

TOWN OF APPLE VALLEY

PRESENTATION REGARDING THE APPLICATION OF APPLE VALLEY RANCHOS WATER COMPANY TO INCREASE WATER RATES

To the Town Council and Community

April 22, 2014

Community's History Of Concern With Apple Valley Ranchos Water Company

- **Community has voiced concerns to the Town Council about rising water rates**
- **Town has allocated resources to intervene in CA Public Utilities Commission (CPUC) proceedings**

Topics To Be Covered

- **Background on AVRWC**
- **Key Issues Raised by Rate Increase**
- **Process of Challenging the Proposed Rates**
- **What can you do?**

BACKGROUND

APPLE VALLEY RANCHOS WATER COMPANY

History of AVRWC

- Humble beginnings in 1945 when Newton T. Bass and Bud Westlund formed a small water company they then called the Apple Valley Mutual Water Company.
- Newton Bass and Bud Westlund are considered the modern founders of Apple Valley.
- Since that time, AVRWC has played a prominent role in our community.



Apple Valley Ranchos Water Company

- Wholly owned subsidiary of Park Water Company which is owned by the Carlyle Group (TCG).
- TCG is a multi-national global asset management firm based in Washington DC with investors all over the world.
- TCG provides water service through Park Water Company and AVRWC in Apple Valley; It also provides water service through one of its holdings in Missoula, Montana.

How the Carlyle Group's Investors Are Doing



The Carlyle Group

- **Economic Net Income:**

- ❖ 2012 - \$ 736 million

- ❖ 2013 - \$ 1.32 billion.

