

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**

In the Matter of the Application of Apple Valley )  
Ranchos Water Company (U 346 W) for Authority )  
to Increase Rates Charged for Water Service by ) APPLICATION NO. 14-01-002  
\$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. )  
\_\_\_\_\_)

**AMENDED SUPPLEMENTAL TESTIMONY OF  
APPLE VALLEY RANCHOS WATER COMPANY'S (U 346 W)**

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Dated: June 30, 2015

## **BACKGROUND**

On April 1, 2015, Governor Edmund Brown, Jr. issued Executive Order B-29-15 (“Executive Order”), ordering a statewide 25% reduction in potable urban water usage compared to the amount used in 2013. The Executive Order directed the Public Utilities Commission of the State of California (“Commission”) and the State Water Resources Control Board (“SWRCB”) to impose restrictions to achieve the reduction in potable urban water usage through February 2016. The Commission and the SWRCB were directed to adopt emergency regulations to implement this directive. On May 5, 2015, the SWRCB adopted final Emergency Regulations by Resolution No. 2015-0032. On May 7, 2015, the Commission adopted Resolution W-5041, setting forth the Commission’s proposed regulatory framework consistent with the Emergency Regulations and the Executive Order. Resolution W-5041 (“Resolution”), at page 3, states:

To meet the requirements of the Governor’s April 1, 2015 Executive Order, each class A and B water utility shall, for each district service more than 3,000 service connections, implement a customer water use reduction program designed to reduce its total potable water production by the percentage identified as its conservation standard in this subdivision. Each Class A and B water utility’s conservation standard considers its service area’s relative per capita water usage. This usage data is based upon three months of summer residential gallons-per-capita-per-day (R-GPCD) for July through September 2014.

\* \* \*

Each Class A and B water utility, as identified below by its average July-September 2014 R-GPCD, shall reduce its total water usage by the specified percentage as compared to the amount used in the same month in 2013.

- July-September 2014 R-GPCD was less than 65 shall reduce its total water usage by 8 percent.
- July-September 2014 R-GPCD was less than 65 or more but less than 80 shall reduce its total water usage by 12 percent.
- July-September 2014 R-GPCD was between 80 or more but less than 95 shall reduce its total water usage by 16 percent.
- July-September 2014 R-GPCD was between 95 or more but less than 110 shall reduce its total water usage by 20 percent.

- July-September 2014 R-GPCD was between 110 or more but less than 130 shall reduce its total water usage by 24 percent.
- July-September 2014 R-GPCD was between 130 or more but less than 170 shall reduce its total water usage by 28 percent.
- July-September 2014 R-GPCD was between 170 or more but less than 215 shall reduce its total water usage by 32 percent.
- July-September 2014 R-GPCD was greater than 215 or more shall reduce its total water usage by 36 percent.

As AVR's July-September 2014 R-GPCD was 159.8, AVR must reduce its total water usage by 28%.

AVR is a class A water utility with greater than 3,000 service connections and is therefore required by the Commission to comply with the Resolution. Accordingly, on May 22, 2015, AVR filed with the Commission a Schedule 14.1, Water Shortage Contingency Plan With Staged Mandatory Reductions, Restrictions And Drought Measures. As a result, AVR's sales will be reduced beginning in Test Year 2015 and continuing during Escalation Years 2016 and 2017. If the reduced sales forecasts are not addressed in this GRC, it will result in artificially low rates and significant under-collections in AVR's Water Revenue Adjustment Mechanism ("WRAM") Balancing Account and thereby create unnecessarily high surcharges in future years.

On May 15, 2015, ALJ Tsen issued an email ruling acknowledging the Resolution and the Executive Order and directing the parties to submit additional testimony on the sales forecast and the methods to be used in achieving the Executive Order's mandated water usage reduction. ALJ Tsen's ruling further required the parties to the proceeding to meet and confer and jointly prepare a list of testimony topics that would need to be adjusted. On May 20, 2015, the parties met and conferred, after which the parties submitted the following statement of the testimony adjustments needed to address the Resolution and the Executive Order:

The parties agree that testimony concerning Water Sales (all customer classes), including residential water sales tier allocation (Tiers 1, 2, 3), would need to be adjusted. The parties agree that testimony for the following subjects would need to be adjusted to address the flow-through impacts of changes in the water sales forecast:

- Water Production

- Revenue at Present Rates/Revenue at Proposed Rates
- Purchased Power
- Leased Water Rights
- Replenishment
- Uncollectibles
- Unaccounted for Water
- Franchise Requirements
- Working Cash/Rate Base
- State/Federal Income Taxes

