

## PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



July 2, 2015

Edward N. Jackson  
Director, Revenue Requirements  
Apple Valley Ranchos Water Company  
P.O. Box 7005  
Apple Valley, CA 92307

Dear Mr. Jackson,

The Commission has approved Apple Valley Ranchos Water Company's Advice Letter No. 200-W, filed on June 02, 2015, regarding the James Woody Park Deviation Agreement.

Enclosed are copies of the following revised tariff sheets for the utility's files:

**P.U.C. Sheet No.**

**Title of Sheet**

819-W  
820-W

List of Contracts and Deviations  
Table of Contents

Please contact Jim Boothe at (415) 703-1748 if you have any questions.

Thank you,

  
Jennifer Perez

Water & Sewer Advisory Branch  
Division of Water and Audits

Enclosures

<b>CALIFORNIA PUBLIC UTILITIES COMMISSION DIVISION OF WATER AND AUDITS Advice Letter Cover Sheet</b>				(Date Filed / Received Stamp by CPUC) <div style="border: 1px solid black; padding: 10px; margin: 10px auto; width: 150px;"> <div style="text-align: center; font-weight: bold; font-size: 1.2em;">FILED</div> <div style="text-align: center; font-size: 1.5em; margin: 10px 0;">JUN - 2 2015</div> <div style="text-align: center; font-size: 0.8em;">PUBLIC UTILITIES COMMISSION DIVISION OF WATER AND AUDITS</div> </div>			
AL # 200-W		Date Mailed to Service List: June 2, 2015		Requested Effective Date: July 2, 2015		Requested Tier:  <input type="checkbox"/> Tier 1 <input checked="" type="checkbox"/> Tier 2 <input type="checkbox"/> Tier 3	
Replacing AL#:		Authorization for Filing:		Compliance Filing?  <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No		<div style="display: flex; justify-content: space-between;"> <div>Rate Impact</div> <div>           \$   N/A            %   N/A         </div> </div>	
<u>The public has 20 days from Date Mailed (above) to protest this advice letter. If you chose to protest or respond to the advice letter, send Protest and/or Correspondence within 20 days to:</u>				Director Division of Water and Audits 505 Van Ness Ave. San Francisco, CA 94102			
<u>and if you have email capability, also email to:</u>				<a href="mailto:water_division@cpuc.ca.gov">water_division@cpuc.ca.gov</a>			
<u>Your protest also must be served on the Utility</u>				(see attached advice letter for more information and grounds for protest)			
Company Name: Apple Valley Ranchos Water Company						CPUC Utility Number: WTA <u>U-346-W</u> WTB _____ WTC _____ WTD _____ SWR _____	
Address: 21760 Ottawa Road, P.O. Box 7005							
City, State, Zip: Apple Valley, CA 92307-7005							
Contact Name:		Phone No.		Fax No.		Email Address:	
Filer	Edward N. Jackson		562.923.0711		562.861.5902		<a href="mailto:ed.jackson@parkwater.com">ed.jackson@parkwater.com</a>
Alternate	Ellen M. Zimbalist		562.923.0711		562.861.5902		<a href="mailto:ezimbalist@parkwater.com">ezimbalist@parkwater.com</a>
<b>Description:</b> AVR submits this advice letter to revise and delete a condition on the Contract Deviation tariff. The tariffs affected are 819-W, and 820-W.							
(FOR CPUC USE ONLY)							
WTS Budget/Activity/Type				Process as: <input type="checkbox"/> Tier 1 <input type="checkbox"/> Tier 2 <input type="checkbox"/> Tier 3			
_____ / _____ / _____				20th Day _____		30th Day _____	
Project Manager:		_____		Suspended on:		_____	
Analyst:		_____		Extended on:		_____	
Due Date:		_____		Resolution No.:		_____	
Completion Date:		_____		AL/Tariff Effective Date:		_____	



JUN - 2 2015

June 2, 2015

PUBLIC UTILITIES COMMISSION  
DIVISION OF WATER AND AUDITS

Advice Letter No. 200 -W

TO THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Apple Valley Ranchos Water Company (AVR) (U 346 W) hereby transmits for filing revised copies of the following tariff schedules.

