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BEFORE THE PUBLIC UTILITIES COMMISSION ~~OF THE~~ STATE OF CALIFORNIA ~~10401002~~

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)
\$3,127,463 or 14.88% in 2015, \$2,056,455 or)
8.48% in 2016, and \$2,160,731 or 8.19% in 2017.)
_____)

APPLICATION NO. _____

APPLICATION OF

APPLE VALLEY RANCHOS WATER COMPANY (U 346 W)

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January 2, 2014

Apple Valley Ranchos Company (U 346 W) (AVR or Applicant), hereby files its application for a General Rate Increase. AVR, a California corporation, is a Class A Public Utility Water Company regulated by the Commission providing regulated water utility service in and near the Town of Apple Valley, California in San Bernardino County. AVR is a wholly-owned subsidiary of Park Water Company (“Park”), a California Corporation. A general description of AVR’s property and its field of operation, the original cost of its property and equipment, by class, and the cost thereof, to AVR and the depreciation and amortization reserves applicable to such property and equipment, by class, are contained in AVR’s Annual Reports to the Commission. A certified copy of the amended and restated Articles of Incorporation of AVR is attached to this application as Exhibit H.

Over the last few years, AVR has undertaken measures to reduce its overall cost of providing service to its customers by improving operational efficiencies as evidenced by the fact that this application proposes an increase in revenue requirement of only 2.03% for 2015 above the adopted revenue requirement for 2014. Some of the operational efficiencies achieved have been offset by the necessity for capital improvements and the replacement of aging infrastructure dedicated to providing water service. The majority of the increase in rates proposed by this application is due to the significant decrease in projected water sales as compared to the projected water sales assumed for current rates. The projected water sales assumed for current rates for 2014 was 6,536,540 Ccf as compared to the projected water sales proposed in this application for 2015 of 5,589,239 Ccf, a decrease of 14.49%. The rates proposed in this application are necessary to recover the costs of providing high quality water and reliable service on a sustained basis that is essential for the health, safety and well-being of the community we serve.

Test Period

The test period for the rate increase is Test Year 2015 with 2016 and 2017 selected as the Escalation Years. This is consistent with the rate case plan adopted by the Commission by D. 07-05-062.

SB 960 Scoping Memorandum

This application is a general rate increase proceeding and therefore is a “Rate Setting” proceeding. Evidentiary hearings will be necessary because of factual disputes that may arise on material issues such as water sales, operating revenue, operation and maintenance expenses,

utility plant, depreciation, taxes, and revenue requirements. A proposed schedule for completing the proceeding is contained in Appendix A.

Summary of the Requested Increase and Rate Base Changes

The requested revenue increase for AVR for 2015 above revenues generated by present rates is \$3,127,463 or 14.88%. At this time, AVR is only requesting specific rates for Test Year 2015. Pursuant to the escalation year increase methodology adopted by the Rate Case Plan, D.07-05-062 (Appendix A, page A-19), AVR will file advice letters setting out its calculations and supporting analysis for the escalation year rates 45 days prior to the first day of each escalation year. For the sole purpose of providing customer notification, AVR has estimated the impact of the escalation methodology for 2016 and 2017. The estimated revenue increase for 2016 is \$2,056,455 or 8.48% above the proposed revenue increase for Test Year 2015. The estimated revenue increase for 2017 is \$2,160,731 or 8.19% above the estimated revenue requirement for 2016. AVR estimates that the requested increase will produce a rate of return on equity of 9.79% and a return on AVR's estimated rate base for Test Year 2015 of 9.07%. The requested return on equity and return on rate base is the base year 2013 cost of capital adopted by the Commission for AVR by D.13-05-027 (A.12-05-001). The requested rate increase is necessary because the present rates are insufficient, unjust and unreasonable in that they do not produce adequate revenue to yield to AVR a fair, just and reasonable return on capital invested and to be invested in plant, property and other equipment devoted to providing utility service.

As required by D.07-05-062 (Appendix A, page A-22), the following table compares the proposed test year data to the last adopted test year (Test Year 2012) and last recorded year (2012) data.

Comparison Between Proposed Test Year and Last Test Year Adopted and Last Recorded Year			Proposed Test Year
	Last Test Year	Last Recorded Year	
Total Rev Requirement \$	22,798,000	22,094,200	23,931,850
Rate Base \$	40,624,600	41,390,300	58,294,059
Rate Base %			
Operating Expenses \$	18,972,700	17,153,300	18,647,107
Operating Expenses %			
Rate of Return	9.42	11.94	9.07

Results of Operation

At this time, the Applicant's exhibits consist of attachments entitled "Balance Sheet as of November 30, 2013," the "Income Statement for the twelve months ended September 30, 2013," and "Financial Statements as of September 30, 2013" (Exhibit A), "Apple Valley Ranchos Water Company - Revenue Requirements Report" (Exhibit B), "Apple Valley Ranchos Water Company – General Office Report" (Exhibit C), "Urban Water Management Plan Apple Valley Ranchos Water Company" (Exhibit D), "Qualifications and Prepared Testimony" (Exhibit E), "Testimony of David Morse" (Exhibit F), "Apple Valley Ranchos Water Company – Response to Minimum Data Requirements" (Exhibit G), Restated Articles of Incorporation (Exhibit H), and the Comparison Exhibit (Exhibit I). Exhibit I, the Comparison Exhibit, describes the differences between the proposed application and the application. The above exhibits describe the utility's overall results of operation. Exhibit D is the most recent Urban Water Management Plan filed with the California Department of Water Resources.

The above-referenced exhibits, and the accompanying workpapers, contain explanations of all significant changes from last adopted and recorded plant amounts and capital related costs, as well as an explanation of significant changes in circumstances or assumptions affecting the expenses and customer growth. A detailed reconciliation of significant changes between the proposed Test Year 2015 expenses and the last adopted and recorded expenses has not been prepared by AVR because it does not believe that this would provide any useful information.

