



July 23, 2014

Draft Resolution W- 4998
Agenda ID #13174

TO: All Interested Persons

Enclosed is draft Resolution W-4998 of the Division of Water and Audits that conditionally authorizes Yermo Water Company, as represented by its court-appointed receiver, to sell and Apple Valley Ranchos Water Company to buy the public utility assets of Yermo Water Company. The Commission may act on this resolution or it may postpone action until later.

When the Commission acts on a draft resolution, the Commission may adopt all or part of the draft resolution, as written, or amend or modify the draft resolution; or the Commission may set the draft resolution aside and prepare a different resolution. Only when the Commission acts does the resolution become binding.

Interested persons may submit comments on the draft Resolution W-4998. An original of the comments with a certificate of service, should be submitted to:

Division of Water and Audits, Third Floor
Attention: Jim Boothe
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Division of Water and Audits, Third Floor
Attention: Rami Kahlon
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Interested persons must serve a written or electronic copy of their comments on the utility on the same date that the comments are submitted to the Division of Water and Audits. Interested persons may submit comments on or before August 18, 2014.

Comments should focus on factual, legal, or technical errors or policy issues in the draft resolution.

Persons interested in receiving comments submitted to the Division of Water and Audits may write to Jim Boothe, email him at jb5@cpuc.ca.gov, or telephone him at (415) 703-1748.

/s/ RAMI S. KAHLON
Rami S. Kahlon, Director
Division of Water and Audits

Enclosures: Draft Resolution W-4998
Certificate of Service
Service List

PROPOSED RESOLUTION

Resolution W-4998
DWA/ RSK/ BMD/ JB5/ jp4

Agenda ID #13174
Item #

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch

RESOLUTION NO. W-4998
August 28, 2014

RESOLUTION

(RESOLUTION W-4998), THIS RESOLUTION CONDITIONALLY AUTHORIZES YERMO WATER COMPANY, AS REPRESENTED BY ITS COURT-APPOINTED RECEIVER, TO SELL AND APPLE VALLEY RANCHOS WATER COMPANY TO BUY THE PUBLIC UTILITY ASSETS OF YERMO WATER COMPANY. YERMO WATER COMPANY'S ADVICE LETTER NO. 10 TO ESTABLISH A SURCHARGE FOR REPAIR AND UPGRADE COSTS IS DISMISSED.

By Advice Letter No. 189 filed by Apple Valley on December 5, 2013.
By Advice Letter No. 10 filed by Yermo Water on September 19, 2013.

SUMMARY

Pursuant to Public Utilities Code §§ 851-854 and 2718-2720, this Resolution grants conditional authority to the court-appointed receiver for Yermo Water Company to sell and Apple Valley Ranchos Water Company to buy the public utility assets of Yermo Water Company serving approximately 250 metered customers near or within the Township of Yermo in San Bernardino County. Conditions for the Commission's approval of this transaction are that Apple Valley Ranchos Water Company must obtain: 1) a permit to operate the Yermo water system from the State Water Resources Control Board; and 2) an order from the San Bernardino Superior Court approving the proposed transaction. Copies of such authority should be filed with the Director of the Division of Water and Audits within 30 days of their receipt.

BACKGROUND

On December 5, 2013, Apple Valley Ranchos (AVR) and Yermo Water Company (Yermo), as represented by its court appointed receiver, jointly filed Advice Letter 189-W requesting Commission authorization for a transfer of ownership of Yermo from the court-appointed receiver to AVR. Yermo serves approximately 250 metered customers. Yermo is a consolidation of three Commission-certificated water utilities located 10 miles east of Barstow in San Bernardino County near or within the Township of Yermo. The three former utilities consisted of Yermo, Marine Water Company, and Hel-Bro Water Company. All three utilities came under common ownership pursuant to Commission Decisions (D.) 71016 and D.71017 in 1966. The Marine and Hel-Bro water systems are interconnected. The Yermo water system is not connected to either of the other two systems.

