

ATTACHMENT 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)
 \$3,767,000 or 22.73% in 2009, \$186,510 or 0.90%)
 in 2010, and \$280,000 or 1.32% in 2011.)
 _____)

APPLICATION NO. 08-01-002
 (Filed January 2, 2008)

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 raised in DRA's Report on the Results of Operations of Apple Valley Ranchos Water Company ("Report") dated April 11, 2008.
- 1.07 **Unresolved Issues between the Parties** – DRA and AVR do not agree on the appropriate ratemaking treatment for two wells, identified as number 33 and 34, and whether DRA's proposal seeking advice letter treatment on four capital projects proposed by AVR is appropriate. The unresolved issues are identified in the Parties' Briefs as "Rate Base Treatment of New Wells" and "Proposed Advice Letter Treatment of Four Capital Projects".
- 1.08 The Settlement below provides tables for contested issues. In cases where the Settlement figure is agreed upon by both Parties the table has four columns, one each for the Parties original position, the difference between the original positions and the Settlement figure. In the cases where the Settlement figure is not agreed upon by both Parties the table has six columns, one each for the Parties original position, the difference between the original positions, one each for the Parties' current position and the difference

between the current positions. The differences between the Parties current positions are caused by the unresolved issues between the Parties.

- 1.09 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 which 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 which is a pressurized potable water system.

2.00 Customers, Water Sales and Operating Revenues

2.01 Uncontested Issues

2.01.1 – Customers

	<u>2009</u>	<u>2010</u>	<u>2011</u>
Residential Metered	17,820	18,030	18,390
Commercial Metered	1,323	1,348	1,373
Industrial Metered	2	2	2
Public Authority Metered	42	42	42
Private Fire Metered	127	132	137
Public Authority Irrigation	5	5	5
Pressure Irrigation Metered	145	156	167
Gravity Irrigation Metered	1	1	1

2.01.2 – Water Sales (Ccf per customer)

Residential Metered	263.3
Commercial Metered	801.3
Industrial Metered	655.0
Pressure Irrigation Metered	2,177.1

2.01.3 – 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. DRA agreed with AVR's estimate of Miscellaneous Revenue at present rates. Any differences between the Parties original projection 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.

2.01.4 – Unaccounted for Water (Irrigation System)

Both Parties agreed, due to the unique circumstances of this system, that 85.9% was reasonable.

2.02 Contested Issues

2.02.1 – Customers

For Temporary Construction DRA used a 5-year (2002 – 2006) historical average to project customers for the test year, whereas AVR's projection was based on a 3-year (2002 – 2004) average to reflect the anticipated reduction in new residential construction. AVR accepts DRA's recommendation in recognition that Temporary Construction is impacted by both residential and commercial customer growth.

The Parties agree to use the number of customers proposed by DRA.

	<u>ORIGINAL</u>			<u>SETTLEMENT</u>
	AVR	DRA	DIFF.	
	24	34	10	34

2.02.02 – Water Sales (Ccf per customer)

For the Domestic System, the Parties used different methodologies to calculate water sales for the categories of Public Authority, Public Authority Irrigation and Private Fire Service. DRA used a 5-year average whereas AVR used the new committee method for the first two categories and assumed no consumption for the latter category. The rate case plan does not specify a methodology for calculating assumptions for these categories. While AVR prefers the new committee method when a strong statistical correlation exists, AVR accepts DRA's estimate as it provides a reasonable estimate for these categories during this rate cycle (2009 – 2011) period.

For the Irrigation System, the Parties had no difference in their original positions on water sales. During settlement discussions AVR proposed increasing the annual consumption of the Gravity Irrigation metered customer by 50% to reflect that the sole customer had expanded its golf course from 18 holes to 27 holes.

The Parties agree to the customer unit consumption proposed by DRA in its Report for Public Authority, Public Authority Irrigation and Private Fire Service. The Parties agree to AVR's proposal to increase by 50% the forecast of annual consumption by the single Gravity Irrigation metered customer contained in its application.

	<u>ORIGINAL</u>			<u>SETTLEMENT</u>
	AVR	DRA	DIFF.	
Public Authority	7,009	7,212	-203	7,212
Public Authority Irrigation	5,285	5,892	-607	5,892
Private Fire Service	0	16	-16	16
Gravity Metered	313,400	313,400	0	470,100

2.02.03 – 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 should have had a difference in Miscellaneous Revenues at Proposed Rates based upon differing positions on three of the fees which AVR proposed to increase fees for NSF Checks (Non Sufficient Funds), Reconnections, and Meter Testing, all of which increases were opposed by DRA. Because AVR's application erred in not forecasting the effect of the increased fees on its estimate of Miscellaneous Revenues at Proposed Rates, the estimates did not differ. 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.

The Parties agree to forecast an increase to Miscellaneous Revenues associated with the increased fees for NSF Checks and Reconnection Fees. The increase is calculated by taking a 5 year average occurrence times the increase of settled fees over existing fees.

	ORIGINAL			SETTLEMENT
	AVR	DRA	DIFF.	
Miscellaneous Revenues	41,000	41,000	0	48,000

2.02.04 - Unaccounted for Water (Domestic System)

DRA disagreed with AVR's estimate of 10% unaccounted for water for AVR's Domestic system. DRA used a 2-year historical average to arrive at its recommendation of 9%. AVR accepts DRA's recommendation.

The Parties agree to use DRA's Report estimate for unaccounted for water for the Domestic System of 9%.

3.00 Operation and Maintenance Expenses

3.01 Uncontested Issues

3.01.01 Allocation Factors from Domestic System to Irrigation System:

When allocating expenses from the Domestic System to the Irrigation System the Parties used 0.34%. Any difference in the Parties original position is a result of differing expense estimates for the Domestic System.

3.01.02 Clearings – Other :

Both Parties use AVR's amount of \$398,663 for 2009.

3.02 Contested Issues

3.02.01 Escalation Factors – Labor:

The Parties used different escalation factors in calculating test year expense estimates. For 2008, AVR used its actual Cost Of Living Adjustment (COLA) granted for 2008, 3.8%, which was known prior to filing the application, and used a labor escalation factor estimate of 3% for its 2009 COLA. DRA, in its estimates of AVR payroll, accepted AVR's actual 2008 COLA and used DRA's Energy Cost of Service Branch ("ECOS") memorandum dated January 31, 2008 and its labor escalation factor of 2.2% for 2009. For Main Office Payroll, DRA did not accept the actual 2008 COLA. It used the 2.9% labor escalation factor for 2008 from the same ECOS memorandum (see Section 13.02.01). DRA's Review of AVR's 2008 COLA confirmed that (i) the COLA for 2008 had been determined by the standard procedure followed by both AVR and Park, use of the 12-month-ended change as of 10/30/2007 in the regional CPI-W for L.A./Orange/Riverside

Counties reported by the U.S. Bureau of Labor Statistics), and (ii) the COLA had actually been granted to AVR and Park's Main Office employees effective January 1, 2008. Additionally, review of the March and April 2008 ECOS forecasts supported a COLA percentage higher than 3% for 2009, but the Parties agreed to use a lower percentage.

The Parties agree to use AVR's actual 2008 COLA of 3.8% for 2008 and AVR's estimate of 3% escalation factor for test year 2009.

3.02.02 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 ECOS memorandums dated January 31, 2008, resulting in an escalation factor of 2.6% for 2008 and 2.1% for 2009. AVR used an estimate of 3% for its escalation factor for 2008 and 2009. Review of the March and April 2008 ECOS forecasts supported DRA's original escalation factor.

The Parties agreed to use, for all non-labor or related expenses an escalation factor of 2.6% for 2008 and 2.1% for test year 2009.

3.02.03 O&M Payroll Expense:

There are two contested issues in this category both pertaining to increases in pay rates forecasted by AVR for 2009. DRA substituted a 2.2% labor escalation rate for AVR's estimate of 3% as of January 1, 2009. This issue is settled by the compromise described in 3.02.01. DRA also disallowed AVR's inclusion of a 2% merit increase for employees, as of April 1, 2009. Discussions between the Parties about AVR's process for determining merit increases removed the concerns that had resulted in DRA's recommendation to disallow the 2009 merit increases. DRA accepts the use of 2% for merit increases in AVR's application.

The Parties agree, based upon the resolution of issues noted above to use AVR's application amounts for the following categories:

	ORIGINAL			SETTLEMENT
	AVR	DRA	DIFF.	
Payroll-Operations	703,281	687,540	15,741	703,281
Payroll-Customer Acct	580,060	567,100	12,960	580,060
Payroll-Maintenance	373,268	365,081	8,187	373,268
Payroll-Clearings	117,374	114,751	2,623	117,374
	1,773,983	1,734,472	39,511	1,773,983

3.02.04 Operations-Other:

DRA contested this issue as its calculation reflected a lower test year expense estimate. DRA's expense estimate had a calculation error pertaining to normalization.

The Parties agree to AVR's application amount.

AVR	ORIGINAL		DIFF.	SETTLEMENT
	AVR	DRA		
216,894	215,103	1,791	216,894	

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

The difference in the Parties original estimates were solely a function of the Parties different estimates of total production which resulted from the differences in customers and consumption described above in Section 2. Although DRA's Report estimate, through an oversight, did not reflect lower expenses associated with its position (9%) on unaccounted for water versus the 10% forecasted by AVR which would have resulted in a difference.

The Parties had no issue with regard to the unit costs of production. 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 used the same methodology and the same per acre-foot rates for the three components (i.e., 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 recalculated expenses will be DRA's Report amount reduced by the impact of incorporating the unaccounted for water rate which lowers the amount of total water to be produced.

The Parties have agreed to use the uncontested methodology and unit costs of production proposed in AVR’s application. 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.

	ORIGINAL			SETTLEMENT
	AVR	DRA	DIFF.	
<u>Domestic</u>				
Purchased Power	1,171,761	1,176,834	-5,073	1,168,875
Leased Water Rights	1,584,008	1,613,854	-29,846	1,573,362
Replenishment	186,888	187,369	-481	186,716
	2,942,657	2,978,057	-35,400	2,928,953

3.02.06 Purchased Power & Replenishment – AVR Irrigation System:

There were no contested issues; both Parties used the same methodology to derive their expense estimates of \$75,491 and \$16,295 for Purchased Power and Replenishment, respectively. However the Settlement in Section 2.02.02 increases sales consumption by 50%. Therefore, a corresponding adjustment is required in this category to reflect the increased production consistent with the increased sales. For AVR’s Irrigation System the recalculated expense will be increased to reflect the increased consumption, however, the increased expense is more than off-set by the increased revenues.

The Parties agree to use the uncontested methodology and expense rates as used in AVR’s application. The Parties further agree to increase both categories of expense consistent with the 50% increase in gravity irrigation consumption.

	ORIGINAL			SETTLEMENT
	AVR	DRA	DIFF.	
<u>Irrigation</u>				
Purchased Power	75,491	75,491	0	101,623
Replenishment	16,295	16,295	0	18,081

3.02.07 Chemicals Expenses:

Both Parties used the same 5-year historical period and methodology to estimate test year 2009 expense. The Parties estimates differed for two reasons. First, DRA used recorded 2007 data whereas AVR used estimated 2007 data as recorded 2007 data was

unavailable at the time the application was being prepared. Second, DRA's estimate was impacted by an error in its normalization calculation.

The Parties agree to recalculate the estimated test year expense using the uncontested application methodology used in AVR's application, which includes proper normalization calculations. The Parties further agree to incorporate recorded 2007 data as proposed by DRA.

	ORIGINAL			SETTLEMENT
	AVR	DRA	DIFF.	
Chemical Expenses	24,452	23,167	1,285	24,312

3.02.08 Customer Accounts - Other:

Both Parties used the same methodology to estimate test year 2009 expense. The methodology incorporated both a 5-year historical average and the effects of two changed circumstances. The first changed circumstance is the continuation of a temporary customer service representative position that was not fully reflected in the 5-year historical average. The second changed circumstance is a reduction to mailing service costs forecasted by AVR. Despite this, the Parties estimates differed for two reasons. First, DRA used recorded 2007 data whereas AVR used estimated 2007 data as recorded 2007 data was unavailable at the time the application was being prepared. Second, DRA's estimate was affected by an error in its normalization calculation.

The Parties agree to recalculate the estimated test year expense using the uncontested application methodology used in AVR's application which includes proper normalization calculations. The Parties further agree to incorporate recorded 2007 data as proposed by DRA.

	ORIGINAL			SETTLEMENT
	AVR	DRA	DIFF.	
Customers-Other	154,307	148,189	6,118	152,246

3.02.09 Maintenance – Other:

With the exception of one item explained below, both parties used the same methodology to estimate test year 2009 expense. The methodology incorporated both a 5-

year historical average and the effects of three changed circumstances (i.e., inclusion of an outside contractor valve crew, elimination of a temporary meter reading position and elimination of the security patrol) that were not in effect for the full 5 years of the historical average. Despite this, the Parties estimates differed for three reasons. First, DRA used recorded 2007 data whereas AVR used estimated 2007 data as recorded 2007 data was unavailable at the time the application was being prepared. Second, DRA's estimate was impacted by an error in its normalization calculation. Third, DRA disagrees with AVR's proposal to expense, amortized evenly over a 10-year period, a portion of the Desert Knolls tank coating job. The expense portion of the total tank coating job was intended to reflect what otherwise would be the cost of recoating the tank with a similar type coating. The expense portion of the cost was proposed to initially be recorded as a deferred debit and then amortized to expense evenly over 10 years. AVR's application capitalized the additional cost, as the new type coating is expected to have a significantly longer useful life than a standard coating. The new type coating is cost effective given the additional years of service expected. DRA proposes that the entire cost of coating the tank be capitalized. Review of applicable standards from the Financial Accounting Standards Board of the Financial Accounting Foundation would allow AVR to capitalize the entire cost of this project should the Commission approve DRA's recommendation.