Primary Cost Increases

The rates for AVR were last reviewed in Application 11-01-001, a general rate case filed January 3, 2011. That Application requested rates for 2012, 2013, and 2014, and resulted in D.12-09-004 dated September 13, 2012. The rates for AVR also reflect the cost of capital, last reviewed in Application 12-05-001 filed May 1, 2012. That Application requested cost of capital in rates for 2013, 2014, and 2015, and resulted in D.13-05-027 dated May 30, 2013. This GRC application proposes the rates required for Test Year 2015 including the cost of capital adopted by D.13-05-027. The proposed rates are increased over those presently in effect for the following reasons:

1. Low present rate revenues due to a decrease in estimates of consumption per customer compared to those adopted in the prior GRC.
2. Additional revenues to produce a fair rate of return on capital invested in property dedicated to providing utility service.
3. Increases in unit costs of production.
4. Inflationary increases anticipated during 2014 and the Test Year.

Detailed descriptions of the above items are contained in Exhibit B, the Revenue Requirements Report.

The lower sales forecasts, lower than adopted for 2012-2014, do not result in any increase in AVR's proposed revenue requirement; rather, they result in a decrease to estimates of production cost. They do, however, result in a significant decrease to the estimate of revenues at present rates and therefore contribute substantially to the amount of the requested rate increase necessary to produce the proposed revenue requirement. Although AVR is requesting a rate increase for 2015 of \$3,127,463, or 14.88% above the rates expected to be in effect in 2014, AVR's requested revenue requirement for 2015 is only \$481,262, or 2.03% above the estimated adopted revenue requirement for escalation year 2014.

List of Issues of Controversy

The contested issues decided by the Commission in the previous rate case included new employee positions, payroll (merit and bonus pay), employee benefits (medical and dental insurance, 401(k) expense, group pension expense, employee assistance/wellness program), group pension balancing account, and the new office building. In previous rate cases, the Commission has addressed issues relating to customers, water sales, operating revenue,

insurance, gravity irrigation rate design, rate base, and rate of return. AVR has no way of knowing in advance the positions that the Office of Ratepayer Advocates (ORA) will take in opposition to AVR's proposed Test Year 2015 revenue requirement. It has been AVR's experience that each rate case is unique with respect to the issues that are raised by ORA. AVR anticipates, however, that ORA may oppose AVR's proposed water sales estimates for residential customers, proposed capital projects, including the new office building, and proposed payroll budget. In addition, based on ORA positions in prior GRCs, AVR anticipates that ORA may take issue with AVR's requested treatment of balancing accounts and memorandum accounts (see Balancing Account and Memorandum Account below).

In prior proceedings, the historical period used for a five-year averaging methodology has been a contentious issue. In those proceedings, both AVR and ORA have used a five-year averaging methodology to estimate various categories of expense. AVR has used the same averaging period for all expenses that includes the last recorded year. ORA has sometimes used different averaging periods for different estimates that may or may not include the last recorded year.

In addition, there are some areas where AVR is proposing a difference in methodology that may create the potential for there to be controversy. These areas include:

Sales Forecasts

Although AVR performed and submitted the basic regression analysis procedure for the New Committee Method of sales forecasting, AVR based its consumption estimates for the residential customer group for Test Year 2015 on recorded consumption for 2012 with a continued decrease of 1 ½ percent per year as described in Exhibit B (Chapter III). Given actual sales levels over the last few years, AVR believes that the basic sales forecasts methodology does not provide reasonable results and therefore, consistent with the New Committee method, AVR has proposed an alternate methodology. As discussed below, AVR also proposes a Sales Reconciliation Mechanism to adjust the adopted consumption in each escalation year if certain conditions are met. The Sales Reconciliation Mechanism is described in the prepared testimony of Dave Morse. It is AVR's belief that this proposal will achieve the following: (1) improve the accuracy of the sales forecasts adopted in this proceeding; (2) reduce the potential for large balances in the Water Revenue Adjustment Mechanism (WRAM) balancing account and (3)

reduce the temporal inequity associated with customers who receive the surcharge (or surcredit) associated with the amortization of WRAM balances.

Working Cash Allowance, Revenue Lag

Traditionally AVR has calculated a revenue lag for use in the Lead-Lag Study, used to determine the Working Cash Allowance, which assumed that the full amount of the revenue in the revenue requirement would be billed and received in that year. AVR's recent experience, however, is that a significant portion of the revenue requirement is not billed or received in that year but is instead captured in the WRAM and billed and received much later in the form of surcharges. In this GRC, AVR has calculated a revenue lag which incorporates this assumption so as to more accurately reflect the actual cash flow associated with the revenues.

As stated above, AVR cannot determine at this time what position ORA will take in response to all of AVR's estimates in this application. It is therefore premature to attempt to quantify the dollar impact of the potential issues that will develop in this proceeding.

Basic Information

Testimony describing the basic information required by the rate case plan, D.07-05-062, is contained in Exhibits B, C, and G.

Regulated Plant In Service

Testimony, with supporting analysis and documentation, describing AVR's regulated plant in service is provided in Exhibits B (Chapter VI) and C (Chapter V). The workpapers identify and justify all capital additions and include analysis, evaluation and overall budget. A comparison of the forecasted capital additions adopted in the last GRC and actual capital additions is contained in the accompanying workpapers. The calculation of the forecasted capital additions by taking a five-year average of recorded plant additions and the explanation of significant changes from the last adopted and recorded regulated plant in service is contained in the accompanying workpapers.

