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EXHIBIT A

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Apple Valley Ranchos Water Company (U 346 W) for Authority to Increase Rates Charged for Water Service by $3,896,586 or 20.0% in 2012, $547,241 or 2.35% in 2013, and $786,254 or 3.32% in 2014.	)	APPLICATION NO. 11-01-001 (Filed January 3, 2011)

Article I. SETTLEMENT AGREEMENT

1.00 General

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

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

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

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

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

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

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

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

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

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

2.00 Customers, Water Sales, and Operating Revenues

2.01 Uncontested Issues

2.01.1 – Customers:

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

	2012	2013	2014
Industrial	2	2	2
Public Authority	42	42	42
Irrigation – Public Authority	5	5	5
Irrigation – Gravity	1	1	1

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

2.01.2 – Water Sales (Ccf per customer):

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

	2012	2013	2014
Residential	233.2	233.2	233.2

2.02 Resolved Issues

2.02.1 – Customers:

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

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

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

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

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

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

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

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

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

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

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

The Parties agree to customer unit consumption estimates listed below:

	2012	2013	2014
Business	658	658	658
Industrial	706	706	706

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

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

2.02.3 – Present Rate Revenues:

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

2.02.4 – Miscellaneous Revenue at Proposed Rates:

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

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

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

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

2.02.5 – Unaccounted for Water (Domestic System):

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

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

2.02.6 – Unaccounted for Water (Irrigation System):

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

2.02.7 - Total Water Supply:

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

[6] AVR Report p. 111, DRA Report p. 15-11—15-12
[7] AVR Report p. 34, DRA Report p. 2-16—2-18, Jackson Rebuttal p. 1
[8] AVR Report p. 34-35, DRA Report p. 2-19, Jackson Rebuttal p. 2
[9] DRA Report p. 2-16—2-18

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

3.00 Operation and Maintenance Expenses

3.01 Uncontested Issues

3.01.1 Allocation Factors from Domestic System to Irrigation System:

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

[10]DRA Report p. 3-15

3.01.2 Uncollectible Expense

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

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

3.02 Resolved Issues

3.02.1 Expense Estimating Methodology

In general, AVR's expense estimates were based on a five-year average of recorded expenses (2006 – 2010) escalated to the Test Year. The 2010 data used by AVR were partially estimated because that was the most current data available to AVR at the time its application was prepared. AVR provided DRA with an update of the recorded 2010 data and an updated five-year average of recorded expense (2006 – 2010) from which DRA estimates are based. Parties agree to use the updated averages in the resolution of settlement items 3.02.5, 3.02.8, 3.02.9, and 3.02.11 where Parties agree to the use of a five-year average for estimating costs. DRA's five-year average calculation is erroneous because it does not correctly escalate the 2006-2010 recorded data. The Parties agree to use the correct, composite, cumulative escalation factors to inflate the recorded dollars to base year 2010 prior to averaging and this is reflected in the resolution of settlement items 3.02.5, 3.02.8, 3.02.9, 3.02.11, 3.02.12, 3.02.13, 4.01.8, 4.01.9, and 4.01.11. [12]

3.02.2 Billing Frequency – Monthly or Bi-Monthly:

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

[11] AVR Report p. 34, DRA Report p. 3-10
[12] AVR Report p. 41, Jackson Rebuttal p. 3

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

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

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

3.02.3 Escalation Factors – Labor:

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

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

3.02.4 Escalation Factors - Non-Labor:

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

[13] AVR Report p. 27-28, DRA Report p. 12-1—12-8
[14] AVR Report p. 29, DRA Report p. 3-3, Jackson Rebuttal p. 2-3

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

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

3.02.5 Operations-Other:

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

3.02.5(a) Operations-Other – Water Treatment:

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

3.02.5 (b) Operations-Other - SCADA:

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

3.02.5 (c) Operations-Other – Uniforms:

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

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[15] AVR Report p. 33, DRA Report p. 3-3, Jackson Rebuttal p. 2-3
[16] AVR Report p. 33-34, DRA Report p. 3-4, Jackson Rebuttal p. 3-4
[17] AVR Report p. 33-34, DRA Report p. 3-4, Jackson Rebuttal p. 3-4
[18] AVR Report p. 33-34, DRA Report p. 3-4, Jackson Rebuttal p. 3-4
[19] AVR Report p. 33-34, DRA Report p. 3-4, Jackson Rebuttal p. 3-4

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

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

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

The Parties used the same methodology and the same per acre-foot rates for the three components (Make-up Assessment, Administrative Assessment and the Biological Assessment) of the Replenishment Charges to calculate this expense. The Parties used the same methodology and the same per acre-foot rate to calculate the Leased Water Rights expense. The Parties agree to assume that the Leased Water Rights for the water production associated with the Apple Valley Country Club will be provided to AVR at no cost consistent with the tariff deviation agreement between AVR and the Town of Apple Valley (Section 2.02.2) as authorized by Commission Resolution W-4882 dated July 15, 2011. [20]

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

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

3.02.7 Purchased Power & Replenishment – AVR Irrigation System:

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

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

3.02.8 Chemicals Expenses:

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

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

3.02.9 Customer Accounts – Other (excluding Conservation):

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

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

3.02.10 Conservation:

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

[21] AVR Report p. 37, DRA Report p. 3-4—3-7
[22] AVR Report p. 33, DRA Report p. 3-8, Jackson Rebuttal p. 5-6
[23] AVR Report p. 33, DRA Report p. 3-8, Jackson Rebuttal p. 6

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

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

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

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

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

Test Year 2012 - $103,894
Esc. Year 2013 - $107,011
Esc. Year 2014 - $110,221

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

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

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

3.02.11 Maintenance – Other:

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

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

3.02.12 Clearings – Payroll:

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

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

3.02.13 Clearings – Other:

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

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

[25] AVR Report p. 33-34, DRA Report p. 3-9, Jackson Rebuttal p. 10
[26] AVR Report p. 29-33, DRA Report p. 3-9, Jackson Rebuttal p. 10
[27] AVR Report p. 33-34, DRA Report p. 3-101, Jackson Rebuttal p. 11

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

4.00 Administrative and General Expenses

4.01 Resolved Issues

4.01.1 Direct Charged Payroll to AVR

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

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

4.01.2 Employee Benefits – PBOP

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

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

4.01.3 Employee Benefits – 401(a) – AVR

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

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

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

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

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

4.01.4 Employee Net Benefits Adjustment (credit)

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

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

4.01.5 Insurance:

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

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

4.01.6 Regulatory Commission Expense:

DRA and AVR used the same methodology but different escalation factors to derive test year expense estimates, with DRA's escalation being a higher percentage than the percentage used by AVR. The Parties agree to use a revised estimate of $98,468 for Test Year 2012 which incorporates the settlement on escalation factors (Section 3.02.4). [33]

[31] AVR Report p. 42, DRA Report p. 4-12—4-13
[32] AVR Report p. 41, DRA Report p. 3-11
[33] AVR Report p. 43, DRA Report p. 3-12, Jackson Rebuttal p. 13

4.01.7 Franchise Requirements:

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

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

4.01.8 Outside Services:

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

4.01.9 A&G Other:

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

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

[34] AVR Report p. 43, DRA Report p. 3-12
[35] AVR Report p. 43, DRA Report p. 3-13
[36] AVR Report p. 41, DRA Report p. 3-13—3-14, Jackson Rebuttal p. 12-13

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

4.01.10 Administrative Expense Transferred:

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

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

4.01.11 A&G Rents:

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

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

4.01.12 General Office Allocation:

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

[37] DRA Report p. 3-4, Jackson Rebuttal p. 14
[38] AVR Report p. 41, DRA Report p. 3-14