The Parties agree to recalculate the estimated test year expense using the uncontested application methodology used in AVR's application, which includes proper normalization calculations. The Parties further agree to incorporate recorded 2007 data and the removal of the annual expense amortization of the Desert Knoll tank coating job as proposed by DRA and to capitalize the entire cost of the tank coating.

	ORIGINAL			SETTLEMENT
	AVR	DRA	DIFF.	
Maintenance-Other	740,280	671,589	68,691	699,268

3.02.10 Conservation Memorandum Account:

Both Parties recommended that a Conservation Memorandum Account be authorized. DRA proposed a cap in its Report, AVR did not propose a cap in its application. DRA's proposed cap amount was based on a misunderstanding that the

additional conservation efforts would begin in the rate cycle period after the conclusion of test year and escalation years in this proceeding. After discussion DRA recognized that AVR will be accelerating its conservation activities during this rate cycle of 2009 – 2011, rather than starting in 2012, otherwise AVR would be seriously out of step with the intent of the Commission's Water Action Plan. As a result, DRA proposed a new cap amount for AVR's conservation memorandum account based upon its review of Park Water Company's ("Park") approved cap in Phase 1a of the Conservation proceeding (I.07-01-022) and its analysis of a reasonable level of anticipated expenses

The Parties agree that a Conservation Memorandum Account should be established for the period of this rate cycle. The Parties further agree, because conservation costs may not be incurred evenly throughout the rate cycle, that the cap will cover the entire rate cycle versus a yearly cap. The Parties further agree that the costs may be recorded into the account until December 31, 2011 and the total costs recoverable by AVR through the account may not exceed \$300,000.

4.00 Administrative and General Expenses

4.01 Uncontested Issues

4.01.01 – Employee Net Benefits Adjustment (credit)

This particular line item is a reduction to the overall employee benefits expense. When payroll costs are charged to accounts other than expense, generally capitalized, a portion of the benefits are allocated accordingly. DRA did not take any issue with AVR's estimates which were based on the expectation that AVR's overall capital spending will be reduced in AVR's test and escalation years from recorded 2007 capital spending. The amount proposed by both Parties is reflected in the table in Section 4.02.05 below.

4.02 Contested Issues

4.02.01 A & G Payroll Expense:

The contested issues are the same as identified in Section 3.02.03 above with the addition that DRA's Report recommended a disallowance of a 10% market adjustment increase in the salary of AVR's current Vice President/General Manager. The 10% market adjustment increase was also a contested issue for several positions in the Main Office A & G Payroll. DRA accepted the proposed market adjustments only after it had reviewed AVR's rebuttal testimony and held discussions with rebuttal witnesses and other AVR

representatives. These discussions clarified that the market adjustment was not granted on an across the board basis. Increases were not warranted or granted for several of the positions reviewed. Rather those increases actually granted were based solely on AVR's analysis of market data and AVR's determination that the 10% market adjustment was a minimum amount that was reasonable. Furthermore, in certain cases larger increases could have been justified based on market data but AVR chose to cap the increases at 10%. Further, a more detailed review by DRA of the market data used by AVR established that the market data came from an authoritative source and included many more data points than DRA initially had thought. The Parties agreement on A&G payroll is based upon the reasons provided in Section 3.02.03 and in this section.

The Parties agree to use AVR's application amount.

	<u>ORIGINAL</u>			<u>SETTLEMENT</u>
	AVR	DRA	DIFF.	
A&G Payroll Expense	1,422,846	1,378,216	44,630	1,422,846

4.02.02 Office Expenses:

DRA contested this issue as its calculation reflected a lower test year expense estimate. DRA's expense estimate had a calculation error pertaining to normalization.

The Parties agree to AVR's application amount.

	<u>ORIGINAL</u>			<u>SETTLEMENT</u>
	AVR	DRA	DIFF.	
Office Expense	245,423	242,238	3,185	245,423

4.02.03 Injuries & Damages/Insurance:

DRA and AVR used differing methodologies to calculate test year expense. Based on the rebuttal testimony and further discussion, the Parties concluded that each of the Parties' methodologies contained flaws.

The Parties have agreed to a new estimate which incorporates AVR's methodology using the policy years for insurance with the following changes: the estimate uses actual premiums (data not available to either party at time their estimates were prepared) for policies renewed on May 1, 2008 for the portion of the

2009 expense based on the 2008-2009 policy year. Also, the new estimate for the 2009 – 2010 policy year premium removes the payroll increase factor from the first and second umbrella liability policies and decreases the payroll increase factor to a 2/3 weighting on the business policy.

	<u>ORIGINAL</u>			<u>SETTLEMENT</u>
	AVR	DRA	DIFF.	
<u>Insurance-Domestic</u>				
Business Policy	362,478	304,519	57,959	355,646
First Umbrella	105,022	101,990	3,032	105,907
Second Umbrella	40,896	39,407	1,489	36,661
Fiduciary	2,500	2,812	-312	3,413
Directors & Officers	6,086	6,843	-757	11,450
Errors & Omissions	2,624	3,401	-777	4,052
Misc. (bonds, etc)	484	314	170	300
Employment Practice	3,441	8,073	-4,632	8,003
Life/Accidental Ins.	432	473	-41	451
Workers' Comp	144,040	69,143	74,897	91,809
Sub-Total	668,003	536,975	131,028	617,692
<u>Insurance-Irrigation</u>				
First Umbrella	246	242	4	361
Second Umbrella	140	138	2	125
Fiduciary	9	9	0	12
Directors & Officers	21	21	0	39
Errors & Omissions	9	9	0	14
Misc. (bonds, etc)		0	0	
Employment Practice	12	12	0	27
Workers' Comp	580	571	9	402
Sub-Total	1,017	1,001	16	980
Total	669,020	537,976	131,044	618,672

4.02.04 Injuries & Damages/Uninsured Property Damage:

DRA contested this issue as its calculation reflected a lower test year expense estimate. DRA's expense estimate had a calculation error pertaining to normalization.

The Parties agree to use the amount of \$8,214 included in AVR's application.

AVR	<u>Original</u>		<u>Settlement</u>
	DRA	DIFF.	
8,214	8,108	106	8,214

4.02.05 Employee Benefits - Medical & Dental:

DRA and AVR used differing methodologies to calculate test year expense. Based on the rebuttal testimony and further discussion, the Parties concluded that each of the Parties' methodologies contained flaws.

AVR's application contained an error in the determination of total medical and dental expense for test year 2009. The application derives the 2009 expense by incorporating the cost increase factors applied to the estimated 2008 expense; however, the 2008 expense was incorrectly calculated. AVR's normal methodology uses an estimate of a combined medical and dental premium to develop separate estimates of medical and dental expense. AVR's error was to use an estimate of the 2008 medical premium only, instead of a combined medical and dental premium, to develop its estimates of 2008 medical and dental expense. Therefore, the medical and dental premiums used to calculate the 2008 benefits expense are understated. Therefore, the 2009 application expenses for medical and dental were inconsistent with AVR's methodology and resulted in a lower application expense estimate.

After a review of rebuttal testimony and discussion with witnesses, DRA concluded that its methodology did not properly reflect staffing levels for 2008, including the staffing addition that occurred in November 2007.

After the correction of errors the Parties' estimates of test year expense differed for two reasons. First, the Parties used different cost increase factors for estimating cost increases for 2008 and 2009. DRA reviewed data from Global Insight, a factor that is used in the ECOS memorandums. This review indicated that Health Insurance premiums were projected to increase faster than the general inflation factor originally used by DRA. The Parties settled on an escalation factor between the Parties original positions. Second, the Parties incorporated uncontested staffing changes into the overall expense estimates differently.

To eliminate the flaws contained in the Parties' estimates and to reflect a compromise position on escalation factors the Parties agreed to a new methodology.

The Parties agree to calculate a new estimate of test year 2009 expenses using 2007-recorded expenses, adjusted to annualize the November 2007 staffing addition and then increase that result by 6.5% for 2008. The 2008 result is then increased by 6.5% for test year 2009.

	ORIGINAL			SETTLEMENT
	AVR	DRA	DIFF.	
<u>Employee Benefits-Domestic</u>				
Medical & Dental	365,935	353,145	12,790	381,301
Life, Accident, Disability, & 401K	100,622	86,129	14,493	100,622
Pension & PBOP	585,000	525,418	59,582	585,000
Service Awards, EAP/Wellness Program & Other	28,180	23,916	4,264	23,281
Benefits Adjustment	-43,508	-54,675	11,167	-43,508
Total Benefits for Domestic	1,036,229	933,935	102,294	1,046,696
Benefits Adjustment for Irrigation	2,778	2,778	0	2,778
Sub-Total	1,039,007	936,713	102,294	1,049,474

4.02.06 Employee Benefits – Life, Accident, Disability and 401(k):

Parties had different estimates of test year expenses for this category of expenses, primarily because DRA had escalated recorded costs by an inflation factor whereas AVR had increased costs as a result of an increased payroll for the test year. After discussion and review DRA agrees that payroll increases directly impact the cost of these benefits.

Consistent with the settlement on payroll, the Parties agree to use AVR's application amounts as reflected in the table in Section 4.02.05.

4.02.07 Employee Benefits – Pension & PBOP:

Parties had different estimates of test year expenses because their methodologies differed. DRA used 2007 recorded costs, staffing changes and escalation factors. AVR used staffing changes and actuary forecasted estimates. Also, for PBOP, the actuary forecast was augmented for a lower cost alternative for individuals hired after the benefit plan was frozen. The cost for this alternative are not reflected in AVR's recorded 2007 costs hence not reflected in DRA's 2009 test year estimate. DRA accepted AVR's application amount only after extensive review of AVR's rebuttal testimony, discussion with rebuttal witness and other AVR representatives that included review of the reasonableness of AVR's estimates, actuarial assumptions used, PBOP alternative and settlement of payroll issues.

The Parties agree to use AVR's application amounts as reflected in the table in Section 4.02.05.

4.02.08 Employee Benefits – Service Awards, EAP/Wellness Program & Other:

AVR’s test year estimate included a payroll increase factor which is inappropriate for these costs, which generally do not vary directly with payroll costs.

The Parties agree to calculate a new estimate based upon 2007 recorded costs plus DRA’s escalation factors for 2008 and 2009. The new estimate is reflected in the table in Section 4.02.05.

4.02.09 Regulatory Commission Expense:

DRA and AVR used same methodology but different escalation factors to derive test year expense estimates, with DRA’s escalation being a lower percentage than the percentage used by AVR.

The Parties agree to use DRA’s Report amount.

	ORIGINAL			SETTLEMENT
	AVR	DRA	DIFF.	
Regulation Commission Exp.	60,660	59,873	787	59,873

4.02.10 Administrative Expense Transferred:

This category is a reduction of A&G expenses directly attributable to capital projects. AVR’s administrative expense transfer rate is 5%. DRA’s Report estimate was based on an erroneous assumption that AVR used an historical average with a 3% escalation factor. Consequently, DRA’s estimate reduced AVR’s estimate by 3% and substituted its proposed escalation factor of 2.2%. DRA’s methodology was inconsistent with historical accounting treatment and its position on plant additions.

Despite agreement to a methodology, the Parties continue to have a difference in estimates due to the un-resolved issues. Current estimates for the Parties reflect each Parties current plant estimates. AVR’s estimate increased (larger reduction) from the original position based upon the Settlement (3.02.09) whereby AVR agrees to capitalize the entire cost of the Desert Knolls tank coating project.

The Parties agree to use AVR’s methodology explained below to calculate a new expense reduction. The Parties further agree that the calculation will incorporate adopted plant additions. AVR’s methodology for estimating this expense reduction is as follows: First, take total 2009 capital expenditures divided by 105%.

Second, subtract the result of the first calculation from total 2009 capital expenditures. The result of the second calculation is the expense reduction pertaining to the Administrative Expense Transfer.

	ORIGINAL 2009			CURRENT 2009		
	AVR	DRA	DIFF.	AVR	DRA	DIFF.
Admin Exp Transferred	-254,772	-251,500	-3,272	-269,057	-196,763	-72,294
	ORIGINAL 2010			CURRENT 2010		
	AVR	DRA	DIFF.	AVR	DRA	DIFF.
	-263,186	-257,700	-5,486	-263,186	-251,758	-11,428

4.02.11 Outside Services:

The Parties used recorded costs for different periods prior to escalating them to arrive at their estimated test year expenses. DRA used a 2005-2007 period because AVR's cost appeared, to DRA, to be relatively stable and that its costs for 2003 and 2004 were significantly higher than the 2005 – 2007 period. AVR used the 2003-2007 period precisely because it expects that costs for outside services can fluctuate significantly, and its prior agreements with ORA (predecessor of DRA) to use a 5-year average for this category of expense. Discussions between the Parties centered on the potential for fluctuating costs and that analysis of the last three years shows, while costs were somewhat stable, the activities that require AVR to use outside services were very diverse. Further, that AVR has significant concerns over a project being considered by the Mojave Water Agency which may require an extensive use of outside services by AVR. The project, if implemented, would drill wells in AVR's service territory and distribute water to other water providers within the water basin. The water rights adjudication allows holders of water rights to pump anywhere within the basin, it is not limited to their own service territory. An entity may find it more cost effective to drill wells in one area and build the distribution pipeline to its service territory than to build treatment plants on existing wells. Unfortunately, in doing so this project could have serious detrimental effects on water supply and water quality impacting AVR and its customers. AVR will incur costs to review any such proposals. Furthermore, that review may dictate further action by AVR to properly safeguard its assets and its ability to provide service to its customers.

