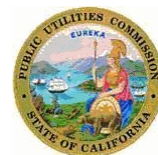


BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA



**FILED**

2-10-14  
04:59 PM

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 14-01-002  
(Filed January 2, 2014)

**THE OFFICE OF RATEPAYER ADVOCATES  
PROTEST TO THE APPLICATION OF APPLE VALLEY  
RANCHOS WATER COMPANY FOR AUTHORITY  
TO INCREASE RATES CHARGED FOR WATER SERVICE**

**I. INTRODUCTION**

Pursuant to Rule 2.6 of the California Public Utilities Commission's ("Commission") Rules of Practice and Procedure ("Rules"), the Office of Ratepayer Advocates ("ORA") files this protest to Application 14-01-002 ("A.14-01-002") of Apple Valley Ranchos Water Company ("AVR") for authority to increase its rates charged for water service. The application raises several areas of concern that merit further investigation by the Commission. Therefore, ORA recommends that the Commission schedule evidentiary hearings for this proceeding.

**II. APPLICATION**

In its application, AVR requests the following increases to its revenues:

- (1) \$3,127,463 or 14.88% in 2015;
- (2) \$2,056,455 or 8.48% in 2016; and

- (3) 2,160,731 or 8.19% in 2017.<sup>1</sup> AVR estimates that this proposal 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%.<sup>2</sup>

### III. ISSUES

While ORA is still in the process of reviewing AVR's application, ORA has identified several issues that it intends to review and address, as necessary, in evidentiary hearings. These issues include, but are not limited to the following:

- AVR's proposed adjustment to its sales forecasting methodology that deviates from the Rate Case Plan methodology.
- AVR's requested treatment of balancing and memorandum accounts.
- The appropriate historical averaging periods used for developing forecasts of expenses.
- The reasonableness of forecasted pension, benefit, and medical costs for the test year, including all underlying assumptions, actuarial estimates, historical costs and forecasted contributions to employee pension and benefit accounts.
- The reasonableness of AVR's request for increases in its administrative and general expenses, including a verification of recorded amounts and a critical review of AVR's proposed forecasting methodologies.
- AVR's proposed increases in payroll and related expenses, including its request for new AVR employee(s) and its proposed increases to the compensation of its existing employees (including General Office employees).
- AVR's request for increases in its General Office expenses.

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<sup>1</sup> Application at p. 2.

<sup>2</sup> Id.

- AVR's proposal to implement a Sales Reconciliation Mechanism ("SRM") for the escalation years of the rate case cycle.
- AVR's proposed depreciation rates for each plant account, including its proposed depreciation rates for transportation equipment and computer equipment.
- AVR's request to modify the WRAM/MCBA to include the commodity revenues for the gravity irrigation customer group.
- AVR's request to modify the revenue lag calculation used to determine the Working Cash Allowance in order to reflect recent trends in cash flow.
- AVR's request to modify the residential rate design including proposed changes in the tier breakpoint.
- AVR's proposal to increase the Low-Income Assistance Program monthly service charge discount and its proposal to increase the surcharge to offset program costs.
- AVR's plant investment requests including, but not limited to, extensive main replacements, construction of a new office building, a new well, and two new reservoirs.

#### **IV. CATEGORIZATION AND PROPOSED SCHEDULE**

ORA agrees with AVR's proposed categorization of this proceeding as rate setting and that hearings may be necessary to resolve these and other issues presented by AVR's application. Therefore, ORA requests that a prehearing conference be held to establish a schedule for this proceeding.

ORA has followed the Rate Case Plan schedule contained in D. 07-05-062 and hereby proposes the following schedule:

## ORA's Proposed Schedule

		Test Year 2015	
<u>Formal RCPP Activities</u>		<u>Day #</u>	<u>Date</u>
1	. Proposed Application Tendered	-60	November 1, 2013
2	. Deficiency Letter Mailed	-30	December 2, 2013
3	. Appeal to Executive Director	-25	December 5, 2013
4	. Executive Director Acts	-20	December 10, 2013
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	134	<b>May 16, 2014</b>
9	. Utility Distributes Rebuttal to ORA and Intervener Reports	148	<b>May 30, 2014</b>
10	. Formal Settlement Negotiations	134-152	<b>May 19- June 16, 2014</b>
11	. Hearings	162-166	<b>June 16 - June 20, 2014</b>
12	. Initial Briefs Filed and Served	214	<b>August 4, 2014</b>
13	. Reply Briefs Filed and Served	231	<b>August 21, 2014</b>
14	. ALJ Memo to Water Office	228	<b>August 18, 2014</b>
15	. Water Office Provides Tables	284	<b>October 13, 2014</b>
16	. ALJ's Proposed Decision Mailed	295	<b>October 24, 2014</b>
17	. Comments on Proposed Decision	316	<b>November 14, 2014</b>
18	. Reply Comments	321	<b>November 19, 2014</b>
19	. Commission Meeting	336	<b>December 4, 2014</b>

This schedule requests an additional 39 days for ORA to prepare its testimony, compared to AVR's proposed schedule, and adjusts the remainder of the schedule to allow for a Commission decision by the end of the year. Due to limited resources and issues with staffing, ORA needs this additional time to fully engage in a diligent review of AVR's requested rate increases and ensure that ratepayers are adequately protected from inappropriate revenue augmentation proposals from AVR.

### V. CONCLUSION

AVR is requesting a 14.88% rate increase (for 2015) above the rate adopted by the Commission in AVR's last GRC. ORA points out that AVR's requested increase appears to be far above anticipated inflation and, therefore, needs to be scrutinized carefully by ORA for justification and reasonableness. This is especially true in light of the recent drought declaration issued by the State of California and the unknown consequences

(including economic impact) the drought may have on ratepayers. ORA has already begun and will continue to conduct discovery to develop its testimony and recommendations. ORA reserves its right for evidentiary hearings and respectfully requests that the Commission adopt its proposed schedule at the prehearing conference. In addition, ORA has not completed discovery or filed its Report, and reserves the right to assert any issues discovered after this Protest has been filed.

Respectfully submitted,

/s/ MARIA L. BONDONNO  
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February 10, 2014