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

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

5.00 Taxes Other Than Income Tax

5.01 Resolved Issues:

5.01.1 Ad Valorem Taxes:

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

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

5.01.2 Payroll Taxes:

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

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

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

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

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

6.00 Income Taxes

6.01 Resolved Issues

6.01.1 Tax Depreciation Deduction:

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

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

6.01.2 Qualified Production Deduction (Federal Income Tax Only):

The tax code and tax forms refer to this as the Domestic Production Activities Deduction ("QPD"). DRA's Report did not propose a different methodology for calculation of this tax deduction from that proposed by AVR. During settlement discussions the Parties determined that the spreadsheet used by both AVR and DRA contained a formula error which the parties agreed to correct. The issue of the availability of all or part of the QPD due to the impact of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 ("Tax Relief Act") raised in AVR's rebuttal is resolved between the Parties by Parties agreement not to incorporate the impact of the Tax Relief Act in this rate case but instead to track those impacts in AVR's 2010 Tax Act Memorandum Account established pursuant to Resolution L-411A. [43]

[41] AVR Report p. 51, DRA Report p. 5-2—5-3
[42] AVR Report p. 92, DRA Report p. 6-2—6-3
[43] AVR Report p. 93, DRA Report p. 6-3—6-4

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

6.01.3 All Other Income Tax Components:

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

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

7.00 Utility Plant in Service

7.01 Uncontested Issues

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

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

The Parties agree that there is no real property to report that is subject to the Water Infrastructure Improvement Act of 1996. [45]

7.02 Resolved Issues

7.02.1 Plant Additions:

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

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

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

[45] AVR Report p. 68

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

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

7.02.2 Capital Escalation Factor:

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

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

7.02.3 Mockingbird Booster Pump Station:

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

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

[46] AVR Report p. 54, DRA Report p. 7-1—7-4
[47] DRA Report p. 7-4, Dalton Rebuttal p. 13-17

in Test Year 2012 rather than 2011 and to reflect a balance of $320,000 in Construction Work in Progress as of December 31, 2011. [48]

7.02.4 Main Replacements:

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

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

7.02.5 Del Oro Main Extension:

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

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

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

The Parties agree that the project will be constructed in Test Year 2013, rather than Test Year 2012 as originally proposed by AVR at a cost equal to AVR's application amount of $179,000. [50]

7.02.6 AMR:

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

7.02.7 Well Site Improvements:

AVR requested a capital budget of $100,000 in 2011, $300,000 in 2012, and $200,000 in 2013. AVR's request for 2012 included $100,000 in specific site improvements for Well 18 including site grading and pedestal reconstruction. The Parties had no difference over the well site improvements for Well 18. AVR requested an increase in expenditures above average historical levels in order to initiate a proactive well maintenance program. The Parties agree to use revised plant additions of $73,500 in 2011, $224,600 in 2012, and $125,400 in 2013. [52]

7.02.8 Pump/Motor Replacements:

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

[50] AVR Report p. 58, DRA Report p. 7-5—7-9
[51] AVR Report p. 61, DRA Report p. 7-14.
[52] AVR Report p. 61-62, DRA Report p. 7-23.

well testing and maintenance. After review of rebuttal and discussion with witnesses, the

Parties agree to use revised plant additions of $173,987 in 2011, $180,084 in 2012, and $187,702 in 2013. [53]

7.02.9 SCADA(Supervisory Control and Data Acquisition):

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

The Parties agree to use revised plant additions of $255,350 in 2011, $190,850 in 2012, and $173,673 in 2013. [54]

7.02.10 Air/Vacuum Installation:

After review of AVR's rebuttal, The Parties agree to use AVR's application amounts of $40,800 in 2011, $42,195 in 2012, and $43,638 in 2013.[55]

7.02.11 Valves:

Based on review of recorded 2010 data, The Parties agree to use AVR's application amounts of $31,598 in 2011, $32,654 in 2012, and $33,767 in 2013. [56]

7.02.12 Hydrants:

Based on review of recorded 2010 data, The Parties agree to use AVR's application amounts of $37,463 in 2011, $38,745 in 2012, and $40,069 in 2013. [57]