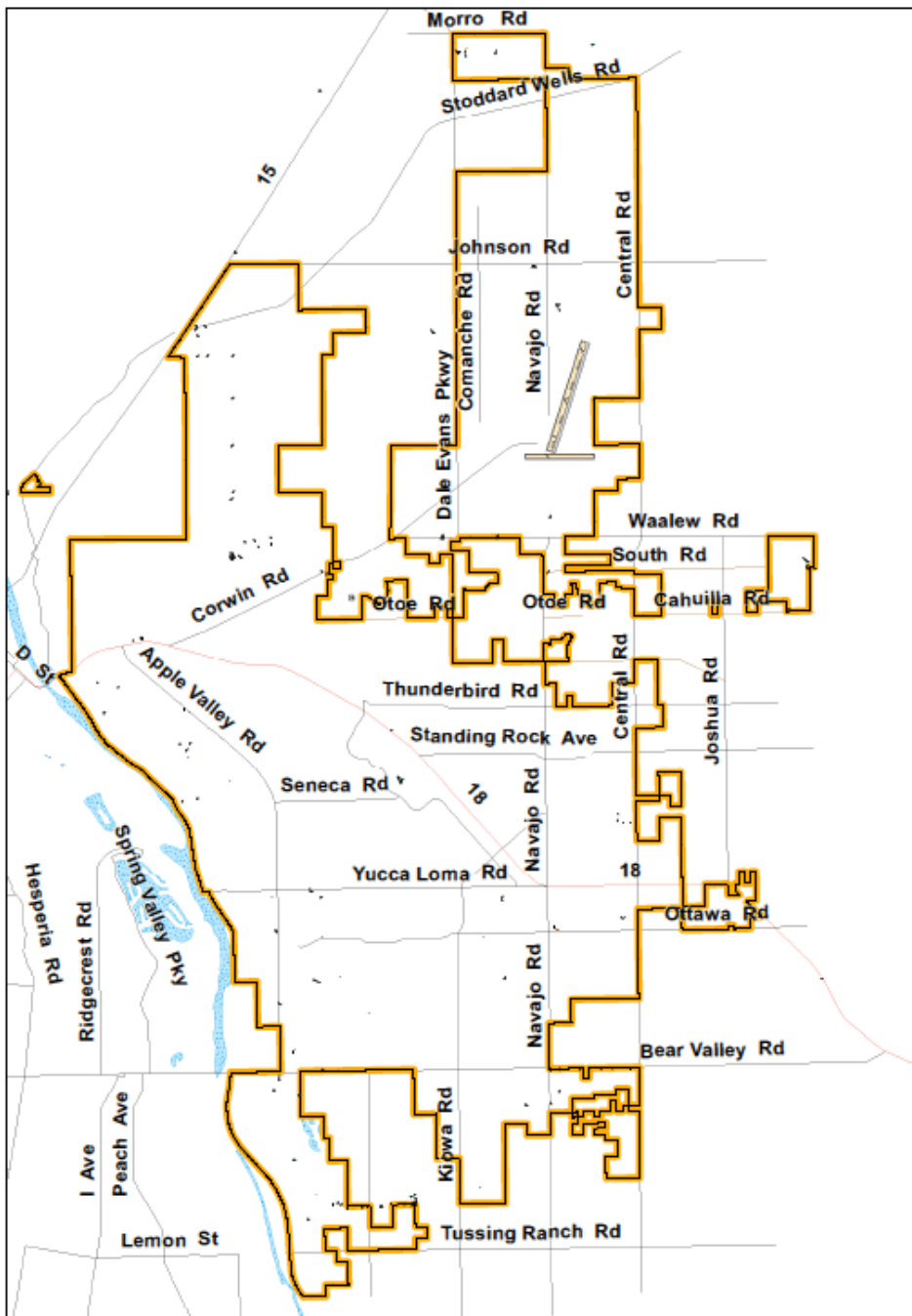
- **Firm Assets:**

- ❖ \$188.8 billion, up 11% from 2012.

Information from
Wall Street
Journal Article –
Feb. 19, 2014.

Apple Valley Ranchos Water Company (AVRWC)

- In California, AVRWC is organized and operated as an investor-owned utility regulated by the California Public Utilities Commission (CPUC)
- As a regulated water utility, AVRWC has a government protected *private monopoly*



MAP OF APPLE VALLEY RANCHOS WATER COMPANY SERVICE AREA

Apple Valley Water System

- **Approximately 20,000 connections**
- **Serves roughly 65,000 people within a 50 square mile service area**
- **Facilities: 465 miles of water mains; 24 wells; emergency generators; storage tanks; booster stations; and pressure zones**

AVRWC'S APPLICATION

AVRWC Rate Increases

AVRWC files a rate application every three years (by statute)

Every Time AVRWC Requests a Rate Increase



Every Time CPUC Approves Rate Increase

AVRWC Rate Increases

- Historically, AVRWC's applications requested the following rate increases:
 - ❖ *A.02-03-046 – 27.1% in 2003, 3.8% in 2004, 3.7% in 2005*
 - ❖ *A.05-02-005 – 18.56% in 2006, 2.69% in 2007, 5.46% in 2008*
 - ❖ *A.08-01-002 – 22.73% in 2009, .9% in 2010, 1.32% in 2011*
 - ❖ *A.11-01-001 – 20.0% in 2012, 2.55% in 2013, 3.32 in 2013*
- In its most recent application, AVRWC requests an additional 14.88% in 2015, 8.48% in 2016, and 8.19% in 2017.