Revenue Requirement: Operations and Maintenance, Administrative and General, General Office

Testimony, with supporting analysis and documentation, describing AVR's revenue requirement related to Operations and Maintenance expense, Administrative and General expense, and General Office expense is contained in Exhibits B (Chapter IV), C (Chapter III), and G, respectively.

Revenue Requirement: Water Sales and Production

Testimony, with supporting analysis and documentation, describing AVR's water sales and production is contained in Exhibits B (Chapter III) and G.

Rate Base

Testimony, with supporting analysis and documentation, describing AVR's rate base is contained in Exhibits B (Chapter VIII), C (Chapter V), and G.

Supply and Distribution Infrastructure Status and Planning

Testimony, with supporting analysis and documentation, describing AVR's supply and distribution infrastructure status and planning is contained in Exhibits B (Chapter II), E and F.

Conservation and Efficiency

Testimony, with supporting analysis and documentation, describing AVR's conservation and efficiency measures is contained in Exhibits B (Chapter II) and G.

Water Quality

Testimony, with supporting analysis and documentation, describing AVR's water quality is contained in Exhibits B (Chapter X) and G. AVR requests a Commission finding that the water service provided meets or exceeds State and Federal drinking water standards and meets the requirements of General Order 103A.

Service Quality

Testimony describing AVR's service quality is contained in Exhibit B (Chapter II).

Transactions with Corporate Affiliates

Testimony describing AVR's transactions with corporate affiliates is contained in Exhibit C (Chapter 1).

Unregulated Transactions

AVR has two contracts that are subject to the Excess Capacity Decision, D.00-07-018, both of which are third party contracts with HomeServe, a provider of service line emergency repairs insurance. One contract is for use of AVR's marks in HomeServe's marketing communications, designated as a passive activity, and the other is for billing HomeServe's service to participants in HomeServe's program who are AVR's customers, designated as an active activity. Pursuant to D.00-07-018, which requires that certain benefits flow through to ratepayers, AVR has credited its revenue requirement with 30% and 10%, respectively, of the

revenue generated by these contracts. AVR believes that this procedure is consistent with the Commission's Non-Tariffed Products & Services Rules in D.10-10-019 (Appendix A, Rule X).

Real Property Subject to Water Infrastructure Improvement Act of 1996

Since the last GRC application, there has been no real property that has been determined to be no longer necessary or useful. There is no real property to report that is subject to the Water Infrastructure Improvement Act of 1996.

Rate Design

AVR requests Commission authorization to continue its existing conservation rate design to promote water conservation. For residential customers, the proposed conservation rate design consists of increasing block rates of three tiers. AVR requests that the Commission consider a minor adjustment to the residential rate design for the redistribution of the tier breakpoint. Due to the different characteristics of its non-residential customers, AVR recommends retaining the single quantity conservation rate for non-residential customers (which meet the requirements of California Urban Water Conservation Council Best Management Practice Number 1.4). Appropriate increasing block rate design for non-residential classes, which encourages conservation but is not punitive to the business, industrial, and public authority customer classes is not feasible. AVR proposes to continue the implementation of other measures to promote conservation to non-residential customers.

AVR provides irrigation water through a gravity irrigation water system that is separate from its domestic water system. In the prior rate case, the Commission established rates for the gravity irrigation system that were based on a cost of service study prepared by AVR. AVR has prepared and proposes a new cost of service study for its gravity irrigation system.

Testimony, with supporting analysis and documentation, describing AVR's proposed rate design is contained in Exhibit B (Chapter XII).

Low-Income Assistance Program

In D.05-12-020, the Commission authorized the establishment of a low-income ratepayer assistance program, known as California Alternative Rates for Water (CARW). AVR proposes to continue the existing CARW program. The CARW program authorized for AVR consists of a \$6.69 per month service charge discount for qualifying customers who meet the income eligibility requirements established annually by the Commission. AVR proposes to increase the current monthly service charge discount by the average percentage increase to rates authorized in this proceeding. In addition, due to the increase in the number of qualifying customers resulting from the data sharing program, AVR proposes to increase the existing surcharge of \$0.55 per month to \$2.81 per month. The surcharge offsets the proposed increase in CARW discounts provided to qualifying customers and the CARW program costs.

Testimony, with supporting analysis and documentation, describing AVR's proposed low-income assistance program is contained in Exhibit B (Chapter II).

Balancing Accounts

Pursuant to the conservation objectives contained in the Water Action Plan (WAP), AVR requests Commission authorization to continue its existing Water Revenue Adjustment Mechanism (WRAM)/Modified Cost Balancing Account (MCBA), with some minor modifications explained below. The WRAM/MCBA is the decoupling mechanisms authorized by the Commission in D.08-09-026 and continued by the Commission in D.12-09-004. The mechanisms are essentially identical to the mechanisms agreed to by Park and ORA in their June 15, 2007 settlement agreement filed in the Conservation OII (I.07-01-022) for Park's Central Basin Division, authorized by the Commission in D.08-02-036 dated February 28, 2008, and continued by the Commission in D.09-12-001.

The purpose of the WRAM is to remove the financial disincentives to water conservation by decoupling water sales from revenues. As referenced in the WAP, the Commission's ratemaking mechanisms have traditionally included financial disincentives for water conservation programs. AVR's WRAM tracks the full difference between actual and adopted commodity rate revenue, in conjunction with the proposed modified (production) cost balancing accounts (MCBA) as discussed below. Further testimony on the WRAM as required by D.12-04-048 is contained in the prepared testimony of Dave Morse. Additionally, AVR proposes to add

the commodity revenues for the gravity irrigation customer group to the WRAM balancing account.

AVR's conservation rate design program includes a MCBA and AVR proposes to continue its MCBA that captures variations in production costs (purchased power, pumping or replenishment assessments, and leased water rights) due to either changes in unit price or changes in consumption. The MCBA serves to refund production cost savings due to conservation back to ratepayers.