7.02.13 Service Lines:

Based on review of recorded 2010 data, the Parties agree to use AVR's application amounts of $192,369 in 2011, $200,534 in 2012, and $206,441 in 2013. [58]

[53] AVR Report p. 61, DRA Report p. 7-24, Dalton Rebuttal p. 20-21
[54] AVR Report p. 63-64, DRA Report p. 7-26—7-28, Dalton Rebuttal p. 21
[55] AVR Report p. 60, DRA Report p. 7-28, Dalton Rebuttal p. 21-22
[56] AVR Report p. 59-60, DRA Report p. 7-30
[57] AVR Report p. 60, DRA Report p. 7-31

7.02.14 Vehicles:

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

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

7.02.15 Vactor Trailer:

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

7.02.16 Utility Plant- Irrigation System:

The Parties both estimated average utility plant balances for the Irrigation system (exclusive of the general plant allocated from the Domestic system) of $568,605 for 2012 and 2013. There is a difference, however, in total utility plant that is caused by differences in the general plant allocation from the Domestic system. The general plant allocation is determined by multiplying the general plant allocation factor by the general plant balance. The general plant allocation factor of 0.77% was used by both Parties. Differences in the Parties estimates of the allocated amounts of general plant are caused by the contested utility plant issues described in section 7.02.1. [61]

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

8.00 Depreciation Expense

8.01 Uncontested Issues

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[58] AVR Report 60-61, DRA Report p. 7-31
[59] AVR Report p. 64-65, DRA Report p. 7-20
[60] AVR Report p. 65, DRA Report p. 7-22.
[61] AVR Report p. 88, DRA Report p. 1-7

8.01.1 Depreciation Rates (Domestic System): [62]

DRA agreed with the depreciation rates proposed by AVR.

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

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

8.01.2 Depreciation Rates (Irrigation System): [63]

DRA agreed with the depreciation rates proposed by AVR.

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

8.02 Resolved Issues

8.02.1 Depreciation Expense and Reserve (Domestic System):

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

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

8.02.2 Depreciation Expense and Reserve (Irrigation System):

There are no methodological differences between DRA and AVR pertaining to AVR's Irrigation System. The difference in total depreciation expense is due to differences in the General Plant allocation from the Domestic System explained in section 7.02.01. [65]

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[63] AVR Report p. 79
[64] AVR Report p. 77-78, DRA Report p. 8-1—8-3
[65] AVR Report p. 83, DRA Report p. 1-7

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

9.00 Ratebase – Domestic System

9.01 Uncontested Issues

9.01.1 Construction Work in Progress:

Both Parties originally used amounts for Construction Work in Progress of $0 for both 2012 and 2013, respectively. The Parties agree to update the Construction Work in Progress consistent with the resolution of the Mockingbird Booster Pump Station project (See Section 7.02.3). The Parties agree to an average balance of $160,000 for 2012 and $0 for 2013. [66]

9.01.2 Other Rate Base Components:

Both Parties used the following estimates:

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

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

9.02 Resolved Issues

9.02.1 Material and Supplies:

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

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

[66] AVR Report p. 83, DRA Report p. 9-4
[67] AVR Report p. 86, DRA Report p. 9-4
[68] AVR Report p. 83, DRA Report p. 9-1—9-2

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

9.02.2 Working Cash:

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

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

9.02.3 Advances for Construction ("Advances"):

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

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

[69] AVR Report p. 83, DRA Report p. 9-2
[70] AVR Report p. 85, DRA Report p. 9-2

9.02.4 Contributions in Aid of Construction ("Contributions"):

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

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

9.02.5 Deferred Taxes:

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

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

9.02.6 Net-to-Gross Multiplier:

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

[71] AVR Report p. 85, DRA Report p. 9-4
[72] AVR Report p. 85-86, DRA Report p. 9-2—9-3

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

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

10.00 Ratebase – Irrigation System

10.02 Resolved Issues

10.01.1 Ratebase Components:

Both Parties used the following estimates: [74]