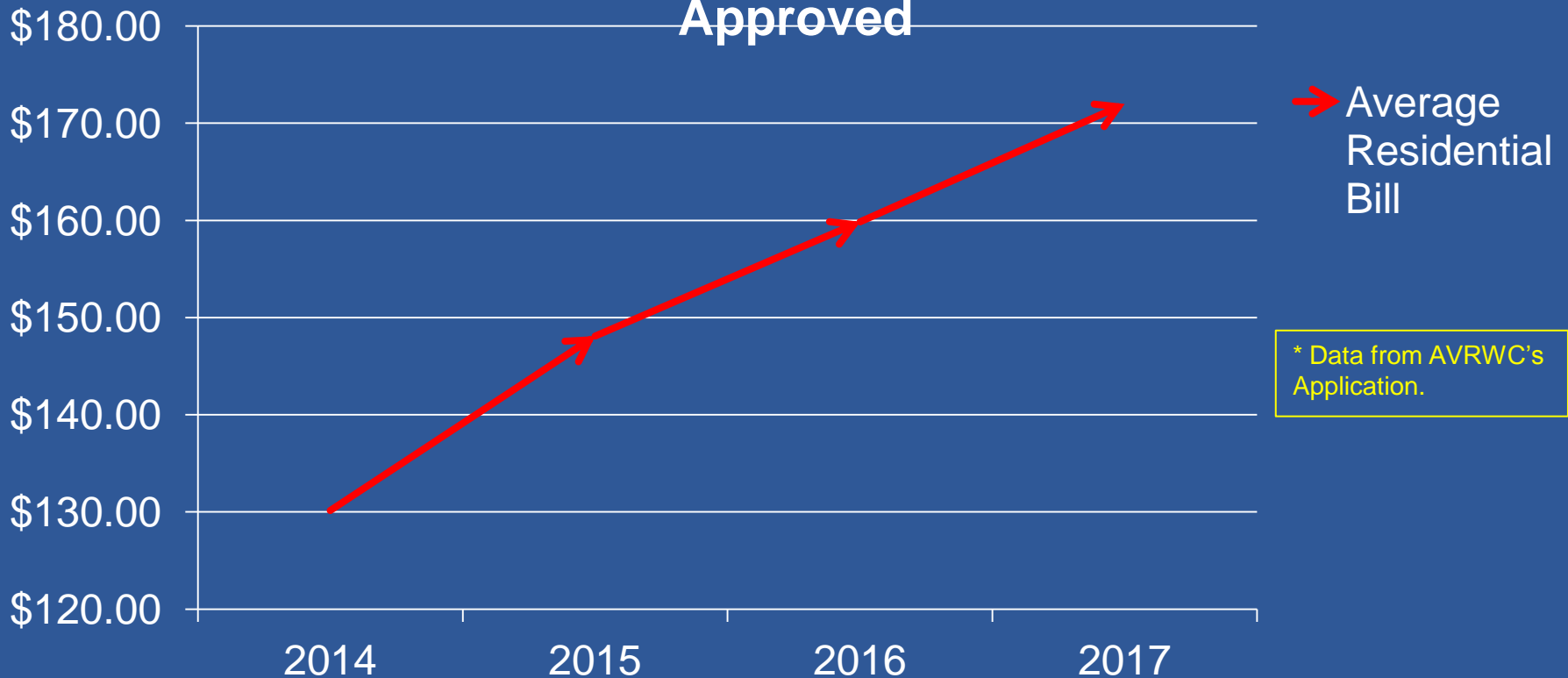
Proposed New Increases

Requested Revenue Rate Increase for AVR in Years 2015-2017 (Dollars in Thousands)

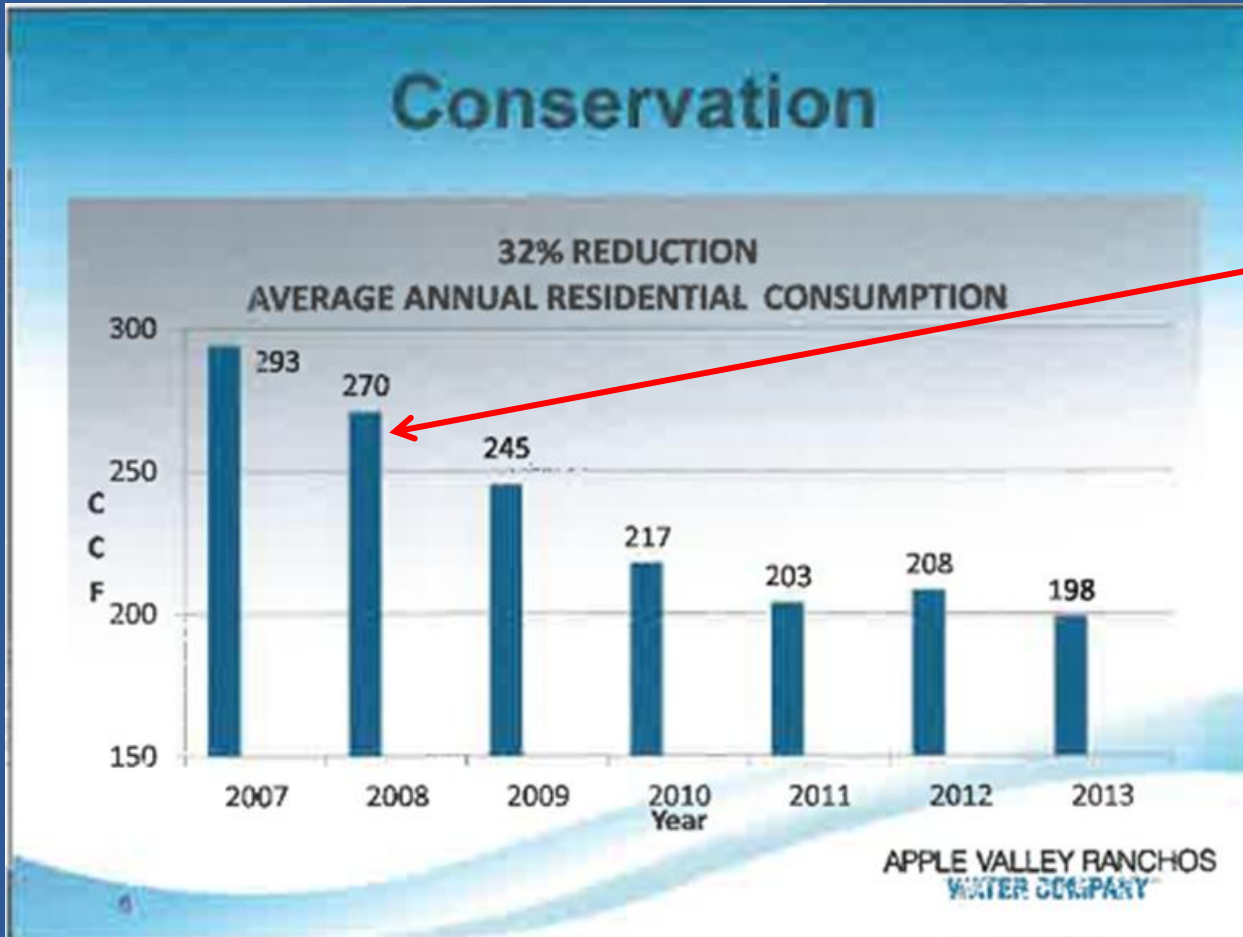
<u>Customer Class</u>	<u>2015 Increase</u>		<u>2016 Increase</u>		<u>2017 Increase</u>	
Residential	\$2,250.5	15.18%	1,522.3	8.93%	1,593.8	8.59%
Business	\$463.0	13.62%	308.1	7.92%	321.1	7.60%
Industrial	\$0.7	14.04%	.5	7.92%	.5	7.60%
Public Authority	\$158.9	16.28%	90.6	7.91%	94.6	7.59%
Private Fire Service	\$52.1	14.92%	38.2	8.98%	42.6	8.66%
Public Authority Irrigation	\$4.4	12.41%	3.1	7.93%	3.3	7.61%
Irrigation Pressure	\$162.6	15.94%	96.3	7.92%	102.5	7.59%
Irrigation Gravity	\$22.5	11.45%	1.0	0.44%	2.5	1.12%
Temporary Construction	\$5.7	9.81%	5.0	7.94%	5.2	7.62%
Apple Valley Golf Course	\$20.6	18.40%	10.5	7.91%	10.9	7.58%
Total Water Revenues	\$3,140.9	14.97%	2,075.6	8.58%	2,176.9	8.26%