Yermo has had a long, troubled, and well-documented history of absentee ownership, mismanagement, negligent operations, unsafe, inadequate and substandard water service, including unsafe water supplies, service interruptions, contamination and other operation problems that imperiled the public health and safety of Yermo customers. The prior owner, before Yermo was placed in receivership, had a history of non-compliance with the rules and orders of the Commission and the then California Department of Public Health (CDPH). This history is detailed in the Commission's Investigation 08-04-032 to examine the operations and practices of Yermo and Yermo's owner prior to having a receiver appointed. In the resulting decision, D. 09-05-022, the Commission authorized and directed the Legal Division to commence proceedings in the Superior Court of California, County of San Bernardino for the appointment of a receiver to take possession of and operate Yermo.

NOTICE, SERVICE AND PROTESTS

In accordance with General Order 96-B, General Rules 4.3 and 7.2 and Water Industry Rule 4.1, a copy of Advice Letter No. 189-W was served on December 5, 2013 and December 10, 2013 to competing and adjacent utilities and other utilities or interested persons on AVR's and Yermo's General Order 96-B service lists, respectively.

In accordance with General Order 96-B, Water Industry Rule 3.1, Advice Letter No. 189-W was noticed to Yermo customers.

Timely protests to Advice Letter No. 189-W were filed by Lise King, Ron and Jean Bredelis, Yermo Community Services District (District), and the Office of Ratepayer Advocates (ORA). The first three protests oppose the sale of Yermo to AVR. This opposition is to AVR as an outside entity taking control of Yermo's assets including its water rights from the Mojave Water Agency. Under Section 854(d), as interpreted by this Commission, the Commission considers other options to a proposed merger or acquisition to determine if that option provides better outcomes for ratepayers. Protestants urge the Commission to consider the Yermo Community Services District (Yermo CSD) as an alternate purchaser of Yermo. In an October 15, 2013 letter to Yermo customers, Yermo's receiver determined that AVR is a more viable purchaser to address the many deficiencies that exist within the Yermo water system on an expedited basis. Because the proposed acquisition by AVR not only avoids ratepayer harm, but also provides key ratepayer benefits, we find that Section 854(d) does not dictate a different outcome.

In its January 10, 2014 letter, ORA listed a number of issues it would 'examine,' requesting until April 30, 2014 to make this examination. ORA never made any follow-up filing. Thus, ORA has made no showing that the request

should be denied. ORA's concerns include: 1) whether the Commission's intentions in Resolution W-4914 are met with the proposed transaction; 2) whether Yermo's water rights are properly valued and allocated in a just a reasonable manner; and 3) whether clear title to Yermo's utility property exists. AVR responded to these protests on January 17, 2014.

REQUEST

The court-appointed receiver for Yermo has identified AVR as the preferred option for acquiring Yermo. The proposed sale would relieve Yermo of its public utility obligations. Formed in 1945, AVR is a Class A Commission-jurisdictional water utility providing service through approximately 22,000 connections in and near the Town of Apple Valley, California in San Bernardino County. AVR desires to augment its certificate of public convenience and necessity and expand its service territory in San Bernardino County to provide public utility water service to current and future customers in Yermo's existing service territory. AVR has committed to financing and completing necessary system improvements to address the most critical system deficiencies within the first year after the transfer of ownership is completed.

AVR proposes to establish an interim rate schedule through 2017 for water service to be charged by AVR for service to customers in Yermo's service territory. AVR proposes to incorporate the Yermo water system into AVR's ratemaking district and set rates for 2018-2020 as part of AVR's 2017 general rate case to establish rates for test year 2018. Finally, AVR requests to establish a rate base for its acquisition of Yermo based on the \$300,000 purchase price that AVR proposes to pay, plus the actual amount up to \$50,000 of additional and

extraordinary transactional costs incurred by AVR associated with the acquisition.

Standard of Review

Proposed water utility ownership changes are reviewed under Public Utilities Code (Pub. Util.) §§ 851-854 and 2718-2720. Pub. Util. Code §§ 851-854 prohibits the sale or transfer of control of a public utility without the advance approval of this Commission. Pub. Util. Code §§ 2718-2720 encourages the acquisition of small water companies by larger, more financially secure entities and requires that the Commission use the fair market value when determining the rate base for an acquired water system.

