

WATER/FLC/JPT/EYC/AJT/jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER AND AUDITS DIVISION
Water and Sewer Advisory Branch

RESOLUTION NO. W-4655
August 23, 2007

R E S O L U T I O N

(RES. W-4655), APPLE VALLEY RANCHOS WATER COMPANY (Apple Valley). ORDER AUTHORIZING A REVISION TO RULE 15, MAIN EXTENSIONS (Rule 15), TO INCORPORATE A SUPPLEMENTAL WATER ACQUISITION FEE TO BE CHARGED TO APPLICANTS FOR A MAIN EXTENSION.

SUMMARY

By Advice Letter (AL) 140-W filed on February 5, 2007, Apple Valley requests to revise Rule 15, to incorporate a Supplemental Water Acquisition Fee to be charged to applicants for a main extension and to revise the sample forms for Main Extension Contracts to simplify the forms and conform to the proposed revision to Rule 15. This resolution grants that request.

BACKGROUND

Apple Valley provides domestic water from its wells within the Mojave River Ground Water Basin. The Mojave River Ground Basin has been in overdraft since about 1950. The down stream producers filed suit in 1990 to stop this overdraft and the Mojave Basin Area Adjudication was adopted in 1996. The resulting judgment is an administrative process intended to provide a long-term reliable supply for the Mojave Basin. The judgment required a global look at production, return flow, natural inflow, and outflow to determine if the Mojave River Ground Water Basin is in balance ensuring that demand does not exceed supply.

Apple Valley is a stipulating party located in the Alto sub-area of the Basin, with adjudicated rights under the judgment. Apple Valley has a Base Annual Production Right (based upon Apple Valley's historic production in 1989) equal to 13,180 acre-feet. This right is subject to reduction under the judgment, for the purpose of basin management. Free Production Allowance (FPA) is the amount of water that a producer can pump in a given water year without incurring an obligation to buy water from the Mojave Water Agency (MWA), the Watermaster for the Mojave Basin.

FPA is subject to adjustment on an annual basis and is currently set at 60% (also known as “rampdown”). Producers such as Apple Valley are limited to 60% of the Base Annual Production in order to bring the Mojave Basin into hydraulic balance. Under the terms of the judgment, Apple Valley is allowed to pump as much water as needed to serve its customers, subject to replacement water assessments.

Replacement water assessments, water production in excess of the FPA in any year, may be satisfied by transfers of pumping rights from another Producer (leased water rights) or by purchasing imported replacement water from MWA on an annual basis. The Mojave Water Agency is a state water contractor and has an allocation of 75,800 acre-feet per year from the State Water Project.

Due primarily to the rampdown from the Base Annual Production Right and the effects of fill-in growth, Apple Valley has sufficient FPA for approximately 50% of the annual water production required for existing ratepayers and satisfies the remainder by leasing water rights. Although Apple Valley has acquired some additional water rights over the last few years, water rights available for purchase have been limited to small quantities and on an infrequent basis. Although water rights are not readily available for purchase, MWA offers a program whereby replacement water may be pre-purchased at a discount for future years, “banked” in the groundwater basin, and pumped in future years.

In June 2006, Apple Valley filed an advice letter for a Service Area Extension, Advice Letter 135-W. In connection with this AL, the Division of Ratepayer Advocates (DRA) expressed concerns regarding the effect of customer growth on the long-term availability and cost of water supplies for Apple Valley. Apple Valley’s analysis concluded that at current rates and costs, the average main extension generates additional revenues from new customers that are more than sufficient to cover incremental costs associated with the main extension, including the costs of the water necessary to serve the territory. In addition, long-term forecasting of the cost of water in the Mojave Basin is difficult to perform with accuracy.

Apple Valley met extensively with both DRA and the Water and Audits Division on this matter and continued to meet with DRA regarding the service area extension. The two parties developed an informal proposal to address the issues raised by DRA, a proposal to which both Apple Valley and DRA have agreed upon. This resolution implements the Supplemental Water Acquisition Fee.

Rule 15 - Main Extension

Supplemental Water Acquisition Fee

Apple Valley proposes to modify its Rule 15 to incorporate a Supplemental Water Acquisition Fee, to be charged to applicants for main extensions as a refundable advance, similar to Apple Valley's existing Supply Facilities Fee adopted in Decision 05-12-020.

