

Date of Issuance 7/15/2011

DWA/RSK/KB5/TKM/jlj

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch

RESOLUTION NO. W-4882
July 14, 2011

R E S O L U T I O N

(RES. W-4882), APPLE VALLEY RANCHOS WATER COMPANY (AVR). ORDER AUTHORIZING APPROVAL OF AGREEMENT TO PROVIDE WATER SERVICE TO THE TOWN OF APPLE VALLEY (TOWN).

SUMMARY

By Advice Letter No. 165-W-A, filed on May 6, 2011, AVR seeks Commission approval to provide water service to the Town pursuant to a new water service tariff deviation agreement (Agreement), which the Town and AVR executed on March 10, 2011.

This Resolution grants AVR's request to provide water service to the Town under the Agreement once the Town closes escrow on the Apple Valley Golf Course.

BACKGROUND

AVR provides service to the Town for the irrigation of the golf course at the Apple Valley Country Club (AVCC). The Town operates the golf course through an operating agreement and is in the process of acquiring AVCC. Escrow is expected to close soon, at which point the golf course will be renamed the Apple Valley Golf Course (AVGC). For simplicity, the golf course is referred to in this resolution and the Agreement as AVGC.

AVR currently provides service to AVGC at rates and under conditions prescribed by AVR Schedule No. 3, Non-Residential General Metered Service (Schedule No. 3). The Town has determined that it is not economically feasible to continue to receive water service from AVR at current rates for the irrigation of AVGC. The Town has made plans to design and construct an irrigation well at AVGC. The Town contacted AVR regarding its plan to construct a well unless a lower water rate, similar to the tariff deviation agreement between AVR and the Town for service at James Woody Park, was available for service at AVGC. Following discussions between the Town and AVR, AVR and the Town developed the Agreement to allow AVR to continue to provide service to the Town at AVGC. Approval of the Agreement will allow the Town to cancel its plans to construct the irrigation well at AVGC.

Historically, the AVGC owned and operated a well to provide irrigation for the golf course. In 2009, shortly after the Town assumed operational control of the AVGC, the single irrigation well

failed and the well casing was compromised. The Town made several attempts to re-establish the production capacity of this well with only limited success. In the interim, the Town was forced to purchase its remaining irrigation water for the AVGC from AVR. In mid-2010 the Town entered into discussions with AVR regarding the possibility of a tariff deviation. Due to the difficulty in implementing a deviation before the end of the irrigation season, the mild and relatively wet summer that year, and issues that had arisen with the process of Town's acquisition of the AVGC, discussions were deferred to the following year.

In 2011 the Town informed AVR that it had determined that it would be more cost effective for the Town to construct a new irrigation well and irrigate the AVGC by pumping its own water than to continue to purchase water service from AVR unless a deviation from AVR's regular tariff could be arranged. The Town further informed AVR that until such time as the escrow closed, the Town would refrain from spending the funds necessary to construct a new irrigation well at the AVGC. The terms of escrow are nearing completion and closing of escrow is anticipated soon. With the warmer summer month's fast approaching, Town staff must make a recommendation to the Town Council to either enter into the Agreement with AVR for irrigation of the AVGC, or in the alternative, recommend to Town Council that the Town proceed with construction of a new irrigation well in time for it to be operational for the warmer summer months.

Based on discussions between the Town staff and AVR, the Town understood that any deviation from AVR's tariff rate for service to AVGC must be acceptable to the Commission. A deviation rate needs to be set such that it will not only remove the financial incentive for the Town to construct a new well, but it must also provide benefit to the ratepayers of AVR from the retention of a stream of revenues from the Town exceeding the incremental cost to AVR of providing service at the AVGC. AVR proposed to the Town the terms of the Agreement for which approval is requested herein and Town staff reviewed and accepted the tariff deviation proposed by AVR. Town requested that AVR finalize the Agreement so that it could be presented to the Town Council for approval to allow the Town and AVR to execute the Agreement so that AVR could submit it to the Commission for approval.