On June 19, 2015, Commissioner Carla J. Peterman issued an Amended Scoping Memo directing AVR “to submit supplemental testimony on how it plans to comply with Executive Order B-29-15, Commission’s Resolution W-5041, and the State Water Resources Board’s emergency water conservation regulations [by June 24, 2015].” (Amended Scoping Memo, at 4.) The Amended Scoping Memo further provided:

Any portions of the previously served testimony that is revised as a result of this ruling, should be served and clearly labeled as a revision. Additionally, these changes should be highlighted in some fashion, by underlining, highlighting, or by strikethrough and replacement, to efficiently indicate where the changes have been made. Assumptions and calculations should be clearly disclosed and documented.

(Amended Scoping Memo, at 5.) AVR diligently endeavored to modify the sections of the previously served testimony (the Revenue Requirements Report) to reflect the changes to the testimony needed to address the Resolution and the Executive Order. Due to the extensiveness of the adjustments and the limited time within which to prepare the adjustments and serve this supplemental testimony, however, AVR is serving this Supplemental Testimony, which sets forth the adjustments/calculations and describes the methodologies used in calculating the adjustments. This supplemental testimony is intended to supersede AVR’s prior testimony on sales forecasts and its estimates of other items where it has been identified that there are flow-through impacts of the revised sales forecasts.

## **WATER CONSUMPTION , PRODUCTION, AND UNACCOUNTED FOR WATER**

To comply with the Executive Order, the Resolution, and the SWRCB's emergency water conservation regulations, AVR has adjusted the proposed rates (contained in the Amendment to Settlement Agreement Between Apple Valley Ranchos Water Company and the Office of Ratepayer Advocates dated May 11, 2015) to account for a 28% mandated reduction in its water production from June 1, 2015 through February 28, 2016, compared to the production for the period June 1, 2013 through February 28, 2014.

Although compliance with the SWRCB's emergency water conservation regulations is based on AVR's reported total potable production, AVR has recast sales using the same 28% target for consumption since the unaccounted for water percentage for the test period is expected to be approximately the same as in the latter portion of 2013.

For Test Year 2015, AVR has recast sales by applying the target reduction of 28% to the recorded 2013 sales for June – December, to reflect the timing of the implementation of the SWRCB regulation in June 1, 2015, and the expected reduction from the same months in 2013. For 2015, the recorded 2015 sales for January through May are available and were therefore used to determine the total projected sales for Test Year 2015. This methodology was used for all customer classes with the exception of Gravity Irrigation Service (non-potable water) and private fire, which are exempt from the regulations. After determination of the water sales by customer class, that amount was divided by the average number of customers to develop the average consumption per customer.

For Escalation Years 2016 and 2017, AVR recast the sales, for all customer classes with the exception of Gravity Irrigation Service (non-potable water) and private fire, by applying the target reduction of 28% to the recorded sales for the period of June 2013–May 2014, to reflect the timing of the implementation of the SWRCB regulation in June 1, 2015, and the expected reduction from the same months in the period from June 2013 – February 2014. The additional three months of March-May of 2014 were added to the base period from which the 28% reduction was measured in order to provide for an estimate for a full year of consumption. Therefore the forecasts for 2016 and 2017 are fully reflective of the SWRCB's mandated 28% reduction, resulting in further reduction to sales and production compared to Test Year 2015. The total water production was developed by applying the unaccounted for water percentage to the total water sales.

The tables below reflect the revised total water supply and consumption per customer for Test Year 2015, Escalation 2016, and Escalation Year 2017. As the average number of customers used in calculating the consumption per customer was taken from the Settlement Agreement, average number of customers tables are not repeated herein.<sup>1</sup>

**Total Water Supply – Test Year 2015**

<b>Total Water Supply (Ccf)</b>	<b>AVR Original</b>	<b>ORA Original</b>	<b>Settlement</b>	<b>Supplement</b>
Residential	3,580,135	3,555,152	3,556,521	2,733,495
Commercial	808,526	804,828	797,967	650,011
Industrial	1,261	1,282	1,282	972
Public Authority	288,783	288,783	286,232	216,629
Irrigation Pressure	294,175	266,596	266,634	221,384
Private Fire Service	2,173	1,642	1,809	1,108
Public Authority Irrigation	26,825	26,825	26,825	22,580
Apple Valley Golf Course	122,164	126,540	126,540	117,126
Temporary Construction	8,921	7,056	8,811	8,811
Total Domestic Sales	5,132,964	5,078,703	5,072,621	3,972,116
- Unaccounted for Water (settled) (6%)	386,352	272,933	323,784	253,539
Irrigation Gravity	456,275	443,715	456,275	456,275
- Unaccounted for Water (settled) (78.2%)	1,780,367	1,444,433	1,636,729	1,636,729
<b>Total Water Supply</b>	<b>7,755,957</b>	<b>7,239,785</b>	<b>7,489,409</b>	<b>6,318,659</b>

<sup>1/</sup> Details regarding the average number of customers, including tables, are noted at pages 7-8 of the Settlement Agreement.