The Supplemental Water Acquisition Fee requested by Apple Valley will be set at \$3,000 per residential lot for residential developments. For commercial, industrial, and other types of developments, a rate of \$3,000 per equivalent average residential water use is to be based on the water use of a similar business or facility.

The purpose of the Supplemental Water Acquisition Fee is to fund Apple Valley's pre-purchase of replacement water from MWA, or for Apple Valley to acquire water rights should such rights become available. Pre-purchased replacement water purchased from MWA will be capitalized by Apple Valley and amortized to expense over a 40-year period consistent with the life of the advance contract set forth in Rule 15.

The pre-purchase of replacement water from MWA and its use over a 40-year period would address the issues of long-term availability and cost of water supply as it would lock-in a commitment from MWA to ensure available water supply to Apple Valley. This would also lock-in a price for that water which would shelter that portion of Apple Valley's source requirement from any increases in cost.

In this advice letter, Apple Valley proposes that the Supplemental Water Acquisition Fee be set up so as to allow the applicant for main extension the option to either:

- 1) Pay the entire amount of the fee associated with the main extension at the time that the main extension itself is completed, at the current rate per lot stated in Rule 15; or
- 2) Pay the fee per lot at the time the meters are installed, subject to any changes or increases in the fee that have been approved at that time.

Apple Valley has requested this change because:

- 1) Neighboring water districts allow such fees to be paid at the time the meters are installed;
- 2) A requirement for the applicants to pay the full amount up front might be problematic in terms of the applicant's financing for the project and might deprive Apple Valley's customers of the benefits of growth; and
- 3) The need for supplemental water will not exist until the meter is installed. Prior to this point in time, there is no additional consumption.

Sample Forms – Main Extension Contracts

This resolution approves changes to the main extension contract forms in Apple Valley's tariffs to be consistent with Rule 15, and to incorporate language relating to the proposed fees, as well as the Supply Facilities Fees adopted previously.

Apple Valley currently has six sample main extension contract forms in its tariffs for main extensions to serve subdivisions, tracts, housing developments, industrial developments, commercial buildings, or shopping centers.

Apple Valley proposes that all of these forms be replaced by a sample main extension contract to serve subdivisions, tracts, housing developments, industrial developments, commercial buildings, or shopping centers which have a number of sections that can be marked as applicable or non-applicable to all the various combinations discussed above. This sample form is intended to simplify Apple Valley's tariffs and contract administration.

The new sample form tariff uses language of various scenarios in Apple Valley's existing sample forms, with sections added to address the Supply Facilities Fees in D.05-12-020 and the proposed Supplemental Water Acquisition Fee. There is an additional sample form just for Supplemental Water Acquisition Fees necessary if the applicant elects to pay the fees as the meters are set rather than paying the entire amount of the fee at the time of the completion of the main extension.

The primary new language of the Supplemental Water Acquisition Fee in Rule 15 is as follows:

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

Residential developments	\$3,000 per lot
Commercial, Industrial, or Other developments.	\$3,000 per equivalent average residential water use based on the water use of a similar business or facility

A complete set up tariff changes, as requested in Apple Valley's advice letter, are attached as Appendix A.

NOTICE AND PROTESTS

A notice of the proposed tariff changes was mailed to the service list. The Division received no comments or protests.

Division of Ratepayer Advocates Position

Appendix B is a Memorandum of Understanding (MOU) entered between Apple Valley and the Division of Ratepayer Advocates (DRA).

Because the primary purpose of this proposal is the implementation of an agreement between Apple Valley and DRA relating to a revision of Apple Valley's Rule 15, to incorporate the \$3,000 per equivalent residential lot Supplemental Acquisition Fee, a draft, and copy, was furnished to and discussed with DRA.

DRA supports this modification to Rule 15 and has informed Apple Valley that it does not find these modifications to be inconsistent with the agreement between the parties.

COMMENTS

This is an uncontested matter subject to the public notice comment exclusion provided in the Public Utilities Code Section 311 (g) (3).

FINDINGS

1. The Water and Audits Division hereby recommends that the tariff Supplemental Acquisition Fee and tariff sheets set forth in Appendix A are reasonable and should be adopted.
2. This is an uncontested matter subject to the public notice comment exclusion provided in the Public Utilities Code Section 311 (g) (3).