The Agreement proposed in Advice Letter 165-W-A is similar in design to the tariff deviation agreement between Town and AVR for irrigation service to James Woody Park, submitted to the Commission in Advice Letter 126-W and approved by the Commission on September 23, 2004, in Res. No. W-4499. The rationale for both contract deviations is to avoid uneconomic bypass. The structure of both contract deviations is the same; a lower commodity rate conditioned upon the provision of the lease of water rights from the Town to AVR at no charge. Both contract deviations have a provision for future increases in rates if the applicable general metered service commodity rate increases. The lower commodity rate proposed in the Agreement is developed using a cost/benefit analysis that employs the same principles and basic methodology used previously.

Under the terms of the Agreement, AVR will continue to provide non-residential general metered water service to the Town for the irrigation of AVGC with the following deviations:

- a) The commodity rate is \$0.709 per hundred cubic feet (Ccf) and is subject to future pro

- rata increases tied to changes in Schedule No. 3.
- b) The commodity rate is not subject to any surcharges that may be approved by the Commission from time to time.
 - c) As a condition to service, the Town leases to AVR the amount of water rights used to provide water to irrigate AVGC at no charge to AVR.

Both AVR and the Town anticipate that in the future irrigation of the AVGC will be accomplished with reclaimed water. Under the Agreement, the availability of reclaimed water to irrigate the AVGC qualifies as a "changed circumstance" which allows a request to be made to the Commission that the deviations be modified or eliminated, or that the Agreement be terminated.

AVR believes that providing service to the Town at the revised rates and under the specific conditions of the Agreement is beneficial to the company and its ratepayers. If the Town constructs its own well and bypasses the AVR water system, the portion of AVR's fixed costs recovered from the sales to the golf course under the Agreement must be recovered from AVR's remaining customers.

The Staff of the Division of Water and Audits (DWA or Staff) has been provided with work papers that include a cost-benefit study. The cost-benefit analysis compares the present net benefit of the Agreement with the present net benefit of the Town's construction of a new well. The analysis shows that the Agreement has a greater economic benefit to both AVR and the Town than from the Town constructing a well.

DWA has advised AVR of the following. The utility may provide service to the Town at a deviation from a tariff without prior Commission approval; however such service is subject to a subsequent Commission resolution. (See General Order 96-B, Water Industry Rule 7.3.1(9)).¹ Also, until the advice letter setting forth the service is approved, the utility would be at risk for refunds or additional adjustments as the Commission may require in its order for service provided pending the disposition of the advice letter. (See General Order 96-B, General Rule 7.3.3).²

If AVR were to implement the tariff deviation without Commission approval, it would be responsible for any refunds or adjustments resulting from a subsequent Commission finding that the Agreement required modification. AVR is therefore reluctant to provide service to the Town

¹ This rule states that an advice letter to provide "[s]ervice to a government agency" is "effective pending disposition" (i.e., may be made effective on the date of filing): "but such advice letter shall be subject to disposition by Commission resolution as provided by General Rule 7.6.2". (General Rule 7.6.2 addresses disposition of advice letters by Commission resolution.) Under the Commission's rules, this type of advice letter is filed as a Tier 1 advice letter. (General Order 96-B, Water Industry Rule 7.3.1.)

² General Order 96-B, General Rule 7.3.3, states in part: "If an advice letter is effective pending disposition, all service rendered pursuant to the advice letter before disposition [in this case before the Commission issues its resolution] will be subject to a Commission order requiring refunds or such other or additional adjustments as the Commission may require."

July 14, 2011

under the Agreement prior to receiving Commission approval unless an amendment to the Agreement with the Town is reached whereby the Town would assume responsibility for any refund or additional adjustments the Commission may require.

AVR has informed Town of the circumstances of this supplemental filing but at this time an amendment to the Agreement has yet to be worked out. Therefore, AVR proposes to make the tariff deviation effective upon the execution of an amended agreement with the Town whereby the Town assumes the risk and liability for any refund or additional adjustments required by the Commission or upon Commission approval of the tariff deviation agreement, assuming that such an amended agreement is not executed prior to Commission approval of the Agreement.

An original copy of the Agreement is provided in the work papers.

AVR currently provides water to AVGC to irrigate the golf course through a 4-inch meter. AVR also provides potable water to the AVGC through smaller meters for non-irrigation purposes. The tariff deviation proposed in this advice letter applies only to water provided to AVGC by AVR for irrigation purposes.