Calif. P.U.C. <u>Sheet No.</u>	<u>Title of Sheet</u>	Schedule <u>No.</u>	Canceling <u>Sheet No.</u>
819-W	List of Contracts and Deviations		812-W
820-W	Table of Contents		818-W

### Summary

The purpose of this filing is to request that the California Public Utilities Commission ("Commission") approve the termination of the tariff deviation agreement ("Agreement") between Apple Valley Ranchos Water Company ("AVR") and the Town of Apple Valley ("Town") for water service to the James Woody Park ("Park") recreational area. Upon approval of this advice letter, the Agreement would terminate, and AVR would continue to provide water service to the Park under Schedule No. 3-Non-Residential General Metered Service. This advice letter is submitted pursuant to Resolution W-4499, which approved the Agreement between Town and AVR. Section 3.(b) of the agreement states:

"If Ranchos, or the Town, determines in good faith that any or all of the Deviations are no longer in the best interests of Ranchos and/or its other ratepayers, or of the Town, because of a change in circumstances, Ranchos, or the Town may request that the Commission modify or eliminate any or all Deviations in this Agreement, including termination of this Agreement." (emphasis added)

AVR began providing water service to the Town under the Agreement on May 13, 2004 after receiving a credible threat of bypass by the Town. The purpose of the Agreement was to remove the financial incentive for the Town to construct a new well and therefore bypass AVR's system, and also to provide a benefit to AVR's ratepayers in the form of the retention of revenues from the Town exceeding the incremental cost to AVR of providing service at the Park.

However, circumstances have changed since this Tariff Deviation Agreement was entered into by AVR and approved by the Commission in 2004. For the reasons explained below, AVR does not believe that there currently exists a credible threat of bypass by the Town for irrigation service at James Woody Park. For this reason, among others, AVR has determined that the subsidy set forth by the Agreement is no longer warranted.

AVR is also concerned about providing discounts for irrigation service in the current drought emergency. On April 1, 2015, Governor Edmund Brown Jr. issued Executive Order (B-29-15) (EO) directing the California Public Utilities Commission (Commission) and the State Water Resources Control Board (Water Board) to: (1) impose restrictions to achieve a statewide 25% reduction in potable urban water usage, as compared with the amount used in 2013, through February 28, 2016. AVR's conservation target for reduction in use has been set at 28%. Pursuant to Resolution W-5034, ordering compliance with the requirements of the Water Board, AVR has filed for Commission approval to add to its tariffs Schedule 14.1, which contains the Staged Mandatory Reductions, Mandatory Restrictions, and Drought Surcharges associated with its Water Shortage Contingency Plan. Additionally, AVR requested Commission authorization to activate Stage 2 of the proposed Schedule 14.1, which will implement drought surcharges. Providing a discounted rate for water consumption when AVR has been ordered to impose restrictions to achieve a 28% reduction in use is inconsistent and does not provide the appropriate message to AVR's customers, especially when other customers are subject to drought surcharges. Especially under these circumstances, AVR does not believe that it is appropriate to continue with a deviation from tariff for water service at a discounted rate, and exemption from drought surcharges, at any specific location, to the Town or anyone else, unless there is a clear benefit to AVR's ratepayer from continuing to do so. In this case, AVR does not believe that benefit exists.

### **Background**

Historically, AVR provided service to the Town for the irrigation of its Park, a recreational area covering approximately twenty-two acres located within the Town, at rates and under conditions prescribed by AVR Schedule No. 1, General Metered Service. At that time, the Town determined that it was not economical to continue to receive water service from AVR at the rates effective at that time for the irrigation of the Park. The Town therefore made plans to design and construct an irrigation well at the Park. The Town's plan to construct a well in close proximity to an existing AVR well led to discussions between the Town and AVR. As a result of these discussions, AVR and the Town developed a tariff deviation agreement to allow AVR to continue to provide service to the Town at the Park. Approval of the tariff deviation agreement, allowed the Town to cancel its plans to construct the irrigation well at the Park.

Under the terms of the tariff deviation agreement, AVR continued to provide general metered water service to the Town for the irrigation of the Park with the following deviations:

- a) The commodity rate began at \$0.45 per Ccf and was subject to future pro rata increases to Schedule No. 1.
- b) As a condition to service, the Town agreed to lease AVR the amount of water rights used to irrigate the Park at no charge to AVR.

AVR believed that providing service to the Town at the revised rates and under the specific conditions of the tariff deviation agreement was beneficial to AVR's customers. If the Town constructed its own well and bypassed the AVR water system, the portion of AVR's fixed costs currently recovered from the sales to the Park would need to be recovered from AVR's remaining customer base.

On September 23, 2004 the CPUC approved the Agreement for service to the Town for the irrigation of its Park in Resolution No. W-4499. Copies of Resolution No. W-4499 and the Agreement have been provided to Commission Staff.

However, circumstances has changed since this tariff Deviation Agreement was entered into by AVR and approved by the Commission.

The costs associated with drilling, constructing, and operating a new well have increased significantly since the Agreement was executed in 2004. By simply applying the industry standard escalation factors derived from the Construction Cost Index, AVR has determined that the up-front cost of constructing a well has increased by roughly 40% since 2004.<sup>1</sup> Additionally, there has been a major jump in the cost of drilling new wells in recent years due to the drought. Agricultural farmers in Central California have begun constructing their own wells to help offset the cost of the drought. As a result, this surge in demand has driven construction companies to increase their prices by another 40% for well drilling. After considering the Construction Cost Index escalation and the jump in well drilling for the drought, AVR estimates that the total cost of constructing a new irrigation well has increased by approximately 75% since 2004.

