost effective, energy efficient, functional building that will address some issues not addressed in AVR's initial proposal and will serve the needs of our customers and the company.

III. Conclusion

AVR believes that its revised plans to address the office expansion issue are reasonable in light of the information subsequently obtained from the engineering report on its main office building, and that its revised schedule of capital expenditures for the project is reasonable with respect to those revised plans.

DRA, in its Report (Exhibit DRA-1, Chapter 7, page 7-14, 6- 8) stated “ DRA also recommends that AVR, if it chooses to include a request for an office expansion project in its next GRC, provide the Commission with more detailed design, verifiable justification, and up-to-date cost information.” AVR submits that the revised schedule of capital expenditures contained in this Reply, in addition to being reasonable in light of subsequent information from the B&C Report, are consistent with, and are the appropriate and necessary costs of compliance with, this

recommendation from DRA with respect to the information to be provided to the Commission in AVR's Test Year 2015 GRC application.

Executed at Downey, California, this 29th day of June 2012.

Respectfully submitted,

APPLE VALLEY RANCHOS WATER COMPANY

By: /s/ Leigh K. Jordan

LEIGH K. JORDAN
Executive Vice President

VERIFICATION

STATE OF CALIFORNIA) ss.
COUNTY OF LOS ANGELES)

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

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

Executed at Downey, California, this 29th day of June 2012.

/s/Leigh K. Jordan
LEIGH K. JORDAN
Executive Vice President

**Apple Valley Ranchos Water Company
Office Building Planning and Design Cost Estimate**

	2011	2012	2013	Combined Total
Preliminary Investigation and Planning				
Planning and Seismic Evaluation (w/Admin Burden)	\$14,902.20			\$14,902.20
Preliminary Investigation and Planning Total	\$14,902.20			\$14,902.20
Zone Change and Development Permit Application				
Town and Auxiliary Fees				
Town Application Fees		\$8,387.00	\$8,387.00	\$16,774.00
Radius Map		\$178.57	\$178.57	\$357.14
Title reports		\$1,232.14	\$1,232.14	\$2,464.29
Development Permit and Fees		\$843.50	\$843.50	\$1,687.00
AVFPD Fee		\$164.29	\$164.29	\$328.57
Town Fees for Civil Review		\$700.00	\$700.00	\$1,400.00
County Surveyor Fee		\$178.57	\$178.57	\$357.14
Misc Reimbursable Costs		\$642.86	\$642.86	\$1,285.71
Admin Burden		\$616.35	\$616.35	\$1,232.69
Subtotal		\$12,943.28	\$12,943.28	\$25,886.55
Civil Engineering Services				
Civil Engineering for Parcels		\$5,000.00	\$5,000.00	\$10,000.00
Record of Survey		\$1,607.14	\$1,607.14	\$3,214.29
Admin Burden		\$330.36	\$330.36	\$660.71
Subtotal		\$6,937.50	\$6,937.50	\$13,875.00
Architectural Services				
Zone Change		\$3,392.86	\$3,392.86	\$6,785.71
Development Permit Application & Processing		\$7,000.00	\$7,000.00	\$14,000.00
Admin Burden		\$519.64	\$519.64	\$1,039.29
Subtotal		\$10,912.50	\$10,912.50	\$21,825.00
Zone Change and Development Permit Application Total		\$30,793.28	\$30,793.28	\$61,586.55
Master Site Planning				
Architectural Services		\$7,500.00	\$7,500.00	\$15,000.00
In-House labor		\$1,500.00	\$1,500.00	\$3,000.00
Admin Burden		\$450.00	\$450.00	\$900.00
Master Site Planning Total		\$9,450.00	\$9,450.00	\$18,900.00
Design and Construction Documents				
Architectural Services		\$63,000.00	\$63,000.00	\$63,000.00
Mechanical, Electrical and Plumbing Engineering		\$42,000.00	\$42,000.00	\$42,000.00
Cal Green Commissioning Fees		\$21,000.00	\$21,000.00	\$21,000.00
Street Improvement Plans		\$18,000.00	\$18,000.00	\$18,000.00
Utility Plans: Sewer and Water		\$8,000.00	\$8,000.00	\$8,000.00
Civil Grading Plans		\$12,000.00	\$12,000.00	\$12,000.00
Hydrology/Drainage Plans		\$6,000.00	\$6,000.00	\$6,000.00
Dry Utility Plans		\$20,000.00	\$20,000.00	\$20,000.00
Dedication/Right of Way Documents		\$5,000.00	\$5,000.00	\$5,000.00
Town of AV Plan review Fee		\$25,000.00	\$25,000.00	\$25,000.00
Legal Fees		\$5,000.00	\$5,000.00	\$5,000.00
In-House Labor		\$6,000.00	\$6,000.00	\$6,000.00
Admin Burden		\$11,550.00	\$11,550.00	\$11,550.00
Design and Construction Documents Total		\$242,550.00	\$242,550.00	\$242,550.00
Grand Total	\$14,902.20	\$40,243.28	\$282,793.28	\$337,938.75