**Total Water Supply – Escalation Year 2016**

<b>Total Water Supply (Ccf)</b>	<b>AVR Original</b>	<b>ORA Original</b>	<b>Settlement</b>	<b>Supplement</b>
Residential	3,608,411	3,593,649	3,586,134	2,540,216
Commercial	813,861	812,387	804,403	632,415
Industrial	1,261	1,282	1,282	788
Public Authority	291,338	287,505	288,787	203,953
Irrigation Pressure	302,580	271,414	271,453	208,066
Private Fire Service	2,309	1,696	1,870	2,100
Public Authority Irrigation	26,825	26,825	26,825	19,315
Apple Valley Golf Course	122,164	126,540	126,540	113,021
Temporary Construction	8,921	7,056	8,811	8,811
Total Domestic Sales	5,177,671	5,128,355	5,116,104	3,728,685
- Unaccounted for Water (settled) (6%)	389,717	275,602	326,560	238,001
Irrigation Gravity	456,275	443,715	456,274.90	456,275
- Unaccounted for Water (settled) (78.2%)	1,780,367	1,444,434	1,636,729	1,636,729
<b>Total Water Supply</b>	<b>7,804,030</b>	<b>7,292,105.</b>	<b>7,535,668.48</b>	<b>6,059,690</b>

**Total Water Supply – Escalation Year 2017**

<b>Total Water Supply (Ccf)</b>	<b>AVR Original</b>	<b>ORA Original</b>	<b>Settlement</b>	<b>Supplement</b>
Residential	3,636,687	3,632,146	3,615,747	2,561,192
Commercial	819,196	819,947	810,838	637,474
Industrial	1,261	1,282	1,282	788
Public Authority	293,894	291,338	291,343	205,758
Irrigation Pressure	310,985	276,232	274,665	210,528
Private Fire Service	2,445	1,751	1,930	2,168
Public Authority Irrigation	26,825	26,825	26,825	19,315
Apple Valley Golf Course	122,164	126,540	126,540	113,021
Temporary Construction	8,921	7,056	8,811	8,811
Total Domestic Sales	5,222,379	5,183,118	5,157,981	3,759,056
- Unaccounted for Water (settled) (6%)	393,082	278,545	329,233	239,940
Irrigation Gravity	456,275	443,715	456,274	456,274
- Unaccounted for Water (settled) (78.2%)	1,780,367	1,444,434	1,636,729	1,636,729
Total Water Supply	7,852,103	7,349,811	7,580,218	6,091,999

**Consumption Per Customer – Test Year 2015**

<b>Consumption per Customer (Ccf)</b>	<b>AVR Original</b>	<b>ORA Original</b>	<b>Settlement</b>	<b>Supplement</b>
Residential	199.13	197.42	197.42	151.73
Commercial	592.76	581.52	585.02	476.55
Industrial	630.60	641.00	641.00	485.90
Public Authority	6,389.00	6,389.00	6,389.10	4,835.48
Irrigation Pressure	1,681.00	1,606.00	1,606.23	1,333.64
Private Fire Service	7.99	6.84	7.57	4.64
Public Authority Irrigation	5,365.00	5,365.00	5,364.92	4,516.04
Irrigation Gravity	456,275.00	443,715.00	456,274.90	456,274.90
Apple Valley Golf Course	122,164.00	126,540.00	126,540.00	117,125.88
Temporary Construction	991.25	784.04	801.01	801.01

**Consumption Per Customer – Escalation Years 2016 and 2017**

<b>Consumption per Customer (Ccf)</b>	<b>AVR Original</b>	<b>ORA Original</b>	<b>Settlement</b>	<b>Supplement</b>
Residential	199.13	197.42	197.42	139.84
Commercial	592.76	581.52	585.02	459.94
Industrial	630.60	641.00	641.00	394.09
Public Authority	6,389.00	6,389.00	6,389.10	4,512.24
Irrigation Pressure	1,681.00	1,606.00	1,606.23	1,231.16
Private Fire Service	7.99	6.84	7.57	8.50
Public Authority Irrigation	5,365.00	5,365.00	5,364.92	3,863.03
Irrigation Gravity	456,275.00	443,715.00	456,274.90	456,274.90
Apple Valley Golf Course	122,164.00	126,540.00	126,540.00	113,021.15
Temporary Construction	991.25	784.04	801.01	801.01

