



**Revenue Adjustment Surcharge
Proposed Increase Effective
October 1, 2016**

Introduction

This document is prepared by Valencia Water Company (“VWC” or “Company”) in support of a proposed increase in its Revenue Adjustment Surcharge that will, if approved, become effective on October 1, 2016. VWC operates in the Santa Clarita Valley and is one of four water retailers in the area. VWC was incorporated in 1954, and was granted a certificate of public convenience and necessity by the California Public Utilities Commission (“CPUC”) in 1965. VWC’s service area is approximately 31 square miles, which includes areas within the incorporated city of Santa Clarita as well as portions of Los Angeles County including the unincorporated communities of Castaic, Newhall, Saugus, Stevenson Ranch and Valencia. VWC provides water service to approximately 31,000 customers. These customers consist primarily of residential homes, but also include commercial, industrial, public authority, irrigation, construction, recycled and private fire customers.

VWC was under the jurisdiction of the CPUC from 1965 until February 27, 2014, when the CPUC issued its Decision No. 14-02-041 that cancelled VWC’s certificate of public convenience and necessity and terminated the CPUC’s jurisdiction over VWC. The CPUC ended its jurisdiction over VWC due to the acquisition of VWC’s stock by the Castaic Lake Water Agency, a public agency, through a Superior Court action in eminent domain. VWC is still, however, a private company, and is thus not subject to state laws governing the rates charged by public agency utilities.

The proposed increase in the Revenue Adjustment Surcharge is designed to recover an accumulated shortfall in revenues of \$5,021,000, which is largely due to impacts related to the current drought and state-mandated water use restrictions. The majority of the costs to maintain the infrastructure and water facilities are fixed and do not decrease when sales decline. While customers do pay a fixed monthly service charge, the largest portion of revenues are generated by water consumption. Simply stated, the reduced water consumption mandated by the state lowers revenues available to cover the fixed costs of operation. Greater-than-expected shortfalls are also, to a lesser extent, a result of delays in the implementation of VWC’s last General Metered Rate increase due to VWC’s changed status with the CPUC, and unforeseen impacts on VWC’s Low-Income Ratepayer Assistance Program. The proposed increase is necessary and justified to continue providing reliable water service with adequate resources through prudent investment and responsible operation and maintenance.

Customer Classifications and Rate Design

VWC has four distinct customer classes: residential, dedicated irrigation, untreated/recycled and non-residential. Residential customers represent approximately 87% of the Company’s total customer base and approximately 55% of its total annual revenues. For residential customers, VWC will continue its WaterSMART Allocation (WSA) program. Under the existing WSA program, customers are given monthly water allocations, often referred to as “budgets”, based on

indoor and outdoor water needs. To encourage and reinforce the efficient use of water, the WSA program includes a tiered rate structure whereby actual monthly water use is compared to the customer's monthly water allocation. No changes are proposed for the existing residential WSA program or rate structure.

Dedicated irrigation customers are also currently under the WSA program, although slightly modified based on different demand loads and consumption profiles. Dedicated irrigation customers represent approximately 4% of the Company's total customer base and 20% of its total annual revenues. The dedicated irrigation WSA and tiered rates program utilizes many of the features of the residential version of the program. However, the method used to determine each month's allocation for irrigation customers is based on the California Department of Water Resources 2010 Model Water Efficient Landscape Ordinance. No changes are proposed for the existing dedicated irrigation WSA program or rate structure.

VWC currently has 17 customers in the untreated/recycled classification. VWC continues to pursue all opportunities to serve recycled water where it is operationally feasible and cost-effective. Recycled water sales are offered at a 16% discount from the non-residential general metered quantity rate for potable water. Untreated/recycled customers represent less than 1% of the Company's total customer base and approximately 2% of its total annual revenues.

The balance of VWC's customers are non-residential, consisting primarily of commercial and industrial customers. These customers are not currently on the WSA program since their usage patterns are very diverse across these customer classes. Diverse usage patterns do not lend themselves to easily creating water budgets. Therefore, these customers are not on a tiered rate system. Non-residential customers represent approximately 9% of the Company's total customer base and 23% of its total annual revenues.

The proposed rate change for the Revenue Adjustment Surcharge is shown in Table 1. As shown, the existing General Metered Rates will remain unchanged during 2016.