THEREFORE IT IS ORDERED THAT:

1. Advice Letter No. 140-W filed on February 5, 2007, Apple Valley Ranchos Water Company (Apple Valley) to revise Rule 15, Main Extensions, to incorporate a Supplemental Water Acquisition Fee to be charged to applicants for a main extension and to revise the sample forms for Main Extension Contracts to simplify the forms and conform to the proposed revision to Rule 15 is hereby adopted.
2. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on August 23, 2007; the following Commissioners voting favorably thereon:

/s/ PAUL CLANON

Paul Clanon
Executive Director

MICHAEL R. PEEVEY
President

DIAN M. GRUENEICH

JOHN A. BOHN

RACHELLE B. CHONG

TIMOTHY ALAN SIMON

Commissioners

APPENDIX A

Resolution W-4655
Apple Valley/AL 140-W/FLC/JPT/EYC/AJT/jlj

August 23, 2007

APPLE VALLEY RANCHOS WATER COMPANY
 21760 OTTAWA ROAD
 P. O. BOX 7005
 APPLE VALLEY, CALIFORNIA 92307-7005

ORIGI L Cal. P.U.C. Sheet No. 563-W

Canceled Cal. P.U.C. Sheet No.

RULE NO. 15
 (continued)

MAIN EXTENSIONS

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

(N)

Residential developments \$3,000 per lot (N)

Commercial, Industrial, or other developments \$3,000 per equivalent average residential water use based on the water use of a similar business or facility. (N)

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

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

(continued)

(To be inserted by utility) Advice No. <u>140-W</u>	Issued By <u>LEIGH K. JORDAN</u> Name <u>EXECUTIVE VICE PRESIDENT</u> Title	(To be inserted by Cal. P.U.C.) Date Filed _____ Effective _____ Resolution No. _____
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APPLE VALLEY RANCH WATER COMPANY
 21760 OTTAWA ROAD
 P. O. BOX 7005
 APPLE VALLEY, CALIFORNIA 92307-7005

REvised Cal. P.U.C. Sheet No. 564-W

Canceled REVISED Cal. P.U.C. Sheet No. 531-W

RULE NO. 15
 (continued)

MAIN EXTENSIONS

C. 2. Refunds

- a. The amount advanced under Section C.1.a, C.1.b, C.1.c, C.1.e, and C.1.f shall be subject to refund by the utility, in cash, without interest, to the party or parties entitled thereto as set forth in the following two paragraphs. The total amount so refunded shall not exceed the total of the amount advanced and for a period not to exceed 40 years after the date of the contract. (C)
- b. Payment of refunds shall be made not later than June 30 of each year, beginning the year following execution of contract, or not later than 6 months after the contract anniversary date if on an anniversary date basis.
- c. Whenever costs of main extensions and/or special facilities have been advanced pursuant to Section C.1.a, C.1.b, or C.1.c, the utility shall annually refund to the contract holders an amount equal to 2 1/2 percent of the advances until the principal amounts of the contracts have been fully repaid.

Whenever costs of special facilities have been advanced pursuant to sections C.1.b, or C.1.c, the amount so advanced shall be divided by the number of lots (or living units, whichever is greater) which the special facilities are designed to serve, to obtain an average advance per lot (or living unit) for special facilities. When another builder applies for a main extension to serve any lots for which the special facilities are to be used, the new applicant shall, in addition to the costs of his proposed main extension, also advance an amount for special facilities. This amount shall be the average advance per lot for special facilities for each lot to be used less 2 1/2 percent of the average advance for each year in which refund have been due and payable on the original contract, prorated to June 30, or the contract anniversary date on a monthly basis.

The amount advanced to the utility by the new applicant shall be immediately refunded to the holder of the original contract, which included the cost of the special facilities, and the original contract advance will be reduced accordingly. The utility will thenceforth refund 2 1/2 percent annually on each of the contract amounts, as determined above, to the holders of the contract.

Advances and refunds based on additional builder participation will be determined in a similar manner.

In no case shall the refund on any contract exceed the amount advanced.

(continued)

(To be inserted by utility)

Issued By

(To be inserted by Cal. P.U.C.)