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

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

10.01.2 Working Cash:

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

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

10.01.3 Deferred Taxes:

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

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

[74] AVR Report p. 88

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

Domestic system. With the stipulation of the Domestic system utility plant issues, parties agree to use the estimate of $8,541,077 for Test Year 2012 but there remains a difference in the Parties' estimates for Test Year 2013. [76]

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

11.00 Rate Design

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

11.01 Uncontested Issues

11.01.1 Rate Design – Residential Customers:

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

11.01.2 Rate Design – Non-Residential Customers:

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

[76] AVR Report p. 85-86, DRA Report p. 9-2
[77] AVR Report 106-107, DRA Report 15-3—15-9

provide no apparent manner in which to divide these customers. The non-residential rate design also meets the criteria of CUWCC BMP 11. [78]

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

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

11.02 Resolved Issues

11.02.1 Other Rates and Fees (Revenues):

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

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

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

11.02.2 Customer Deposit:

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

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

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

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

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

11.02.3 Other Rates and Fees (Advances):

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

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

11.02.4 Other Rates and Fees (advances) Proposed:

Supply Facilities Fees

Service Size	Facilities Fee
⅝-inch	$ 900.00
¾-inch	$ 1,350.00
1-inch	$ 2,250.00
1 ½-inch	$ 4,500.00
2-inch	$ 7,200.00
3-inch	$ 13,500.00
4-inch	$ 22,500.00
6-inch	$ 45,000.00
8-inch	$ 72,000.00
10-inch	$103,500.00

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

Supplemental Water Acquisition Fees

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

12.00 Low-Income Assistance Program

12.01 Resolved Issues

AVR's low-income program is known as California Alternative Rates for Water ("CARW"). The Parties agree to DRA's recommendation to increase both the discount of $5.83 and surcharge of $0.49 by the overall percentage increase granted in this proceeding. The Parties agree that AVR should be authorized to file a Tier 1 advice letter to recover the under-collected balance recorded December 31, 2010. The Parties agree that AVR will include a low-income participation estimate in its next GRC pursuant to the requirements of Commission Decision 11-05-020. [82]

The Parties agree to increase the existing CARW discount and surcharge by the overall percentage increase granted in this proceeding. The Parties further agree that the CARW Balancing Account continues to be necessary to track the balance of collected surcharges and discounts. The Parties further agree that AVR be authorized to file a tier 1 advice letter to amortize the under-collected balance in the CARW Revenue Reallocation Balancing Account as of December 31, 2010. That balance is $104,215.[83]

13.00 Regulatory Accounts

13.01 Uncontested Issues

13.01.1 WRAM/MCBA

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

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

[82] AVR Report p. 12-13, DRA Report p. 15-14—15-15, Jackson Rebuttal p. 24-25
[83] See AVR Report workpaper 11-31rrB
[84] AVR Report p. 100-101, DRA Report p. 12-12—12-15

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

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

<u>13.01.2(a) Incremental Cost Balancing Account-Domestic System:</u>

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

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

<u>13.01.2(b) Incremental Cost Balancing Account-Irrigation System:</u>

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

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[85] DRA Report p. 15-10, footnote 271
[86] Id.
[87] AVR Report p. 100, DRA Report p. 12-8—12-10
[88] AVR Report p. 100, DRA Report p. 12-10—12-12

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

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

<u>13.01.3 Conservation Proceeding Memorandum Account</u>

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

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

<u>13.01.4 Conservation BMP Memorandum Account</u>

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

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

<u>13.01.5 Outside Services Memorandum Account</u>

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

[89] AVR Report p. 100, DRA Report p. 12-10—12-12
[90] AVR Report p. 102, DRA Report p. 12-16—12-17
[91] AVR Report p. 102, DRA Report p. 12-18—12-19
[92] AVR Report p. 102, DRA Report p. 12-19—12-21

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

13.02 Resolved Issues

13.02.1 Healthcare Memorandum Account

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

14.00 Water Quality

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

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

15.00 Step Rate Increases

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

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

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

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

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

16.00 Park Water Company ("Park") General Office ("General Office")

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

16.01 Uncontested Issues

16.01.1 Depreciation Rates: [96]

DRA agreed with the depreciation rates proposed by Park.

