

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA



FILED

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Application of CALIFORNIA WATER SERVICE
COMPANY (U-60-W) for Authority to Establish its
Authorized Cost of Capital for the period from January
1, 2012 through December 31, 2014.

A.11-05-____ A1105001
Filed: May 2, 2011

APPLICATION

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Regulatory Attorney
California Water Service Company

Dated: May 2, 2011

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of CALIFORNIA WATER SERVICE
COMPANY (U-60-W) for Authority to Establish its
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APPLICATION

I. PURPOSE

Pursuant to Rule 2.1 of the Commission's Rules of Practice and Procedure ("Rules"), California Public Utilities Code ("PU Code") Sections 454, *et. seq.*, and Decision ("D.") 07-05-062, California Water Service Company ("Cal Water" or "Applicant") respectfully submits this Application for Authority to Establish its Authorized Cost of Capital for the period from January 1, 2012 through December 31, 2014 ("Application").

Applicant is authorized and required to make this filing by D.07-05-062, which adopted the Commission's Rate Case Plan ("RCP") for Class A water utilities. Specifically, this Application is filed in compliance with Ordering Paragraph 4, which states: "All Class A Water Utilities shall comply with the filing schedule and all other general rate case (GRC) requirements as set forth in the RCP".

A. Applicant's Requested Cost of Capital

Applicant is requesting a rate of return on rate base of **8.86%** for the period from January 1, 2012 through December 31, 2013. The proposed rate of return reflects a fair return on equity of **11.25%**.

Applicant's proposed capital structure is shown in Table 1, below:

Table 1

Estimated Average Rate of Return for January 2012 to December 2013				
<u>Category</u>	<u>Amount (1,000s)</u>	<u>Percentage or capitalization</u>	<u>Rate</u>	<u>Weighted Rate</u>
Long-Term Debt	539,181	46.1%	6.16%	2.84%
Common Stock	631,541	53.9%	11.25%	6.06%
	1,170,722	100.00%		8.90%

As a result of adopting this capital structure, Applicant's revenue requirement will increase by \$4,278,200 or 0.87%. Table 2, below, shows the proposed increase in revenue requirement by ratemaking area:

Table 2

	<u>\$ Increase (Thousands)</u>	<u>% Increase</u>
Antelope Valley	27.7	1.20%
Lancaster	13.2	1.20%
Leona	10.2	1.20%
Fremont	4.2	1.20%
Bakersfield	655.3	1.04%
Bayshore	104.4	0.20%
Bear Gulch	333.3	1.07%
Chico-Hamilton	246.2	1.26%
Dixon	44.1	1.88%
Dominguez	368.2	0.68%
East Los Angeles	254.6	0.79%
Hermosa Redondo	226.5	0.85%
King City	49.1	1.73%
Kern River Valley	93.3	1.73%
Livermore	176.3	0.87%

	\$ Increase (Thousands)	% Increase
Los Altos	213.2	0.88%
Marysville	42.4	1.32%
Oroville	48.0	1.19%
Palos Verdes	179.0	0.45%
Redwood Valley		
Coast Springs	7.8	1.76%
Lucerne	26.7	1.52%
Unified	6.0	0.99%
Selma	67.0	1.52%
Salinas	338.6	1.34%
Stockton	360.6	1.07%
Visalia	317.3	1.35%
Willows	25.3	1.25%
Westlake	67.5	0.41%
TOTAL	4,278.2	0.87%

B. Continuation of the Water Cost of Capital Mechanism (“WCCM”)

The RCP also directed companies to include in their 2008 cost of capital applications a proposal for adjusting the authorized cost of capital between cost of capital applications.¹ In D.09-07-051, the Commission approved a settlement agreement among the parties in A.08-05-002 (including Cal Water and DRA) that proposed a Water Cost of Capital Mechanism (“WCCM”) to adjust the base year 2009 return on common equity to reflect any significant changes in interest rates that may occur in 2010 and 2011.² The settlement stated:

While this settlement does not bind the Commission in future proceedings, the Parties agree that a similar adjustment to the cost of capital should be made following the adoption of a base year cost of capital in subsequent cost of capital proceedings for CWS, California American, and Golden State. In those future cases, the Parties envision the Commission setting a base year cost of capital and adopting a similar adjustment mechanism that would be recalibrated to reflect the new cost of capital.³

¹ D.07-05-062, *mimeo*, at 15.