The Parties agreed to use DRA's Report amount of \$216,900. The Parties further agreed, based on the concern over the aforementioned project, for AVR to establish a Memorandum Account, that will track all outside services costs associated with AVR's efforts that relate to this project. The Parties further agree that the memorandum account, for this project, would be capped, for the three-year rate cycle period, at \$205,200, which is three times the annual difference between the 5-year and 3-year average for this category.

	<u>ORIGINAL</u>			<u>SETTLEMENT</u>
	AVR	DRA	DIFF.	
Outside Services	285,438	216,980	68,458	216,980

4.02.12 Miscellaneous General Expense:

The Parties had no difference in methodology to calculate test year expense; the sole difference pertains to the escalation factor being used. Consistent with AVR's position in 3.02.02, AVR accepts the use of DRA's non-labor escalation factor.

The Parties agree to use DRA's Report amount.

	<u>ORIGINAL</u>			<u>SETTLEMENT</u>
	AVR	DRA	DIFF.	
Misc General Expense	35,271	34,195	1,076	34,195

4.02.13 Rents:

The Parties had no difference in methodology to calculate test year expense; the sole difference pertains to the escalation factor being used. Consistent with AVR's position in 3.02.02 AVR accepts the use of DRA's non-labor escalation factor.

The Parties agree to use DRA's Report amount.

	<u>ORIGINAL</u>			<u>SETTLEMENT</u>
	AVR	DRA	DIFF.	
Rents	10,396	9,590	806	9,590

4.02.14 Main Office Allocation:

The allocation factors of 30.71% and 0.24%, for the Domestic and Irrigation Systems respectively, proposed by AVR were uncontested by DRA. Any difference in the Parties original position of Main Office Allocation is a result of differing estimates of Main Office expenses (See Section 13).

The Parties agree to the following allocations of Main Office expenses as they incorporate the uncontested allocation factors and both the uncontested and settlement positions on the overall estimates of Main Office expense of both Parties described in detail in Section 13.

	ORIGINAL			SETTLEMENT
	AVR	DRA	DIFF.	
<u>Main Office Allocation</u>				
Domestic	1,713,937	1,620,500	93,437	1,720,165
Irrigation	13,394	12,700	694	13,443

Note: Excludes Taxes Other, Depreciation

4.02.15 Franchise Requirements:

The Parties had different estimates of expense based on different estimates of revenues. The franchise requirement percentage rate is not a contested issue.

The Parties agree that the uncontested franchise requirement rate (0.98%) should be applied to the adopted 2009 revenue requirement to estimate the Franchise Requirements.

	ORIGINAL			CURRENT		
	AVR	DRA	DIFF.	AVR	DRA	DIFF.
Franchise Requirements	199,356	202,700	-3,344	194,717	193,550	1,167

4.02.16 Uncollectible Expense

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

The Parties agree to use this percentage (0.26%) to calculate test year Uncollectible expenses based upon adopted 2009 revenue requirement.

	ORIGINAL			CURRENT		
	AVR	DRA	DIFF.	AVR	DRA	DIFF.
Uncollectible Expense	52,890	53,300	-410	51,660	51,350	310

5.00 Taxes Other Than Income Tax

5.02 Contested Issues:

5.02.01 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 entirely from the different estimates of AVR's utility plant in service. As there remain contested issues for utility plant in service, the Parties have a difference in current estimates. AVR's estimate increased from the original position based upon the Settlement (3.02.09) whereby AVR agrees to capitalize the entire cost of the Desert Knolls tank coating project.

The Parties agree that the ad valorem taxes should be calculated using AVR's Settlement methodology incorporating adopted utility plant in service.

	2009 ORIGINAL			2009 CURRENT		
	AVR	DRA	DIFF.	AVR	DRA	DIFF.
<u>Ad Valorem Taxes</u>						
Domestic	447,344	410,700	36,644	438,265	422,332	15,934
Main Office Allocation	6,223	6,200	23	6,222	6,222	0
Other Taxes	11,432	10,400	1,032	8,596	8,596	0
	464,998	427,300	37,698	453,083	437,150	
	2010 ORIGINAL			2010 CURRENT		
	AVR	DRA	DIFF.	AVR	DRA	DIFF.
<u>Ad Valorem Taxes</u>						
Domestic	463,564	435,300	28,264	456,202	430,406	25,796
Main Office Allocation	6,444	6,400	44	6,443	6,443	0
Other Taxes	11,775	11,000	775	8,785	8,785	0
	481,783	452,700	29,083	471,430	445,634	25,796

5.02.02 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 from the different estimates of payroll and a calculation error in DRA's estimate of the Medicare portion of FICA.

The Parties agree, consistent with the resolution of payroll issue, to use AVR's application amount.

	ORIGINAL			SETTLEMENT
	AVR	DRA	DIFF.	
Payroll Taxes (Includes Main Office Allocation)	292,430	258,100	34,330	292,430

6.00 Income Taxes

6.02 Contested Issues

6.02.01 Tax Depreciation Deduction:

DRA's estimate of tax depreciation was based on the ratio of DRA's net plant balance to AVR's net plant balance and applying that ratio to AVR's tax depreciation estimate. DRA's methodology contained a calculation error. AVR's estimate was based on a detailed calculation of depreciation of existing and proposed plant and using the depreciation rates appropriate for ratemaking taxes for each category of that plant. DRA agrees that AVR's methodology is a more accurate model for estimating the tax depreciation deduction for the test year. The Parties have different estimates due to the unresolved issues involving the advice letter treatment of four capital projects.

The Parties agree to use AVR's methodology to calculate the tax depreciation deduction. The Parties further agree that adopted tax depreciation deduction should incorporate the resolution of the unresolved items between the Parties.

	2009 ORIGINAL			2009 CURRENT		
	AVR	DRA	DIFF.	AVR	DRA	DIFF.
Federal Tax Depreciation	2,484,691	1,779,100	705,591	2,458,399	2,414,677	43,722
State Tax Depreciation	2,475,992	1,872,200	603,792	2,481,755	2,461,291	20,464
	2010 ORIGINAL			2010 CURRENT		
	AVR	DRA	DIFF.	AVR	DRA	DIFF.
Federal Tax Depreciation	2,569,331	1,915,600	653,731	2,575,399	2,524,210	51,189
State Tax Depreciation	2,604,449	2,049,500	554,949	2,609,414	2,565,248	44,166

6.02.02 Qualified Production Deduction (Federal Income Tax Only):

DRA properly pointed out that AVR's tax estimate should have included a tax deduction for QPD and the applicable rate for 2009 is 6%; the tax code and tax forms refer to this as the Domestic Production Activities Deduction ("DPAD"). DRA's Report did not calculate or provide a recommended methodology to calculate this tax deduction.

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) updated to use the 6% rate proposed by DRA. The Parties agree that the QPD tax deduction should be estimated by taking 6% of the production-related portion (56.25%) of AVR's Federal Taxable Income prior to the state tax deduction ((Fed. Taxable Income less state tax deduction) x .5625 x .06).

	2009 ORIGINAL			2009 Current		
	AVR	DRA	DIFF.	AVR	DRA	DIFF.
Qualified Production Deduction (FIT)	0	0	0	256,545	250,674	5,871

6.02.03 All Other Income Tax Components:

Other than the items in Sections 6.02.01 and 6.02.02, DRA agreed with methods used by AVR to calculated income tax expense. Any differences in the Parties original positions stemmed from estimates of revenues, expenses and utility plant.

The Parties agree that Income Tax expense should be calculated consistent with all other aspects of the Settlement including adopted utility plant.

7.00 Utility Plant in Service

7.01 Uncontested Issues

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

There is no dispute between the Parties regarding properties reported that were either already included in or transferred to non-utility plant. DRA agrees that these properties are not necessary or useful in the performance of AVR's operations. Accordingly, AVR did not include these properties in its calculation of the revenue requirement.

7.02 Contested Issues

7.02.01 Domestic System Plant Additions & Cost Estimates:

DRA agreed with the necessity of all the plant additions proposed by AVR for 2009 and 2010. Further DRA agreed with the cost estimates of all the plant additions proposed by AVR, except for four projects. This unresolved issue is identified in the Parties' Briefs as "Proposed Advice Letter Treatment of Four Capital Projects". Three of the contested projects (e.g., Desert Knolls Tank #1 Coating, Mockingbird Booster Pump Station and Mockingbird Main Extension) are scheduled for completion in 2009. The remaining contested project, Well #24 Redevelopment, is scheduled for completion in 2010. DRA proposed that rate recovery for these four projects be subject to advice letter treatment, capped at AVR's application estimates. In addition, DRA proposed that the entire cost of the tank-coating project be capitalized rather than a portion being expensed, a proposal with which AVR has agreed as part of this settlement (described in section 3.02.09). DRA's proposal for advice letter treatment of these four projects is one of the two unresolved issues described in Section 1.07.

The Parties agree to include all plant additions proposed by AVR for 2009 and 2010, except those DRA proposes to be subject to advice letter treatment. The Parties also agree to capitalize all costs of the tank coating project. The Parties further agree that utility plant in service will be calculated consistent with the resolution of the advice letter issue.

	2009 ORIGINAL			2009 CURRENT		
	AVR	DRA	DIFF.	AVR	DRA	DIFF.
Desert Knolls Tank Coating (capitalized)	200,000	0	200,000	200,000	0	200,000
Desert Knolls Tank Coating (expensed)	0	0	0	300,000	0	300,000
Mockingbird Booster Pump Station	500,000	0	500,000	500,000	0	500,000
Mockingbird Main Extension	518,175	0	518,175	518,175	0	518,175
All Other Projects	4,132,028	4,132,028	0	4,132,028	4,132,028	0
Total Additions	5,350,203	4,132,028	1,218,175	5,650,203	4,132,028	1,518,175
	2010 ORIGINAL			2010 CURRENT		
	AVR	DRA	DIFF.	AVR	DRA	DIFF.
Well 24 Re-development and Rehab	240,000	0	240,000	240,000	0	240,000
All Other Projects	5,286,910	5,286,910	0	5,286,910	5,286,910	0
Total Additions	5,526,910	5,286,910	240,000	5,526,910	5,286,910	240,000

7.02.02 Irrigation System:

The Parties both estimated average utility plant balances for the Irrigation system of \$530,016 for 2009 and 2010. 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 is determined from the ratio of the Irrigation non-general plant balance and the Domestic non-general plant balance. Differences in the Parties estimates of the general plant allocation factor are caused by the contested utility plant issues described in section 7.02.01.

The Parties agree that Utility Plant should be calculated using the adopted balances of plant in service.

	2009 ORIGINAL			2009 CURRENT		
	AVR	DRA	DIFF.	AVR	DRA	DIFF.
<u>Utility Plant Balances</u>						
Irrigation	530,016	530,016	0	530,016	530,016	0
General Plant Allocation	35,841	35,841	0	34,791	35,074	-283
	<u>565,857</u>	<u>565,857</u>	<u>0</u>	<u>564,807</u>	<u>565,090</u>	<u>-283</u>
	2010 ORIGINAL			2010 CURRENT		
	AVR	DRA	DIFF.	AVR	DRA	DIFF.
<u>Utility Plant Balances</u>						
Irrigation	530,016	530,016	0	530,016	530,016	0
General Plant Allocation	36,988	36,988	0	35,925	36,533	-608
	<u>567,004</u>	<u>567,004</u>	<u>0</u>	<u>565,941</u>	<u>566,549</u>	<u>-608</u>

7.02.03 Domestic System – Rate Base Treatment of New Wells Issue:

This is one of the two unresolved issues described in Section 1.07. DRA disagrees with AVR's proposed rate base treatment of Wells 33 and 34. This unresolved issue is identified in the Parties' Briefs as "Rate Base Treatment of New Wells". Although DRA discussed this issue in the Utility Plant section of its report, DRA agrees that there is, and should be, no difference in utility plant resulting from this issue; that all the costs of new wells, including Wells 33 and 34 should be included in Utility Plant. The issue of the amount to be included as rate base involves the issue of imputed Advances for Construction (see section 9.02.03)

The Parties agree that 100% of the costs of construction of Wells 33 and 34 should be included in Utility Plant in service.