The operational costs of maintaining a well have also increased. For instance, electrical costs associated with pumping for a Southern California Edison customer have increased by over 350% since 2004. Furthermore, when the Agreement was drafted, the Mojave Water Agency was in the process of ramping down the Free Production Allowance, further limiting the percentage of Base Annual Production that can be pumped, due to the adjudication of the

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<sup>1</sup> 2014 Engineering News Record Construction Cost Index History

Mojave Basin. At the time, the ramp-down had not yet lowered the Free Production Allowance to the level of 60% of Base Annual Production. Since then, the Mojave Water Basin has endured several dry years with the onset of the drought. Due to these factors, the water table is likely lower now than it was in 2004. This would result in increased costs for drilling a deeper well and increased O&M costs for pumping water from greater depths.

For all the above reasons, the costs for the Town to construct a well at James Woody Park have increased substantially since 2004 and would now likely cost \$1 million or more; operating costs for such a well have also increased substantially. Additionally, the Town should be reducing its consumption in response to the severe drought, which further diminishes any cost benefits of bypass to the Town.

The Town has also shown significant interest in pursuing condemnation of AVR's water system. Although no formal paperwork has been filed, the Town has made it clear that this is a serious consideration. On May 26, 2015 the Town Council passed a resolution to initiate an environmental impact report on a takeover of AVR's water system by the Town. AVR has been informed that in that same meeting, in closed session, the Town Council voted to make a formal offer for AVR. If the Town intends to acquire AVR, it would not make sense for the Town to spend \$1 million to construct a new well at the Park in order to bypass AVR's system, only to then purchase the entire system and render that new well unnecessary.

Over the last few years the Town has spent, and continues to spend, substantial amounts on legal and consulting expenses in connection with its efforts to acquire AVR. Since AVR has repeatedly told the Town that AVR, on a stand-alone basis, is not for sale, any acquisition would only be accomplished through a long and costly condemnation process, which will consume significantly more of the Town's available resources in condemnation expenses. Further, Town must reserve the ability to pay the fair market price for the system that would eventually be determined by the court, should the Town be successful in its effort.

In December of 2003, the Town established a credible threat of bypass for irrigation service to James Woody Park by informing AVR that the Town was preparing to award a contract for the design and engineering of a well at that location and that Community Development Block Grant Funds had been made available to fund the costs of construction of a new well at James Woody Park. However, at this time, AVR has no indication that grant funds are available for the Town to construct a new well.

Given all the circumstances described above, AVR does not find it credible that the Town will spend the additional money necessary to construct and operate a well at James Woody Park at this time and does not believe there is a credible threat of bypass.

In April of 2015, AVR sent a letter to the Town, stating its belief that the Town's actions constituted a change in circumstances and offering the Town the opportunity to discuss its tariff deviation agreements with AVR. AVR followed this letter with an email on April 22 stating its desire to meet with the Town to discuss the tariff deviation agreement for James Woody Park. AVR did not receive any response to this email.

**Request**

For the reasons described above, AVR does not believe there is a credible threat of bypass by the Town for service to the Park. It is not in the best interest for AVR's ratepayers to continue subsidizing the cost of serving water to the Park as described in the Agreement. AVR requests that the Agreement be terminated. Upon approval of this advice letter, AVR would terminate the Agreement and continue to provide water service to the Park under Schedule No. 3-Non-Residential General Metered Service.

**Tier Designation**

Pursuant to D.07-01-024, this advice letter is submitted with Tier 2 designation.

**Requested Effective Date**

Pursuant to General Order 96-B, and General Rule 7.3.1, AVR requests this filing become effective on July 2, 2015.

**Notice and Service**

In accordance with General Order 96-B, General Rules 4.3 and 7.2 and Water Industry Rule 4.1, a copy of this advice letter will be mailed or electronically transmitted on June 2, 2015 to competing and adjacent utilities and other utilities or interested parties having requested such notification.

**Response or Protest**

Anyone may respond to or protest this advice letter. A response supports the filing and may contain information that proves useful to the Commission in evaluating the advice letter. A protest objects to the advice letter in whole or in part and must set forth the specific grounds on which it is based. These grounds are:

- (1) The utility did not properly serve or give notice of the advice letter;
- (2) The relief requested in the advice letter would violate statute or Commission order, or is not authorized by statute or Commission order on which the utility relies;
- (3) The analysis, calculations, or data in the advice letter contain material error or omissions;



- (4) The relief requested in the advice letter is pending before the Commission in a formal proceeding; or
- (5) The relief requested in the advice letter requires consideration in a formal hearing, or is otherwise inappropriate for the advice letter process; or
- (6) The relief requested in the advice letter is unjust, unreasonable, or discriminatory (provided that such a protest may not be made where it would require re-litigating a prior order of the Commission).