² D.09-07-051 at Ordering Paragraph 1.

³ D.09-07-051, Attachment A (Settlement Agreement) at 3-4 (emphasis added).

Consistent with the settlement, Cal Water proposes to retain the Water Cost of Capital Mechanism adopted in D.09-07-051 for years 2013 and 2014, using the base year 2012 that will be adopted in this proceeding.

C. Discontinuation of the Temporary Interest Rate Balancing Account (“TIRBA”)

D.09-05-019 adopted an interim measure to account for changes in interest rates. The Temporary Interest Rate Balancing Account (“TIRBA”) was adopted to record differences in the incremental changes in interest expense for long-term debt between actual and adopted amounts issued after January 1, 2009. The Commission stated:

This account shall include interest costs from effective date of this decision forward and remain in effect until the next cost of capital proceeding for each company, in an appropriate venue, to end the balancing account.⁴

Applicant formally requests that the TIRBA be discontinued. Applicant also requests that the accumulated balance of the TIRBA be refunded to customers at the time of an order establishing the 2012 cost of capital in this proceeding.

II. BASIS FOR REQUEST

Applicant bases its request on the following testimony and analyses:

- the Direct Testimony of **Dr. Michael J. Vilbert**: Report on the Financial Requirements of the California Water Service Company (Exhibit C to this Application)
- the Direct Testimony of **Martin A. Kropelnicki** on behalf of California Water Service Company (Exhibit E to this Application)
- Direct Testimony of **Thomas F. Smegal** on behalf of California Water Service Company (Exhibit F to this Application)
- Direct Testimony of **John Tootle** on behalf of California Water Service Company (Exhibit G to this Application)

For the reasons discussed in the above-identified testimony, Cal Water requests a 11.25% return on common equity, the midpoint of the 10.75% to 11.75% range

⁴ D.09-05-019 at 41-42.

recommended by Dr. Michael J. Vilbert, in order to ensure the financing necessary to maintain and develop Cal Water's infrastructure for the safe and reliable delivery of water over the period covered by this Application.

III. DESCRIPTION OF APPLICANT

In compliance with Rule 2.1(a), Applicant states that its exact legal name is California Water Service Company. Applicant is a California corporation. In compliance with Rule 2.2, Applicant states that a copy of its Restated Articles of Incorporation has been filed with the Public Utilities Commission in connection with Application 50350, and reference is hereby made thereto. There have been no subsequent changes in the Articles of Incorporation.

Applicant's principal place of business is 1720 North First Street, San Jose, CA 95112. Applicant has been granted a certificate of public convenience and necessity ("CPCN") for service areas throughout the state of California. The maps for these service areas are filed with the Commission. This Application relates to all areas served. Applicant serves approximately 462,442 service connections, and has provided public utility water service since 1926.

IV. CONTACT INFORMATION

In compliance with Rule 2.1(b), correspondence and communication concerning the Application should be directed to:

Thomas F. Smegal
Vice President of Regulatory Matters and Corporate Relations
California Water Service Company
1720 North First Street
San Jose, CA 95112
Phone: (408) 367-8200
Fax: (408) 367-8430
Email: tsmegal@calwater.com

V. CATEGORY, HEARING, ISSUES, AND SCHEDULE (IN COMPLIANCE WITH RULE 2.1(C))

A. *Category:* Applicant proposes that this proceeding be categorized as ratesetting.

B. *Hearing:* Applicant anticipates that this Application will require evidentiary hearings.

C. *Issues:* Applicant proposes that the issue in this proceeding is the Commission's adoption of a cost of capital for Applicant for the proposed period, including a fair return on common equity.

D. *Schedule:* Applicant proposes the following schedule:

Monday - May 2, 2011	Application filing deadline
Wednesday - June 1, 2011	Prehearing Conference
Monday - August 1, 2011	DRA and Intervenors submit Cost of Capital Exhibits
Monday - August 22, 2011	Rebuttal Testimony
September 5-9, 2011	Evidentiary Hearings
Monday - September 26, 2011	Late-Filed Exhibits
Monday - October 10, 2011	Concurrent Opening Briefs
Monday - October 24, 2011	Concurrent Reply Briefs
Monday - November 7, 2011	Administrative Law Judge Proposed Decision
Monday - November 14, 2011	Comments on Proposed Decision
Monday - November 28, 2011	Reply Comments
Monday - December 5, 2011	Final Commission Decision Issued