Table 1 - Current and Proposed Commodity Charge, \$/Ccf

		Present Rates			Proposed Rates		
		General Metered Rate	Revenue Adjustment Surcharge	Total Commodity Rate	General Metered Rate	Revenue Adjustment Surcharge	Total Commodity Rate
General Metered Service		\$1.598	\$0.088	\$1.686	\$1.598	\$0.515	\$2.113
Residential	Tier 1	\$1.342	\$0.088	\$1.430	\$1.342	\$0.515	\$1.857
	Tier 2	\$1.598	\$0.088	\$1.686	\$1.598	\$0.515	\$2.113
	Tier 3	\$1.997	\$0.088	\$2.085	\$1.997	\$0.515	\$2.512
	Tier 4	\$2.597	\$0.088	\$2.685	\$2.597	\$0.515	\$3.112
	Tier 5	\$3.376	\$0.088	\$3.464	\$3.376	\$0.515	\$3.891
Dedicated Irrigation Meters	Tier 1	\$1.342	\$0.088	\$1.430	\$1.342	\$0.515	\$1.857
	Tier 2	\$1.598	\$0.088	\$1.686	\$1.598	\$0.515	\$2.113
	Tier 3	\$1.758	\$0.088	\$1.846	\$1.758	\$0.515	\$2.273
	Tier 4	\$2.021	\$0.088	\$2.109	\$2.021	\$0.515	\$2.536
	Tier 5	\$2.527	\$0.088	\$2.615	\$2.527	\$0.515	\$3.042
Untreated/Recycled Service		\$1.342	\$0.088	\$1.430	\$1.342	\$0.515	\$1.857

The existing Monthly Service Charges, shown in the Table 2 below, will also remain unchanged during 2016.

Table 2 - Current Monthly Service Charge

GENERAL METERED SERVICE		PRIVATE FIRE PROTECTION SERVICE	
For 5/8 x 3/4-inch meter	\$10.40	For each 2 inch diameter service connection	\$22.30
For 3/4-inch meter	\$15.60	For each 4 inch diameter service connection	\$32.30
For 1-inch meter	\$26.00	For each 6 inch diameter service connection	\$46.10
For 1-1/2-inch meter	\$52.00	For each 8 inch diameter service connection	\$61.50
For 2-inch meter	\$83.30	For each 10 inch diameter service connection	\$126.90
For 3-inch meter	\$156.10	For each 12 inch diameter service connection	\$183.80
For 4-inch meter	\$260.20	For each 14 inch diameter service connection	\$249.90
For 6-inch meter	\$520.30		
For 8-inch meter	\$832.60		
For 10-inch meter	\$1,196.80		
For 12-inch meter	\$1,717.10		
For 14-inch meter	\$2,341.60		

Revenue Adjustment Surcharge

The Revenue Adjustment Surcharge was implemented 2011, and provides financial stability to VWC when revenue is insufficient to meet expenses due to unforeseen revenue shortfalls. The

proposed increase in the Revenue Adjustment Surcharge was calculated to account for unforeseen revenue shortfalls caused by water use reductions mandated by the State of California, delays in the implementation of VWC's last General Metered Rate increase caused by VWC's changed status with the CPUC, and greater-than-expected impacts on the Low-Income Ratepayer Assistance Program. The proposed increase is necessary to ensure VWC maintains the funding needed to continue providing safe and reliable water service.

Revenue Stabilization Account

VWC maintains a Revenue Stabilization Account (RSA)¹ to track any discrepancies between VWC's projected revenue and actual revenue attributable to certain conservation programs. The RSA is also used to track changes in variable costs associated with revenue fluctuations. This ensures that VWC maintains the funding necessary to continue to provide high-quality water service and to implement conservation and incentive programs for ratepayers, even if the latter results in an unforeseen revenue shortfall. Notably, conservation often causes a revenue shortfall, but not a corresponding decrease in all variable costs nor any decrease in fixed costs. Consequently, the RSA is a crucial aspect of Valencia's WaterSMART conservation program. Any unanticipated additional funds in the account beyond those needed to make up for unforeseen revenue shortfalls will be used to offset VWC customers' rates in the next rate assessment. Any charge associated with the account is paid by all VWC customers.