The Commission has historically applied two standards of review when evaluating the sale of a public utility under Section 854: a more permissive one that requires only that the applicant show ratepayers are indifferent to the sale – that is, that the sale does not harm them,¹ and a more stringent test that requires the buyer to demonstrate that the buyer’s acquisition of the public utility yields a tangible benefit to the ratepayer.² Under both tests, the proposed sale meets the requirements of Section 854.

Under the ratepayer indifference test the Commission evaluates several key metrics including: (1) service quality; (2) continuity of service; and (3) the

¹ Under the ratepayer indifference test, any sale of a public utility should not have any net consequences that cause the ratepayer to prefer the seller to the buyer.

² See D.00-05-047 at 9-11 and Conclusion of Law #2; D.00-06-057 at 7; and D.01-09-057 at 26-28.

impact of the purchase price on rate base. We also assess whether the transaction is in compliance with California Environmental Quality Act requirements, and whether all required approvals of other agencies are received, when assessing whether a water utility should be disposed of.

We evaluate the proposed sale and purchase under these standards below. On that basis, we determine that AVR can assume the ownership without incurring financial trouble and plans to effectively operate the water system. Thus, the request satisfies the ratepayer indifference requirement Based on AVR's history as a water utility and its financial capacity, the customers of the Yermo water system will be better served by the change to AVR ownership. Thus, the request also satisfies the requirement that ratepayers benefit from the transaction.

How will the Proposed Sale Affect Service Quality?

The primary bases used by the court-appointed receiver in determining that AVR would be the preferred buyer are its qualifications and experience. Specifically, AVR has the resources and experience to respond to the existing documented system deficiencies for Yermo. Further, AVR has the capabilities, both financial and technical, to address needed system improvements over the near term. On June 4, 2014, the Southern California Drinking Water Field Operations Branch, San Bernardino District, of the California Department of Public Health (now organizationally housed at the State Water Resources Control Board; the California Drinking Water Program was transferred to the State Water Resources Control Board on July 1, 2014) sent a letter to the Commission's Division of Water and Audits indicating that AVR has submitted a

technical, managerial, and financial assessment (TMF) application as part of its request to acquire ownership of Yermo. The June 4, 2014 letter indicates the TMF application is considered complete and all items submitted were considered satisfactory at that time.

AVR can provide the needed operational and maintenance services, collect water samples as required by the State Water Resource Control Board (Board), respond to emergencies, and prepare reports to governmental agencies regarding the operation of the water system. We find that it is advantageous to the customers of the Yermo water system from a service quality perspective to have the transfer go into effect.

Is the Interim Rate Schedule for Water Service Reasonable?

AVR proposes an interim rate plan for the Yermo service area to be in place until new rates would be set as part of AVR's 2017 general rate case application for test year 2018. AVR requests an increase in the present rates for Yermo to equal those for AVR's Schedule No. 1, Residential General Metered Service, in effect at the time Advice Letter 189-W was filed.³ The AVR quantity rate is composed of a three-tier structure. Yermo's existing quantity rate is a single-tier rate. AVR proposes a first-tier rate of \$2.443 per hundred cubic feet (Ccf) for the first 13 Ccf. Yermo's existing quantity rate is \$1.77 per Ccf. Yermo has pending Advice Letter 10 to add a surcharge of \$1.05 per Ccf to existing rates to cover costs for system repair and upgrade. This would bring Yermo's quantity rate to \$2.82 per Ccf.

³ These rates are shown on the canceled Cal. P.U.C. Tariff Sheet No. 762-W.

AVR also proposes to increase Yermo's existing monthly service charge to equal AVR's monthly service charge in existence at the time Advice Letter 189-W was filed. This would result in an increase in the monthly service charge from \$21.89 to \$22.47 for a customer taking service through a 5/ 8 x 3/ 4-inch meter, a 2.6% increase. The interim rate plan would also escalate both the quantity rate and monthly service charge by 2.5% annually for the period 2015 through 2017 when new rates would go into effect for AVR's test year 2018 pending a decision by the Commission in AVR's 2017 general rate case application.

Yermo's Advice Letter 10 provides evidence that rates need to be updated since they were last authorized in September 2009 pursuant to Res. W-4782. A rate increase is needed to recover critical short-term repair and system upgrade costs estimated at \$732,000 to address service quality issues. We find that AVR's interim plan to fund the needed repairs and upgrades is more cost effective than Yermo's proposed surcharge increase and is reasonable to implement. As such, we authorize AVR as part of our authorization in this resolution to implement its interim rate plan for the period 2014 through 2017.