VI. FINANCIAL STATEMENTS

In compliance with Rules 2.3 and 3.2 (a)(1), Applicant's latest available unaudited balance sheets as of December 31, 2010 for the past two years, and Applicant's income statement as of December 31, 2010, are attached as Exhibit A to this Application. Applicant is informed and believes, and therefore alleges, that the original

cost of the property equipment owned by it and the depreciation reserves applicable to such property and equipment are as shown on the balance sheet as of December 31, 2010. For more detailed information with respect to Applicant's financial position, property, and equipment, reference is made to other reports and information previously filed with the Commission which is incorporated in Applicant's prepared testimony.

VII. ACTION OF RATE PROPOSAL

In compliance with Rule 3.2(a)(2), Applicant states that it proposes to implement any revenue requirement decrease authorized by the Commission in this proceeding across all its water service tariffs. Copies of these present rate tariffs are available at Applicant's headquarters, local offices, and its website, www.calwater.com.

Applicant further proposes that any increased revenue requirement authorized in this proceeding not be included in rates, but instead be used to offset savings in the memorandum account recently authorized in Resolution No. L-411 in order to track the impacts of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 ("New Tax Law").⁵

Applicant further proposes that the actual balance of the TIRBA at the end of 2011 be amortized at the conclusion of this proceeding. Applicant's current estimate of this future balance is \$658,000, which could be amortized by action of a monthly surcredit of \$0.119 per customer for twelve months.

VIII. OTHER REQUIREMENTS OF RULE 3.2(A)

In compliance with Rule 3.2(a)(5) and (6), Applicant is providing *pro forma* summaries of earnings in total and for each of its ratemaking areas as last adopted by the Commission and as proposed in this Application. These summaries of earnings are

⁵ Resolution No. L-411 (issued April 15, 2011).

provided in Exhibit B. In compliance with Rule 3.2(a)(10), Applicant states that the proposed increase does reflect only increased costs to the corporation for the services or commodities furnished by it.

IX. NOTICE

Within 10 days after filing the application with the Commission, in compliance with Rule 3.2(b), Applicant will mail a notice to the following stating in general terms the proposed increases in revenue requirements and how Applicant proposes to recover them: (1) the State, by mailing to the Attorney General and the Department of General Services; (2) each county served, by mailing to the County Counsel and County Clerk; (3) each city served by mailing to the City Attorney and City Clerk, and (4) any other persons who have requested such notification.

Within 10 days following the filing of this Application, and in compliance with Rule 3.2(c), Applicant will publish a notice describing the proposed increases in revenue requirements, in general terms, in a newspaper of general circulation in each county served. Notice will also be posted in Applicant's local business offices. Within 45 days following the filing of this Application, and in compliance with Rule 3.2(d), notices will be included in customer bills or mailed postage prepaid to all of Applicant's service area customers who receive monthly bills. Customers billed bimonthly will receive such notices within 75 days following filing of the Application.

X. ADDITIONAL INFORMATION PROVIDED

The Exhibits to this Application are described in the table below. Consistent with Rule 1.7, the Application being filed with the Commission's Docket Office only includes Exhibits A and B, described below. The remaining exhibits (also identified with an asterisk*) are being served on the Chief Administrative Law Judge and the Division of Ratepayer Advocates ("DRA"), but will not be filed with the Docket Office.

- Exhibit A Applicant's Balance Sheets and Income Statement
- Exhibit B California Water Service Company's Comparative Summaries of Earnings
- Exhibit C* Direct Testimony of Michael J. Vilbert: Report on the Financial Requirements of the California Water Service Company (with supporting workpapers)
- Exhibit D* Recorded tables of supporting information for Applicant's service areas for the last five years
- Exhibit E* Direct Testimony of Martin A. Kropelnicki on behalf of California Water Service Company
- Exhibit F* Direct Testimony of Thomas F. Smegal on behalf of California Water Service Company
- Exhibit G* Direct Testimony of John T. Tootle on behalf of California Water Service Company
- Exhibit H* Workpapers In Support of Application (containing calculations on proposed revenue requirements, surcharges, and percentage rate increases)
- Exhibit I* Minimum Data Requirements

XI. CONCLUSION

For reasons discussed above, Applicant therefore requests a rate of return on rate base of 8.86% for the period from January 1, 2012 through December 31, 2013, which reflects a fair return on equity of 11.25%.