8.00 Depreciation Expense

8.01 Uncontested Issues

8.01.01 Depreciation Rates:

**APPLE VALLEY RANCHOS WATER COMPANY - DOMESTIC
DEPRECIATION RATES**

ACCOUNT			PRESENT	PROPOSED
		SOURCE OF SUPPLY		
311		STRUCTURES & IMPROVEMENTS	2.91%	2.53%
315		WELLS & SPRINGS	2.52%	2.72%
317		OTHER SOURCE & SUPPLY	2.61%	2.59%
		PUMPING PLANT		
321		PUMPING STRUCT/IMPROV	3.30%	3.32%
324		PUMPING EQUIPMENT	3.57%	3.65%
		WATER TREATMENT PLANT		
331		WATER TR. STRUCT/IMPROV	0.00%	0.00%
332		WATER TREATMENT EQUIPMENT	3.44%	3.41%
		TRANSMISSION & DISTRIBUTION PLANT		
342		T & D RESERVOIRS & TANKS	1.94%	1.97%
343		T & D MAINS	2.41%	2.42%
345		T & D SERVICES	2.70%	2.62%
346		T & D METERS	2.81%	2.64%
348		HYDRANTS	2.29%	2.28%
		GENERAL PLANT		
371		GEN. PLT. STRUCT/IMPROV	2.95%	2.90%
372		OFF. FURN. & EQUIP.	6.85%	6.26%
373		TRANSPORTATION EQUIP.	1.32%	7.77%
375		LABORATORY EQUIPMENT	5.08%	5.06%
376		COMMUNICATION EQUIP.	7.71%	7.74%
377		POWER OPERATION EQUIP.	5.80%	5.59%
378		TOOLS, SHOP & GARAGE EQUIP.	6.49%	6.11%
372		COMPUTER EQUIP.	11.44%	7.63%

**APPLE VALLEY RANCHOS WATER COMPANY - IRRIGATION
DEPRECIATION RATES**

ACCOUNT		PRESENT	PROPOSED
	SOURCE OF SUPPLY		
315	WELLS & SPRINGS	3.47%	2.69%
	PUMPING PLANT		
321	PUMPING STRUCT./IMPROV.	3.55%	3.15%
324	PUMPING EQUIPMENT	4.15%	3.51%
	TRANSMISSION & DISTRIBUTION PLANT		
343	T & D MAINS	2.68%	2.46%
345	T & D SERVICES	2.58%	1.97%
346	T & D METERS	3.45%	3.25%

8.01.02 Irrigation System Depreciation Expense

There are no methodological differences between DRA and AVR that pertain to AVR's Irrigation system and no difference in utility plant.

8.02 Contested Issues

8.02.01 Domestic System Depreciation Expense

There are no methodological differences between DRA and AVR pertaining to AVR's Domestic System. The Parties used the standard depreciation expense estimating methodology contained in AVR's application. The Settlement for depreciation expense incorporates the adopted utility plant balances in service as of January 1, 2009 (2007 recorded balances plus 2008 projections of plant additions less projections of 2008 retirements) plus one half of both the adopted net plant additions and retirements for 2009. This result times the applicable depreciation rates provides the depreciation expense. The Parties have different estimates due to the unresolved issues involving the Advice Letter Treatment of Four Capital Projects.

The Parties agree to use the methodology used in AVR's application for depreciation expense. 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.

	2009 ORIGINAL			2009 CURRENT		
	AVR	DRA	DIFF.	AVR	DRA	DIFF.
<u>Domestic System</u>						
Depreciation Expense (Excludes clearings)	2,350,131	2,333,700	16,431	2,354,169	2,333,738	20,431
General Plant Allocation	-2,196	0	-2,196	-2,061	-2,094	33
M.O. Allocation	196,185	199,700	-3,515	199,729	199,729	0
Amortization	49,496	49,500	-4	49,496	49,496	0
	<u>2,593,616</u>	<u>2,582,900</u>	<u>10,716</u>	<u>2,601,333</u>	<u>2,580,869</u>	<u>20,464</u>
	2010 ORIGINAL			2010 CURRENT		
	AVR	DRA	DIFF.	AVR	DRA	DIFF.
Depreciation Expense (Excludes clearings)	2,481,836	2,444,700	37,136	2,488,829	2,444,702	44,127
General Plant Allocation	-2,307	0	-2,307	-2,177	-2,216	39
M.O. Allocation	202,792	206,300	-3,508	206,336	206,336	0
Amortization	49,496	49,500	-4	49,496	49,496	0
	<u>2,731,817</u>	<u>2,700,500</u>	<u>31,317</u>	<u>2,742,484</u>	<u>2,698,318</u>	<u>44,166</u>

8.02.02 Irrigation System Depreciation Expense

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.

The Parties agree to use the uncontested methodology used in AVR's application for depreciation. 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.

	2009 ORIGINAL			2009 CURRENT		
	AVR	DRA	DIFF.	AVR	DRA	DIFF.
<u>Irrigation System</u>						
Depreciation Expense						
Irrigation	11,751	10,615	1,136	10,615	10,615	0
General Plant Allocation	2,196	2,061	135	2,061	2,094	-33
Main Office Allocation	1,533	1,533	0	1,533	1,533	0
Amortization	679	679	0	679	679	0
	16,159	14,888	1,271	14,888	14,921	-33
	2010 ORIGINAL			2010 CURRENT		
	AVR	DRA	DIFF.	AVR	DRA	DIFF.
Depreciation Expense						
Irrigation	11,751	11,751	0	10,615	10,615	0
General Plant Allocation	2,307	2,307	0	2,177	2,216	-39
Main Office Allocation	1,585	1,585	0	1,585	1,585	0
Amortization	679	679	0	679	679	0
	16,322	16,322	0	15,056	15,095	-39

9.00 Ratebase – Domestic System

9.01 Uncontested Issues

9.01.01 Material and Supplies:

Both Parties used amounts of \$255,954 and \$255,753 for 2009 and 2010, respectively.

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

The Parties have no difference in their estimates as none of the contested plant additions will be funded by Contributions. Both Parties used the amounts of \$2,334,559 and \$2,463,449 for 2009 and 2010, respectively.

9.01.03 Other Rate Base Components:

Both Parties used the following estimates:

Unamortized ITC - \$75,930 (2009) and \$71,093 (2010)

Method 5 Adjustment - \$5,661 (2009) and \$3,291 (2010)

Main Office Allocation - \$687,225 (2009) and \$557,210 (2010)

9.02 Contested Issues

9.02.01 Working Cash:

There are no methodological differences between DRA and AVR. The differences in the Parties working cash estimates result from different revenue and expense estimates and utility plant additions. The Parties' current estimates incorporate the effects of all settled issues.

The Parties agree to use AVR's application methodology with adopted revenue, expense and plant additions.

	2009 ORIGINAL			2009 CURRENT		
	AVR	DRA	DIFF.	AVR	DRA	DIFF.
Working Cash	576,721	208,000	368,721	283,839	290,872	-7,033
	2010 ORIGINAL			2010 CURRENT		
	AVR	DRA	DIFF.	AVR	DRA	DIFF.
	578,781	215,500	363,281	310,990	318,239	-7,249

9.02.02 Net-to-Gross Multiplier:

DRA agreed with AVR's methodology except DRA subtracted the California Corporate Franchise Tax before calculating the Federal Income Tax. After review of rebuttal testimony and discussions of actual tax return preparation DRA agrees with AVR's methodology.

The Parties agree to use AVR's corrected net-to-gross multiplier of 1.771441.

9.02.03 Advances for Construction ("Advances"):

DRA's estimate of Advances differed from AVR's application amount. The difference resulted from the Rate Base Treatment of New Wells issue and a miscalculation of DRA's adjustment to Advances to accomplish its desired result. DRA's position with regard to the Rate Base Treatment of New Wells issue is that 75% of the costs of Wells 33 and 34 be excluded from rate base by the inclusion of advances equal to 75% of the cost of those wells, while AVR's position is that the advances associated with new wells, including Wells 33 and 34, should be based on the estimated average balance of un-refunded advances received through Supply Facilities Fees for 2009 and 2010. DRA calculated its Report amount for Advances by adding 75% of the cost of Wells 33 & 34 to

AVR's application amount. DRA's adjustment was intended to be consistent with its position, however, as AVR's application amount included advances to offset the costs of wells from actual Supply Facility Fees collected plus the projection of fees to be collected through 2010, DRA's calculation double counted in Advances the Supply Facility Fees collected and projected. DRA has testified (Transcript, May 12, 2008, page 63, 18 – 25) that its estimate of Advances requires correction to avoid this double count. As detailed in Section 11.02.02 of the Settlement, DRA's estimate of the balance of Advances should have been lowered to be consistent with its initial position opposing AVR's proposed increases to the current Supply Facility Fee and Supplemental Water Acquisition Fee, in which case there would have been a difference in estimates reflecting this issue. The Settlement on Section 11.02.02 makes this a moot point. The sole difference in the Parties' current estimates of Advances is due to the issue of the appropriate amount to include as Advances associated with Wells 33 and 34, the Rate Base Treatment of New Wells issue, which remains unresolved.

The Parties agree that the estimates of Advances should be calculated based on the proposed increases in fees and in a manner consistent with the resolution of the New Wells issue. The Parties current estimates of the average balance of un-refunded Advances for 2009 and 2010, incorporating correction of the double counting error and agreement on the fee increases are shown below.

	2009 ORIGINAL			2009 CURRENT		
	AVR	DRA	DIFF.	AVR	DRA	DIFF.
Advances	33,488,176	35,967,100	-2,478,924	34,546,054	35,067,730	-521,676
	2010 ORIGINAL			2010 CURRENT		
	AVR	DRA	DIFF.	AVR	DRA	DIFF.
	34,419,118	36,838,800	-2,419,682	35,454,203	35,912,464	-458,262

9.02.04 Deferred Taxes:

DRA's estimate was based on the ratio of DRA's utility plant to AVR's utility plant. It applied that ratio to AVR's estimate of deferred taxes. DRA's methodology erroneously included, however, certain non-depreciable plant. AVR's estimate was a detailed calculation of recorded deferred taxes and the changes that would occur through 2010. Furthermore, it included a calculation of the additional deferred taxes based upon

anticipated plant additions from January 1, 2008 through 2010. DRA agrees that AVR's methodology is a more accurate model for estimating the deferred taxes. The differences between the updated positions of the Parties stem from the contested utility plant issues.

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 contested utility plant issues.

	2009 ORIGINAL			2009 CURRENT		
	AVR	DRA	DIFF.	AVR	DRA	DIFF.
Deferred Taxes	6,332,488	6,322,500	-9,988	6,329,324	6,331,260	-1,936
	2010 ORIGINAL			2010 CURRENT		
	AVR	DRA	DIFF.	AVR	DRA	DIFF.
	6,610,561	6,602,900	7,661	6,620,015	6,621,785	-1,770

9.02.05 Depreciation Reserve:

The Parties have no difference in their methodologies. The differences stem from the contested utility plant issues.

The Parties agree to use the uncontested methodology used in AVR's application for depreciation reserve. The Parties further agree that depreciation reserve should be calculated using the adopted balances of plant in service.

	2009 ORIGINAL			2009 CURRENT		
	AVR	DRA	DIFF.	AVR	DRA	DIFF.
Depreciation Reserve	20,366,852	20,216,300	150,552	20,226,478	20,216,136	10,342
	2010 ORIGINAL			2010 CURRENT		
	AVR	DRA	DIFF.	AVR	DRA	DIFF.
Depreciation Reserve	22,657,351	22,495,900	161,451	22,538,469	22,495,696	42,773

10.00 Ratebase – Irrigation System

10.01 Uncontested Issues

10.01.01 Ratebase Components:

Both Parties used the following estimates:

Contributions (CIAC) - \$42,020 (2009) and \$40,883 (2010)

Main Office Allocation - \$5,274 (2009) and \$4,313 (2010)

10.02 Contested Issues

10.02.01 Depreciation Reserve:

Both Parties used \$194,150 and \$207,144 for 2009 and 2010, respectively.

	2009 ORIGINAL			2009 CURRENT		
	AVR	DRA	DIFF.	AVR	DRA	DIFF.
<u>Depreciation Reserve</u>						
Irrigation	186,585	186,585	0	178,974	178,974	0
General Plant Allocation	15,981	15,981	0	15,176	15,303	-127
	<u>202,566</u>	<u>202,566</u>	<u>0</u>	<u>194,150</u>	<u>194,277</u>	<u>-127</u>
	2010 ORIGINAL			2010 CURRENT		
	AVR	DRA	DIFF.	AVR	DRA	DIFF.
<u>Depreciation Reserve</u>						
Irrigation	198,336	198,336	0	190,724	190,724	0
General Plant Allocation	17,338	17,338	0	16,420	16,698	-278
	<u>215,674</u>	<u>215,674</u>	<u>0</u>	<u>207,144</u>	<u>207,422</u>	<u>-278</u>

10.02.02 Working Cash:

The Irrigation System’s working cash is an allocation of the total working cash. The Parties agree to the percentage (0.78%) 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.

The Parties agree to use the uncontested methodology as used in AVR’s application. The Parties further agreed to incorporate the adopted revenue, expense and plant additions.

	2009 ORIGINAL			2009 CURRENT		
	AVR	DRA	DIFF.	AVR	DRA	DIFF.
Working Cash	4,534	4,534	0	2,231	2,287	-55
	2010 ORIGINAL			2010 CURRENT		
	AVR	DRA	DIFF.	AVR	DRA	DIFF.
	4,550	4,550	0	2,445	2,502	-57

10.02.03 Deferred Taxes:

During settlement discussions AVR proposed a reduction to ratebase for AVR’s Irrigation System. Upon review of the Irrigation System deferred tax calculation AVR realized that an erroneous assumption regarding the age of certain utility plant had been made. DRA reviewed AVR’s revised calculation and accepted AVR’s proposal.

The Parties agreed to use the recalculated amounts.

