

VALENCIA WATER COMPANY
2016 BUSINESS PLAN
(000s)

<u>Statement of Income</u>	Outlook	Plan
	2015	2016
(1) Operating revenue:	\$21,837	\$28,737
(2) Operating expenses:		
(3) Purchased power	1,998	2,141
(4) Purchased water	6,614	8,398
(5) Purchased water - recycled	173	963
(6) Total Water Costs	8,785	11,502
(7) Operation and Maintenance	5,198	5,173
(8) General and Administrative	4,760	5,023
(9) Property taxes	213	210
(10) Depreciation	2,728	2,766
(11) Total Operating Expenses	12,899	13,172
(12) Contr. to Inc. from Operations	153	4,063
(13) Income taxes	0	(1,227)
(14) Contribution to income	153	2,836
(15) Interest income	16	6
(16) Interest expense	(1,161)	(1,152)
(17) Other income (expense)	125	140
(18) Net Income	(\$867)	\$1,830

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Balance Sheet

	Outlook	Plan
	2015	2016
Current Assets:		
(1) Cash	\$9,741	\$8,568
(2) Metered and other Receivables	1,955	1,930
(3) Materials and supplies	413	413
(4) Prepaid expenses	869	876
(5) Total current assets	<u>12,978</u>	<u>11,787</u>
(6) Property, plant and equipment	173,843	178,843
(7) Accumulated Depreciation	<u>(68,230)</u>	<u>(72,813)</u>
(8) Total Property, Plant, and Equipment	<u>105,613</u>	<u>106,030</u>
(9) Other Assets	<u>23,470</u>	<u>24,025</u>
(10) Total assets	<u>\$142,061</u>	<u>\$141,842</u>
Current liabilities:		
(12) Bank Line of Credit	\$0	\$0
(13) Accounts payable/ Accrued Expenses	<u>1,321</u>	<u>1,243</u>
(14) Total current liabilities	<u>1,321</u>	<u>1,243</u>
Long-Term Liabilities		
(16) Deferred Income Taxes	28,354	28,477
(17) Advances for Construction	9,598	8,900
(18) Contributions in Aid of Construction	55,584	54,988
(19) Long-Term Debt	<u>24,000</u>	<u>24,000</u>
(20) Total long-term liabilities	<u>117,536</u>	<u>116,365</u>
(21) Total liabilities	<u>118,857</u>	<u>117,608</u>
Stockholder's equity:		
(23) Capital Stock and Surplus	7,744	7,744
(24) Retained Earnings	<u>15,460</u>	<u>16,490</u>
(25) Total stockholder's equity	<u>23,204</u>	<u>24,234</u>
(26) Total liabilities and equity	<u>\$142,061</u>	<u>\$141,842</u>

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Statement of Cash Flows

	Outlook	Plan
	2015	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
(1) Net Income	(\$867)	\$1,830
Adjustments to reconcile net income to net cash provided by operating activities:		
(2) Depreciation and amortization	2,605	2,819
(3) Deferred revenues	(74)	(140)
(4) Deferred income taxes	144	(475)
(5) (Increase)decrease in receivables	520	25
(6) (Increase)decrease in inventory	(22)	0
(7) (Increase)decrease in prepaid assets	40	(7)
(8) (Increase)decrease in other assets	0	0
(9) Increase(decrease) in payables & accruals	(601)	51
(10) Increase(decrease) in income taxes	(646)	(129)
(11) Net cash provided(used) by operations	<u>1,099</u>	<u>3,974</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(12) Purchase of property & equipment	(3,039)	(5,125)
(13) Proceeds from property retirements, net	9	0
(14) Net cash provided(used) by investments	<u>(3,030)</u>	<u>(5,125)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
(15) Refunds of construction advances	(698)	(698)
(16) Increase in CIAC	2,290	532
(17) Increase in deferred revenues	209	419
(18) Net increase (decrease) in other long term liabilities	182	525
(19) Dividends Paid	(800)	(800)
(20) Net cash provided(used) by financing	<u>1,183</u>	<u>(22)</u>
(21) Net increase(decrease) in cash	(748)	(1,173)
(22) Cash, beginning of period	<u>10,489</u>	<u>9,741</u>
(23) Cash, end of period	<u><u>\$9,741</u></u>	<u><u>\$8,568</u></u>

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ASSUMPTIONS

REVENUE

- 1) Customer growth is based on information obtained from developers for projected home site sales. There is a one to two year lag from date of lot sales to VWC customer growth. Projected growth is consistent with the currently pending general rate case.