NOTICE AND PROTESTS

AVR filed Advice Letter 165-W-A pursuant to Water Industry Rule 7.3.1(9) of General Order 96-B. Advice Letter 165-W-A was submitted with a Tier 1 designation. This advice letter is, however, subject to disposition by Commission resolution as provided by General Rule 7.6.2. of General Order 96-B. AVR believes that since Advice Letter 165-W-A requests a deviation from the tariff rate for a government agency, notification to the service list is sufficient pursuant to General Order 96-B, General Rules Section 4.3 and 7.2 and Water Industry Rule 4.1. Advice Letter 165-W-A was distributed to service list on May 6, 2011. Approval of the Agreement will not result in an increase in tariff rates for customers in AVR from those levels currently adopted in AVR's General Rate Case. Accordingly, Advice Letter 165-W-A was properly served without the need for customer notice.

On May 8, 2011, the Division of Water and Audits (DWA), suspended Advice Letter 165-W-A for an initial period of 120 days. Advice Letter 165-W-A was suspended because additional information was required to complete review of the filing.

No protests were received to Advice Letter 165-W-A.

DISCUSSION

Initially, AVR filed Advice Letter 165-W on April 7, 2011, pursuant to Section X of General Order 96-A.³ AVR filed Advice Letter 165-W as Tier 2 advice letter and requested that the filing become effective 30 days from its filing date. Subsequently AVR, at DWA's direction, filed Advice Letter 165-W-A as a Tier 1 filing pursuant to General Order 96-B, Water Industry

³ AVR's initial filing, Advice Letter 165-W, was in error in its reference to an earlier version of General Order 96 that is no longer applicable.

Rule 7.3.1(9). However, as discussed above, Water Industry Rule 7.3.1(9) provides that an advice letter to provide service to a government agency shall be subject to disposition by Commission resolution as provided for in General Rule 7.6.2, and here disposition by the Commission is necessary because the Commission must determine the reasonableness of the Agreement.

Staff evaluated the work papers submitted by AVR with its filing.

The provision of supplying water under the Agreement

According to the Agreement, AVR will provide water for irrigation purposes to AVGC at rates negotiated with the Town pending Commission approval. The source of water will be treated groundwater through a 4-inch meter only for irrigation purpose. AVR also provides potable water to the AVGC through smaller meters for non-irrigation purposes. The tariff deviation proposed in Advice Letter 165-W-A and the cost/benefit analysis applies only to water provided to AVGC by AVR for irrigation purposes.

**Apple Valley Ranchos Water Company (AVR)
 Town of Apple Valley (Town)
 Revenue Calculation at Deviation Rates**

	Schedule 3	Tariff Deviation
Account No	117310	
Meter Size	4"	4"
Service Charge (\$)	518.75	518.75
Annual Service Charge Revenue (\$)	6,225.00	6,225.00
Current Rate (\$/Ccf) - Schedule 3	2.257	
Sales (Ccf)	143,748	143,748
Production Cost (\$)	166,683	45,672
Rate (\$/Ccf)	2.257	0.709
Commodity Revenue (\$)	324,439.24	101,917.33
Total Revenue (\$)	330,664.24	108,142.33
Net Revenue (\$)	163,981.24	62,470.33

Impact of new rates on ratepayers

AVR estimates that the amount of water supplied under the Agreement will be same as the Town currently purchases for golf course irrigation. The town currently purchases water on an interim basis under tariff rates until such time as it can either repair its existing well or drill a new well for irrigation of the golf course. The Town has indicated it will continue purchasing water from AVR only if it can obtain reduced rates so that it is indifferent to whether it purchases water from AVR or develops its own source. AVR and the Town have agreed that the reduced rate of \$0.709 per Ccf will be mutually beneficial for the Town and AVR's other existing customers. At this quantity rate along with the monthly service charge, the Town will contribute to the recovery

of AVR's fixed costs over and above the variable cost of water supply. A comparison of expected revenues under the tariff schedule and tariff deviation is shown in the table above. Loss of the Town as a customer through bypass will lead to shortfall in revenue which would adversely affect all other AVR customers through an increase in their water bills.