AVR's gravity irrigation system is not covered by AVR's WRAM/MCBA and still has an Incremental Cost Balancing Account. AVR requests that the Commission review the under-collection of production costs recorded in the reserve account for the gravity irrigation system. AVR requests Commission approval of a temporary surcharge to recover the under-collected balance.

AVR requests that the Commission review its California Alternative Rates for Water Revenue Reallocation Balancing Account for approval and disposition. AVR requests Commission authorization to continue this account to track the difference between the recorded discounts provided by the CARW program and the surcharge collected to fund the CARW program.

AVR requests that the Commission review the Pension Expense Balancing Account for approval and disposition. AVR requests Commission authorization to continue this account because of the magnitude of the expense, the volatility of the expense, and the fact that it is outside of AVR's control.

AVR requests that the Commission review the Employee and Retiree Health Care Balancing Account for approval and disposition. AVR requests Commission authorization to continue this account because of the magnitude of the expense, the volatility of the expense and the fact that it is outside of AVR's control.

AVR requests that the Commission review the Office Remodel Balancing Account for disposition.

Testimony, with supporting analysis and documentation, on AVR's balancing accounts is provided in Exhibit B (Chapter XI).

Memorandum Accounts

AVR requests that the Commission review the Conservation Best Management Practices Memorandum Account for approval and recovery. D.08-09-026 authorized AVR to record, for future recovery, the conservation program expenses that are consistent with the Best Management Practices contained in the Memorandum of Understanding adopted by the California Urban Water Conservation Council from January 1, 2009 through December 31, 2011. In the previous AVR rate case (D.12-09-004), the Commission authorized the recovery of the balance recorded in the account from January 1, 2009 through December 31, 2010. In this proceeding, AVR is requesting authorization to amortize the balance recorded in the account from January 1, 2011 through December 31, 2011.

AVR requests that the Commission review the Outsides Services Memorandum Account for approval and recovery. D.08-09-026 authorized AVR to record, for future recovery, the outside service expenses associated with a Mojave Water Agency Program through December 31, 2014. In the previous AVR rate case (D.12-09-004), the Commission authorized the recovery of the balance recorded in the account from January 1, 2009 through December 31, 2010. In this proceeding, AVR is requesting authorization to amortize the balance recorded in the account from January 1, 2011 through December 31, 2011.

AVR requests that the Commission authorize a new memorandum account for the potential treatment requirements of its wells for the new regulations associated with hexavalent chromium (chrome-6). AVR anticipates that the California Department of Public Health will finalize and promulgate the maximum contaminant level for chrome-6 during the rate case cycle.

AVR requests that the Commission authorize a new memorandum account that covers the unknown costs associated with a solar project. AVR plans to investigate the possibility of installing a solar photovoltaic generation system at its office site.

AVR requests that the Commission review the Credit Card Memorandum Account for approval and disposition. Resolution W-4935 authorized AVR to track the costs and savings associated with providing credit/debit card payment services. AVR requests that Credit Card Memorandum Account be closed after disposition.

AVR requests that the Commission review the 2010 Tax Act (Bonus Depreciation) Memorandum Account for approval and disposition. Resolution L-411A authorized AVR to record the revenue requirement associated with the impacts of the Tax Relief, Unemployment

Insurance Reauthorization, and Job Creation Act of 2010, not otherwise reflected in rates. AVR requests that the account be closed after disposition.

AVR requests Commission authorization to close the Pressure Reducing Valve Memorandum Account because it has not recorded any costs in the account since its inception. AVR has determined that its unique water system operations are not compatible with Pressure Reducing Valve technology.

Testimony, with supporting analysis and documentation, on AVR's memorandum accounts is provided in Exhibit B (Chapter XI).

Cost of Capital

Pursuant to D.07-05-062, AVR is scheduled to file a cost of capital application on May 1, 2015. Accordingly, AVR has not included in this Application testimony regarding its cost of capital. For purposes of determining the revenue requirement, AVR has used the cost of capital authorized by the Commission for current rates. On May 30, 2013 the Commission issued D.10-10-035 authorizing the cost of capital, capital structure, cost of long-term debt, and return on equity for AVR for the period 2013-2015. The cost of capital used for determining the revenue requirement in this Application is the capital structure and rate of return authorized in D.10-10-035.

Special Requests

AVR requests Commission authorization to implement a tariff charge for fire-flow tests. AVR also requests Commission authorization to implement a tariff charge for restoration of service during both working hours and after hours and the implementation of a tariff charge for voluntary disconnection after hours (not applicable to emergency situations such as the flooding of a house or leaks between the meter and house valve). AVR believes that only those customers who request these services benefit from them and therefore should be responsible for the cost of the services provided. AVR's proposed fees reflect its actual cost of providing the service.

AVR proposes to offer a Level Payment Plan option to customers. This option would allow customers to pay for water service in equal bi-monthly payments based on their last 12 months average bill, or a representative bill if their consumption history is shorter than that. At the end of a 12-month period, customers will receive a settlement bill with a payment due or a credit balance.

AVR proposes to change the interest on customer deposits in Rule No. 7 from 7 percent per annum to the average monthly 90-day commercial paper rate per month. In D.13-09-005, the Commission authorized similar treatment for Park.

AVR proposes that the Commission recognize any subsequent offsets prior to the issuance of a final decision in this GRC. A final decision in this proceeding should reflect the change in revenue requirement caused by any expense offset advice letters. Offsettable expense price changes are not forecast in a general rate case. AVR's proposal would alleviate any potential customer confusion from repeated customer notices and additional workload for Commission staff and AVR that would be caused by AVR having to repeat advice letter filings to implement the expense offset increases.