Given our determination in this Resolution to authorize the transfer of Yermo to AVR and to authorize AVR to implement its interim rate plan, we find Yermo's Advice Letter No. 10 is no longer applicable and should be dismissed as denied.

Is the Purchase Price and Rate Base Request Reasonable?

The Asset Acquisition Agreement (Agreement), dated October 16, 2013, calls for a purchase price of \$300,000 for all of the assets, including water rights, of the Yermo water system. Yermo's most recent rate base authorized by the

Commission in Res. W-4782 (September 10, 2009) was \$8,112. In a January 28, 2014 response to a Division of Water and Audits data request, AVR indicates that estimated liens against Yermo total \$285,251.⁴ The great majority of the purchase price is to address resolution of outstanding liens. When AVR files its test-year 2018 general rate case it will need to provide documentation showing the amounts paid to satisfy the various past fees, taxes, and fines against Yermo. We find it reasonable for AVR to include into rate base \$14,749 plus the documented cost of resolving past liens against Yermo capped at the \$300,000 purchase price. If the actual cost of resolving the Yermo liens due to the previous owner is greater than the estimated \$285,251, then as part of the test-year 2018 general rate case AVR should document the additional costs and request an adjustment to the starting rate base.

AVR also requests authority to include up to \$50,000 of additional and extraordinary non-specified transactional costs it incurs associated with this transaction. At this time, without necessary documentation, we are unable to determine the reasonableness of potential extraordinary transactional costs. In its test-year 2018 general rate case, if AVR continues to seek such authority, AVR should justify adding the extraordinary transaction costs to rate base through a documented showing in that proceeding.

⁴ Included are past fees to the Mojave Basin Watermaster, unpaid fines owed to the California Department of Public Health's Drinking Water Program (now organizationally transferred to the State Water Resources Control Board), unpaid income taxes to the California Franchise Tax Board, and unpaid property taxes to San Bernardino County.

A number of protestors have argued against having an outside entity taking control of Yermo's assets. AVR is an entity within a larger holding company structure which is owned by a group of investment fund vehicles associated with Carlyle Infrastructure Partners L.P. AVR is locally managed and operated, and subject to the effective oversight of the Commission. Protestors' argument that AVR is an outside entity is not persuasive as AVR has been operating in San Bernardino County since 1945.

Despite protestors' arguments, we disagree that Yermo's water rights could be lost for the benefit of Yermo's customers. ORA's unsubstantiated assertions do not warrant denial of AVR's request. The water rights are part of the assets being acquired to provide water service to existing and future customers in Yermo's certificated service area. All revenues from the use of these water rights outside Yermo's service area will accrue to the benefit of water utility customers through a credit against the Commission-authorized revenue requirement on which rates are established. Further, the Commission's existing affiliate transaction rules ensure that any water sales to an AVR affiliate will be priced at fair market value.⁵ We therefore find that ORA's concerns in this area are unfounded.

We are not persuaded that ORA's objection warrants denial of AVR's request. ORA's concern whether clear title to Yermo's property exist is addressed in the Asset Acquisition Agreement wherein the receiver has the responsibility for delivering the assets and property of Yermo free and clear of all

⁵ Decision 10-10-019, Appendix A, Rule VI, Pricing of Goods and Services between the Utility and Its Affiliate(s).

liens and encumbrances to AVR as a condition of closing the transaction. As AVR stated in its response to ORA's protest, if legal ownership of the assets and property of Yermo is in question, the transaction between AVR and Yermo, as proposed in Advice Letter 189-W, will not go forward.

Is a California Environmental Quality Act (CEQA) Review Required by the Proposed Sale?

We have reviewed Advice Letter 189-W to determine whether CEQA applies to this proposed conveyance. CEQA applies to a "project" or action "which has a potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change . . . [and involves] the issuance to a person of a lease, permit, license, certificate, or entitlement for use by one or more public agencies."⁶ If an application does involve a project under CEQA, Commission Rule 17 imposes other procedures and requirements on the applicant.