Implementation of Tariff Rule 14.1 and Schedule 14.1

In case of shortage of available water supplies, AVR may reduce the amount of water allocations to customers through voluntary or mandatory rationing. The procedures are described in the Division of Water and Audits' Standard Practice (SP) 40. The applicable Tariff and Schedule are Tariff Rule 14.1, Mandatory Water Conservation and Rationing Plan (Rule 14.1)⁴ and Schedule 14.1, Mandatory Water Conservation and Rationing, (Schedule 14.1).⁵

AVR has indicated that in the case of rationing, it will implement all directives as required under Tariff Rule 14.1 and Schedule 14.1.

It is reasonable to require that potable water should be made available to AVGC only after the needs of all other customers have been met. In the case of voluntary or mandatory water rationing, all directives under Tariff Rule 14.1 or Schedule 14.1 will be applicable.

COMMENTS

Public Utilities Code Section 311(g)(1) generally requires that resolutions must be served on all parties and be subject to at least 30 days public review and comment prior to a vote of the Commission. However, Public Utilities Code Section 311(g) (2) permits the reduction or waiver of the 30-day public review and comment period requirement for an uncontested matter in which the decision grants the relief requested. It is reasonable to waive the review and comment period requirement for this resolution since Advice Letter 165-W-A is uncontested and this resolution grants the relief requested.

FINDINGS

1. The Town of Apple Valley (Town) and Apple Valley Ranchos Water Company (AVR) entered into a new water service tariff deviation agreement (Agreement) on March 10, 2011.
2. Under terms of the Agreement, AVR will provide water to the Apple Valley Golf Course (AVGC) for irrigation of a golf course at rates to be approved by the California Public Utilities Commission.

⁴ Tariff Rule 14.1 is implemented in response to a utility's request for voluntary rationing from customers in order to reduce consumption. This may be accomplished by voluntary compliance with water use restrictions.

⁵ Schedule 14.1 is activated in response to a governing agency such as a water wholesaler declaring a water shortage and imposing mandatory rationing on a utility's reduction of customer water allocations based on a percentage of the customer's historical usage.

3. In mid-2010, the Town entered into discussions with AVR regarding the possibility of a tariff deviation. Due to the difficulty in implementing a deviation before the end of the irrigation season, the mild and relatively wet summer that year, and issues that had arisen with the process of Town's acquisition of the AVGC, discussions were deferred to the following year.
4. In 2011, the Town informed AVR that it had determined that it would be more cost effective for the Town to construct a new irrigation well and irrigate the AVGC by pumping its own water than to continue to purchase water service from AVR unless a deviation from AVR's regular tariff could be arranged.
5. A deviation rate needs to be set such that it will not only remove the financial incentive for the Town to construct a new well but it must also provide benefit to the ratepayers of AVR in the form of a retention of a stream of revenues from the Town exceeding the incremental cost to AVR of providing service at the AVGC.
6. Under the terms of the Agreement, AVR will continue to provide non-residential general metered water service to the Town for the irrigation of AVGC with the following deviations:
 - a. The commodity rate is \$0.709 per hundred cubic feet subject to future pro rata increases tied to changes in Schedule No. 3.
 - b. The commodity rate is not subject to any surcharges that may be approved by the Commission from time to time.
 - c. As a condition to service, the Town leases to AVR the amount of water rights used to provide water to irrigate AVGC at no charge to AVR.
7. Staff believes that providing service to the Town at the revised rates and under the specific conditions of the Agreement is beneficial to the company and its ratepayers. If the Town constructs its own well and bypasses the AVR water system, the portion of AVR's fixed costs recovered from the sales to the golf course under the Agreement must be recovered from AVR's remaining customers.
8. The rates for water provided under the Agreement are subject to approval by the California Public Utilities Commission.
9. The Division of Water and Audits' Standard Practice (SP) 40 outlines the general procedure for utilities to request and implement Tariff Rule 14.1 and Schedule 14.1 in case of imposition of voluntary or mandatory water rationing on water utility customers.
10. In case of voluntary or mandatory water rationing, all directives under Tariff Rule 14.1 or Schedule 14.1 will be applicable to the Agreement.
11. It is reasonable to require that potable water should be made available to the golf course only after the needs for potable water by individual customers of the Town have been met.
12. AVR notified the General Order 96-B service list regarding Advice Letter 165-W-A.
13. The Agreement between AVR and the Town will not result in an increase in tariff water rates for AVR's customers.
14. If the Town bypasses AVR by installing its own water supply for the AVGC, the rates for all other customers will increase to cover the fixed cost contribution under the Agreement that would otherwise be lost through bypass.