Advice No. 140-W

LEIGH E. JORDAN

Date Filed

Name

Effective

Dec. No.

EXECUTIVE VICE PRESIDENT

Title

Resolution No.

APPLE VALLEY RANCHOS WA CO. REVISED Cal. P. Sheet No. 567-W
 21760 OTTAWA ROAD
 P. O. BOX 7005 207-W, 208-W, 209-W,
 APPLE VALLEY, CA 92307-7005 Canceling REVISED Cal. P.U.C. Sheet No. 210-W, 211-W, 212-W

FORM NO. 5 Page 3 of 4 (N)
MAIN EXTENSION CONTRACT (N)
 (continued)

If private fire protection services or other facilities are included in the distribution system for which the customer is responsible for the cost and which Utility will own pursuant to Rule 16 - Service Connections, Meters and Customer's Facilities, Applicant shall pay, as a contribution in aid of construction, the cost of those facilities. The amount of such cost, included in either Exhibit B or Exhibit C, is \$_____ (N)

b) Special Facilities (Applicable - Non-Applicable)

If facilities other than mains or hydrants are required to provide supply, pressure, or storage primarily for fire protection service, or portion of such facilities allocated in proportion to the capacity designed for fire protection purposes, Applicant shall pay, as a contribution in aid of construction pursuant to Section D.3 of Rule 15, the estimated or allocated cost of special facilities primarily required to provide fire protection service, which is \$_____.

c) Plant Facilities (Applicable - Non-Applicable)

Pursuant to Section C.1.d. of Rule, if, in the opinion of the utility it appears that a proposed main extension will not, within a reasonable period, develop sufficient revenue to make the extension self-supporting, or if for some other reason it appears to the utility that a main extension contract would place an excessive burden on customers, the utility may require nonrefundable contributions of plant facilities from developers in lieu of an advance subject to refund. Applicant agrees to contribute the amount of \$_____ to cover the cost of facilities described in said Exhibit B before construction of the main extension is commenced, subject to revision of the amount advanced pursuant to Section A.6.a. of Rule. Applicant agrees to pay the cost of installed facilities described in Exhibit C, pursuant to Section C.1.c. of Rule, such cost to be treated as a contribution.

REFUNDS: The amount Advanced Subject to Refund shall be refunded pursuant to Section C.2. of Rule until Applicant shall notify Utility in writing to the contrary, all refunds hereunder shall be paid by Utility to Applicant.

ADJUSTMENT TO COST AND UTILITY'S RIGHT TO OFFSET: Amounts advanced or contributed are subject to adjustment pursuant to Section A.6.c. of Rule and Utility shall have the right to offset against any refunds payable hereunder, the amount of any indebtedness then due or owing by Applicant to Utility. (N)

(continued)

(To be inserted by utility)	(To be inserted by Cal. P.U.C.)
Advice No. <u>140-W</u>	Date Filed _____
<u>LEIGH K. JORDAN</u> Name	Effective _____
Doc. No. _____	Resolution No. _____
<u>EXECUTIVE VICE PRESIDENT</u> Title	

APPLE VALLEY RANCHES WATER CO. REVISED Cal. C. Sheet No. 568-W
 21760 OTTAWA ROAD
 P. O. BOX 7005
 APPLE VALLEY, CA 92307-7005 Canceled REVISED Cal. P.U.C. Sheet No. 207-W, 208-W, 209-W,
 210-W, 211-W, 212-W

FORM NO. 5 Page 4 of 4
MAIN EXTENSION CONTRACT
 (continued)

(N)
 (N)

CONDITIONS: The Utility will not be required to make extensions under this Contract where the easements, rights-of-way or streets are not kept free from other interfering construction of street work during installation of said water system. Applicant agrees to use its best efforts to assist Utility to obtain any and all permits or other governmental authorizations which may be required for the installation of the facilities. Applicant will provide any easements or rights-of-way required for the installation prior to construction.

(N)

SUCCESSORS AND ASSIGNS: The obligations of the applicant shall be joint and several. This agreement shall bind and inure to the benefit of the heirs, representatives, executors, administrators, successors and/or assigns of the respective Parties hereto.