A protest shall provide citations or proofs where available to allow staff to properly consider the protest.

A response or protest must be made in writing or by electronic mail and must be received by the Water Division within 20 days of the date this advice letter is filed. The address for mailing or delivering a protest is:

Tariff Unit, Water Division, 3<sup>rd</sup> floor  
California Public Utilities Commission,  
505 Van Ness Avenue  
San Francisco, CA 94102  
Email: [water\\_division@cpuc.ca.gov](mailto:water_division@cpuc.ca.gov)

On the same date the response or protest is submitted to the Water Division, the respondent or protestant shall send a copy by mail (or e-mail) to us, addressed to:

Edward N. Jackson, Representative  
Director of Revenue Requirements  
Park Water Company  
9750 Washburn Road, P. O. Box 7002  
Downey, CA 90241  
Phone: (562) 923.0711, ext. 1212  
Fax: (562) 861-5902  
E-Mail: [regulatoryaffairs@parkwater.com](mailto:regulatoryaffairs@parkwater.com)

Cities and counties that need Board of Supervisors or Board of Commissioners approval to protest should inform the Water Division within the 20-day protest period so that a late filed protest can be entertained. The informing document should include an estimate of the date the proposed protest might be voted on.



If you have not received a reply to your protest within 10 business days, contact Edward Jackson at (562) 923-0711, ext. 1212.

Very truly yours,

APPLE VALLEY RANCHOS WATER COMPANY

/s/ Edward N. Jackson  
EDWARD N. JACKSON  
Representative  
Director of Revenue Requirements  
Park Water Company  
P.O. Box 7002  
Downey, CA 90241  
[regulatoryaffairs@parkwater.com](mailto:regulatoryaffairs@parkwater.com)

ENJ/emz

APPLE VALLEY RANCHOS WATER COMPANY  
21760 OTTAWA ROAD  
P. O. BOX 7005  
APPLE VALLEY, CALIFORNIA 92307

Canceling

REVISED

Cal. P.U.C. Sheet No.

819-W

REVISED

Cal. P.U.C. Sheet No.

812-W

## LIST OF CONTRACTS AND DEVIATIONS

Name & Location Of Customer	Type or Class Of Service	Execution & Expiration	Commission Authorization	Most Comparable Schedule No.	Regular Tariff Contract
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(D)

Advice No.

AL 200-W

LEIGH K. JORDAN

Date Filed

JUL 2 2015

Decision No.

EXECUTIVE VICE PRESIDENT

Effective

JUL 2 2015

Title

Resolution No.

**TABLE OF CONTENTS**

The following listed tariff sheets contain all effective rates and rules affecting the charges and service of the utility, together with other pertinent information:

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Schedule No. 3	Non-Residential General Metered Service	816-W, 779-W
Schedule No. 4	Non-Metered Fire Service	817-W, 787-W
Schedule No. LC	Late Payment Charge	460-W
Schedule 14.1	Water Shortage Contingency Plan	804-W Through 810-W
Schedule UF	Surcharge to Fund PUC Reimbursement Fee	578-W
Schedule CARW	California Alternative Rates for Water	708-W, 527-W
Schedule No. CARW-SC	California Alternative Rates for Water Sur-Charge	709-W

**LIST OF CONTRACTS AND DEVIATIONS:**

819-W (C)

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No. 22	Fire Protection	716-W

(continued)

(To be inserted by utility)

Issued By:

(To be inserted by Cal. P.U.C.)

Advice No. 200-W

LEIGH K. JORDAN

Date Filed

JUN - 2 2015

Name

Decision No.

EXECUTIVE VICE PRESIDENT

Effective

JUL - 2 2015

Title

Resolution No.

## APPLE VALLEY RANCHOS WATER COMPANY

### ADVICE LETTER 200-W DISTRIBUTION LIST

Jim Hansen  
Navajo Mutual Water Company  
P. O. Box 392  
Apple Valley, CA 92307  
[jhansenjr@email.com](mailto:jhansenjr@email.com)

Town of Apple Valley  
Attention: Dennis Cron  
14955 Dale Evans Parkway  
Apple Valley, CA 92307  
[dcron@applevalley.org](mailto:dcron@applevalley.org)

Manuel Benitez  
County of San Bernardino  
Special Districts Department  
Water and Sanitation Division  
12402 Industrial Blvd.  
Bldg. D, Ste. 6  
Victorville, CA 92392

California Public Utilities Commission  
Attention Ting-Pong Yuen  
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505 Van Ness Avenue  
San Francisco, CA 94102  
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