15. The Agreement between AVR and the Town is reasonable and should be approved subject to the Town closing escrow on the AVGC.
16. It is reasonable to waive the 30-day review and comment period requirement for this resolution since this is an uncontested matter and the relief requested is being granted.

THEREFORE IT IS ORDERED THAT:

1. The agreement between Apple Valley Ranchos Water Company and the Town of Apple Valley to provide water for irrigation purposes to irrigate the Apple Valley Golf Course at tariff deviation rates is granted subject to the Town of Apple Valley closing escrow on the Apple Valley Golf Course.
2. Pursuant to Public Utilities Code Section 454, the Tariff Sheets 664-W and 665-W listing contracts and deviations and the new table of contents attached to this Resolution are approved, effective five days after the Town of Apple Valley closes escrow on the Apple Valley Golf Course.
3. Apple Valley Ranchos Water Company will notify the Division of Water and Audits once the Town of Apple Valley closes escrow on the Apple Valley Golf Course.
4. 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 July 14, 2011; the following Commissioners voting favorably thereon:

/s/ PAUL CLANON

Paul Clanon
Executive Director

MICHAEL R. PEEVEY
President
TIMOTHY ALAN SIMON
MICHEL PETER FLORIO
CATHERINE J.K. SANDOVAL
MARK J. FERRON
Commissioners

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

Canceling

REVISED

Cal. P.U.C. Sheet No.

664-W

REVISED

Cal. P.U.C. Sheet No.

517-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
Town of Apple Valley James Woody Park Apple Valley	Public Authority	April, 2004 Indeterminate term With 90 day Cancellation		1	Commodity rate determined by contract rate
Town of Apple Valley Golf Course Apple Valley	Public Authority	March, 2011 Indeterminate term With 30 day cancellation		3	Commodity rate determined by contract rate

Advice No. 165-W-A

LEIGH K. JORDAN

Date Filed _____

Decision No. _____

Name
EXECUTIVE VICE PRESIDENT
 Title

Effective _____

Resolution No. _____

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

REVISED Cal. P.U.C. Sheet No. 665-W

Canceling REVISED Cal. P.U.C. Sheet No. 663-W

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:

<u>Subject Matter of Sheet:</u>		<u>C.P.U.C. Sheet No.</u>	
Title Page		329-W	
Table of Contents		665-W, 650-W	(T)
Preliminary Statement	373-W, 533-W, 623-W, 624-W, 663-W, 627-W, 645-W, 646-W, 652-W		
Service Area Map		653-W	
<u>Rate Schedules:</u>			
Schedule No. 1	Residential General Metered Service	655-W, 661-W	
Schedule No. 2	Gravity Irrigation Service	656-W	
Schedule No. 3	Non-Residential General Metered Service	657-W, 662-W	
Schedule No. 4	Non-Metered Fire Service	658-W, 602-W	
Schedule No. LC	Late Payment Charge	460-W	
Schedule UF	Surcharge to Fund PUC Reimbursement Fee	578-W	
Schedule CARW	California Alternative Rates for Water	648-W, 527-W	
Schedule No. CARW-SC	California Alternative Rates for Water Sur-Charge	604-W	
<u>LIST OF CONTRACTS AND DEVIATIONS:</u>		664-W	(C)
<u>Rules:</u>			
No. 1	Definitions	234-W, 235-W	
No. 2	Description of Service	159-W	
No. 3	Application for Service	13-W, 553-W	
No. 4	Contracts	361-W	
No. 5	Special Information Required on Forms	423-W thru 425-W	
No. 6	Establishment and Re-establishment of Credit	362-W	
No. 7	Deposits	458-W, 230-W	
No. 8	Notices	426-W, 427-W	
No. 9	Rendering and Payment of Bills	363-W, 364-W, 605-W	
No. 10	Disputed Bills	240-W, 241-W	
No. 11	Discontinuance and Restoration of Service	428-W thru 433-W, 606-W, 435-W	
No. 12	Information Available to Public	366-W, 367-W	
No. 13	Temporary Service	368-W, 369-W	
No. 14	Continuity of Service	370-W	
No. 14.1	Water Conservation and Rationing Plan	593-W thru 596-W	
No. 15	Main Extensions	386-W thru 392-W, 529-W, 607-W, 608-W, 564-W 396-W thru 398-W	
No. 16	Service Connections, Meters, and Customer Facilities	399-W thru 405-W	
No. 17	Standards for Measurement of Service	273-W	
No. 18	Meter Tests and Adjustment of Bills for Meter Error	34-W thru 36-W	
No. 19	Service to Separate Premises and Multiple Units, and Resale of Water	252-W, 253-W	
No. 20	Water Conservation	371-W	
No. 21	Military Family Relief Program	543-W, 544-W	