## **REVENUES AT PRESENT RATES**

In addition to the revision to the total water supply, the revenues at present rates are impacted by the change in water sales. The revenue at present rates consists of service charge revenue, commodity charge revenue, and miscellaneous revenue. Service charge revenue, based on the number of customers and appropriate tariff and miscellaneous revenues, are unaffected by the revised sales forecast. The commodity revenue, calculated by multiplying the number of customers and the applicable water use, is impacted because of the revised (reduced) sales forecast. The table below shows the original estimates of AVR and ORA, the Settled Estimate, and the Supplement Estimate.

### **Test Year 2015 –Present Rates**

<b>Metered Revenues (\$)</b>	<b>AVR Original</b>	<b>ORA Original</b>	<b>Settlement</b>	<b>Supplement</b>
Residential	14,826,176	14,767,410	14,752,278	12,544,684
Commercial	3,399,105	3,406,266	3,370,132	2,964,139
Industrial	5,105	5,162	5,105	4,311
Public Authority	975,827	967,191	967,203	776,215
Private Fire	348,790	307,756	306,474	306,474
Public Authority Irrigation	35,268	35,268	35,267	32,029
Irrigation Pressure	1,020,145	933,518	933,623	809,455
Gravity Irrigation	196,700	192,380	196,700	196,700
Apple Valley Golf Course	112,084	115,854	115,854	107,744
Temporary Construction	57,644	52,526	57,341	65,564
Miscellaneous Revenue	46,693	46,693	46,693	46,693
<b>Total Revenue</b>	<b>21,023,537</b>	<b>20,830,023</b>	<b>20,786,670</b>	<b>17,854,008</b>

The reduction in water sales and water production generates a proportional reduction in supply costs, discussed below, which reduces the revenue requirement. As a result of the reduced supply costs and maintaining the existing rate structure, the proposed rates will increase. The average customer bill, however, will be reduced for customers with consumption at or below the conservation target (bill comparisons are provided below in the section on rate design).

**PURCHASED POWER-DOMESTIC**

Purchased power expense is based on the proposed production and the unit cost of pumping for each well and booster pump. The table below shows the reduced purchased power expense based on the reduction to the total water supply.

**Test Year 2015**

	AVR Original	ORA Original	Settlement	Supplement
Purchased Power	\$1,030,017	\$1,010,269	\$1,015,582	\$877,660

**Escalation Year 2016**

	AVR Original	ORA Original	Settlement	Supplement
Purchased Power	\$1,035,678	\$1,016,436	\$1,021,030	\$847,160

**Escalation Year 2017**

	AVR Original	ORA Original	Settlement	Supplement
Purchased Power	\$1,041,340	\$1,023,227	\$1,026,276	\$850,965

## **REPLENISHMENT-DOMESTIC**

Replenishment assessments (Administrative Assessment, Biological Assessment, and the Makeup Assessment) are based on the proposed production and the cost per acre-foot (current rates at the time the Application was prepared). The Makeup Assessment is a function of the total flow from the Alto sub-basin to the Centro sub-basin and is not impacted by the revised sales forecasts. The table below shows the reduced replenishment assessments based on the reduction to the total water supply.

### **Test Year 2015**

	AVR Original	ORA Original	Settlement	Supplement
Admin/Biological	\$55,244	\$53,567	\$54,017	\$42,295
Makeup	\$49,740	\$49,740	\$49,740	\$49,740
Total Replenishment	\$104,984	\$103,307	\$103,757	\$92,035

### **Escalation Year 2016**

	AVR Original	ORA Original	Settlement	Supplement
Admin/Biological	\$55,725	\$54,090	\$54,480	\$39,703
Makeup	\$49,740	\$49,740	\$49,740	\$49,740
Total Replenishment	\$105,465	\$103,830	\$104,220	\$89,443

### **Escalation Year 2017**

	AVR Original	ORA Original	Settlement	Supplement
Admin/Biological	\$56,206	\$54,526	\$54,926	\$40,027
Makeup	\$49,740	\$49,740	\$49,740	\$49,740
Total Replenishment	\$105,946	\$104,226	\$104,666	\$89,767

## **LEASED WATER RIGHTS-DOMESTIC**

A replacement assessment is levied on all production in excess of the Free Production Allowance (“FPA”). The FPA is the amount of water that a producer like AVR can pump in a given water year without incurring an obligation to buy water from the Watermaster and is based on AVR’s water rights, which are also known as Base Annual Production Rights. In lieu of paying a replacement assessment, a producer may lease the FPA of another agency or individual. Leased water rights are based on the proposed production less the adjusted FPA and the cost per acre-foot.