Respectfully submitted,

By: /s/ NATALIE D. WALES

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**Regulatory Attorney
California Water Service Company**

Dated: May 2, 2011

VERIFICATION

I, Thomas F. Smegal, declare and say that I am an officer, Vice President of California Water Service Company, a California corporation, making the foregoing Application; that I make this verification on behalf of said corporation; that I have read the Application and know the contents thereof; that the same is true of my own knowledge except as to the matters that are therein stated on information or belief, and as to those matters that I believe to be true.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on May 2, 2011, at San Jose, California.

/s/ THOMAS F. SMEGAL

Thomas F. Smegal

CERTIFICATE OF SERVICE

I hereby certify that on this date I served the foregoing "APPLICATION" by electronic mail or U.S. Mail delivery on the individuals in Cal Water's service territory and on surrounding agencies below:

By Electronic Mail:

ctaugustine@menlopark.org
eric.keniston@cityofpaloalto.org
hyoung@portolavalley.net
djones@ci.atherton.ca.us
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By U.S. Mail Delivery:

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Town Of Woodside
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Woodside, CA 94062

Paul Sloane, President
Leona Valley Town Council
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Town Of Portola Valley
Public Works Director
765 Portola Road
Portola Valley, CA 94028

Jack L. Chacanaca
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Redwood City Water Department
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Redwood City, CA 94064

Maine Prairie Water District
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Dixon, CA 95620

Los Trancos County Water District
1263 Los Trancos Road
Portola Valley, CA 94025

City of Dixon
Attn: Finance Dept.
600 East A Street
Dixon, CA 95620

Krista Mutual Water Company
7025 Cuddy Valley Road
Frazier Park, CA 93225

City of Bakersfield
Asst. Director Of Water Resources:
Florn Core
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Bakersfield, CA 93309

Victory Mutual Water Company
P O Box 40035
Bakersfield, CA 93304

East Niles Community Service Dist.
Attn: Timothy Ruiz
P O Box 6038
Bakersfield, Ca 93386

Airport Mutual Water Company
220 Wright Avenue
Bakersfield, CA 93308

Stockdale Mutual Water Company
Attn: Philip K. Zander
210 Fairway Drive
Bakersfield, CA 93309

Kern County Water Agency
Attn: Eric Averett
P.O. Box 58
Bakersfield, CA 93302

Stockdale Annex Mutual Water
Company
P. O. Box 9726
Bakersfield, CA 93386-9726

Golden State Water Company
Regulatory Affairs Dept.
630 East Foothill Blvd.
San Dimas, CA 91773

Casa Loma Water Company
1016 Lomita Drive
Bakersfield, CA 93307

City of Torrance Water Department
3031 Torrance Boulevard
Torrance, CA 90503

City Of Bakersfield
1501 Truxtun Ave
Bakersfield, CA 93301

City of Compton Municipal Water
Department
205 S. Willowbrook Avenue
Compton, CA 90220

City Of Commerce
Attn: Bob Zarrihi
City Hall
2535 Commerce Way
Commerce, CA 90040

City of Long Beach Water Department
1800 East Wardlow Road
Long Beach, CA 90807

City of Montebello
Roberta King, Engineering Dept.
1600 W. Beverly Blvd.
Montebello, CA 90640

Mr. Mike Sides
Asst. General Manager
Golden Hills Community Services District
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Tehachapi, CA 93561

City Of Vernon
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Vernon, CA 90058

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Public Works Director
City of Tehachapi
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Tehachapi, CA 92561

South Montebello Irrigation District
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Montebello Ca 90640

King City
Att: Jim Larson, Finance Director
212 S Vanderhurst Ave
King City, CA 93930

City Of Monterey Park
Victor Meza, Water Department
320 W. Newmark Avenue
Monterey Park, CA 91754

Park Billing Company
P. O. Box 910
Dixon, CA 95620

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4455 W 126th Street
Hawthorne, Ca 90250

City Of Torrance
Department Of Water
3031 Torrance Blvd
Torrance, Ca 90503

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Executive Officer
383 Hall of Administration
Los Angeles, CA 90012

City Of Manhattan Beach
Attn: Rob Erikson
3621 Bell Avenue
Manhattan Beach, Ca 90266