(continued)

(To be inserted by utility)

Issued By

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

Advice No.	<u>165-W-A</u>	<u>LEIGH K. JORDAN</u>	Date Filed	_____
		Name		
Decision No.	_____	<u>EXECUTIVE VICE PRESIDENT</u>	Effective	_____
		Title	Resolution No.	_____

CALIFORNIA PUBLIC UTILITIES COMMISSION DIVISION OF WATER AND AUDITS Advice Letter Cover Sheet				(Date Filed / Received Stamp by CPUC)				
AL # 163-W		Date Mailed to Service List: 03/31/11		Requested Effective Date: Upon Commission Approval		Requested Tier: <input type="checkbox"/> Tier 1 <input type="checkbox"/> Tier 2 <input checked="" type="checkbox"/> Tier 3		
Replacing AL#: None		Authorization for Filing: D.10-10-019		Compliance Filing? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No		Rate \$ 00.00 Impact % N/A		
<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>				<u>water_division@cpuc.ca.gov</u>				
<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:		
Address: 21760 Ottawa Road, P.O. Box 7005						WTA <u>U-346-W</u>		
City, State, Zip: Apple Valley, CA 92307-7005						WTB _____		
						WTC _____		
						WTD _____		
						SWR _____		
Contact Name:		Phone No.		Fax No.		Email Address:		
Filer	Edward N. Jackson		562.923.0711		562.861.5902		ed.jackson@parkwater.com	
Alternate	Ellen M. Zimbalist		562.923.0711		562.861.5902		ezimbalist@parkwater.com	
Description: This advice letter is filed pursuant to the requirements of Decision 10-10-019, Appendix A, Rule VII.E.								
(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:				

APPLE VALLEY RANCHOS
WATER CO.

P.O. BOX 7005
21760 OTTAWA ROAD
APPLE VALLEY, CA 92307
(760) 247-6484 • FAX (760) 247-1654



Advice Letter 163-W

March 31, 2011

TO THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Apple Valley Ranchos Water Company (U 346 W) ("AVR") hereby transmits for filing this advice letter in accordance with the requirements of Decision 10-10-019, Appendix A, Rule VII.E that states:

"Financial Separation. Within three months of the effective date of the decision adopting these Rules, each utility with a parent company shall file a Tier III advice letter proposing provisions that are sufficient to prevent the utility from being pulled into the bankruptcy of its parent company. The process specified by the Advice Letter shall include a verification that the provisions have been implemented and signed by the utility's senior management (e.g., the Chief Executive Officer, Chief Financial Officer, and General Counsel)".

The purpose of this advice letter is to provide provisions "sufficient to prevent AVR from being pulled into a bankruptcy of its parent" as required by Rule VII.E. AVR will implement these provisions to ensure full compliance with Rule VII.E by June 30, 2011. While AVR has made a diligent effort in this regard a bankruptcy court is not obligated or bound by this filing. AVR understands that a bankruptcy court would review all relevant factors including certain Commission rules that may be in conflict with Rule VII.E. AVR requests that the Commission issue a resolution that AVR has complied with the requirements of Decision 10-10-019, Appendix A, Rule VII.E.