The FPA is adjusted for the assumption of use of water pre-purchased through the Mojave Water Agency’s pre-purchased programs (including the Claim Program), the FPA of Jess Ranch Water Company (“JRW”) made available to AVR for production in the Jess Ranch development pursuant to the Water Supply Agreement with JRW, and the water made available from the Town of Apple Valley based on the Tariff Deviation Agreements. It must be noted that use of the MWA pre-purchased programs is only available to AVR when it incurs a replacement obligation. Due to the reduction in production estimate, AVR’s adjusted FPA is estimated to be equal its proposed pumping in 2015 and, therefore, AVR does not estimate incurring any leased water rights expenses. For Escalation Years 2016 and 2017, AVR’s adjusted FPA is estimated to be slightly in excess of the proposed pumping, excess FPA which AVR proposes to carry over to the following year as allowed under the Mojave Basin Adjudication, and therefore AVR will not incur any leased water rights expense. The below tables show the reduced leased water right expense based on the reduction to the total water supply.

### **Leased Water Rights**

	AVR Original	ORA Original	Settlement	Supplement
Test Year 2015	\$1,030,017	\$1,010,269	\$1,015,582	\$0
Escalation Year 2016	\$1,030,017	\$1,010,269	\$1,015,582	\$0
Escalation Year 2017	\$1,030,017	\$1,010,269	\$1,015,582	\$0

## **RATE BASE**

The components of rate base are utility plant in service, construction work in progress, materials and supplies, working cash, reserves for depreciation and amortization, contributions in aid of construction, advances for construction, deferred income taxes, unamortized investment tax credit, and the Method 5 adjustment to rate base. The only component of rate base impacted by the change in production is working cash, which is calculated using the Detailed Basis set out in the Commission's Standard Practice U-16. In the below tables, the working cash has been recalculated to reflect the revised revenues and expenses described above.

**TABLE VIII - A1  
APPLE VALLEY RANCHOS WATER**

**RATE BASE SUMMARY - DOMESTIC**

AVERAGE BALANCES	<u>2013</u> RECORDED	<u>2014</u> ESTIMATE	<u>2015</u> ESTIMATE	<u>2016</u> ESTIMATE
PLANT IN SERVICE	113,410,714	119,780,941	126,217,676	132,885,202
WORK IN PROGRESS	327,527	146,932	47,078	23,539
MATERIALS & SUPPLIES	330,758	333,716	336,674	339,598
WORKING CASH	0	0	1,866,498	1,824,886
SUBTOTAL	114,068,999	120,261,589	128,467,926	135,073,226
LESS:				
DEPRECIATION RESERVE	29,396,844	31,987,710	34,681,200	37,126,505
ADVANCES	29,504,721	28,746,697	28,171,263	27,550,551
CONTRIBUTIONS	2,183,555	2,154,558	2,051,703	1,948,861
UNAMORTIZED ITC	56,581	49,325	44,488	39,650
DEFERRED INCOME TAX	10,615,097	10,527,396	10,450,795	10,409,852
SUBTOTAL	71,756,798	73,465,686	75,399,449	77,075,420
PLUS:				
METHOD 5 ADJUSTMENT	995	839	777	732
NET DISTRICT RATE BASE	42,313,196	46,796,742	53,069,253	57,998,538
MAIN OFFICE ALLOCATION			1,065,506	1,057,721
TOTAL RATE BASE	42,313,196	46,796,742	54,134,759	59,056,259