City of Redondo Beach
Public Works Dept.
Lauren Mahakian, Sr. Mgmt Analyst
415 Diamond Street
Redondo Beach, CA 90277

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Conservation District
Zone 7 Water Agency
100 North Canyons Parkway
Livermore, CA 94551

City Of San Carlos
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San Carlos, CA 94070

Mid-Peninsula Water District
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Belmont, CA 94002

Mr. John Gardner
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City Of San Mateo
City Hall
330 W 20th Ave
San Mateo Ca 94403

City Of Oroville
Attention: Diane MacMillan
1735 Montgomery Street
Oroville Ca 95965

Thermalito Irrigation District
Attn: Gary Alt
410 Grand Ave
Oroville Ca 95965

Director of Transportation & Public Works
County of Sonoma
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Santa Rosa, CA 95403

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King City, CA 93930

Jim Davis, President
Leona Valley Town Council
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Leona Valley, CA 93551

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Mt. View, CA 94039

City Of Los Altos
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Town Of Los Altos Hills
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Los Altos Hills, CA 94022

City Of Santa Clara Water Dept
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Santa Clara, CA 95050

City Of Palo Alto
City Hall
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Palo Alto, CA 94301

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1280 Scales
Marysville, CA 95901

Oliverhurst Public Utility District
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Oliverhurst, CA 95961

Yuba City Municipal Water Works
Attn: Bill Lewis
302 Burns Drive
Yuba City, CA 95991

City Of Lomita
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Lomita, CA 90717

City of Rolling Hills Estates
Attn: Mike Whitehead
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Rolling Hills Estates, CA 90274

City Of Torrance Water Department
3031 Torrance Blvd
Torrance, CA 90503

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Special Districts
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Lakeport, CA 95453
County of Marin
Director of Public Works
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San Rafael, CA 94913-4186

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Dee Cuney
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City Engineer
200 Lincoln Ave
Salinas, CA 93901

City Of Salinas
City Attorney
200 Lincoln Ave
Salinas, CA 93901

Monterey County Administrative Office
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Salinas, CA 93905

City Of South San Francisco
Attn: Barry Nagel
400 Grand Avenue
South San Francisco, CA 94080

Daly City Water Dept
Attn: Patrick Sweetland
153 Lake Merced Blvd
Daly City, CA 94015

San Bruno Water Dept
567 El Camino Real
San Bruno, CA 94066

Westborough Water District
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South San Francisco, CA 94083

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City Hall
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425 N El Dorado Street
San Joaquin County Board
Of Supervisors
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Stockton, Ca 95202

Heinz, USA
Attn: Tom McMurtry
P. O. Box 57
Stockton, CA 95201

City Of Selma
City Hall
1710 Tucker Street
Selma, CA 93662
City Of Fowler
Attn: David Elias, City Manager
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Fowler, CA 93625

City Of Fresno
Dept. Of Public Works
2600 Fresno Street
Fresno, CA 93721

Gavilan Water Company
644 San Juan Grade Road
Salinas, CA 93906

Alco Water Service
Attn: Tom Adcock
249 Williams Road
Salinas, CA 93905

Castroville Water District
Attn: Eric Tynan
P. O. Box 1065
Castroville, CA 95012

Bedel Water Company
Attn: Orville Powers
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Visalia, CA 93292

City Of Willows
Civic Center
201 N. Lassen Street
Willows, CA 95988

Pearl West
3731 Portsmouth Circle North
Stockton, CA 95219

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Sacramento, CA 95838-2434

City Of Thousand Oaks
Jay Spurgih, Deputy Pw Director
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Thousand Oaks, CA 91362

Las Virgenes Municipal Water Dist
Attn: Carol Palma
4232 Las Virgenes Road
Calabasas, CA 91302

Ventura Regional Sanitation District
Attn: Linda Moyer
1001 Partridge Drive, Suite 150
Ventura, Ca 93003

Commanding Officer (Code 136)
Naval Facilities Engineering Com.
Re: Cont. #N68711-74-M-7250-P00999
Cont. #N68711-75-C-5006-P00999

1220 Pacific Highway
San Diego, CA 92132

Stockton Municipal Utility District
2500 Navy Drive
Stockton, Ca 95206

Executed this **2nd day of May 2011**, at San Jose, California.

 /s/ TU RASH

Tu Rash