What will the application mean for your bill?

Average Residential Bill Impact if Application is Approved



Reduced Consumption AVRWC Attributes to Conservation



Any other reasons for declining water usage around 2008?

Why are AVRWC's Rates Higher than Municipally Owned Public Utilities?

- ***AVRWC Receives an Authorized Rate of Return on Rate Base***
 - ❖ Authorized by statute
 - ❖ 8.64% is the current CPUC approved rate (can be higher)
 - ❖ Increased Rate Base results in increased profits
 - ❖ The return on rate base incentivizes higher rate base
 - ❖ Near automatic pass-through of costs

THE RATE-SETTING PROCESS

Important Information About the Process

- **Very Fast Turnaround**
 - ❖ Sometimes less than one year from the date of the application to the date of the final decision by CPUC
- **Role of the Office of Ratepayer Advocates**
- **Town's Role**
 - ❖ Town's motion for party status was granted
 - ❖ The Town will continue to pursue lower rates across the board

Schedule for the Case

Event	Date
Application Filed	January 2, 2014
PHC	April 1, 2014
Public Participation Hearings	April 30, 2014 at the Town Center
Office of Ratepayer Advocates / Town Testimony Due	May 9, 2014
AVRWC Rebuttal Testimony Due	May 30, 2014
Settlement Negotiations	May 19 – June 16, 2014
Evidentiary Hearings	June 16 – 20, 2014 in San Francisco
Briefing	June 20 – August 4, 2014
Decision Issued by ALJ	Likely October 8, 2014
Commission Decision	Likely November 20, 2014

HOW CAN YOU HELP?

Public Participation Hearings – April 30

- On April 30, the CPUC is coming to Town.
 - ❖ First meeting @ 1:00 p.m.
 - ❖ Second meeting @ 6:00 p.m.
- What can you do?
 - ❖ Show up
 - ❖ Share your concerns
 - ❖ Set up citizen's groups to lobby the company for more reasonable rates