**TABLE VIII - A2  
APPLE VALLEY RANCHOS WATER**

**RATE BASE SUMMARY - IRRIGATION**

AVERAGE BALANCES	<u>2013</u> RECORDED	<u>2014</u> ESTIMATE	<u>2015</u> ESTIMATE	<u>2016</u> ESTIMATE
PLANT IN SERVICE	620,605	622,162	623,720	624,092
WORK IN PROGRESS	0	0	0	0
WORKING CASH	0	0	12,401	12,124
SUBTOTAL	620,605	622,162	636,121	636,217
LESS:				
DEPRECIATION RESERVE	221,510	236,143	250,689	264,408
ADVANCES	0	0	0	0
CONTRIBUTIONS	41,475	40,205	38,954	37,723
UNAMORTIZED ITC	0	0	0	0
DEFERRED INCOME TAX	68,449	65,435	68,621	65,467
SUBTOTAL	331,434	341,783	358,264	367,598
PLUS:				
METHOD 5 ADJUSTMENT	0	0		
NET DISTRICT RATE BASE	289,171	280,379	277,856	268,618
MAIN OFFICE ALLOCATION	3,919	5,749	6,912	6,861
TOTAL RATE BASE	293,091	286,128	284,768	275,480

## **UNCOLLECTIBLES-DOMESTIC**

The revised uncollectible expense is based on the settlement uncollectible percentage multiplied by the revised proposed revenues. In the below table, the uncollectible expense has been recalculated to reflect the reduction to the revenue requirement.

### **Test Year 2015**

	AVR Original	ORA Original	Settlement	Supplement
Uncollectibles	\$114,873	\$114,100	\$110,935	\$106,328

## **FRANCHISE REQUIREMENT-DOMESTIC**

The revised franchise requirement is based on the settlement franchise percentage multiplied by the revised proposed revenues. In the below table, the franchise requirement has been recalculated to reflect the reduction to the revenue requirement.

### **Test Year 2015**

	AVR Original	ORA Original	Settlement	Supplement
Franchise Requirement	\$232,139	\$230,700	\$224,182	\$214,872

## **INCOME TAX**

Income taxes are based on the resolution of all issues (e.g., revenues, expenses, and utility plant). In the below tables, the income tax expense has been recalculated consistent with the reductions in expense and revenues described above, using the same methodologies used in the settlement calculations.

<b>TABLE IX-A</b>			
<b>APPLE VALLEY RANCHOS WATER CO. - DOMESTIC</b>			
<b>INCOME TAX CACULATIONS</b>			
	<b>2015-TY PRESENT</b>		<b>2015-TY PROPOSED</b>
OPERATING REVENUES	17,657,307		22,151,720
EXPENSE			
OPERATIONS & MAINTENANCE	4,458,842		4,458,842
UNCOLLECTIBLES	84,755		106,328
ADMINISTRATIVE & GENERAL	6,269,133		6,269,133
FRANCHISE REQUIREMENTS	171,276		214,872
PROPERTY TAXES	586,630		586,630
PAYROLL TAXES	320,921		320,921
MEALS ADJUSTMENT	(11,504)		(11,504)
TOTAL	11,880,052		11,945,221
INCOME BEFORE TAXES	5,777,255		10,206,499
CA CORP-FRANCHISE TAX (CCFT)			
CA TAX DEPRECIATION	3,271,958		3,271,958
INTEREST	1,906,916		1,906,916
TOTAL	5,178,874		5,178,874
TAXABLE INCOME FOR CCFT	598,380		5,027,624
CCFT RATE	8.84%		8.84%
CALIFORNIA INCOME TAX	52,897		444,442
FEDERAL INCOME TAX			
FED. TAX DEPRECIATION	3,398,090		3,398,090
CA TAX	52,897		52,897
INTEREST	1,906,916		1,906,916
QUALIFIED PROD. DEDUCTION	14,270		164,993
TOTAL	5,372,173		5,522,895
FIT TAXABLE INCOME	405,082		4,683,603
FIT RATE	34.00%		34.00%
FEDERAL INCOME TAX	137,728		1,592,425
INVESTMENT TAX CREDIT	0		0
NET FEDERAL INCOME TAX	137,728		1,592,425

TABLE IX-B			
APPLE VALLEY RANCHOS WATER CO. - IRRIGATION			
INCOME TAX CALCULATIONS			
		2015 PRESENT	2015 PROPOSED
	OPERATING REVENUES	196,700	218,280
	EXPENSE		
	OPERATIONS & MAINTENANCE	112,158	112,158
	UNCOLLECTIBLES	0	0
	ADMINISTRATIVE & GENERAL	49,518	49,518
	FRANCHISE REQUIREMENTS	0	0
	PROPERTY TAXES	3,460	3,460
	PAYROLL TAXES	698	698
	MEALS ADJUSTMENT	(74)	(74)
	TOTAL	165,760	165,760
	INCOME BEFORE TAXES	30,940	52,520
	CA. CORP - FRANCHISE TAX (CCFT)		
	CA TAX DEPRECIATION	15,083	15,083
	INTEREST	9,938	9,938
		25,021	25,021
	TAXABLE INCOME FOR CCFT	5,919	27,499
	CCFT RATE	8.84%	8.84%
	CA INCOME TAX	523	2,431
	FEDERAL INCOME TAX (FIT)		
	FED. TAX DEPRECIATION	14,789	14,789
	CA TAX	523	523
	INTEREST	9,938	9,938
	QUALIFIED PROD. DEDUCTION	194	928
	TOTAL	25,444	26,178
	FIT TAXABLE INCOME	5,496	26,342
	FIT RATE	34.00%	34.00%
	FIT (BEFORE ADJUSTMENT)	1,869	8,956
	INVESTMENT TAX CREDIT	0	0
	NET FEDERAL INCOME TAX	1,869	8,956