AVR proposes that the Commission authorize a Sales Reconciliation Mechanism ("SRM") for the escalation years of the rate case cycle. The mechanism would adjust the adopted sales forecast for escalation years in the event that recorded sales for the previous year are more than 5% different (higher or lower) than the adopted year sales. The mechanism would make a 50% adjustment to the entire adopted sales forecast for the escalation year. The SRM would minimize any over- or under-collections of revenue tracked in the WRAM/MCBAs. By resetting rates if forecasted and actual sales diverge significantly, this approach better effectuates the goals enumerated in the Water Action Plan of providing clearer conservation rate signals to customers and by more definitely decoupling sales and revenues.

Filings

An original signed copy and four copies of the proposed Application and supporting testimony, as well as one full paper copy set of workpapers, have been served on ORA. In addition, one copy of the Application and supporting testimony has been provided to the Commission's Legal Division and the Division of Water and Audits.

Proposed Schedule

A proposed Schedule is attached hereto as Appendix A. This timetable corresponds to that set forth for single district filings in the RCP.

Proposed Notice to Customers

A Proposed Notice to Customers is attached hereto as Appendix B. The proposed notice to customers describes the reasons for the requested increase and estimates average bill increase

for a typical customer by customer class. The proposed notice has been submitted for review to the Commission's Public Advisor office.

Conclusion

Inquiries for clarification or additional data should be addressed to:

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with a copy to

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And an additional copy to

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Dated at Downey, California, January 2, 2014.

Respectfully submitted,

APPLE VALLEY RANCHOS WATER COMPANY

By: /s/ Leigh K. Jordan

LEIGH K. JORDAN
Executive Vice President

APPENDIX A

APPLE VALLEY RANCHOS WATER COMPANY

Rate Case Processing Plan (RCPP) Timetable
Test Year 2015

Formal RCPP Activities:

1.	Proposed Application Tendered	-60	November 1, 2013
2.	Deficiency Letter Mailed	-30	December 2, 2013 ¹
3.	Appeal to Executive Director	-25	December 5, 2010
4.	Executive Director Acts	-20	December 10, 2010
5.	Application Filed	0	January 2, 2014
6.	PHC & PPH, if any, Held	10 – 90	January 10-March 31, 2014
7.	Update	45	February 14, 2014
8.	ORA & Intervener(s) Distribute Reports	97	April 7, 2014
9.	Utility Distributes Rebuttal to ORA and Intervener Reports	112	April 22, 2014
10.	Formal Settlement Negotiations	115-125	April 25-May 5, 2014
11.	Hearings	126 – 130	May 5-9, 2014 ¹
12.	Initial Briefs Filed and Served	160	June 9, 2014
13.	Reply Briefs Filed and Served ²	175	June 24, 2014
14.	ALJ Memo to Water Office	170	June 19, 2014
15.	Water Office provides Tables	228	August 18, 2014 ¹
16.	ALJ's Proposed Decision Mailed	240	August 28, 2014
17.	Comments on Proposed Decision	260	September 17, 2014
18.	Reply Comments	265	September 22, 2014
19.	Commission Meeting	280	October 7, 2014

¹ Adjusted not to fall on weekend or holiday

² The detailed and complete joint comparison exhibit showing all parties' final positions shall also be filed at this time.

APPENDIX B

APPLE VALLEY RANCHOS WATER COMPANY NOTICE OF APPLICATION FOR A GENERAL RATE INCREASE APPLICATION NO. 14-01-001

REQUEST FOR PUBLIC COMMENTS

Dear Valued Customer,

The California Public Utilities Commission (CPUC) is seeking public comments from Apple Valley Ranchos Water Company's (AVR) customers in the Apple Valley service area regarding the proposed general rate increase application filing by AVR. AVR's service area serves approximately 19,500 customers in and near the Town of Apple Valley. The application filing requests an increase in rates for service in 2015, 2016, and 2017. As part of its decision making process, the CPUC is interested in your comments on any aspect of the company's operation including the proposed rates, service quality issues, or any other aspect of concern.

On January 2, 2014, AVR filed Application 14-01-001 with the CPUC requesting the following increase over the projected revenues for 2015 at present (2014) rates: \$3,127,463 or 14.88% in 2015, an additional increase of \$2,056,455 or 8.48% in 2016, and an additional increase of \$2,160,731 or 8.19% in 2017. AVR's requested total revenues for 2015 is only 2.03% above its CPUC authorized revenues for 2014. The majority of the proposed increase for 2015 above revenues generated by present rates is necessary because current rates, when applied to the lower projected sales for 2015, generate revenues that fall well short of the authorized 2014 revenues.

Projected water sales for 2015-2017 are significantly below the projected water sales used to develop the rates presently in effect for 2014. As a consequence the percentage increase in rates necessary to generate the requested 2015 revenues is significantly higher than the requested percentage revenue increase for 2015 above the authorized 2014 revenues. For example, the average annual residential water usage assumed in 2014 for current rates was 233 Ccf per year as compared to the projected average annual residential water usage for 2015 of 199 Ccf per year, a decrease of 14.59%. The average residential bill comparison shown below for years 2015-2017 is based on the projected annual consumption of 199 Ccf per year.