In their Response, the Applicants indicated they do not believe the proposed transaction is subject to the CEQA. We construe this argument to be a motion under our Rule 17.2 for determination of the applicability of CEQA.

This application involves only a proposed change in control and operation of existing water facilities. No new construction or changes in the source of water supply are being proposed. There is no evidence of any other changes in

⁶ CEQA Guidelines, CALIFORNIA CODE OF REGULATIONS TITLE 14, § 15378(a) (2003).

the operation of the Yermo water system. Accordingly, there is no possibility that the transaction may have any significant effect on the environment.

Based on the record before us, there is no evidence of any potential harm to the environment as the result of our approval of Advice Letter 189-W.⁷ As a result, we conclude that our approval of Advice Letter 189-W is exempt from CEQA.

Has AVR Received Permits/Authorizations Required by Other Entities to Operate the Yermo Water System?

Pursuant to the provisions of California Health and Safety Code (CH&S) § 116525(a), any person or entity operating a public water system must have a permit to operate that system from the Board. A change in ownership of a public health system requires the prospective new owner to apply to and satisfy the Board’s requirement that the new owner “possesses adequate financial, managerial, and technical capability to ensure the delivery of pure, wholesome, and potable drinking water.”⁸

Accordingly, in addition to the authorization from the Commission for the acquisition of the Yermo water system, AVR must receive a permit to operate the Yermo water system. In the current case, the Board through its Southern California Drinking Water Field Operations Branch, San Bernardino District has

⁷ CEQA Guidelines, CALIFORNIA CODE OF REGULATIONS TITLE 14, § 15061(b)(3) “A project is exempt from CEQA if...it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment . . .”).

⁸ *CH&S Code § 116540(a)*.

jurisdiction over the Yermo water system. AVR has requested issuance of a permit from the Board to operate the Yermo water system, but has not yet received such authority.

Since the required permit has been requested of the Board, but not yet received, we condition our authority for the Yermo acquisition on AVR's receipt of the permit to operate the Yermo water system. AVR must also file a copy of such permit with the Director of the Division of Water and Audits within 30 days of receipt of such permit. AVR may not take possession of the Yermo water system or collect tariffed rates from customers until it has received an operating permit from the Board.

Finally, approval for the proposed transaction requires an order from the San Bernardino Superior Court as it appointed the receiver. We condition our authority for AVR's acquisition of Yermo on AVR filing a copy of the order approving the requested transaction from the San Bernardino Superior Court with the Director of the Division of Water and Audits within 30 days of receipt the order.

AVR Should Address Future Rate Making Questions as Part of Its 2017 General Rate Case Application.

The authorization provided in this Resolution addresses rates for customers in Yermo's service area for the period 2014 through 2017. AVR indicates that the Yermo water system is in need of extensive capital investment beyond the \$732,000 estimated as part of the initial capital improvements. AVR estimates that \$7,000,000 in capital will be required to replace and upgrade the

distribution system, install additional transmission pipe, and for a minimum 250,000 gallons of additional storage.

AVR states that it plans to attempt to gain grant funding for these capital projects through state and federal sources. The Yermo service area has been deemed a disadvantaged community that would be eligible for grant funding for replacement and upgrades to the water system. AVR indicates it has been working with the Yermo Community Services District (District) to serve as the sponsoring agency for the grant funding. In its protest to Advice Letter 189-W, the District raises questions as to whether it is willing to serve as AVR's public source for obtaining grant funding.⁹ AVR indicates that if it fails to reach an agreement with the District to serve as the sponsoring agency, AVR would turn to either the County of San Bernardino or the Mojave Water Agency to partner with AVR to obtain state and federal grant funding for Yermo. Failure to achieve grant funding through a public partnership may require AVR to fund the required capital projects itself. This would likely result in an initial increase in authorized revenue requirement of approximately \$1,000,000 annually compared to 100% grant funding. If the Yermo service area continues to operate as a stand-alone ratemaking area after the interim rate period, a customer bill at the highest Tier 1 usage level would increase by over six-fold in the initial years following the estimated \$7,000,000 in rate base additions.