	2009 ORIGINAL			2009 CURRENT		
	AVR	DRA	DIFF.	AVR	DRA	DIFF.
<u>Irrigation System</u>						
Deferred Taxes	5,601	5,601	0	61,251	61,583	-332
	2010 ORIGINAL			2010 CURRENT		
	AVR	DRA	DIFF	AVR	DRA	DIFF.
	5,939	5,939	0	64,278	64,602	-324

11.00 Rate Design

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

11.01 Uncontested Issues

11.01.01 Rate Design – Residential Customers:

AVR proposed a three tier rate design. The proposed rate design is consistent with the principles outlined in the Water Action Plan. 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. The structure of the tiered rates is based upon the rate design in the settlement adopted for Park in D.08-02-036 in the Conservation OII (I.07-01-022). DRA found AVR’s proposal reasonable and recommended adoption based upon its review of consumption patterns, seasonality, and its understanding of CUWCC BMP 11 and the basis behind D.08-02-036.

11.01.02 Rate Design – Non-Residential Customers:

AVR proposed retaining a single quantity rate design combined with a reduction in the monthly meter charge because developing increasing block rates is not currently

feasible. DRA agreed with AVR's proposal and recommended adoption because the usage characteristics of AVR's customers provide no logical manner in which to divide these customers. The non-residential rate design also meets the criteria of CUWCC BMP 11.

11.01.03 Rate Design – Gravity Irrigation Service (AVR – Irrigation):

AVR proposes to use the service charges proposed for non-residential metered service and single quantity rate design. AVR's cost of service study reflects a reduction in the quantity rate. DRA has reviewed the rate design and cost of service study and agreed with AVR's proposal.

11.01.04 Low-Income Assistance Program:

AVR's program is known as California Alternative Rates for Water ("CARW"). AVR proposed continuing this program by (i) increasing the existing monthly discount of \$5.00 by the overall increase granted in this proceeding for qualifying customers and (ii) reinstating a monthly surcharge on non-qualifying customers. Additionally, AVR proposes that the balance (\$3,544) in the CARW Implementation Cost Memorandum Account be transferred to the CARW Revenue Reallocation Balancing Account and further, that a surcredit be implemented to refund the adjusted balance (\$126,936 less \$3,544) of CARW Balancing. DRA finds the proposals to be reasonable and recommends their adoption.

The Parties agree to (i) increase the existing discount by the overall percentage increase granted in this proceeding and (ii) reestablish a surcharge to non-qualifying customers to fund the program, the surcharge to be calculated using the current participation rate of eligible customers enrolled in the CARW program as described in AVR's application. The Parties further agree that (i) the CARW Balancing Account continues to be necessary to track the balance of collected surcharges and discounts provided the \$3,544 balance (as of September 30, 2007) in the CARW Implementation Cost Memorandum Account be transferred to the CARW Balancing and any additional changes between October 1, 2007 and December 31, 2008 will be transferred in the same manner, and (ii) as of January 1, 2009 the CARW Implementation Cost Memorandum Account will no longer be necessary or authorized. The Parties further agree to the implementation of a one time surcredit of

\$6.93 to refund the CARW Balancing Account net balance after the aforementioned transfer.

11.01.05 Regulatory Accounts (as specified):

AVR proposed a Water Revenue Adjustment Mechanism ("WRAM") and a Modified Cost Balancing Accounts ("MCBAs"). DRA reviewed AVR's proposals and DRA's Report concludes that the proposals are reasonable and recommended adoption. The WRAM and MCBAs are consistent with the principles outlined in the Water Action Plan and were authorized by the Commission for Park in D.08-02-036 in Phase 1A of the Conservation Oll (I.07-01.022).

The Parties agree that both a WRAM and MCBAs be established for all AVR's existing production cost balancing accounts.

11.01.06 Regulatory Accounts (as specified):

AVR proposed that its Water Quality Memorandum Account balance of \$27,787 (as of September 30, 2007) be transferred to its Production Cost Balancing Account. The DRA Report reflects concurrence with AVR's proposal.

The Parties agree that the proposed transfer be executed.

11.02 Contested Issues

11.02.01 Other Rates and Fees (Revenues):

The Parties should have had a difference in Miscellaneous Revenues at Proposed Rates based upon their different positions on three of the fees which AVR proposed to increase and which were opposed by DRA. Because AVR's application erred in not forecasting the effect of the increased fees on its estimate of Miscellaneous Revenues at Proposed Rates, the estimates did not differ. The contested fees are for NSF Checks (Non Sufficient Funds), Reconnections and Meter Testing. Due to the rarity of customer requests that can result in the meter test fee. AVR is willing to forgo any change in the fee. As it pertains to the proposed fees for NSF Checks and Reconnections. DRA initially believed that the application did not provide sufficient justification for the proposed increases and that increases were unreasonable. AVR further explained to DRA the purpose and reason for each of the proposed fees, actual or estimated costs and addressed DRA's concerns..

The Parties agree that AVR will not increase the Meter Test fee. The Parties further agreed, however, to increase the Reconnection Fee from \$10 (during business hours) and \$15 (after business hours) to \$15 and \$20, respectively. The Parties further agreed to increase the NSF Check fee from \$5 to \$10.50.

	Present Rate	Proposed Rate
Reconnection Fee (during business hours)	\$10.00	\$15.00
Reconnection Fee (after business hours)	\$15.00	\$20.00
NSF Fee Check Fee	\$5.00	\$10.50
Meter Test (one inch or smaller)	\$2.00	\$2.00
Meter Test (larger than one inch)	\$3.50	\$3.50

11.02.02 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 \$669 to \$800 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 \$3000 to \$3,500 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 calculation of Advances in the application. DRA's Advances calculation was not consistent with its position on updated fees. After reviewing the ratepayer benefits associated with AVR's proposal and the fact that AVR's application "flowed through" those benefits in its calculation of the revenue requirement, DRA concluded that the updated fees were reasonable.

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

Other Rates and Fees (advances) Proposed**Supply Facilities Fees**

<u>Service Size</u>	<u>Facilities Fee</u>
5/8-inch	\$ 800.00
3/4-inch	\$ 1,200.00
1-inch	\$ 2,000.00
1 1/2-inch	\$ 4,000.00
2-inch	\$ 6,400.00
3-inch	\$ 12,000.00
4-inch	\$ 20,000.00
6-inch	\$ 40,000.00
8-inch	\$ 64,000.00
10-inch	\$ 92,000.00

Supplemental Water Acquisition Fees

Residential developments	\$3,500 per lot
Commercial, Industrial, or other developments	\$3,500 per equivalent average residential water use based on the water use of similar business or facility.

12.00 Cost of Capital

12.01 Uncontested Issues:

12.01.01 All Components:

AVR's cost of capital request incorporated projections of the actual Park-consolidated capital structure and cost of debt, and the return on equity adopted in AVR's most recent GRC decision. DRA's Report specifically recommended the adoption of the rate of return on rate base of 9.14% proposed by AVR.

13.0 Park Water Company Main Office ("Main Office")

All dollar amounts provided in Section 13 of this Settlement are prior to allocation to AVR – Domestic or AVR – Irrigation, Exhibit AVR-2 uses the term "General Office" to describe Main Office.

13.01 Uncontested Issues

13.01.01 Allocation Factors:

AVR proposed allocation factors for its Main Office based on the four-factor allocation methodology. DRA reviewed and accepted AVR's calculation of the allocation factors. Both Parties use allocation factors of 30.71% (AVR – Domestic) and 0.24% (AVR – Irrigation).

13.01.02 Rate Base:

Both Parties use AVR's amounts of \$2,237,789 and \$1,814,424 for 2009 and 2010, respectively.

13.01.03 Depreciation Expense:

Both Parties use AVR's amounts of \$650,370 and \$671,886 for 2009 and 2010, respectively.

13.01.04 Ad Valorem Taxes:

Both Parties use AVR's amounts of \$20,261 and \$20,981 for 2009 and 2010, respectively.

13.01.05 Regulatory Commission Expense

Both Parties use AVR's amount of \$8,646 for 2009.

13.01.06 Administrative Expense Transferred

Both Parties use AVR's amounts of \$14,745 and \$15,196 for 2009 and 2010.

13.01.07 Uninsured Property Damage

Both Parties use AVR's amounts of \$299 for 2009.

13.02 Contested Issues

13.02.01 Payroll:

There are four contested issues in this category pertaining to increases in forecasted pay rates. For the issues (i.e. – Escalation Factor: Labor/COLA, merit and market adjustments) that are identical to those commented upon in Section 3.02.01, 3.02.03, and 4.02.01, the basis for settlement will not be repeated as the Settlement provides for a consistent resolution on those issues in this category as well. However, in Section 3.02.03 the COLA and merit issues only impacted 2009, while in this category of payroll DRA extended the issues to 2008 as well. For the reasons stated in Section 3.02.01 and 3.02.03, DRA accepts AVR's merit and COLA/Labor Escalation estimates for 2008 and 2009. The remaining issue pertains to the proper grade level and resultant pay rate for a vacant (due to retirement) rate analyst position. DRA's initial position was that a

grade level change was unnecessary. AVR's position is that the increasing workload associated with generic proceedings and the resulting requirements, expanded requirements in general rate case proceedings, etc., limits the amount of time available to supervise this position. Hence, the new rate analyst needs to function more autonomously than the retired analyst. DRA in recognition of the increasing workload accepted AVR's reasoning.

The Parties agree, consistent with the Parties Settlement in Sections 3.02.03 and 4.02.01 and reasons stated above, to use the payroll amounts provided in AVR's application.

	ORIGINAL			SETTLEMENT
	AVR	DRA	DIFF.	
Payroll - Maintenance	33,821	33,361	460	33,821
Payroll - Clearings	16,894	16,894	0	16,894
A & G Payroll	3,475,309	3,250,687	224,622	3,475,309
	3,526,024	3,300,942	225,082	3,526,024

13.02.02 Payroll Taxes:

The Parties estimates differed because of differing payroll estimates and that DRA excluded payroll taxes for three employees. DRA's estimates inadvertently excluded the payroll taxes associated with three employees.

The Parties agree, based upon settlement of all payroll issues, to AVR's application amount.

	ORIGINAL			SETTLEMENT
	AVR	DRA	DIFF.	
Payroll Taxes	206,357	188,969	17,388	206,357

13.02.03 Employee Pension and Benefits (Voluntary Pension):

DRA and AVR calculated this expense using the same methodology, the difference between the Parties test year expense estimates stemmed solely from differences in the payroll estimates and that DRA's use of recorded 2007 expenses.

The Parties agree, based upon settlement of all payroll issues, to AVR's application amounts for the voluntary pension portion of the Employee Pension and Benefits expense.

<u>EMPLOYEE PENSION AND BENEFITS</u>	<u>ORIGINAL</u>			<u>SETTLEMENT</u>
	AVR	DRA	DIFF.	
Voluntary Pension	98,277	95,167	3,110	98,277
Group Pension	521,000	487,226	33,774	521,000
Medical and Dental	285,858	258,256	27,602	291,459
All Others	309,757	309,875	-118	309,875
Net Benefits Adjustment	-337,738	-334,801	-2,937	-334,801
Total	877,154	815,723	61,431	885,810

13.02.04 Employee Pension and Benefits (Group Pension):

DRA contested AVR's expense estimate in this category because of differences in payroll estimates. AVR's methodology did not provide a basis for DRA to use AVR's methodology and make an adjustment for the contested payroll issues.

The Parties agree, based upon settlement of all payroll issues, to AVR's application amounts as reflected in the table in Section 13.02.03.

13.02.05 Employee Pension and Benefits (Medical and Dental):

The issues and Settlement are consistent with Section 4.02.05 above.

The Parties agree to calculate a new estimate of test year 2009 expenses using 2007 recorded expenses, increased by 3.33% (31 staff members versus 30 in recorded year) and then increase that result by 6.5% for 2008. The 2008 result is then increased by 6.5% for test year 2009 as reflected in the table in Section 13.02.03.

13.02.06 Employee Pension and Benefits (All Remaining Categories):

AVR accepts DRA's Report amounts as differences in methodologies, taken as a whole, resulted in immaterial adjustments.

The Parties agree to use DRA's Report amounts as reflected in table in Section 13.02.03.

13.02.07 Office Supplies:

DRA and AVR used the same methodology to estimate test year expense. However, DRA used updated information for recorded 2007 and a different escalation factor. AVR accepts DRA's estimate.

The Parties agree to use DRA's Report amount.

	<u>ORIGINAL</u>			<u>SETTLEMENT</u>
	AVR	DRA	DIFF.	
Office Supplies	182,063	179,290	2,773	179,290

13.02.08 Other Expenses (Excluding Insurance):

DRA and AVR used the same methodology to estimate test year expense for Maintenance – Other, Clearings – Other, Outside Services and Miscellaneous. However, DRA used updated information for recorded 2007 and a different escalation factor. AVR accepts DRA's estimate.

The Parties agree to use DRA's Report amounts.

	<u>ORIGINAL</u>			<u>SETTLEMENT</u>
	AVR	DRA	DIFF.	
Maintenance - Other	344,879	341,879	2,999	341,879
Clearings - Other	72,585	76,717	-4,132	76,717
Outside Services	457,723	471,379	-13,656	471,379
Miscellaneous	43,509	43,119	389	43,119

13.02.09 Other Expense (Insurance): DRA and AVR used the same methodology to estimate test year expense. DRA's contested issues on payroll caused a variance in test year expense.

The Parties agree, based upon settlement of all payroll issues, to AVR's application amount.

	<u>ORIGINAL</u>			<u>SETTLEMENT</u>
	AVR	DRA	DIFF.	
Workers' Comp	64,950	33,123	31,827	64,950
Business Policy	13,250	16,731	-3,481	13,250
Life/Acc-Comp Beneficiary	4,701	3,656	1,045	4,701
	82,901	53,510	29,391	82,901

13.02.10 Affiliate Transaction Rules:

DRA recommends that an affiliate transaction rule be adopted. Park, and by extension AVR, have affiliate transaction rules that were established in D.06-01-019; however, these adopted rules do not address DRA's primary concern of having an "arms length" standard to address transactions with AVR's non-regulated affiliate.