Background and Discussion

These provisions will provide guidelines for AVR in reducing the likelihood of AVR being pulled into a bankruptcy of its parent Park Water Company (Park). It should be noted that Park is a regulated water utility regulated by this Commission; furthermore, that its unregulated affiliates are an exceedingly small portion of the overall business and the water industry is not undergoing significant deregulation as occurred in the electric industry. Therefore it is unlikely that Park will be subject to a bankruptcy proceeding. Park currently has limited exposure to unregulated activities which was a material factor in the establishment of the requirement which is the subject of this advice letter. The parties to the agreement, that is the subject of Park's Application for Authority for Western Water Holdings, LLC to Acquire and Control Park and AVR, intend to "spin-off" the active unregulated affiliate SICC from Park; therefore, if the Commission approves the application SICC will cease to be a subsidiary or affiliate of Park, therefore reducing further likelihood of a bankruptcy.

The Commission Staff has been provided with workpapers containing the provisions of financial separation for affiliate transactions between AVR and Park.

Rates will not change as a result of this advice letter.

Tier Designation

Pursuant to D.10-10-019, this advice letter is submitted with a Tier 3 designation. As such, a Commission resolution will be required for disposition.

Requested Effective Date

This filing shall become effective after receiving the Commission's approval.

Notice and Service

In accordance with General Order 96-B, General Rule 4.3 and 7.2 and Water Industry Rule 4.1, a copy of this advice letter will be mailed or electronically transmitted on March 31, 2011 to competing and adjacent utilities and other utilities or interested parties having requested such notification.

In accordance with Resolution W-4664, notice is not required.

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 relitigating 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 Division of Water and Audits within 20 days of the date this advice letter is filed. The address for mailing or delivering a protest is:

Tariff Unit, Division of Water and Audits, 3rd floor
California Public Utilities Commission
505 Van Ness Avenue,
San Francisco, CA 94102
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 Jackson
Representative
Director of Revenue Requirements
Park Water Company
9750 Washburn Road
P. O. Box 7002
Downey, CA 90241
Fax: (562) 861-5902
E-Mail: ed.jackson@parkwater.com

Cities and counties that need Board of Supervisors or Board of Commissioners approval to protest should inform the Division of Water and Audits 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
562.923.0711, ext 1212
ed.jackson@parkwater.com

ENJ/emz

Enclosure

Apple Valley Ranchos Water Company ("AVR")

California Public Utilities Commission Decision 10-10-019

Appendix A - Rule VII.E. Financial Separation

AVR in compliance with Decision 10-10-019, Appendix A Rule VII.E pertaining to Affiliate Transactions submits the following provisions:

1. AVR and its Parent - Park Water Company ("Park") shall be separate legal entities;

Compliance: AVR is a separate legal entity incorporated in the State of California.

2. AVR shall conduct business in its own name as an entity distinct from Park;

Compliance: Same comment as #1. AVR operates and is known by its own name separate from Park. AVR has its own website distinct from Park. AVR is a standalone Class A water utility regulated by the Commission.

3. AVR and Park shall observe, in all material respects, all formalities and procedures required by their Articles of Incorporation, Bylaws and applicable corporate laws, as the case may be, necessary to remain legal entities separate and distinct from each other;

Compliance: AVR has filed its Articles of Incorporation and By-Laws with the California Secretary of State. AVR holds monthly Board of Directors meetings and an annual Shareholder meeting.

4. AVR will use stationary, invoices or checks displaying its name in a manner that could reasonably be expected to cause a recipient thereof or payee thereon to believe such communication or payment were being made by AVR and not Park;

Compliance: AVR uses stationary, invoices or checks displaying its own name with no reference to Park. AVR routinely makes separate filings with the Commission. In certain cases, either as required by Commission decision (e.g., the Rate Case Plan decision # 04-06-018) or because of commonality of positions and/or for cost effectiveness reasons, AVR and Park may jointly file selected items (e.g., responses to an OII or OIR, Commission decisions, etc.) and when it does so the Commission is advised accordingly.

5. AVR shall correct any known misunderstanding regarding the separate identity of AVR, and shall not identify itself as a department or division of Park, but may identify itself as a subsidiary;

Compliance: AVR is a separate legal entity and operates accordingly. Should any known misunderstanding arise AVR is committed to rectify the misunderstanding in an appropriate and timely manner.

