

December 1, 2014

Town of Apple Valley
Attention: Town Council Members
14955 Dale Evans Parkway
Apple Valley, CA 92307

Dear Town Councilmember,

Recent statements by Town officials, Town-sponsored print advertisements, Town-commissioned community surveys, and a Town-operated web site consistently reference the erroneous claim that Apple Valley Ranchos Water Company's (Ranchos or AVR) rates have increased by 112% over the last ten years. This claim by the Town is incorrect and the Town's sanctioned efforts to knowingly communicate these errors about our rates is irresponsible and disingenuous.

This erroneous claim is particularly disappointing because the Town, certainly the Town's staff and the Town attorney, know it is erroneous and choose to perpetuate misinformation. I would remind you that General Rate Cases before the California Public Utilities Commission (CPUC) are legal proceedings with testimony and evidence presented under oath from all parties which, along with CPUC Decisions authorizing rate increases, are a matter of public record.

The Town's testimony in Ranchos' current rate application before the CPUC appears to be the source of the 112% number. The public record and the facts, and the Town's own sworn testimony in that proceeding, show that references to a 112% increase in Ranchos' rates over the last ten years is erroneous.

The Direct Testimony of Dennis Cron, Assistant Town Manager, in the current proceeding before the CPUC states (pages 3 & 4):

*"I am familiar with AVR's recent General Rate Case applications and I believe that recent rate increases are having a dramatic adverse impact on our community. I reviewed AVR's recent applications and believe that AVR has **requested** the following rate increases:*



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21760 Ottawa Road
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760.247.6484

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

*By my estimation, over the last 10 years, from 2003 through 2013, AVR has **requested** "uncompounded" rate increases totaling 112.13 percent."(emphasis added)*

The Town's statements that Ranchos' rates have increased by 112% over the last 10 years is incorrect and here's why:

1. It is clear from Mr. Cron's testimony that the 112% refers to the sum of rate increases Ranchos **requested**, not the actual CPUC-authorized rate increases for Ranchos. Mr. Cron is clearly aware of this distinction because he goes on to state in his sworn testimony (page 4): "**I understand that the Commission authorized AVR to increase rates in amounts less than what was requested in these applications...**". Further, Mr. Cron's description of the period covered by the 112% requested increases, "over the last 10 years, from 2003 through 2013", is clearly incorrect. The timeframe he references actually applies to four rate-case cycles, each covering three years, for a total of **12 years** (NOTE: There is a typo in the last year of the period covered by A.11-01-001; 2013 is referenced twice and the second reference should be 2014). The sum of the **12 requested** rate increases listed by Mr. Cron does amount to 112.13%. Therefore the 112% erroneously referred to in Town's recent statements as the increase in Ranchos' rates over the last 10 years, actually refers to the sum of Ranchos' **GRC rate increase requests over a 12-year period** (2003 -2014, with a base-year of 2002) and not the actual increase over 10 years.
2. In response to the Town's misstatements, I have calculated the actual increase in Ranchos' rates over the last 10 years using the actual increases granted by the CPUC for the years 2005-2014, from a base year of 2004. The **actual** CPUC-authorized increase in Ranchos' rates over the last ten years, 2005-2014, is 68% on a compounded basis. That's an average annual increase of 5.3%. I would be glad to provide the Town the calculation and references to the relevant CPUC decisions and approved advice letters substantiating this calculation.

I would also like to take this opportunity to clarify the distinction between CPUC-authorized rate increases and increases in actual water bills. In its Opening Brief in the GRC the Town made another erroneous statement: that the average consumers' water bill has nearly doubled from 2003 to 2013. In response to this erroneous conclusion, Ranchos provided a correction, with citations to CPUC decisions and the record of the GRC, in its Reply Brief in the GRC (pages 33 & 34):

"This statement is simply wrong. The Town is overlooking the fact that much of the increase to rates during that period resulted from the fact that, due to reduced

consumption and a rate design that recovers half or more of the fixed costs of operation through commodity rates, rate increases were necessary just to recover the amount of revenues that the Commission had determined were necessary to recover fixed costs. Because consumption was reduced, and the rate increases applied to less consumption, increases in customer's average bills were substantially less than the increases in rates.

In 2003, the average residential customer's bi-monthly consumption was 50 Ccf and the average residential bi-monthly bill at the rates adopted for 2003 was \$103.12. For 2015, AVR's estimate of the average residential consumption is 33.18 Ccf and the average residential bi-monthly bill at the rates requested by AVR is \$148.10. Thus, for the twelve year period from 2003 to 2015, this amounts to a 43.6% increase in the average residential customer's bimonthly bill. Town's assertion that bills nearly doubled from 2003 to 2013 is clearly wrong Based on its incorrect (and unsupported) statement regarding the increases in water bills, the Town asserts that the level of increase is "unsustainable." However, this 43.6% increase from 2003 to 2015 is a compounded annual increase of only 3.06% per year."

(citations supporting the amounts of average residential bi-monthly bills and consumption are included in AVR's Reply Brief which was served on the Town) (emphasis added).

In summary, over the last ten years Ranchos' actual CPUC-authorized rates have increased by 68%, or an average annual increase of 5.3%, due in large part to the conservation efforts of most of Ranchos' customers. Because Ranchos average residential customers are using less water, their bills for water service actually only increased by an annual average of 3%.

Therefore, on behalf of Ranchos, I would respectfully request the Town to ask its officials, staff, and attorneys to cease making erroneous claims about our rates having increased by 112% over the last ten years. This is not true and representing erroneous information as fact is irresponsible and disingenuous.

Sincerely,



Leigh K. Jordan
Executive Vice President
Apple Valley Ranchos Water Company

LKJ/emz

cc: Frank Robinson, Town Manager
Dennis Cron, Assistant Town Manager
John Brown, Town Attorney