JURISDICTION OF PUBLIC UTILITIES COMMISSION: This Contract shall at all times be subject to such changes or modifications by the Public Utilities Commission of the State of California or as said Commission may, from time to time, direct in the exercise of its jurisdiction.

The effective of this Contract shall be _____
 (Date)

SIGNATURE PAGE:

Dated: _____, 20____ By: _____
 Authorized Representative of
 Apple Valley Ranches Water Company
 Title: _____

Dated: _____, 20____ By: _____
 Authorized Representative of Applicant
 Title: _____

(N)

(To be inserted by utility)

(To be inserted by Cal. P.U.C.)

Advice No. 140-W LEIGH K. JORDAN Date Filed _____
 Name
 Dec. No. _____ EXECUTIVE VICE PRESIDENT Effective _____
 Title Resolution No. _____

APPLE VALLEY RANCHOS WATER CO. ORIGINAL Cal. P.U.C. Sheet No. 569-W
 21760 OTTAWA ROAD
 P. O. BOX 7005
 APPLE VALLEY, CA 92307-7005 Canceled Cal. P.U.C. Sheet No.

FORM NO. 6 - Page 1 of 3 (N)

MAIN EXTENSION CONTRACT (N)

FOR SUPPLEMENTAL WATER ACQUISITION FEES PAID UNDER OPTION 2 (N)

JOB #: 410XXXXX (N)

UTILITY: Name: Apple Valley Ranchos Water Co. (N)
 Address: P.O. Box 7005, Apple Valley, CA 92307

APPLICANT: Name: _____
 Address: _____

 City State Zip

PRELIMINARY STATEMENT: This contract is entered into pursuant to the requirements of and in accordance with the various applicable provisions of the Utility's Main Extension Rule (hereinafter referred to as the "Rule") in effect and on file with the California Public Utilities Commission ("CPUC"), a copy of which is available upon request. This contract does not require specific authorization of CPUC to carry out the contract terms and conditions.

PURPOSE OF CONTRACT: Applicant has applied for a water main extension by executing a Preliminary Main Extension Contract with Utility for the main extension described below. The facilities or work to be installed or performed by Utility and those installed by Applicant and conveyed to the Utility, with the exception of Supplemental Water Acquisition Fees, are described in Exhibit B and in Exhibit C attached to that contract. Such facilities will be used for the purpose of furnishing public utility water service to that certain property located as described below and/or delineated on the map attached to that contract as Exhibit A and known as:

Main Extension for	Located at
[Job Name]	[description of location - between x and y streets]

Utility agrees that it will, as soon as necessary materials and labor are available, and necessary permits, franchises, licenses or other governmental authorizations have been obtained, commence and prosecute to completion with all reasonable diligence the work of installing the facilities or performing work described in attached Exhibit B, and when the facilities or work described in Exhibit B has been completed, and the facilities described in Exhibit C are complete and accepted by Utility, and, if Applicant elects Option 2 with respect to Section C.1.f., the requirements of the Main Extension Contract For Supplemental Water Acquisition Fee Paid Under Option 2 have been met, will provide utility service in accordance with Utility's tariffs.

This contract covers Supplemental Water Acquisition Fees which Applicant has elected to pay under Option 2, at the time that meters are set. The Supplemental Water Acquisition Fees to be paid by Applicant in connection with the above main extension are described in Exhibit A attached to this contract. (N)

(continued)

(To be inserted by utility)	Issued By	(To be inserted by Cal. P.U.C.)
Advice No. 140-W	LEIGH K. JORDAN	Date Filed _____
	Name	Effective _____
Doc. No. _____	EXECUTIVE VICE PRESIDENT	Resolution No. _____
	Title	

APPLE VALLEY RANCHOS W. CO.
 21760 OTTAWA ROAD
 P. O. BOX 7005
 APPLE VALLEY, CA 92307-7005

ORIGINAL Cal. P.U.C. Sheet No. 570-W

Canceled Cal. P.U.C. Sheet No.