The Parties have agreed to the following standard based upon D.98-06-068 for Southern California Water Company:

Pricing of Services from the Affiliate to the Utility. Costs of service provided by an affiliate to the utility shall be considered reasonable if it is at or below the lowest of (a) the cost which would have been incurred by the Utility if it provided such services on comparable terms, (b) the rate which would have been charged to the Utility by an unaffiliated party for the provision of comparable services on comparable terms, or (c) the rate which would have been charged by the affiliate to an unaffiliated party for the provision of comparable service on comparable terms.

14.00 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 14.01 below in an effort to ensure the Commission takes notice of necessary findings and orders arising from this proceeding.

14.01 Requests as a result of the Settlement

14.01.1 The Parties request that the Commission authorize a Conservation Memorandum Account pursuant to Section 3.02.10 for the period January 1, 2009 through December 31, 2011 and authorize AVR to file a change to its preliminary statement to include this account. Furthermore, that this account have a cap of \$300,000 for that period and require that AVR become a signatory to the California Urban Water Conservation Council's Memorandum of Understanding.

14.01.2 The Parties request that the Commission authorize an Outside Services Memorandum Account for AVR pursuant to Section 4.02.11 for the period of January 1, 2009 through December 31, 2011 and authorize AVR to file a change to its preliminary statement to include this account. Furthermore, that this account have a cap of \$205,200 for that three year period.

14.01.3 The Parties request that the Commission authorize a change in AVR's tariff fees pursuant to Sections 11.02.01 effective January 1, 2009. AVR's NSF Check fee would be \$10.50. Its Reconnection fee would be \$15 (during business hours) and \$20 (after business hours). Furthermore, that these fees would be effective January 1, 2009.

14.01.4 The Parties request that the Commission authorize a change in fees contained in AVR's Rule 15 pursuant to Sections 11.02.02 and the table therein for Facilities Fee and Supplemental Water Acquisition Fee effective January 1, 2009.

14.01.5 The Parties request that the Commission authorize a transfer of the balance (\$3,544, as of September 30, 2007) in AVR's CARW Implementation Cost Memorandum Account to its CARW Revenue Reallocation Balancing Account pursuant to Section 11.01.04.

14.01.6 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 11.01.04.

14.01.7 The Parties request that the Commission authorize a surcredit for CARW non-qualifying customers of AVR to refund the over-collected balance in its CARW Revenue Reallocation Balancing Account pursuant to Section 11.01.04.

14.01.8 The Parties request that the Commission authorize a Water Revenue Adjustment Mechanism and Modified Cost Balancing Accounts pursuant to Section 11.01.05 effective January 1, 2009, and authorize AVR to file a change to its preliminary statement to include these accounts.

14.01.9 The Parties request that the Commission authorize a transfer of the AVR's Water Quality Memorandum Account balance (\$27,787, as of September 30, 2007) to its Production Cost Balancing Accounts pursuant to Section 11.01.06.

14.01.10 The Parties request that the Commission make a finding that AVR meets all applicable water quality standards. This finding would be based upon DRA's review of water quality testimony and information provided by AVR (DRA's Report – Executive Summary) and DRA's discussion with staff from the California Department of Public Health as reported in DRA's Report page 13-3 through 13-4.

14.01.11 The Parties request that the Commission authorize the Affiliate Transaction Rule as provided in Section 13.02.10.

14.01.12 The Parties request that the Commission find that the properties referred to in Section 7.01.02 were appropriately considered to be non-utility property.

14.01.13 The Parties request that the Commission order the filing of advice letters to implement increases for escalation years 2010 and 2011.

15.0 Settlement

Rule 51.1(e) 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 51.1 (e). The Commission should approve this motion, and adopt the Settlement which is supported by DRA and AVR.

15.01 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.

15.02 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.

15.03 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

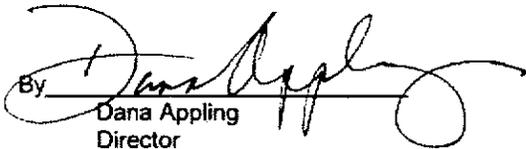
Bernardino County, and DRA is statutorily mandated with representing ratepayers in California, including those companies not directly at issue in this proceeding.

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.

15.04 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 
Dana Appling
Director

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

Dated: June 20, 2008

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: June 20, 2008

APPENDIX 1
to Attachment A

APPLE VALLEY RANCHOS WATER CO.-DOMESTIC

A.08-01-002 JPO/jt2

2009
SUMMARY OF EARNINGS
PRESENT RATES

DRAFT

	AVR	DRA	DIFFERENCE
OPERATING REVENUES	16,565.0	16,565.0	0.0
DEFERRED REVENUES	-131.0	-131.0	0.0
TOTAL REVENUES	16,696.0	16,696.0	0.0
OPERATIONS & MAINTENANCE			
PAYROLL-OPERATIONS	703.28	703.28	0.0
OPERATIONS-OTHER	216.89	216.89	0.0
PURCHASED WATER	0.00	0.00	0.0
PURCHASED POWER	1,168.87	1,168.87	0.0
LEASED WATER RIGHTS	1,573.36	1,573.36	0.0
REPLENISHMENT CHARGES	186.72	186.72	0.0
CHEMICALS	24.31	24.31	0.0
PAYROLL-CUSTOMER	580.06	580.06	0.0
CUSTOMERS-OTHER	152.25	152.25	0.0
UNCOLLECTIBLES .26%	43.41	43.41	0.0
PAYROLL-MAINTENANCE	373.27	373.27	0.0
MAINTENANCE-OTHER	699.27	699.27	0.0
PAYROLL-CLEARINGS	117.37	117.37	0.0
CLEARINGS-OTHER	398.66	398.66	0.0
SUBTOTAL O & M	6,237.7	6,237.7	0.0
ADMINISTRATIVE & GENERAL			
PAYROLL	1,422.8	1,422.8	0.0
PAYROLL-BENEFITS	1,046.7	1,046.7	0.0
INSURANCE	617.7	617.7	0.0
UNINSURED PROP. DAMAGE	8.2	8.2	0.0
REG. COMM. EXPENSE	59.9	59.9	0.0
FRANCHISE REQUIREMENTS .98%	163.6	163.6	0.0
OUTSIDE SERVICES	217.0	217.0	0.0
OFFICE SUPPLIES	245.4	245.4	0.0
A & G TRANSFERRED	-269.1	-196.8	-72.3
MISCELLANEOUS	34.2	34.2	0.0
RENTS	9.6	9.6	0.0
¹ MAIN OFFICE ALLOCATION			
A & G EXPENSES	1,720.2	1,720.2	0.0
AVR ALLOCATION			
A & G EXPENSES ADJ.	-20.9	-20.9	0.0
SUBTOTAL A & G	5,255.4	5,327.7	-72.3
¹ AD VALOREM TAXES	453.1	437.2	15.9
¹ PAYROLL TAXES	292.4	292.4	0.0
RECOVER UNDERCOLLECTION			
¹ DEPRECIATION	2,601.3	2,580.9	20.5
CA INCOME TAX	63.4	64.0	-0.6
FEDERAL INCOME TAXES	179.0	189.6	-10.6
TOTAL EXPENSE	15,082.3	15,129.4	-47.1
NET REVENUES	1,613.8	1,566.6	47.1
RATE BASE	37,647.1	36,381.5	1,265.6
RATE OF RETURN	4.29%	4.31%	-0.02%

¹ DEPRECIATION, AD VALOREM AND PAYROLL TAXES FROM PARK'S MAIN OFFICE HAVE BEEN INCLUDED IN THE APPROPRIATE LINE ITEM OF EXPENSE.

Summary of Settlement Positions: Appendix A - AVR Domestic

	AVR	DRA
2009 Present Revenue	16,696	16,696
2009 Proposed Revenue	19,869	19,750
2009 Rate Increase	3,173	3,054
% Increase	19.00%	18.29%

APPLE VALLEY RANCHOS WATER CO.-DOMESTIC

2009

A.08-01-002 JPO/jt2

SUMMARY OF EARNINGS
PROPOSED RATES

DRAFT

	AVR	DRA	DIFFERENCE
OPERATING REVENUES	19,738.1	19,619.0	119.1
DEFERRED REVENUES	-131.0	-131.0	0.0
TOTAL REVENUES	19,869	19,750	119.1
OPERATIONS & MAINTENANCE			
PAYROLL-OPERATIONS	703	703	0.0
OPERATIONS-OTHER	217	217	0.0
PURCHASED WATER	0	0	0.0
PURCHASED POWER	1,169	1,169	0.0
LEASED WATER RIGHTS	1,573	1,573	0.0
REPLENISHMENT CHARGES	187	187	0.0
CHEMICALS	24	24	0.0
PAYROLL-CUSTOMER	580	580	0.0
CUSTOMERS-OTHER	152	152	0.0
UNCOLLECTIBLES .26%	52	51	0.3
PAYROLL-MAINTENANCE	373	373	0.0
MAINTENANCE-OTHER	699	699	0.0
PAYROLL-CLEARINGS	117	117	0.0
CLEARINGS-OTHER	399	399	0.0
SUBTOTAL O & M	6,246.0	6,245.7	0.3
ADMINISTRATIVE & GENERAL			
PAYROLL	1,423	1,423	0.0
PAYROLL-BENEFITS	1,047	1,047	0.0
INSURANCE	618	618	0.0
UNINSURED PROP. DAMAGE	8	8	0.0
REG. COMM. EXPENSE	60	60	0.0
FRANCHISE REQUIREMENTS .98%	195	194	1.2
OUTSIDE SERVICES	217	217	0.0
OFFICE SUPPLIES	245	245	0.0
A & G TRANSFERRED	(269)	(197)	-72.3
MISCELLANEOUS	34	34	0.0
RENTS	10	10	0.0
¹ MAIN OFFICE ALLOCATION			
A & G EXPENSES	1,720	1,720	0.0
AVR ALLOCATION			
A & G EXPENSES ADJ.	(21)	(21)	0.0
SUBTOTAL A & G	5,286.5	5,357.6	-71.1
¹ AD VALOREM TAXES	453	437	15.9
¹ PAYROLL TAXES	292	292	0.0
RECOVER UNDERCOLLECTION			
¹ DEPRECIATION	2,601	2,581	20.5
CA INCOME TAX	340	331	9.8
FEDERAL INCOME TAXES	1,208	1,180	28.0
TOTAL EXPENSE	16,428.2	16,424.8	3.4
NET REVENUES	3,440.9	3,325.2	115.7
RATE BASE	37,647	36,381	1,265.6
RATE OF RETURN	9.14%	9.14%	0

¹ DEPRECIATION, AD VALOREM AND PAYROLL TAXES FROM PARK'S MAIN OFFICE HAVE BEEN INCLUDED IN THE APPROPRIATE LINE ITEM OF EXPENSE.

Summary of Settlement Positions: Appendix A - AVR Domestic

	AVR	DRA
2009 Present Revenue	16,696	16,696
2009 Proposed Revenue	19,869	19,750
2009 Rate Increase	3,173	3,054
% Increase	19.00%	18.29%

SUMMARY OF EARNINGS
PRESENT RATES

	AVR	DRA	DIFFERENCE
OPERATING REVENUES	348.8	348.8	0.0
DEFERRED REVENUES			
TOTAL REVENUES	348.8	348.8	0.0
OPERATIONS & MAINTENANCE			
PAYROLL-OPERATIONS	3.1	3.1	0.0
OPERATIONS-OTHER	0.0	0.0	0.0
PURCHASED WATER	0.0	0.0	0.0
PURCHASED POWER	101.6	101.6	0.0
REPLENISHMENT CHARGES	18.1	18.1	0.0
CHEMICALS	0.0	0.0	0.0
UNCOLLECTIBLES .26%	0.9	0.9	0.0
PAYROLL-MAINTENANCE	0.0	0.0	0.0
MAINTENANCE-OTHER	1.0	1.0	0.0
PAYROLL-CLEARINGS	0.0	0.0	0.0
CLEARINGS-OTHER	2.8	2.8	0.0
SUBTOTAL O & M	127.6	127.6	0.0
ADMINISTRATIVE & GENERAL			
PAYROLL	0.0	0.0	0.0
PAYROLL-BENEFITS	2.8	2.8	0.0
INSURANCE	1.0	1.0	0.0
FRANCHISE REQUIREMENTS .98%	3.4	3.4	0.0
OUTSIDE SERVICES	3.2	3.2	0.0
OFFICE SUPPLIES	0.0	0.0	0.0
A & G TRANSFERRED	0.0	0.0	0.0
MISCELLANEOUS	0.0	0.0	0.0
RENTS	0.0	0.0	0.0
¹ GENERAL OFFICE ALLOCATION			
A & G EXPENSES	13.4	13.4	0.0
AVR ALLOCATION			
A & G EXPENSES	20.9	20.9	0.0
SUBTOTAL A & G	44.8	44.8	0.0
¹ AD VALOREM TAXES	3.4	3.4	0.0
¹ PAYROLL TAXES	1.0	1.0	0.0
RECOVER UNDERCOLLECTION			
¹ DEPRECIATION	14.9	14.9	0.0
CA INCOME TAX	13.2	13.2	0.0
FEDERAL INCOME TAXES	44.4	44.4	0.0
TOTAL EXPENSE	249.1	249.2	0.0
NET REVENUES	99.7	99.6	0.0
RATE BASE	275.0	274.9	0.1
RATE OF RETURN	36.25%	36.25%	0.00%

¹ DEPRECIATION, AD VALOREM AND PAYROLL TAXES FROM PARK'S MAIN OFFICE HAVE BEEN INCLUDED IN THE APPROPRIATE LINE ITEM OF EXPENSE.