## **REVENUE AT PROPOSED RATES**

The summary of earnings tables below reflect the revisions to expenses, revenues, and rate base resulting from the reduced water sales.

<b>TABLE XI-A</b>			
<b>APPLE VALLEY RANCHOS WATER CO. - DOMESTIC</b>			
<b>SUMMARY OF EARNINGS</b>			
	<b>2015-TY PRESENT</b>	<b>INCREASE</b>	<b>2015-TY PROPOSED</b>
OPERATING REVENUES	17,610,614		22,085,754
DEFERRED REVENUES	0		0
MISCELLANEOUS REVENUE	(46,693)		(65,966)
<b>TOTAL REVENUES</b>	<b>17,657,307</b>	<b>4,494,413</b>	<b>22,151,720</b>
		25.45%	
<b>OPERATIONS &amp; MAINTENANCE</b>			
PAYROLL-OPERATIONS	834,443		834,443
OPERATIONS-OTHER	155,162		155,162
PURCHASED WATER-POTABLE	0		0
PURCHASED POWER	877,660		877,660
LEASED WATER RIGHTS	0		0
REPLENISHMENT	92,035		92,035
CHEMICALS	21,771		21,771
PAYROLL-CUSTOMERS	504,509		504,509
CUSTOMERS-OTHER	350,375		350,375
UNCOLLECTIBLES	84,755		106,328
PAYROLL-MAINTENANCE	435,255		435,255
MAINTENANCE-OTHER	617,036		617,036
PAYROLL-CLEARINGS	122,404		122,404
DEPRECIATION-CLEARINGS	241,905		241,905
CLEARINGS-OTHER	206,287		206,287
<b>SUB-TOTAL O &amp; M</b>	<b>4,543,597</b>		<b>4,565,170</b>
<b>ADMINISTRATIVE &amp; GENERAL</b>			
A & G PAYROLL	1,609,905		1,609,905
EMPLOYEE BENEFITS	1,340,799		1,340,799
INSURANCE	662,407		662,407
UNINSURED PROPERTY DAMAGE	8,766		8,766
REG. COMM. EXPENSE	159,307		159,307
FRANCHISE REQUIREMENTS	171,276		214,872
OUTSIDE SERVICES	244,353		244,353
A & G - OTHER	496,040		496,040
A & G TRANSFERRED CREDIT	(357,202)		(357,202)
RENTS	16,809		16,809
<sup>1</sup> GENERAL OFFICE ALLOCATION	2,115,575		2,115,575
AVR ALLOCATION	(27,626)		(27,626)
<b>SUB-TOTAL A &amp; G</b>	<b>6,440,409</b>		<b>6,484,004</b>
<b>OTHER TAXES</b>			
<sup>1</sup> PROPERTY TAXES	586,630		586,630
<sup>1</sup> PAYROLL TAXES	320,921		320,921
<b>SUBTOTAL OTHER TAXES</b>	<b>907,551</b>		<b>907,551</b>
<sup>1</sup> DEPRECIATION	3,247,038		3,247,038
CA INCOME TAXES	52,897		444,442
FEDERAL INCOME TAXES	137,728		1,592,425
<b>TOTAL EXPENSE</b>	<b>15,329,219</b>		<b>17,240,630</b>
<b>NET REVENUES</b>	<b>2,328,088</b>		<b>4,911,090</b>
<b>TOTAL RATE BASE</b>	<b>54,134,759</b>		<b>54,134,759</b>
<b>RATE OF RETURN</b>	<b>4.30%</b>		<b>9.07%</b>
<sup>1</sup> DEPRECIATION, PROPERTY TAX AND PAYROLL TAXES FROM PARK'S GENERAL OFFICE HAVE BEEN INCLUDED IN THE APPROPRIATE LINE ITEM OF EXPENSE.			

