



May 5, 2016

Dear Liberty Utilities Customer,

Liberty Utilities (Liberty Apple Valley) is proud to be your new water provider. Earlier this year, we completed the acquisition of the Apple Valley water system because we believe in the community and are committed to providing safe, reliable water service for generations to come.

When we decided to acquire the water system, we knew that some customers and the Town of Apple Valley had concerns about water rates. We intend to collaborate with customers and community leaders to address all questions and provide detailed information about the ratemaking process and our efforts to maintain the water system, promote conservation, and address the dramatic changes associated with providing water service in the wake of California's historic drought.

## **Stable Water Bills**

Liberty has done an analysis on Apple Valley water bills, which revealed that the typical residential customer pays about the same for their water bill today as they did three years ago. Based on conservation, current rates and surcharges, the typical Apple Valley household customer today using 8,714 gallons of water would pay \$78.47 each month for their water bill, and many customers are expected to use and pay much less. In 2013, the average household paid \$79.20 each month.

## **Rates, Surcharges and Accountability**

The California Public Utilities Commission (CPUC) regulates Liberty Apple Valley to ensure that we only charge the actual cost to operate, maintain, and improve the water system. Liberty Apple Valley's revenue and expenses must be approved through a 12-20 month ratemaking process that includes an independent audit from the CPUC's Office of Ratepayer Advocates.

In November 2015, the CPUC approved water rates for 2015, 2016 and 2017, based on a ratemaking application filed by the water system's prior ownership. The delay of almost a year in the final decision was due in part to the state's historic drought. Regulators needed to ensure that projected water use was consistent with new state conservation mandates, because water rates are based on how much water will be used.

Because of the delay, the prior rates remained in effect for most of 2015 with a slight adjustment for inflation. Unfortunately, those rates didn't account for the drought and thus, revenue didn't cover the costs of operating the water system for 2015. Accordingly, a temporary surcharge, or interim rates, went into effect on March 25, 2016 and will remain through December 2017. During that time, a 43-cent surcharge will be applied to each 748 gallons (1 CCF) of water used or about one penny for every 17 gallons. The temporary surcharge is offset by a reduction in Liberty Apple Valley's monthly service charge.





Liberty must also file to reconcile the Water Revenue Adjustment Mechanism (WRAM) and Modified Cost Balancing Account (MCBA) for 2015. Per terms outlined by the CPUC, a 12-month temporary surcharge of 17 cents per 748 gallons (1 CCF), or approximately one penny for every 44 gallons used, will be implemented on May 2, 2016 to balance finances for 2015, accounting for usage changes due to the drought and California's conservation mandate. This temporary surcharge should have a minimal impact on customers, adding approximately \$1.97 each month to the typical water bill.

The WRAM is offset by savings in purchased water and energy costs that result from the reduced usage levels (MCBA), as well as all emergency drought penalties collected in 2015.

We recognize that surcharges can be frustrating and confusing, but they ensure that customers are not overcharged or undercharged for water service. If Liberty Apple Valley collects more than the approved revenue levels, the overage must be refunded with a surcredit. If there is an under collection, a temporary surcharge is enacted only to break even.

### **We're Here to Answer Your Questions**

We recognize that 2015 was a difficult year for all water customers and providers alike throughout the state, as the drought and state conservation regulations presented unprecedented challenges. As your new water provider, Liberty Apple Valley would like to thank our customers for your patience as we work diligently to get past these challenges and restore order.

We also want to ensure that our customers are aware that we offer free water conservation programs—such as water audits, low-flow toilets, and water-saving drip irrigation and hose nozzles—to help reduce water bills through conservation.

Hopefully this information is helpful to you. As your new water provider, our goal is to ensure you have all the information necessary to make informed decisions about your water. Please don't hesitate to call us at 760.247.6484 if you have questions about Liberty Apple Valley or your water service.

We are honored to be your water provider and committed to giving you the best service.

Thank you,

Greg Sorensen  
President

Antonio D. Penna  
Vice President & General Manager