In its 2018 test-year general rate case to be filed in January 2017, AVR should provide its rate proposal for the Yermo rate-making area post-interim

⁹ In a January 28, 2014 response to a Division of Water and Audit data request, AVR indicates that the District notified AVR in January that its Board of Directors voted against a partnership with AVR on grant funding for the Yermo water system.

rate plan. If that proposal includes incorporating the Yermo service area, either partially or totally into AVR's existing service area for ratemaking purposes, then AVR should specifically provide notice to all of its customers as part of the customer notice in the general rate case of AVR's intent to do so. Such notice should include the rate impacts to AVR's existing customers both with and without AVR's proposed ratemaking treatment for the new Yermo service area. If AVR proposes to maintain the new Yermo service area as a stand-alone ratemaking area, separate and apart from AVR's existing ratemaking area, then AVR should so state in its customer notice and provide the rate adjustments AVR is proposing for the stand-alone Yermo service area.

CONCLUSION

Both the court-appointed receiver and AVR desire the transfer of the Yermo water system to AVR. AVR has the experience, ability, and financial resources to operate the Yermo water system.

We conclude that the proposed sale of the Yermo water system is reasonable, is in the public interest, causes no ratepayer harm, and will provide tangible benefits to ratepayers. These benefits are provision of quality water service by a water service provider that has the operational experience and financial ability to operate and own the Yermo system. We therefore conditionally approve Advice Letter 189-W for sale of the Yermo system as of the date of this Resolution. Since AVR has not yet received a permit from the Board to operate the Yermo system, we condition our authority on AVR's receipt of this permit, and require that AVR to file the permit with the Director of the Division of Water and Audits as a condition to exercise the authority granted herein. We

further condition our authority on AVR's receipt of an order from the San Bernardino Superior Court approving the sale of Yermo to AVR. We require AVR to file a copy of the San Bernardino Superior Court order with the Director of the Division of Water and Audits.

We adopt the proposed interim rate plan by which AVR will charge for retail water service in the Yermo service area for the period 2014 through 2017. AVR should file a Tier 1 advice letter to adopt its initial rate schedule for the Yermo service area consistent with the interim rate plan outlined in Advice letter 189-W and rates shown in AVR's cancelled tariff sheet 762-W. In addition to the rates shown, the new tariff schedule should include the special conditions contained in AVR tariff Schedule No. 1 with the exception of the temporary surcharges and sur-credits related to AVR's regulatory accounts. AVR should file Tier 1 advice letters at least 30 days before their effective date requesting escalation changes of 2.5% per annum for the quantity rates and monthly service charge for the years 2015, 2016, and 2017.

We find the \$300,000 purchase price in the Asset Acquisition Agreement to be reasonable in order to resolve the estimated outstanding liens against Yermo. AVR is authorized to add \$14,749 plus documented costs for resolving the \$285,251 in estimated liens, capped at a total of \$300,000. Verification of the costs to be added to rate base should be done as part of AVR's 2018 general rate case proceeding. If the actual cost of resolving the outstanding Yermo liens due to the previous owner is greater than the estimated \$285,251, then AVR should document the additional costs and request an adjustment to the starting rate base. Finally, at this time, without necessary documentation, we are unable to determine the reasonableness of including up to \$50,000 of potential extraordinary transactional costs in rate base. As part of its 2017 general rate

case application, AVR should justify adding the extraordinary transaction costs to rate base through a documented showing in that proceeding.

Given our determination in this Resolution to authorize the transfer of Yermo to AVR and to authorize AVR to implement its interim rate plan, we find Yermo's Advice Letter No. 10 is no longer applicable and should be dismissed as denied.

COMMENTS ON PROPOSED RESOLUTION

As provided by Rule 14.5 of our Rules of Practice and Procedure and Pub. Util. Code § 311 (g)(1), the draft resolution in this matter was mailed to the parties on July 23, 2014. Comments were received from _____ on _____.

FINDINGS AND CONCLUSIONS

1. Advice Letter 189-W was jointly filed by Apple Valley Ranchos Water Company (AVR) and Yermo Water Company (Yermo), as represented by its court-appointed receiver, on December 5, 2013.
2. Protests were received from Lise King, Ron and Jean Bredelis, Yermo Community Services District (District), and the Office of Ratepayer Advocates (ORA).
3. The transfer of Yermo from the court-appointed receiver to AVR is desired by both Yermo and AVR.