TABLE XI-B			
APPLE VALLEY RANCHOS WATER CO. - IRRIGATION			
SUMMARY OF EARNINGS			
	2015 PRESENT	INCREASE	2015 PROPOSED
OPERATING REVENUES	196,700		218,280
DEFERRED REVENUES	0		0
TOTAL REVENUES	196,700	21,580 10.97%	218,280
OPERATIONS & MAINTENANCE			
PAYROLL-OPERATIONS	3,023		3,023
OPERATIONS-OTHER	0		0
PURCHASED POWER	94,280		94,280
LEASED WATER RIGHTS	0		0
REPLENISHMENT	9,592		9,592
UNCOLLECTIBLES	0		0
PAYROLL-MAINTENANCE	0		0
MAINTENANCE-OTHER	2,178		2,178
CLEARINGS-OTHER	3,085		3,085
SUB-TOTAL O & M	112,158		112,158
ADMINISTRATIVE & GENERAL			
A & G PAYROLL	0		0
EMPLOYEE BENEFITS	2,056		2,056
INSURANCE	1,284		1,284
REG. COMM. EXPENSE	0		0
FRANCHISE REQUIREMENTS	0		0
OUTSIDE SERVICES	4,579		4,579
A & G - OTHER	249		249
<sup>1</sup> GENERAL OFFICE ALLOCATION	13,723		13,723
AVR ALLOCATION	27,626		27,626
SUB-TOTAL A & G	49,518		49,518
OTHER TAXES			
<sup>1</sup> PROPERTY TAXES	3,460		3,460
<sup>1</sup> PAYROLL TAXES	698		698
SUB-TOTAL OTHER TAXES	4,159		4,159
<sup>1</sup> DEPRECIATION	15,235		15,235
CA INCOME TAXES	523		2,431
FEDERAL INCOME TAXES	1,869		8,956
TOTAL EXPENSE	183,461		192,456
NET REVENUES	13,239		25,824
RATE BASE	284,768		284,768
RATE OF RETURN	4.65%		9.07%
<sup>1</sup> DEPRECIATION, PROPERTY TAX AND PAYROLL TAXES FROM PARK'S GENERAL OFFICE HAVE BEEN INCLUDED IN THE APPROPRIATE LINE ITEM OF EXPENSE.			

## **RATE DESIGN**

AVR does not propose any change to the rate design contained in the Settlement Agreement. The rate design proposed in the Settlement Agreement is based on the same conservation rate design previously authorized by the Commission for AVR in two separate decisions (D.08-09-026 and D.12-09-004), with minor adjustments to the Tier 1 usage block and the price differential between the tiers. AVR notes that the Commission plans to review its conservation rate design policy in Phase II of Rulemaking 11-11-008. The Assigned Commissioner's ruling and the amended scoping memo identifies the following scope for Phase II of that proceeding:

In particular, Phase II will evaluate current policies and potential improvements in policies related to: (1) rate structures, including conservation rate design, tiered rates, and other rate-design issues...

The rate impact to the typical residential customer bill resulting from the reduction in water sales, production, and revenue requirement is shown below for Test Years 2015 and Escalation Year 2016.

### **Bill Comparison**

#### **Amended Settlement Original Sales Forecast**

	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>
<b>Typical Bi-Monthly Consumption</b>	<b>32.90</b>	<b>32.90</b>	<b>32.90</b>	<b>32.90</b>
Avg BiMonthly Amt of Bill	\$ 129.35	\$ 143.60	\$ 149.27	\$ 155.35
Amount of Increase		\$ 14.25	5.67	\$ 6.08
Percentage of Increase		11.01%	3.95%	4.07%

#### **Amended Settlement Revised Sales Forecast**

	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>
<b>Typical Bi-Monthly Consumption</b>	<b>32.90</b>	<b>25.29</b>	<b>23.31</b>	<b>23.31</b>
Avg BiMonthly Amt of Bill	\$ 129.35	\$ 132.79	\$ 135.57	\$ 141.28
Amount of Increase		\$ 3.43	2.78	\$ 5.70
Percentage of Increase		2.66%	2.10%	4.21%

**Bill Amount Comparison**

	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>
Settlement Sales Forecast	\$ 129.35	\$ 143.60	\$ 149.27	\$ 155.35
Revised Sales Forecast	\$ 129.35	\$ 132.79	\$ 135.57	\$ 141.28
Amount of Increase	\$ -	\$ (10.81)	\$ (13.70)	\$ (14.07)
Percentage of Increase	0.00%	-7.53%	-9.18%	-9.06%