The revenue increases are necessary to recover operating costs and cost of capital on AVR's investments dedicated to providing water service to its customers. AVR continues to promote customers' conservation efforts as a necessary measure for water supply reliability, however AVR must continue to pay the reasonable fixed costs of operating the water system regardless of the amount of water sales. The requested increases would allow AVR to meet its goals to ensure a safe and reliable source of supply, improve infrastructure, and to promote the efficient use of water. The following table shows the increase in estimated revenues at rates proposed in this Application above the revenues that would be generated by present rates (2016 and 2017 increases are above 2015 and 2016 proposed rate revenues, respectively):

Customer Class	Increase in Test Year (Dollars in Thousands)					
	2015 Increase		2016 Increase		2017 Increase	
Residential	\$2,250.5	15.18%	8.93%	8.59%		
Business	\$463.0	13.62%	7.92%	7.60%		
Industrial	\$0.7	14.04%	7.92%	7.60%		
Public Authority	\$158.9	16.28%	7.91%	7.59%		
Private Fire Service	\$52.1	14.92%	8.98%	8.66%		
Public Authority Irrigation	\$4.4	12.41%	7.93%	7.61%		
Irrigation Pressure	\$162.6	15.94%	7.92%	7.59%		
Irrigation Gravity	\$22.5	11.45%	0.44%	1.12%		
Temporary Construction	\$5.7	9.81%	7.94%	7.62%		
Apple Valley Golf Course	\$20.6	18.40%	7.91%	7.58%		
Total Water Revenues	\$3,140.9	14.97%	8.58%	8.26%		

If the CPUC approves this application, an average **residential** customer with a 5/8" by 3/4" meter who consumes an average water usage of 33.18 hundred cubic feet (Ccf) every two months (as projected in this application) would see an increase in their bi-monthly (every 2 months) water bill. The rate comparisons below do not include any applicable surcharges.

Year	<u>Present</u> (every 2 months)	<u>2015</u> (every 2 months)	<u>2016</u> (every 2 months)	<u>2017</u> (every 2 months)
Amount of Bill	\$130.15	\$148.10	\$159.84	\$171.97
Amount of Increase		\$ 17.95	\$ 11.74	\$ 12.13
Percentage Increase		13.79%	7.93%	7.59%

The application is proposing the continuation of a three tiered rate structure that is applicable only to single family residential customers. The application proposes that the price differential between the tiers (quantity charge) be increased from 10% to 12%. Additionally the application proposes that the monthly Tier 1 allocation be reduced from 13 Ccf to 12 Ccf based on incorporation of more recent data in the tier allocation formula.

The following table shows AVR's proposed conservation tiered rate allocation structure for 2015 for a residential customer:

	Monthly Allocation	Quantity Charge (per Ccf)
Tier I	First 12 Ccf (24 Ccf bi-monthly)	\$ 2.921
Tier II	Over 12 to 21 Ccf (24 to 42 Ccf bi-monthly)	\$ 3.382
Tier III	Over 21 Ccf (42 Ccf bi-monthly)	\$ 3.843

FOR FURTHER INFORMATION REGARDING THIS APPLICATION FILING

Further information regarding the proposed General Rate Case Application and related exhibits are available and may be inspected at the Apple Valley Ranchos Water Company Office, 21760 Ottawa Road, Apple Valley, CA 92307. Copies are also available to review at the CPUC's Central Files Office daily from the hours of 8:00 a.m. to noon p.m. in San Francisco at 505 Van Ness Avenue, San Francisco, California 94102.

EVIDENTIARY HEARINGS

The CPUC may schedule formal Evidentiary Hearings (EHs) whereby the formal parties of record provide testimony and are subject to cross examination before the CPUC's Administrative Law Judge (ALJ). These hearings are open to the public, but only those who are formal parties of record can participate. The CPUC has their own court reporters who will take the comments of those formal parties of record participating in the evidentiary hearings. AVR will provide testimony at the hearings. The Office of Ratepayer Advocates (ORA) consists of engineers, accountants, economists, and attorneys who independently evaluate the proposals of utilities for rate changes and present their analyses and recommendations for the CPUC at evidentiary hearings. Once hearings are completed, the ALJ will consider all of the evidence presented and release the draft decision. The CPUC may approve the proposed requests for AVR, approve the draft decision by the ALJ, or may approve an alternate decision filed by a CPUC Commissioner. The final decision may differ from AVR's original proposed request.

PROTESTING THE APPLICATION

Formal protests to this application must be filed with the CPUC's Docket Office. As an AVR customer, if you would like to file an informal comment or protest this filing you may send your comments to the CPUC's Public Advisor Office (PAO). The PAO was established to assist members of the public who wish to protest or participate as a formal party of record in CPUC proceedings. For assistance in filing a protest with the CPUC or to participate in this proceeding, please contact the PAO, 320 West Fourth Street, Suite 500, Los Angeles, CA 90013 or E-mail public.advisor.la@cpuc.ca.gov. Please refer to Application (A.14-01-001) in all written correspondences or emails.

PUBLIC COMMENT

If you wish to comment on or informally protest this filing as a customer of AVR, you may do so by contacting the PAO via phone or e-mail. Written public comment by AVR customers is very much desired by the CPUC and may be sent to the PAO at the address shown above. These comments will become part of the formal correspondence file for this proceeding and will be circulated to the assigned ALJ, the assigned Commissioner, and appropriate CPUC staff.

Apple Valley Ranchos Water Company

**FOR A SPANISH VERSION OF THIS BILL INSERT YOU MAY CALL THE
FOLLOWING NUMBER: 1-800-727-5987; OR E-MAIL:
www.customerservice@parkwater.com, OR VISIT OUR WEBSITE AT
www.parkwater.com**

**PARA UNA VERSION EN ENSPANOL DE ESTE AVISO USTED PUEDE LLAMAR EL
NÚMERO SIGUIENTE: 1-800-727-5987, O CORREO ELECTRONICO:
customerservice@parkwater.com , O VISITA NUESTRO SITIO WEB EN
www.parkwater.com**

**NOTICE OF APPLICATION TO REVIEW THE LEVEL OF COST
FOR PARK WATER COMPANY'S GENERAL OFFICE OPERATIONS**

Application Number 14-01-011

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
NOTICE IS HEREBY GIVEN:**

That Apple Valley Ranchos Water Company, a public utility and wholly owned subsidiary of Park Water Company, whose mailing address is 21760 Ottawa Road, P. O. Box 7005, Apple Valley, California 92307, on January 2, 2014, filed an application with the Public Utilities Commission of the State of California to review the level of cost for Park Water Company's General Office operations. In this application, Apple Valley Ranchos Water Company is seeking Commission approval of the overall revenue requirement for Park Water Company's general office operation in accordance with Commission approved methodology.