FORM NO. 6 Page 2 of 3	(N)
MAIN EXTENSION CONTRACT	(N)
FACILITIES TO BE INSTALLED:	(N)
1. <u>Subject to Refund (Section C.2)</u>	
a) <u>Supplemental Water Acquisition Fee</u>	
Applicant shall advance the amount of \$ _____, the cost of supplemental water acquisition fee described in Exhibit A pursuant to Section C.1.f. of Rule No. 15, paid at the time that the meters are set according to Option 2. This amount is for _____ residential lots and commercial, industrial, or other meters with _____ average residential water use equivalents based on the water use of a similar business or facility. The above amount is subject to adjustment for changes in the rate or nature of the Fee approved by the CPUC applicable to any meters set after such change is approved.	
REFUNDS: The amount Advanced Subject to Refund shall be refunded pursuant to Section C.2. of Rule No. 15. Until Applicant shall notify Utility in writing to the contrary, all refunds hereunder shall be paid by Utility to Applicant.	
ADJUSTMENT TO COST AND UTILITY'S RIGHT TO OFFSET: Amounts advanced or contributed are subject to adjustment pursuant to Section A.6.e. of Rule and Utility shall have the right to offset against any refunds payable hereunder, the amount of any indebtedness then due or owing by Applicant to Utility.	
CONDITIONS: The Utility will close this contract at the end of the calendar year in which the main extension is completed covering whatever Supplemental Water Acquisition Fees have been paid up to that point. Applicant and utility agree to enter into a new contract for each subsequent calendar year, until all meters have been set, which will cover the Supplemental Water Acquisition Fees due on whatever meters have not yet been set at that time.	
Supplemental Water Acquisition Fees paid under Option 2 are subject to whatever changes in rate or nature of the Fee which may have been approved by the CPUC at the time that the meter is set.	
SUCCESSORS AND ASSIGNS: The obligations of the Applicant shall be joint and several. This agreement shall bind and inure to the benefit of the heirs, representatives, executors, administrators, successors and/or assigns of the respective Parties hereto.	
JURISDICTION OF PUBLIC UTILITIES COMMISSION: This Contract shall at all times be Subject to such changes or modifications by the Public Utilities Commission of the State of California or as said Commission may, from time to time, direct in the exercise of its jurisdiction.	
The effective date of this Contract shall be _____	
(Date)	(N)
(continued)	

(To be inserted by utility)	Issued By	(To be inserted by Cal. P.U.C.)
Advice No. <u>140-W</u>	<u>LEIGH K. JORDAN</u>	Date Filed _____
	Name	Effective _____
Doc. No. _____	<u>EXECUTIVE VICE PRESIDENT</u>	Resolution No. _____
	Title	

APPLE VALLEY RANCHOS WATER CO.
21760 OTTAWA ROAD
P. O. BOX 7005
APPLE VALLEY, CA 92307-7005

ORIGINAL Cal. P.U.C. Sheet No. 571-W

Canceled _____ Cal. P.U.C. Sheet No. _____

FORM NO. 6 Page 3 of 3		(N)
MAIN EXTENSION CONTRACT		(N)
(continued)		
SIGNATURE PAGE:		(N)
Dated: _____, 20__	By: _____ Authorized Representative of Apple Valley Ranchos Water Company	(N)
	Title: _____	(N)
Dated: _____, 20__	By: _____ Authorized Representative of Applicant	(N)
	Title: _____	(N)

(To be inserted by utility)	Issued By	(To be inserted by Cal. P.U.C.)
Advice No. <u>140-W</u>	<u>LEIGH K. JORDAN</u> Name	Date Filed _____
Dec. No. _____	<u>EXECUTIVE VICE PRESIDENT</u> Title	Effective _____
		Resolution No. _____

APPENDIX B

MEMORANDUM OF UNDERSTANDING

This Memorandum of Understanding (MOU) is entered into between Apple Valley Ranchos Water Company (AVR) and the Division of Ratepayer Advocates (DRA), collectively, the Parties.

1. Recitals

A. AVR's current rates were set in Decision 05-12-020 issued by the California Public Utilities Commission in December of 2005 for test Year 2006 and Escalation Years 2007 and 2008.