6. AVR shall maintain separate financial statements showing its assets and liabilities on a stand-alone basis, which assets and liabilities may also be included in the consolidated financial statements of Park for financial reporting purposes;

Compliance: AVR maintains the ability to prepare separate financial statements separate from Park or other affiliates by use of financial software that uses identifiers (e.g., company and business unit codes) that are unique to AVR. AVR files a separate Annual Report with the Commission.

7. AVR books and records shall be kept in accordance with the applicable Uniform System of Accounts (USOA) or, as appropriate, Generally Accepted Accounting Principles (GAAP);

Compliance: AVR is audited annually by an independent accounting firm. One of the primary purposes of this audit is to ensure that our financial books and records are kept in accordance with USOA and GAAP. Non-compliance by AVR would result in the auditing firm providing an opinion letter that would be unacceptable to Park or its long-term debt holders; therefore, any necessary corrective action would be taken prior to AVR closing its books and records for the year.

8. AVR shall maintain its assets and liabilities and books and records relating thereto in such a manner that ascertaining or identifying its individual assets and liabilities as separate and distinct from those of Park will not entail significant cost or difficulty;

Compliance: AVR assets and liabilities are maintained in its books and records separate and distinct from Park as noted in responses number 6 and 7 above.

9. AVR shall not commingle any of its assets, funds, liabilities or business functions with Park, except (a) as permitted in D.10-10-019 and any other applicable Commission actions and (b) AVR's excess cash is swept daily from its local accounts into Park's concentration accounts pursuant to a standard corporate cash management system with appropriate debits and credits to intercompany accounts;

Compliance: Same comments as numbers 6, 7 and 9 above. Additionally, D.10-10-019 provides what shared corporate services (business functions) are allowed or not allowed. AVR's Compliance Plan (to be filed with the 2010 Annual Report) provides additional details as it pertains to the shared corporate services.

10. AVR shall not enter into financial transactions with Park that are disallowed in D.10-10-019, or other applicable Commission actions, except as permitted by the Commission;

Compliance: AVR's Annual Report will continue to provide the reporting required by all Commission action, including the new requirements of D.10-10-019.

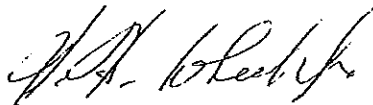
11. AVR shall allocate fairly any shared corporate support and services, pursuant to D.10-10-019 and any other applicable Commission actions;

Compliance: D.10-10-019 recognizes that when shared corporate services are being provided by another regulated utility, as is AVR's case, that the general rate case filing is the appropriate regulatory proceeding for ensuring that this provision is met. AVR will continue to file its general rate case filings with the required information from Commission actions including requirements of D.10-10-019.

12. AVR shall not issue, secure or guarantee the debts of Park, except as permitted by the Commission;

Compliance: All existing long term debt of Park was submitted to the Commission for approval. All of Park's utility assets, including its ownership of AVR's stock, have been pledged as collateral. The Commission has approved all of Park's existing long term debt. Regardless, it is accurate to state that AVR has not issued, secured or guaranteed this long term debt or any other debt of Park. AVR's assets are not pledged as collateral for any obligations or debt of Park. Park and AVR will comply with the requirements of CPUC code section 851 requiring that any encumbrances on utility assets requires Commission approval.

The undersigned senior officers verify that to the best of their knowledge and belief that these provisions have or will be implemented by the effective date of Decision 10-10-019.



H.H. Wheeler, Jr., President/C.E.O./C.F.O.



Leigh Jordan, Executive Vice President

APPLE VALLEY RANCHOS WATER COMPANY

ADVICE LETTER 163-W
DISTRIBUTION LIST

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Navajo Mutual Water Company
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Town of Apple Valley
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14955 Dale Evans Parkway
Apple Valley, CA 92307
dcron@applevalley.org

Tom Sutton
County of San Bernardino
Department of Special Districts
12402 Industrial Blvd.
Bldg. D, Ste. 6
Victorville, CA 92392

California Public Utilities Commission
Attention Ting-Pong Yuen
Division of Ratepayer Advocates
505 Van Ness Avenue
San Francisco, CA 94102
tpy@cpuc.ca.gov

Kathleen Rollings-McDonald
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Local Agency Formation Commission
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