4. Yermo filed Advice Letter 10 on September 19, 2013 to impose a surcharge to cover repair and system upgrade costs to the water system.
5. Given our determination in this Resolution to authorize the transfer of Yermo to AVR and to authorize AVR to implement its interim rate plan, we find Yermo's Advice Letter No. 10 is no longer applicable and should be dismissed as denied.
6. AVR has the experience, ability, and financial resources to operate the Yermo water system.
7. AVR is a locally managed and operated water utility under California Public Utilities Commission (Commission) jurisdiction that has operated in San Bernardino County since 1945.
8. The purchase price of \$300,000 for Yermo to address outstanding liens against the utility due to the previous owner is reasonable and should be used as the starting rate base once AVR can document the actual cost of resolving the outstanding liens.
9. It reasonable for AVR to include into rate base \$14,749 plus the documented cost of resolving past liens against Yermo capped at the \$300,000 purchase price as part of the 2017 general rate case application.
10. AVR requests authority to include up to \$50,000 of additional and extraordinary non-specified transactional costs it incurs associated with

the Yermo transaction. Such request is not adequately supported and is denied at this time.

11. If AVR continues to seek the authority set forth in the preceding paragraph its next rate case, AVR should document that it is reasonable to include such costs in rate base as opposed to being expensed.
12. The sale of Yermo will have no effect on the environment.
13. The proposed sale of Yermo is exempt from CEQA, and no further environmental review is required.
14. AVR proposes an interim rate plan for the Yermo service area to be in place until new rates would be set as part of AVR's 2017 general rate case application for test-year 2018.
15. AVR requests an increase in the present quantity rate for Yermo to equal those in AVR's Schedule No. 1, Residential General Metered Service, in effect at the time Advice Letter 189-W was filed.
16. AVR also proposes to increase Yermo's existing monthly service charge to equal AVR's monthly service charge in existence at the time Advice Letter 189-W was filed.
17. The interim rate plan would escalate both the quantity rate and monthly service charge by 2.5% annually for the period 2015 through 2017.

18. It has been nearly five years since the rates for Yermo have been reviewed by the Commission.
19. AVR has the resources and experience to respond to the existing documented system deficiencies for Yermo.
20. The rate increase is needed to recover critical short-term repair and system upgrade costs estimated at \$732,000 to address service quality issues.
21. AVR's interim plan to fund the needed repairs and upgrades is more cost effective than Yermo's proposed surcharge increase in Advice Letter 10 and is reasonable to implement for the period 2014 through 2017.
22. AVR has requested but has not yet received a permit from the State Water Resource Control Board (Board) to operate the Yermo water system.
23. AVR and the court-appointed receiver have not received an order from the San Bernardino Superior Court approving the sale of Yermo from the court-appointed receiver to AVR.
24. As a condition of approval of AVR's acquisition of Yermo, AVR should file copies of its operating permit for Yermo from the Board and the order approving the sale of Yermo to AVR from the San Bernardino Superior Court with the Director of the Division of Water and Audits within 30 days of their receipt.

25. The court-appointed receiver should be conditionally authorized to sell and AVR should be conditionally authorized to buy Yermo.
26. AVR may not take possession of the Yermo water system or collect tariffed rates from customers until it has received and filed with the Commission an operating permit from the Board and an Order from the San Bernardino Superior Court.
27. In its 2018 test-year general rate case to be filed in January 2017, AVR should provide its ratemaking proposal for Yermo rates area post- interim rate plan.
28. Transfer of ownership of Yermo meets the test of ratepayer indifference and absence of ratepayer harm, in that customers will be unaffected in terms of service quality and continuity of service.
29. Based on AVR's history as a water utility and its financial capacity, the customers of the Yermo water system will be better served by the change to AVR's ownership. Thus, the transfer of ownership also meets the test of ratepayer benefit.
30. After the sale of Yermo is final, Yermo should be relieved of its public utility obligations.
31. The proposed sale of the Yermo water system is reasonable, is in the public interest, and will not harm ratepayers, meets the standard of ratepayer indifference, and will provide tangible benefits to ratepayers, which

include provision of quality water service by a water service provider that has the operational experience and financial ability to operate and own the Yermo water system.