Summary of Settlement Positions: Appendix A - AVR Irrigation

	AVR	DRA
2009 Present Revenue	349	349
2009 Proposed Revenue	219	219
2009 Rate Increase	(129)	(129)
% Increase	-37.12%	-37.10%

SUMMARY OF EARNINGS
PROPOSED RATES

	AVR	DRA	2009 PROPOSED
OPERATING REVENUES	219.4	219.4	-0.1
DEFERRED REVENUES			
TOTAL REVENUES	219.4	219.4	-0.1
OPERATIONS & MAINTENANCE			
PAYROLL-OPERATIONS	3.1	3.1	0.0
OPERATIONS-OTHER	0.0	0.0	0.0
PURCHASED WATER	0.0	0.0	0.0
PURCHASED POWER	101.6	101.6	0.0
REPLENISHMENT CHARGES	18.1	18.1	0.0
CHEMICALS	0.0	0.0	0.0
UNCOLLECTIBLES .26%	0.6	0.6	0.0
PAYROLL-MAINTENANCE	0.0	0.0	0.0
MAINTENANCE-OTHER	1.0	1.0	0.0
PAYROLL-CLEARINGS	0.0	0.0	0.0
CLEARINGS-OTHER	2.8	2.8	0.0
SUBTOTAL O & M	127.2	127.2	0.0
ADMINISTRATIVE & GENERAL			
PAYROLL	0.0	0.0	0.0
PAYROLL-BENEFITS	2.8	2.8	0.0
INSURANCE	1.0	1.0	0.0
FRANCHISE REQUIREMENTS .98%	2.1	2.2	0.0
OUTSIDE SERVICES	3.2	3.2	0.0
OFFICE SUPPLIES	0.0	0.0	0.0
A & G TRANSFERRED	0.0	0.0	0.0
MISCELLANEOUS	0.0	0.0	0.0
RENTS	0.0	0.0	0.0
¹ GENERAL OFFICE ALLOCATION			
A & G EXPENSES	13.4	13.4	0.0
AVR ALLOCATION			
A & G EXPENSES	20.9	20.9	0.0
SUBTOTAL A & G	43.5	43.5	0.0
¹ AD VALOREM TAXES	3.4	3.4	0.0
¹ PAYROLL TAXES	1.0	1.0	0.0
RECOVER UNDERCOLLECTION			
¹ DEPRECIATION	14.9	14.9	0.0
CA INCOME TAX	1.9	1.9	0.0
FEDERAL INCOME TAXES	2.4	2.4	0.0
TOTAL EXPENSE	194.2	194.3	-0.1
NET REVENUES	25.1	25.1	0.0
RATE BASE	275.0	274.9	0.1
RATE OF RETURN	9.14%	9.14%	(0)

¹ DEPRECIATION, AD VALOREM AND PAYROLL TAXES FROM PARK'S MAIN OFFICE HAVE BEEN INCLUDED IN THE APPROPRIATE LINE ITEM OF EXPENSE.

Summary of Settlement Positions: Appendix A - AVR Irrigation

	AVR	DRA
2009 Present Revenue	349	349
2009 Proposed Revenue	219	219
2009 Rate Increase	(129)	(129)
% Increase	-37.12%	-37.10%

ATTACHMENT B

ATTACHMENT B

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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 14 100 cu. ft	\$ 2.023
Tier 2 Next 15 – 29 100 cu. ft	\$ 2.136
Tier 3 All over 29 100 cu. ft	\$ 2.248

Per Meter

Service Charge:

Per Month

For 5/8 x 3/4-inch meter	\$ 19.44
For 3/4-inch meter	29.16
For 1-inch meter	48.60
For 1 1/2-inch meter	97.20
For 2-inch meter	155.52
For 3-inch meter	291.60
For 4-inch meter	486.00
For 6-inch meter	972.00
For 8-inch meter	1,555.20
For 10-inch meter	2,818.80

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is to be added the bimonthly charge computed at the Quantity Rates.

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 or property owner.
3. All bills are subject to the Public Utilities Commission Reimbursement Fee set forth on Schedule No. UF.

ATTACHMENT B

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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 Rate:

Per 100 cu. ft.	\$ 0.395
	Per Meter

Service Charge:

Per Month

For 5/8 x 3/4-inch meter	\$ 19.44
For 3/4-inch meter	29.16
For 1-inch meter	48.60
For 1 1/2-inch meter	97.20
For 2-inch meter	155.52
For 3-inch meter	291.60
For 4-inch meter	486.00
For 6-inch meter	972.00
For 8-inch meter	1,555.20
For 10-inch meter	2,818.80

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 #UF.

ATTACHMENT B

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APPLE VALLEY RANCHOS WATER COMPANY

Schedule No. 3

NON-RESIDENTIAL GENERAL METERED SERVICE

APPLICABILITY

Applicable to non-residential metered water service.

TERRITORY

Town of Apple Valley and vicinity, San Bernardino County.

RATES

Quantity Rate:

Per 100 cu. ft. \$2.117

Per Meter

Service Charge:

Per Month

For 5/8 x 3/4-inch meter	\$ 19.44
For 3/4-inch meter	29.16
For 1-inch meter	48.60
For 1 1/2-inch meter	97.20
For 2-inch meter	155.52
For 3-inch meter	291.60
For 4-inch meter	486.00
For 6-inch meter	972.00
For 8-inch meter	1,555.20
For 10-inch meter	2,818.80

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is to be added the bimonthly charge computed at the Quantity Rates.

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 or property owner.
3. All bills are subject to the Public Utilities Commission Reimbursement Fee set forth on Schedule No. UF.

ATTACHMENT B

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APPLE VALLEY RANCHOS WATER COMPANY

Schedule No. 4

NON-METERED FIRE SERVICE

APPLICABILITY

Applicable only for water service to privately owned fire hydrants 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

<u>Size of Service</u>	Per Service <u>Per Month</u>
2-inch	\$ 29.21
3-inch	43.85
4-inch	58.37
6-inch	87.40
8-inch	116.62
10-inch	140.75
12-inch	168.85

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.

(Continued)

ATTACHMENT B

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APPLE VALLEY RANCHOS WATER COMPANY

Schedule No. 4

NON-METERED FIRE SERVICE

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.
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.

ATTACHMENT B

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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.

ATTACHMENT B

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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.

ATTACHMENT B

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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 \$5.83 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 \$5,800 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	\$29,300
3	\$34,400
4	\$41,500
5	\$48,600
6	\$55,700

(continued)

ATTACHMENT B

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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.

ATTACHMENT B
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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

A surcharge of \$0.49 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.

ATTACHMENT C

ATTACHMENT C
1 of 1
APPLE VALLEY RANCHOS WATER CO. - DOMESTIC
TEST YEAR 2009
SUMMARY OF EARNINGS
(Dollars In Thousands)

	<u>PRESENT RATES</u>	<u>AT AUTHORIZED RATE OF RETURN</u>
OPERATING REVENUES	16,695.9	19,869.0
DEFERRED REVENUES	-0.1	-0.1
TOTAL REVENUES	16,696.0	19,869.1
OPERATIONS & MAINTENANCE		
PAYROLL-OPERATIONS	703.3	703.3
OPERATIONS-OTHER	216.9	216.9
PURCHASED WATER	0.0	0.0
PURCHASED POWER	1,168.9	1,168.9
LEASED WATER RIGHTS	1,573.4	1,573.4
REPLENISHMENT CHARGES	186.7	186.7
CHEMICALS	24.3	24.3
PAYROLL-CUSTOMER	580.1	580.1
CUSTOMERS-OTHER	152.2	152.2
UNCOLLECTIBLES .26%	43.4	51.7
PAYROLL-MAINTENANCE	373.3	373.3
MAINTENANCE-OTHER	699.3	699.3
PAYROLL-CLEARINGS	117.4	117.4
CLEARINGS-OTHER	398.7	398.7
SUBTOTAL O & M	6,237.7	6,246.0
ADMINISTRATIVE & GENERAL		
PAYROLL	1,422.8	1,422.8
PAYROLL-BENEFITS	1,046.7	1,046.7
INSURANCE	617.7	617.7
UNINSURED PROP. DAMAGE	8.2	8.2
REG. COMM. EXPENSE	59.9	59.9
FRANCHISE REQUIREMENTS .98%	163.6	194.7
OUTSIDE SERVICES	217.0	217.0
OFFICE SUPPLIES	245.4	245.4
A & G TRANSFERRED	-269.1	-269.1
MISCELLANEOUS	34.2	34.2
RENTS	9.6	9.6
¹ MAIN OFFICE ALLOCATION		
A & G EXPENSES	1,720.2	1,720.2
AVR ALLOCATION		
A & G EXPENSES ADJ.	-20.9	-20.9
SUBTOTAL A & G	5,255.4	5,286.5
¹ AD VALOREM TAXES	453.1	453.1
¹ PAYROLL TAXES	292.4	292.4
RECOVER UNDERCOLLECTION		
¹ DEPRECIATION	2,601.3	2,601.3
CA INCOME TAX	63.4	340.4
FEDERAL INCOME TAXES	179.0	1,208.5
TOTAL EXPENSE	15,082.3	16,428.2
NET REVENUES	1,613.8	3,440.9
RATE BASE	37,647.1	37,647.1
RATE OF RETURN	4.29%	9.14%

¹ DEPRECIATION, AD VALOREM AND PAYROLL TAXES FROM PARK'S MAIN OFFICE HAVE BEEN INCLUDED IN THE APPROPRIATE LINE ITEM OF EXPENSE.

ATTACHMENT D

ATTACHMENT D
1 of 1
APPLE VALLEY RANCHOS WATER CO.-IRRIGATION
TEST YEAR 2009
SUMMARY OF EARNINGS
(Dollars In Thousands)

	<u>PRESENT RATES</u>	<u>AT AUTHORIZED RATE OF RETURN</u>
OPERATING REVENUES	348.8	219.4
DEFERRED REVENUES	0.0	0.0
TOTAL REVENUES	348.8	219.4
OPERATIONS & MAINTENANCE		
PAYROLL-OPERATIONS	3.1	3.1
OPERATIONS-OTHER	0.0	0.0
PURCHASED WATER	0.0	0.0
PURCHASED POWER	101.6	101.6
REPLENISHMENT CHARGES	18.1	18.1
CHEMICALS	0.0	0.0
UNCOLLECTIBLES .26%	0.9	0.6
PAYROLL-MAINTENANCE	0.0	0.0
MAINTENANCE-OTHER	1.0	1.0
PAYROLL-CLEARINGS	0.0	0.0
CLEARINGS-OTHER	2.8	2.8
SUBTOTAL O & M	127.6	127.2
ADMINISTRATIVE & GENERAL		
PAYROLL	0.0	0.0
PAYROLL-BENEFITS	2.8	2.8
INSURANCE	1.0	1.0
FRANCHISE REQUIREMENTS .98%	3.4	2.1
OUTSIDE SERVICES	3.2	3.2
OFFICE SUPPLIES	0.0	0.0
A & G TRANSFERRED	0.0	0.0
MISCELLANEOUS	0.0	0.0
RENTS	0.0	0.0
¹ GENERAL OFFICE ALLOCATION		
A & G EXPENSES	13.4	13.4
DATA PROCESSING	0.0	0.0
AVR ALLOCATION		
A & G EXPENSES	20.9	20.9
SUBTOTAL A & G	44.8	43.5
¹ AD VALOREM TAXES	3.4	3.4
¹ PAYROLL TAXES	1.0	1.0
RECOVER UNDERCOLLECTION		
¹ DEPRECIATION	14.9	14.9
CA INCOME TAX	13.2	1.9
FEDERAL INCOME TAXES	44.4	2.4
TOTAL EXPENSE	249.1	194.2
NET REVENUES	99.7	25.1
RATE BASE	275.0	275.0
RATE OF RETURN	36.25%	9.14%

¹ DEPRECIATION, AD VALOREM AND PAYROLL TAXES FROM PARK'S MAIN OFFICE HAVE BEEN INCLUDED IN THE APPROPRIATE LINE ITEM OF EXPENSE.