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

16.01.2 Expenses excluding Payroll, Benefits, and Outside Services:

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

[95] AVR Report p. 100, DRA Report p. 16-1—16-2
[96] GO Report p. 17
[97] GO Report p. 9-10, Jackson Rebuttal 15-19

16.02 Resolved Issues

16.02.1 Depreciation Expense and Reserve:

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

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

16.02.2 Ad Valorem Taxes:

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

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

16.02.3 Administrative Expense Transferred:

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

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

16.02.4 Allocation Factors:

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

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[98] GO Report p. 16, DRA Report p. 8-1—8-5
[99] GO Report p. 11, DRA Report p.
[100] Jackson Rebuttal p. 18-19.
[101] GO Report p. 3, DRA Report p. 11-9—11-10

16.02.5 Payroll:

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

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

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

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

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

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

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

16.02.6 Payroll Taxes:

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

16.02.7 Maintenance Other – General Plant Expense:

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

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

16.02.8 Employee Benefits – PBOP:

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

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

[103] GO Report p. 13, DRA Report p. 5-2—5-3
[104] GO Report p. 11-11—11-13, Jackson Rebuttal p. 20-22
[105] GO Report p. 9, DRA Report p. 4-18, Martinet Rebuttal p. 21-22

16.02.9 Employee Benefits – 401(a):

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

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

16.02.10 Utility Plant Additions:

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

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

16.02.11 Corporate Pool Vehicle:

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

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

16.02.12 Information Technology (IT) Capital Budget:

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

[106] DRA Report p. 4-20, Martinet Rebuttal p. 22
[107] GO Report p. 23, DRA Report 11-18—11-19, Young Rebuttal p. 11-12
[108] GO Report p. 22-23, DRA Report p. 11-17

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

16.02.13 Document Retention Project:

In recommending a reduction to the Document Retention project budget, DRA expressed concern that the project was not fully developed and that the cost estimate was not justified. After review of AVR's rebuttal and in recognition of regulatory and compliance requirements associated with information privacy and security, the Parties agree to the amounts requested by Park, $70,000 for Test Year 2012 and $100,000 for Test Year 2013. [110]

16.02.14 Customer Information System (CIS) Enhancements Project:

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

16.02.15 Affiliate Transactions:

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

[109] GO Report p. 23, DRA Report p. 11-18—11-19, Young Rebuttal p. 11-12
[110] GO Report p. 19-20, DRA Report p. 11-17—11-18, Young Rebuttal p. 8-9
[111] GO Report p. 18, DRA Report p. 11-18, Young Rebuttal p. 10-11

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

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

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

16.02.16 Carlyle Transaction:

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

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

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

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

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

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

<u>16.02.16(b) Board of Director Fees:</u>

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

<u>16.02.16(c) Outside Services:</u>

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

[114] DRA Report p. 11-3, Jackson Rebuttal p. 19
[115] AVR Report p. 10, DRA Report p. 11-9, Jackson Rebuttal p. 19

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

16.02.16(d) Future Identification of Wheeler Consulting Fees:

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

16.02.16(e) Acquisition Costs:

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

17.00 Requests to the Commission

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

[116] GO Report p. 9-10, DRA Report p. 11-8—11-9
[117] GO Report p. 11-8, Jackson Rebuttal p. 9
[118] DRA Report p. 11-14, Jordan Rebuttal p. 10

18.00 Requests as a Result of the Settlement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

19.00 Settlement

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

19.01 Settlement is Reasonable

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

19.02 The Settlement is Lawful

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

19.03 The Settlement Serves the Public Interest

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

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

19.04 The Settlement Conveys Sufficient Information

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

DIVISION OF RATEPAYER ADVOCATES

By________________________
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Acting Director

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Dated: September 15, 2011

APPLE VALLEY RANCHOS WATER COMPANY

By________________________
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Dated: September 15, 2011