	<u>2016</u>
Total Growth	203
Total Connections	31,433

- 2) Rates:
2016 rates are based on the rates approved in the 2015 general rate case, plus a projected pass-through due to proposed 9.5% increase in CLWA rates effective Jan. 1, 2016.
- 3) Usage per customer by customer class is based on a 15% reduction from actual 2013 usage levels. However, recycled water usage reflects a projected increase for grading in Newhall Ranch.

WATER COSTS

- 4) Purchased Water expense of \$8,398,000 is based on a projected 9.5% increase in wholesale water rates in 2016:

Variable Cost / AF	\$135
Purchased Water (AF)	<u>13,503</u>
Variable Purchased Water	\$1,823,000
Fixed Purchased Water	<u>\$6,575,000</u>
Total Purchased Water	<u>\$8,398,000</u>

Recycled Purchased Water expense of \$963,000 is based on the following:

Cost / AF	\$556.70
Purchased Recycled Water (AF)	<u>1,730</u>
Purchased Recycled Water	<u>\$963,000</u>

5) <u>Water Production and Mix:</u>	<u>2016</u>
Purchased Water Mix	50%
Purchased Water (AF)	<u>13,503</u>
Groundwater (AF)	<u>13,503</u>
Total Production (AF)	<u>27,006</u>
Purchased Water – Recycled (AF)	<u>1,730</u>

Due to the Modified Cost Balancing Account, any changes in water costs due to a deviation from the adopted water mix and change in unit price will be passed through and billed or refunded to customers in the future.

- 6) Purchased Power expense is based on total water production at the following estimated Edison rates.

Edison Cost / Kwh \$0.130

OTHER EXPENSES

In general, expenses are increased by 3% to cover inflationary and other expense increases, based on the current general rate case application.

- 7) The business plan reflects the addition of 1 new employee in mid-2016 resulting in additional salary expense of \$26,000 in 2016.
- 8) Outside Services expense includes legal and other professional services.

	<u>2016</u>
Legal	\$350,000
Consulting	<u>547,000</u>
Total	<u>\$897,000</u>

- 9) Conservation expenses are primarily focused on residential, commercial, and irrigation customers. It includes education, water audits and various rebate programs.

	<u>2016</u>
	<u>\$694,000</u>

- 11) Depreciation Expense is calculated based on a depreciation rate of approximately 3% and planned VWC funded fixed asset additions.

- 12) Income tax provision is based on a blended federal (34%) and state (8.84%) rate of 40%.
- 13) Interest expense is based on the existing \$24 million Modern Woodmen note payable at 4.62% interest rate and amortization of financing costs at \$43,000 per year.

BALANCE SHEET

- 1) Property and equipment: Property and equipment additions funded by VWC are based on estimates of infrastructure and equipment needs which benefit all customers. Property and equipment additions funded by others are based on information obtained from developers for their projects.
- 2) Contributions in aid of construction (CIAC): Additions to CIAC correlate to the developer funded additions to property and equipment above. Depreciation applicable to such utility plant assets is charged directly to the CIAC account rather than to depreciation expense in the income statement. The charges continue until the cost applicable to such utility plant assets has been fully depreciated or the asset is retired.
- 3) Refunds of Advances for construction: Advances for construction represent cash received from developers for extensions of the distribution system. Valencia no longer accepts new advances for construction. These old advance contracts are being refunded to developers over a 40-year period in accordance with the Commission's Rule 15.
- 4) Dividends paid: Dividends are assumed to be \$800,000 per year, consistent with recent history.