There will be no immediate change in the rates for Park Water Company's Central Basin Division that includes portions of Norwalk, Bellflower, Artesia, Santa Fe Springs, Lynwood, unincorporated Compton, and southeast Los Angeles, as a result of this application. The share of the annual revenue requirement allocated to Park Water Company by the Commission in this application will be incorporated into a future general rate case for the Central Basin Division.

The Application and related exhibits may be inspected at the Applicants' Apple Valley Office, or at the offices of its parent company, Park Water Company, located at 9750 Washburn Road, Downey, California 90241. The application may also be inspected at the offices of the Public Utilities Commission of the State of California at the State Building, 505 Van Ness Avenue, San Francisco, California 94102. Comments on the application or inquiries relative to participating in the formal hearings, including requests to receive notice of the date, time, and place of any hearing on the application should be addressed to the Public Advisor's Office of the Public Utilities Commission, 320 West Fourth Street, Suite 500, Los Angeles, CA 90013 or E-mail public.advisor.la@cpuc.ca.gov. Customers are requested to refer to Apple Valley Ranchos Water Company's Application No. 14-01-0XX in any such communications.

A copy of said Application and related Exhibits will be furnished by applicants upon written request to Edward N. Jackson, Park Water Company, 9750 Washburn Road, P. O. Box 7002, Downey, California 90241-7002.

**FOR A SPANISH VERSION OF THIS BILL INSERT YOU MAY CALL THE
FOLLOWING NUMBER: 1-800-727-5987; OR E-MAIL:
www.customerservice@parkwater.com, OR VISIT OUR WEBSITE AT
www.parkwater.com**

**PARA UNA VERSIÓN EN ESPAÑOL DE ESTE AVISO USTED PUEDE LLAMAR AL
NÚMERO SIGUIENTE: 1-800-727-5987, O CORREO ELECTRÓNICO:
customerservice@parkwater.com, O VISITAR NUESTRO SITIO WEB EN
www.parkwater.com**

**AVISO DE LA SOLICITUD PARA REVISAR EL NIVEL DEL COSTO DE LAS
OPERACIONES DE LA OFICINA GENERAL DE PARK WATER COMPANY**

Número de Solicitud 14-01-001

**ANTE LA COMISIÓN DE SERVICIOS PÚBLICOS DEL ESTADO DE CALIFORNIA
POR LA PRESENTE SE DA EL SIGUIENTE AVISO:**

La compañía de agua Apple Valley Ranchos, una compañía de servicios públicos y filial de entera propiedad de Park Water Company, cuya dirección postal es 21760 Ottawa Road, P. O. Box 7005, Apple Valley, California 92307, el 2 de enero, 2014, presentó una solicitud a la Public Utilities Commission del estado de California para revisar el nivel del costo para las operaciones de la Oficina General de Park Water Company. En esta solicitud, la compañía de agua Apple Valley Ranchos trata de obtener la aprobación de la Comisión del requisito de ingresos totales para las operaciones generales de la oficina de Park Water Company, de acuerdo con la metodología aprobada de la Comisión. No habrá ningún cambio inmediato en las tarifas para la Central Basin Division (División de la Cuenca Central) de Park Water Company que incluye partes de Bellflower, Artesia, Santa Fe Springs, Lynwood, Compton no incorporada y el sudeste de Los Angeles, como resultado de esta solicitud. La porción del requisito de ingresos anuales asignada a Park Water Company por la Comisión en esta solicitud será incorporada en un caso futuro de la tarifa general para la Central Basin Division.

Se puede examinar la solicitud y los anexos relacionados en la oficina de Apple Valley del solicitante o en las oficinas de la compañía matriz, Park Water Company, que se encuentra en 9750 Washburn Road, Downey, California 90241. También se puede examinar la solicitud en las oficinas de la Public Utilities Commission del estado de California en el State Building, 505 Van Ness Avenue, San Francisco, California 94102. Los comentarios acerca de la solicitud o las preguntas relativas a la participación en audiencias formales, incluyendo peticiones de recibir aviso de la fecha, hora y lugar de cualquier audiencia sobre la solicitud, deben ser dirigidos a la oficina del Public Advisor de la Public Utilities Commission, 320 West Fourth Street, Suite 500, Los Angeles, CA 90013 o por E-mail a public.advisor.la@cpuc.ca.gov. Se pide a los clientes que hagan referencia a la solicitud de la compañía de agua Apple Valley Ranchos No. 14-01-0XX en estas comunicaciones.

Los solicitantes proporcionarán una copia de dicha solicitud y los anexos relacionados cuando se envíe una petición por escrito a Edward N. Jackson, Park Water Company, 9750 Washburn Road, P. O. Box 7002, Downey, California 90241-7002.