B. Since 2003, AVR has been requiring applicants for a main extension to advance the cost of the acquisition of one acre foot of Base Annual Production water rights per residential lot as special facilities under its Main Extension Rule. AVR has informed DRA that it began having difficulty acquiring water rights with the result that, in some cases, by the time water rights could be found available for purchase, the cost had increased over the, then, current market price advanced by applicants, and eventually the difficulty reached a point where AVR was unable to find any water rights available for purchase. AVR currently has approximately \$1.5 million of moneys advanced from applicants for main extensions for the purpose of acquiring water rights and for which AVR has not been able to find water rights available to purchase. Although water rights are not readily available for purchase, the Mojave Water Agency (MWA) has a program under which Replacement Water can be pre-purchased for future years, "banked" in the groundwater basin, and pumped in the future years. This MOU deals with the resolution of this situation.

2. Agreements and Understandings

A. AVR agrees to file an advice letter to modify its Main Extension Rule (Rule 15) to incorporate a Supplemental Water Acquisition Fee, to be charged to applicants for main extensions as a refundable advance, similar to AVR's existing Supply Facilities Fee adopted in Decision 05-12-020, in order to address issues of long-term availability and cost of water supply. The Supplemental Water Acquisition Fee requested by AVR will be set at \$3,000 per residential lot for Residential developments and for Commercial, Industrial or other types of developments, will be set at a rate of \$3,000 per equivalent

average residential water use based on the water use of a similar business or facility. The stated purpose of the Supplemental Water Acquisition Fee will be to fund AVR's pre-purchase of Replacement Water from MWA, or for AVR to acquire water rights should they become readily available. Pre-purchased Replacement Water purchased from MWA will be capitalized by AVR and amortized to expense over a 40-year period consistent with the life of the advance contract set forth in the Main Extension Rule. AVR proposes to file the advice letter within approximately 30 days from the date of this MOU.

B. The Parties agree to support AVR's advice letter filing described above. The Parties also agree that the fee described above is appropriate through December 31, 2008. Either Party may propose changes to the existence, amount, nature, or purpose of the fees in AVR's next GRC proceeding, or subsequent proceedings, to be effective January 1, 2009 or later. Either Party is free to oppose any such proposed changes.

C. The Parties agree that, until the above referenced Supplemental Water Acquisition Fee becomes effective, AVR will continue to collect from applicants for main extension, as a refundable advance, the current market cost, as best it can be determined, of one acre-foot of water rights per residential lot. The Parties agree that these moneys, along with all other moneys collected to purchase water rights for which AVR has not expended because of its inability to find water rights available to purchase, shall be used to pre-purchase Replacement Water from MWA or to purchase water rights from the Mojave Basin should any become readily available at the time.

D. As of this date, AVR has in its possession approximately \$1.5 million of unspent moneys which were collected from applicants for main extensions for the purchase of water rights. The Parties agree that the moneys collected by AVR so far and any additional collected through December 31, 2008, either for the purchase of water rights at then current market price or as Supplemental Water Acquisition Fees pursuant to the modification of AVR's Main Extension Rule once it becomes effective, will be considered by the Parties for all purposes to be the correct amounts, appropriately advanced, to have been collected from applicants for the acquisition of supplemental water. The parties agree that the amount of water rights and/or pre-purchased Replacement Water purchased by AVR with the moneys collected as described above through December 31, 2008 will be considered to be the correct amount to have been

acquired. The Parties agree that the amounts of moneys advanced and the amounts of water rights and/or pre-purchased Replacement Water purchased by AVR with the moneys collected as described above through December 31, 2008 will be used as the basis for setting rates to be effective from January 1, 2009 onward. The Parties agree that either party in the next general rate increase proceeding may propose a different manner of collection, on a prospective basis, from January 1, 2009 onward, and either party may propose some other rate-making treatment for moneys collected on or after January 1, 2009.

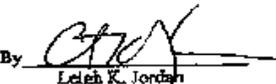
E. The Parties agree that the procedures described above with respect to the amounts of moneys advanced and the amounts of water rights and/or pre-purchased Replacement Water purchased by AVR with the moneys collected through December 31, 2008 will be reflected in AVR's next GRC along with any consequent and consistent impact on rate base and expenses. The Parties agree not to seek changes in AVR's rates to reflect the changed procedures described in this MOU that would be effective prior to January 1, 2009.

F. The Parties agree that no signatory to the MOU assumes personal liability as a result of this agreement. All rights and remedies of the Parties are limited to those available before the Commission.

DIVISION OF RATEPAYER
ADVOCATES

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Dated: October 18, 2006

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