THEREFORE IT IS ORDERED THAT:

1. Resolution 189-W filed by the court-appointed receiver for Yermo Water Company to sell and Apple Valley Ranchos Water Company to buy Yermo Water Company is granted, conditioned on Apple Valley Ranchos Water Company's receipt of a permit from the State Water Resource Control Board to operate Yermo Water Company and receipt of an order from the San Bernardino Superior Court approving the sale of Yermo Water Company to Apple Valley Water.

2. Apple Valley Ranchos Water Company's proposed interim rate plan for the Yermo Water Company service area for the period 2014 through 2017 is approved. Within 30 days of taking ownership of Yermo Water Company, Apple Valley Ranchos Water Company shall file a Tier 1 advice letter to add a new tariff rate schedule for the Yermo Water Company service area consistent with the interim rate plan described in Advice Letter 189-W and shown in Apple Valley Ranchos Water Company's cancelled Tariff Sheet 762-W. In addition to the rates shown, the new tariff schedule should include the special conditions contained in Apple Valley Ranchos Water Company's tariff Schedule No. 1 with the exception of the temporary surcharges and sur-credits related to Apple Valley Ranchos Water Company's regulatory accounts. Apple Valley Ranchos Water

Company shall also amend its service area maps and any other provisions in its tariff to reflect that the Yermo Water Company service area is being added to its tariff.

3. No later than 30 days before interim rates are to go into effect for the years 2015, 2016, and 2017, Apple Valley Ranchos Water Company shall file a Tier 1 advice letter requesting changes to the then interim rates increased by the authorized escalation factor of 2.5%.
4. Apple Valley Ranchos Water Company shall not take possession of the Yermo water system and may not collect tarified rates from customers of the Yermo water system until it has received an operating permit from the State Water Resource Control Board and an order from the San Bernardino Superior Court approving Apple Valley Ranchos Water Company's acquisition of Yermo Water Company. Copies of such authority shall be filed with the Director of the Division of Water and Audits within 30 days of their receipt.
5. Apple Valley Ranchos Water Company is authorized to establish a starting rate base for the Yermo water system at \$14,749 plus documented costs for resolving the \$285,251 in estimated liens due to the owner prior to the system be taken over by the court-appointed receiver, capped at a total of \$300,000. Verification of the costs to be added to rate base should be done as part of Apple Valley Ranchos Water Company's 2017 general rate case proceeding. If the actual cost of resolving the outstanding Yermo liens due to the previous owner is greater than the estimated \$285,251, then AVR

- should document the additional costs and request an adjustment to the starting rate base in the 2017 general rate case proceeding.
6. Apple Valley Ranchos Water Company's request for authority to include up to \$50,000 of additional and extraordinary non-specified transactional costs it incurs associated with the Yermo transaction is denied at this time.
 7. Yermo Water Company's Advice Letter 10 is dismissed as denied.
 8. Apple Valley Ranchos Water Company shall address post-interim rate issues for the new Yermo service area with appropriate customer notice as part of the 2017 general rate case proceeding intended to establish new rates effective January 1, 2018.
 9. Within 10 days of the acquisition of Yermo Water Company becoming final, Apple Valley Ranchos Water Company must notify the Director of the Commissions Division of Water and Audits in writing that the acquisition has been completed.
 10. Following the acquisition of Yermo Water Company by Apple Valley Ranchos Water Company, Yermo Water Company is relieved of its utility obligations.

11. This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on August 28, 2014; the following Commissioners voting favorably thereon:

PAUL CLANON
Executive Director

CERTIFICATE OF SERVICE

I certify that I have by either electronic mail or postal mail, this day, served a true copy of Proposed Resolution No. W-4998 on all parties in these filings or their attorneys as shown on the attached lists.

Dated July 23, 2014, at San Francisco, California.

/s/ JENNIFER PEREZ

Jennifer Perez

Parties should notify the Division of Water and Audits, Fourth Floor, California Public Utilities Commission, 505 Van Ness Avenue, San Francisco, CA 94102, of any change of address to ensure that they continue to receive documents. You must indicate the Resolution number on which your name appears.

SERVICE LIST
RES. W-4998

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