APPLE VALLEY RANCHOS WATER COMPANY
Balance Sheet as of November 30, 2013
Unaudited

Exhibit A
page 1 of 6

Assets and Other Debits

Utility Plant

Utility Plant in Service	\$ 114,737,736
Construction in Progress	<u>1,562,015</u>

Total Utility Plant	116,299,751
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Reserve for Depreciation of Utility Plant	(30,848,652)
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Utility Plant Acquisition Adjustment	12,150
Accumulated Provision Amortization of Utility Plant	<u>(153,792)</u>

Total Utility Plant Less Reserve	85,309,457
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Current and Accrued Assets

Receivables	1,146,506
Inventory	370,632
Prepaid	97,601
Regulatory Accounts-Short Term	3,110,747
Deferred Debits	296,453
Other Work in Progress	83,174
Nonutility Property	<u>212,808</u>

Total Current and Accrued Assets	5,317,921
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Deferred Debits

Other Deferred Debits	146,866
Investment-Associate Company	4,445,730
Regulatory Accounts-Long Term	<u>9,926,494</u>

Total Assets and Other Debits	<u>\$ 105,146,468</u>
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APPLE VALLEY RANCHOS WATER COMPANY
Balance Sheet as of November 30, 2013
Unaudited

Exhibit A
Page 2 of 6

Liabilities and Other Credits	
Capital Stock and Surplus	
Common Stock	\$ 3,750
Miscellaneous Paid In Capital	5,862,976
Earned Surplus	
Beginning of the Year	43,106,965
Adjustment to Retained Earnings	0
Current Year Net Income(Loss)	<u>3,983,309</u>
Total Capital Stock and Surplus	\$ 52,957,000
Long Term Debt	
Advances from Associated Companies	0
Total Capitalization	\$ 52,957,000
Current and Accrued Liabilities	
Accounts Payable	468,572
Accrued Payroll	117,839
Payroll Taxes	7,851
Benefit & Payroll Deduction	342,751
Other Current and Accrued Liabilities	<u>4,677,524</u>
Total Current and Accrued Liabilities	5,614,537
Deferred Credits	
Advances for Construction	28,050,900
Other Deferred Credits	<u>16,290,989</u>
Total Deferred Credits	44,341,889
Contributions in Aid of Construction	
Contributions in Aid of Construction	2,233,042
Total Liabilities and Other Credits	\$ <u>105,146,468</u>

APPLE VALLEY RANCHOS WATER COMPANY
Income Statement as of November 30, 2013
Unaudited

Exhibit A
Page 3 of 6

Operating Revenues	
Water Service Revenue	
Metered Sales to General Customers:	
Residential	\$ 16,510,118
Commercial Sales	3,046,405
Sales to Public Authorities	886,718
Subtotal	<u>20,443,241</u>
Unmetered Sales to General Customers	
Residential Sales	0
Private Fire Protection Service	261,582
Sales for Resale	0
Regulatory Balancing Account	<u>(1,457,732)</u>
Subtotal	<u>(1,196,150)</u>
Sales to Irrigation Customers	
Metered Sales	<u>1,287,071</u>
Total Water Service Revenues	20,534,162
Other Water Revenues	
Miscellaneous Service Revenues	38,550
Other Water Revenues	<u>39,393</u>
Total Other Revenue	77,943
Total Operating Revenues	20,612,105
Operating Expenses	
Source of Supply-Production	
Purchased Power	1,051,989
Leased Water Rights	893,389
Replenishment	99,280
Chemicals	<u>19,085</u>
Source of Supply-Production	2,063,743
Payroll-Including PTO and Temporary Labor	
Payroll	2,677,815
Paid Time Off	400,069
Temporary Labor	<u>24,937</u>
Payroll-Including PTO and Temporary Labor	3,102,821
Payroll Related Costs	
Payroll Taxes	225,116
Workers Compensation Insurance	80,059
Employee Benefits	<u>1,231,987</u>
Payroll Related Costs	<u>\$ 1,537,162</u>

APPLE VALLEY RANCHOS WATER COMPANY
Income Statement as of November 30, 2013
Unaudited

Exhibit A
Page 4 of 6

Administrative and General	
Utilities	\$ 103,465
Travel & Business Meals	33,557
Training & Educational	27,686
Dues Industry & Professional	59,928
Postage	69,402
Office Supplies	23,991
Bank Fees	24,037
Miscellaneous A & G	4,762
Professional Services	183,104
Insurance	427,005
Franchise Requirements	209,185
Regulatory Commission Expense	123,703
Administrative Expense Transferred	(276,682)
Corporate A & G Allocation	33,886
Administrative and General	<u>1,047,029</u>
Operations & Maintenance-Other	
Contracted Services	618,257
Materials	67,296
Operating Supplies & Parts	84,812
Permits	12,427
Uniforms	17,195
Rents	15,600
Operations & Maintenance-Other	<u>815,587</u>
Customer Service & Information	
Collection Agency	7,020
Uncollectible Expense	60,673
Deposit Over and Under	(4,572)
Customer Service Forms	2,980
Customer Service & Information	<u>66,101</u>
Depreciation & Amortization	
Depreciation	2,552,082
Amort.-Other Utility Prop	59,633
Amort.-Miscellaneous	810
Depreciation & Amortization	<u>2,612,525</u>
Taxes Other Than Income	
Property Taxes	378,361
Taxes Other	6,341
Taxes Other Than Income	<u>384,702</u>

APPLE VALLEY RANCHOS WATER COMPANY
Income Statement as of November 30, 2013
Unaudited

Exhibit A
Page 5 of 6

Clearing Accounts	
Stores-Excluding Labor	(1,527)
Transportation-Excluding Labor	347,687
Tools/Work Equipment-Excluding Labor	98,930
Clearing Accounts	<u>445,090</u>
Allocations	
Main Office	1,867,039
Allocations	<u>1,867,039</u>
Total Utility Operating Income	\$ 6,670,306
Non Operating Revenue	\$ 9,775
Non Operating Expenses	
Miscellaneous Income Deductions	37,584
Interest Expense	3,649
Non Operating Expenses	<u>41,233</u>
Net Income	6,638,848
Estimated Income Taxes	<u>2,655,539</u>
Total Net Income	<u>\$ 3,983,309</u>

Stock Authorized

The Articles of Incorporation authorize the following number of shares:

1,000 shares authorized of \$50.00 par value common stock, of which 75 shares are outstanding as of November 30, 2013.

Long Term Debt

There is no long term debt as of November 30, 2013.

No dividends have been paid in the last three years.