The goals of the RSA that promote water conservation are as follows:

- To allow VWC to continue to aggressively pursue and implement water conservation rates and programs by allowing VWC to continue receiving funding to match its projected financial needs
- To ensure cost savings resulting from conservation are passed on to ratepayers
- To reduce overall water consumption by VWC ratepayers
- To allow Valencia to meet the goals of state law SB X7-7 to reduce *per capita* water consumption by 20% by the year 2020

In addition to its role in advancing VWC's water conservation goals, the RSA is also used to track its Low Income Ratepayer Assistance ("LIRA") Program. The LIRA Program allows qualifying low-income customers to receive a discount on their monthly service charge.

The RSA also includes the revenue shortfall that occurred due to delays in the implementation of VWC's last General Metered Rate increase caused by VWC's changed status with the CPUC.

The proposed increase in the Revenue Adjustment Surcharge was calculated based on the actual balance in the RSA as of Dec. 31, 2015, divided by estimated annual water sales. This results in an anticipated collection period of approximately one year to recover the accumulated revenue shortfall as of Dec. 31, 2015.

¹ Formerly known as "Water Revenue Adjustment Mechanism" in previous rate cases.

VWC will monitor the activity in the RSA on a monthly basis to ensure that the goal of recovering the accumulated revenue shortfall is being accomplished, and to ensure that the account does not become over-collected due to increased sales and/or water cost savings.

Operations, Maintenance and Capital Activities

During its last general rate case, VWC carefully projected the revenue requirement needed for the rate cycle to cover its operating costs and capital investment needs for system improvements. However, the actual revenues achieved have been far below projections for the reasons described above. VWC has made significant efforts to reduce costs wherever possible without compromising the integrity and reliability of the water system. VWC constantly strives to make improvements as well as increase efficiency.

Some of VWC's recent cost saving measures and efficiency improvements include:

- Operational optimization based on the electric rate schedules for its water facilities to reduce power costs
- Aggressive pursuit of insurance recovery for property damage from mainline breaks, reducing repair costs paid by customers
- Execution of an automatic meter reading system conversion plan
- Conversion to digital atlas maps and centralized GIS based system rather than hard paper copy maps and CAD based atlas
- Digitization of hard copy plans for efficient storage and access
- Implementation of time efficient field laboratory equipment
- Field computers allowing for digital communications, efficient work flow and data collection
- Survey grade GPS data capture of water system assets
- Implementation of a network based intranet site for efficient and enhanced interdepartmental communications
- Deployment of valve exercise equipment and the expansion of the valve maintenance program

It is critically important that VWC continue to perform water system maintenance and improvements so that it can continue to provide safe and reliable water service. While some activities can be delayed temporarily due to cost constraints, there are actions and programs that cannot be deferred without compromising the system and the level of service that customers have come to expect from VWC. A water system is only as reliable as its maintenance programs and, clearly, it is far more cost-effective to conduct preventative maintenance than to make expensive repairs after the fact.

Some of the ongoing and future operating and maintenance activities VWC will perform in the near future include:

- Valve exercising, repairs and replacements
- Service and production meter testing

- Well and booster station maintenance and repairs
- Tank recoating
- Asset inventory and management
- Fire hydrant maintenance
- Water main assessment
- Continuous improvement to customer service response time

Valencia takes very seriously its responsibility of controlling costs and providing safe and reliable water to its customers. It is a delicate balance but if we continue to strive for efficiency and cost-effectiveness, and continue our preventative maintenance programs, we can continue to keep water rates affordable while still providing excellent and reliable water service.

Bill Comparison

Table 3 shows the increase in monthly bills at different usage levels for a residential customer, assuming the customer’s water usage stays within their water allocation. Table 4 shows the average monthly residential bill at VWC’s proposed rates compared to the existing rates of the three neighboring water retailers at the same usage level. VWC’s rates will remain the lowest in the Santa Clarita Valley even after the proposed increase is implemented.

Table 3 - Monthly Water Bill, Residential, 3/4" Meter

Consumption	Current	Proposed
10 Ccf/mo		
Bill	\$30.16	\$34.43
Increase		\$4.27
20 Ccf/mo		
Bill	\$47.02	\$55.56
Increase		\$8.54
30 Ccf/mo		
Bill	\$63.88	\$76.69
Increase		\$12.81

**Table 4 - Comparison with Other Purveyors, 20 ccf/mo
2016 Residential Monthly Charge Comparison**

Valencia Water Company (proposed)	\$55.56
Santa Clarita Water Division (eff. 1/1/16)	\$60.43
L.A. County Waterworks No. 36 (eff. 1/1/16)	\$72.50
Newhall County Water District (eff. 7/1/16)	\$74.74