ATTACHMENT E

ATTACHMENT E
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APPLE VALLEY RANCHOS WATER COMPANY - DOMESTIC
ADOPTED QUANTITIES

Net-to-Gross Multiplier	1.771441		
Uncollectible Rate	0.26%		
Franchise Fee	0.9800%		
Federal Tax Rate	34.00%		
State Tax Rate	8.84%		
	2009	2010	2011
Water Consumption (KCcf)			
Domestic Water Sales	6,528.4	6,627.1	6,765.3
Unaccounted Water (9%)	645.7	655.4	669.1
Total Water Production	7,174.1	7,282.5	7,434.4
Replenishment Charges			
Administrative/Biological Assessment (A.F.)	16,469	16,718	17,067
Cost per A.F.	\$3.57	\$3.57	\$3.57
Total Admin./Bio. Cost (\$)	<u>\$58,796</u>	<u>\$59,685</u>	<u>\$60,929</u>
Make-Up Assessment (A.F.)	1,066	1,066	1,066
Cost per A.F.	\$120	\$120	\$120
Total Make-Up Cost (\$)	<u>\$127,920</u>	<u>\$127,920</u>	<u>\$127,920</u>
Total Replenishment Cost	\$186,716	\$187,605	\$188,849
Leased Water Rights			
Leased Water Rights (A.F.)	7,109	7,280	7,599
Cost per A.F.	\$221.33	\$221.33	\$221.33
Total Leased Water Rights Cost	<u>\$1,573,362</u>	<u>\$1,611,209</u>	<u>\$1,681,893</u>
Purchased Power			
Electric			
Total Cost (\$)	\$1,144,047	\$1,155,288	\$1,171,105
Total Kilowatts (kWhs)	12,755,965	12,948,796	13,220,128
Cost/Kilowatt Hour	\$0.08969	\$0.08922	\$0.08858
Gas			
Total Cost (\$)	\$17,136	\$17,211	\$17,571
Total Therms	17,136	17,395	17,760
Cost/Therm	\$1.00000	\$0.98942	\$0.98936

ATTACHMENT E

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**APPLE VALLEY RANCHOS WATER COMPANY-DOMESTIC
ADOPTED QUANTITIES
(Dollars in Thousands)**

	2009	2010
<u>Utility Plant In Service</u>		
Beginning Of Year Balance	97,365.4	102,557.7
Additions	5,650.2	5,526.9
Retirements	457.9	471.6
End Of Year Balance	102,557.7	107,613.0
Average Balance	99,961.5	105,085.4
<u>Depreciation Reserve</u>		
Beginning Of Year Balance	19,119.3	21,364.0
Annual Accrual	2,669.2	2,818.9
Net Retirements	424.5	437.2
End Of Year Balance	21,364.0	23,745.7
Average Balance	20,241.7	22,554.9

Note: Unadjusted for General Plant Adjustments.

ATTACHMENT E

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**APPLE VALLEY RANCHOS WATER COMPANY-DOMESTIC
ADOPTED QUANTITIES
(Dollars in Thousands)**

RATE BASE SUMMARY

	2009	2010
AVERAGE BALANCES		
PLANT IN SERVICE	99,926.7	105,049.4
WORK IN PROGRESS	0.0	0.0
MATERIALS & SUPPLIES	256.0	255.8
WORKING CASH	283.8	311.0
SUBTOTAL	100,466.5	105,616.2
LESS:		
DEPRECIATION RESERVE	20,226.5	22,538.5
ADVANCES	34,546.1	35,454.2
CONTRIBUTIONS	2,334.6	2,463.4
UNAMORTIZED ITC	75.9	71.1
DEFERRED INCOME TAX	6,329.3	6,620.0
SUBTOTAL	63,512.3	67,147.2
PLUS:		
METHOD 5 ADJUSTMENT	5.7	3.3
NET DISTRICT RATE BASE	36,959.9	38,472.2
MAIN OFFICE ALLOCATION	687.2	557.2
TOTAL RATE BASE	37,647.1	39,029.5

ATTACHMENT E
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APPLE VALLEY RANCHOS WATER COMPANY-DOMESTIC
ADOPTED QUANTITIES
TEST YEAR 2009
(Dollars in Thousands)

<u>INCOME TAX CALCULATIONS</u>	<u>PRESENT RATES</u>	<u>AT AUTHORIZED RATE OF RETURN</u>
OPERATING REVENUES	16,696.0	19,869.1
EXPENSES		
OPERATIONS & MAINTENANCE	6,194.3	6,194.3
UNCOLLECTIBLES .26%	43.4	51.7
ADMINISTRATIVE & GENERAL	5,091.7	5,091.7
FRANCHISE FEES .98%	163.6	194.7
AD VALOREM TAXES	453.1	453.1
PAYROLL TAXES	292.4	292.4
MEALS ADJUSTMENT	-10.2	-10.2
SUBTOTAL	12,228.4	12,267.8
DEDUCTIONS		
CA TAX DEPRECIATION	2,481.8	2,481.8
INTEREST	1,268.7	1,268.7
CA TAXABLE INCOME	717.2	3,850.9
CCFT @ 8.84%	63.4	340.4
DEDUCTIONS		
FED. TAX DEPRECIATION	2,458.4	2,458.4
INTEREST	1,268.7	1,268.7
CA TAX	63.4	63.4
QUALIFIED PROD. DEDUCTION	150.8	256.5
FIT TAXABLE INCOME	526.3	3,554.3
FIT (BEFORE ADJUSTMENT) 34.00%	179.0	1,208.5
PRORATED ADJUSTMENT INVESTMENT TAX CREDIT	0.0	0.0
NET FEDERAL INCOME TAX	179.0	1,208.5

ATTACHMENT E

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APPLE VALLEY RANCHOS WATER COMPANY-DOMESTIC
ADOPTED QUANTITIES

	2009	2010	2011
<u>Number of Customers</u>			
Residential	17,820	18,030	18,390
Commercial	1,323	1,348	1,373
Public Authority	42	42	42
Industrial	2	2	2
Private Fire	127	132	137
Public Authority Irrigation	5	5	5
Pressure Irrigation	145	156	167
Temporary Construction	34	34	34
Gravity Irrigation	1	1	1
Total	19,499	19,750	20,151

	2009	2010	2011
<u>Water Sales (Ccfs)</u>			
Residential	4,692,006	4,747,299	4,842,087
Commercial	1,060,120	1,080,152	1,100,185
Public Authority	302,904	302,904	302,904
Industrial	1,311	1,311	1,311
Private Fire	2,032	2,112	2,192
Public Authority Irrigation	29,460	29,460	29,460
Pressure Irrigation	306,965	330,252	353,539
Temporary Construction	133,620	133,620	133,620
Total	6,528,418	6,627,110	6,765,298

	2009	2010	2011
<u>Consumption per Customer (Ccf per Customer)</u>			
Residential	263.3	263.3	263.3
Commercial	801.3	801.3	801.3
Public Authority	7,212	7,212	7,212
Industrial	655	655	655
Private Fire	16	16	16
Public Authority Irrigation	5,892	5,892	5,892
Pressure Irrigation	2,117	2,117	2,117
Temporary Construction	3,930	3,930	3,930

ATTACHMENT F

ATTACHMENT F
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APPLE VALLEY RANCHOS WATER COMPANY-IRRIGATION
ADOPTED QUANTITIES

Net-to-Gross Multiplier	1.771441		
Uncollectible Rate	0.26%		
Franchise Fee	0.9800%		
Federal Tax Rate	34.00%		
State Tax Rate	8.84%		
	2009	2010	2011
<u>Water Consumption (Ccf)</u>			
Water Sales	470,100	470,100	470,100
Unaccounted Water (85.9%)	2,863,943	2,863,943	2,863,943
Total Water Production	3,334,043	3,334,043	3,334,043
<u>Replenishment Charges</u>			
Biological Assessment (A.F.)	7,654	7,654	7,654
Cost per A.F.	\$0.70	\$0.70	\$0.70
Total Biological Assessment Cost	\$5,360	\$5,360	\$5,360
Make-Up Assessment			
Make-Up Assessment (A.F.)	106	106	106
Cost per A.F.	\$120	\$120	\$120
Total Make-Up Assessment Cost	\$12,720	\$12,720	\$12,720
Total Replenishment Charges	\$18,080	\$18,080	\$18,080
<u>Purchased Power</u>			
Electric			
Total Cost	\$78,095	\$78,095	\$78,095
Kilowatt Hours	1,374,959	1,374,959	1,374,959
Cost/Kilowatt Hour	\$0.05680	\$0.05680	\$0.05680

ATTACHMENT F
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APPLE VALLEY RANCHOS WATER COMPANY-IRRIGATION
ADOPTED QUANTITIES
(Dollars in Thousands)

<u>Utility Plant In Service</u>	2009	2010
Beginning Of Year Balance	530.0	530.0
Additions	0	0
Retirements	0	0
End Of Year Balance	530.0	530.0
Average Balance	530.0	530.0
<u>Depreciation Reserve</u>		
Beginning Of Year Balance	173.1	184.8
Annual Accrual	11.8	11.8
Net Retirements	0.0	0.0
End Of Year Balance	184.8	196.6
Average Balance	179.0	190.7

Note: Unadjusted for General Plant Adjustments.

ATTACHMENT F
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APPLE VALLEY RANCHOS WATER COMPANY-IRRIGATION
ADOPTED QUANTITIES
(Dollars in Thousands)

	2009	2010
<u>RATE BASE SUMMARY</u>		
AVERAGE BALANCES		
PLANT IN SERVICE	564.8	565.9
WORK IN PROGRESS	0.0	0.0
WORKING CASH	2.2	2.4
SUBTOTAL	567.0	568.4
LESS:		
DEPRECIATION RESERVE	194.1	207.1
ADVANCES	0.0	0.0
CONTRIBUTIONS	42.0	40.9
UNAMORTIZED ITC	0.0	0.0
DEFERRED INCOME TAX	61.3	64.3
SUBTOTAL	297.4	312.3
PLUS:		
METHOD 5 ADJUSTMENT	0	0
NET DISTRICT RATE BASE	269.6	256.1
MAIN OFFICE ALLOCATION	5.4	4.4
TOTAL RATE BASE	275.0	260.4

ATTACHMENT F
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APPLE VALLEY RANCHOS WATER COMPANY-IRRIGATION
ADOPTED QUANTITIES
TEST YEAR 2009
(Dollars in Thousands)

<u>INCOME TAX CALCULATIONS</u>	<u>PRESENT RATES</u>	<u>AT AUTHORIZED RATE OF RETURN</u>
OPERATING REVENUES	348.8	219.4
EXPENSES		
OPERATIONS & MAINTENANCE	126.7	126.7
UNCOLLECTIBLES .26%	0.9	0.6
ADMINISTRATIVE & GENERAL	41.3	41.3
FRANCHISE FEES .98%	3.4	2.1
AD VALOREM TAXES	3.4	3.4
PAYROLL TAXES	1.0	1.0
MEALS ADJUSTMENT	0.0	0.0
SUBTOTAL	176.6	175.0
DEDUCTIONS		
CA TAX DEPRECIATION	13.7	13.7
INTEREST	9.3	9.3
CA TAXABLE INCOME	149.2	21.4
CCFT @ 8.84%	13.2	1.9
DEDUCTIONS		
FED. TAX DEPRECIATION	13.4	13.4
INTEREST	9.3	9.3
CA TAX	13.2	13.2
QUALIFIED PROD. DEDUCTION	5.8	1.5
FIT TAXABLE INCOME	130.6	7.0
FIT (BEFORE ADJUSTMENT) 34.00%	44.4	2.4
PRORATED ADJUSTMENT	0	0
INVESTMENT TAX CREDIT	0	0
NET FEDERAL INCOME TAX	44.4	2.4

ATTACHMENT F
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APPLE VALLEY RANCHOS WATER COMPANY-IRRIGATION
ADOPTED QUANTITIES

	2009	2010	2011
<u>Number of Customers</u>			
Gravity Irrigation	1	1	1
<u>Water Sales (Ccfs)</u>			
Gravity Irrigation	470,100	470,100	470,100
<u>Consumption per Customer (Ccf per Customer)</u>			
Gravity Irrigation	470,100	470,100	470,100

ATTACHMENT G

ATTACHMENT G
1 of 2
MAIN OFFICE
TEST YEAR 2009
SUMMARY OF OPERATING EXPENSES
(Dollars In Thousands)

	2009
PAYROLL - CUSTOMERS	0.0
PAYROLL - MAINTENANCE	33.8
MAINTENANCE - OTHER	341.9
PAYROLL-CLEARINGS	16.9
CLEARINGS-OTHER	76.7
A & G PAYROLL	3,475.3
PAYROLL - BENEFITS (NON-P/R)	885.8
INSURANCE	82.9
UNINSURED PROP. DAMAGE	0.3
REG. COM. EXPENSE	8.6
OUTSIDE SERVICES	471.4
OFFICE SUPPLIES	179.3
A & G TRANSFERRED	-14.7
MISCELLANEOUS	43.1
PROPERTY TAXES	20.3
PAYROLL TAXES	206.4
DEPRECIATION	650.4
	6,478.3
 <u>ALLOCATION TO AVR (30.71%)</u>	
PROPERTY TAXES	6.2
PAYROLL TAXES	63.4
DEPRECIATION	199.7
A & G EXPENSES	1,720.2
	1,989.5
 <u>ALLOCATION TO IRRIGATION (.24%)</u>	
PROPERTY TAXES	0.0
PAYROLL TAXES	0.5
DEPRECIATION	1.6
A & G EXPENSES	13.4
	15.5

**ATTACHMENT G
2 of 2
MAIN OFFICE
RATE BASE SUMMARY**

	2009	2010
AVERAGE BALANCES		
PLANT IN SERVICE	8,284.1	8,547.7
WORK IN PROGRESS	0.0	0.0
SUBTOTAL	8,284.1	8,547.7
LESS:		
DEPRECIATION RESERVE	5,184.5	5,826.0
UNAMORTIZED ITC	0.0	0.0
DEFERRED INCOME TAX	861.8	907.3
SUBTOTAL	6,046.3	6,733.3
NET MAIN OFFICE RATE BASE	2,237.8	1,814.4
<u>FOUR FACTOR ALLOCATION</u>		
DOMESTIC (30.71%)	687.2	557.2
IRRIGATION (.24%)	5.4	4.4