

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA



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In the Matter of the Application of Valencia Water Company (U342W), a Corporation, for an Order Establishing Its Authorized Cost of Capital for the Period from January 1, 2014 through December 31, 2016.

Application 13-01-004
(Filed January 2, 2013)

**LIMITED PROTEST OF THE DIVISION OF RATEPAYER ADVOCATES
TO THE APPLICATION OF VALENCIA WATER COMPANY
TO ESTABLISH ITS AUTHORIZED COST OF CAPITAL**

I. INTRODUCTION

Pursuant to Rule 2.6 of the California Public Utilities Commission's (Commission) Rules of Practice and Procedure (Rules), the Division of Ratepayer Advocates (DRA) files this protest to Application (A.) 13-01-004 of Valencia Water Company (Valencia) for an order establishing its authorized cost of capital for the Period from January 1, 2014 through December 31, 2016. The application raises several areas of concern that merit further investigation by the Commission. In light of Valencia's general rate case, A. 13-01-003 (GRC), and the concerns raised in Complaint number 13-01-005, Santa Clarita Organization for Planning the Environment v. Valencia Water Company, et al. (Complaint), DRA recommends consolidating this application with the Valencia GRC.

DRA recommends consolidating the Cost of Capital Application into the GRC proceeding.¹ DRA also recommends issuing an Order Instituting Investigation pursuant

¹ DRA entered into a stipulation regarding Valencia's Cost of Capital Application in 2012.

to Rule 5.1 of the Commission Rules of Practice and Procedure, to address concerns raised in the Complaint, a copy of which is attached as Exhibit A. DRA would not be the Division to investigate the alleged violations in the Complaint, but the outcome of the investigation may affect the public interest and the interests of Valencia's ratepayers. The Commission may also choose to adjudicate the Complaint case as part of the Order Instituting Investigation.

An evidentiary hearing may be appropriate for this proceeding, but such a hearing could be held as part of Valencia's larger GRC application.

Presiding Administrative Law Judge Long's January 31, 2013 order in Valencia's GRC and the Complaint case directs Valencia to file an application under Public Utilities Code § 851. The outcome of that application may also affect ratepayers and the broader public interest.

II. APPLICATION

In its application, Valencia proposes that the Commission authorize:

- (1) a capital structure of approximately 50% long-term debt and 50% equity;
- (2) adjustments to Valencia's cost of capital and overall rate of return to reflect Valencia's 4.62% cost of long-term debt and a return on common equity equal to the average of the returns on equity that will be authorized by the Commission in A. 12-05-001, *et al.*, a consolidated cost of capital proceeding addressing applications filed in May 2012 for five small Class A water utilities;
- (3) maintaining Valencia's Water Cost of Capital Adjustment Mechanism (WCCAM) to provide for an automatic adjustment, up or down, of Valencia's rate of return on equity capital and overall rate of return on rate base, based on changes in Moody's Baa corporate bond rate index, subject

to such adjustments to the dead band and the base period for application of the benchmark index as may be adopted in A. 12-05-001, *et seq.*; and

- (4) authorizing Valencia to adjust its rates to reflect the newly established cost of capital on January 1, 2014, coincident with rates authorized in Valencia's concurrently filed general rate case.

III. ISSUES

While DRA is still in the process of reviewing Valencia's GRC application and the Complaint case, it is interested in ensuring that Castaic Lake Water Agency's acquisition of Valencia is properly captured and reflected in the Commission's decision, ensuring that the interests of Valencia's customers are properly protected.

Santa Clarita Complaint

On January 4, 2013, a complaint was filed with the Commission by the Santa Clarita Organization for Planning the Environment and Friends of the Santa Clara River—case number 13-01-005 (Complaint). The Complaint case alleges that Valencia, its agents, and its sole shareholder, Castaic Lake Water Agency (CLWA) violated several statutes, including Public Utilities Code sections 816, 825, 827, 854, 856.² The allegations raised in the Complaint case (if accurate) may affect the public interest and the interests of Valencia's ratepayers. While DRA will not investigate the alleged legal and statutory violations, DRA recommends that this Commission open a companion Order Instituting Investigation as part of the general rate case application to evaluate the merits of those allegations. The Commission may also choose to adjudicate the Complaint case as part of the Order Instituting Investigation. DRA notes that any ratemaking issues raised by the Complainants will be reviewed by DRA as part of the GRC.

² Exhibit A at 4-6.

The alleged statutory violations relate, generally, to CLWA's acquisition of Valencia's stock. According to the Complaint case's allegations, the violations would allow CLWA to unlawfully provide retail water service outside of its statutory boundaries. The Complaint case also alleges that the acquisition is intended to avoid Commission oversight and limit liability for groundwater contamination. While the merits of the allegations are unknown, the issues raised affect the public interest and merit an Order Instituting Investigation.

IV. CATEGORIZATION AND PROPOSED SCHEDULE

DRA agrees with Valencia's proposed categorization of this proceeding as ratesetting. DRA does not know at this time if evidentiary hearings may be necessary to resolve these and other issues raised by this application—to the extent such hearings prove necessary, DRA expects that all of the interrelated issues could be consolidated into a single, phased joint hearing. DRA does not know at this time whether a public participation hearing within Valencia's service area may be appropriate to address Valencia's cost of capital application. DRA requests that a prehearing conference be held to establish a schedule for this proceeding.

On the next page, DRA has proposed a schedule for this proceeding. DRA's proposal reflects DRA's resource availability and scheduling constraints. DRA's resources are limited primarily because of the California Water Service Company Application, A. 12-07-007 (Cal-Water Application), which is currently scheduled for evidentiary hearings from June 4-7 and June 10-14. DRA's Testimony in the Cal-Water Application proceeding is currently scheduled for March 1, 2013. Rebuttal testimony in that case is scheduled for April 30, 2013.

Because of the demands of the Cal-Water Application, the proposed schedule requests additional time for DRA to submit its testimony. The proposed schedule anticipates a Commission vote on a decision concluding the cost of capital application (and whatever else is consolidated with it) at the Commission's December 5, 2013

meeting. The proposed schedule will enable the Commission to meet the December 5, 2013 target and is generally consistent with the intervals set out in the rate case plan decision. This schedule would match the schedule DRA proposes for Valencia's GRC.

DRA Proposed Schedule

Event Per Rate Case Plan	Valencia Proposed Date	DRA Proposed Date
1 Proposed Application tendered -60	November 1, 2012	n/a
2 Deficiency Letter mailed -30	December 3	n/a
3 Appeal to Executive Director -25	December 7	n/a
4 Executive Director acts -20	December 12	n/a
5 Application filed 0	January 2, 2013	n/a
6 Protests and responses are due 32	February 4	February 6
7 Prehearing Conference 40	February 11	February 11
8 Update of Applicant's Showing 45	February 15	February 19
9 Public Participation Hearing, if any 10-90	March 18	March/April
10 DRA & Intervenors, if any, distribute reports 97	April 8	May 24
11 Valencia distributes rebuttal testimony 112	April 23	June 7
12 Formal settlement negotiations begin 115	April 26	June 10
13 Evidentiary hearings 126-130	May 6-10	June 24-28
14 Opening briefs are due 160	June 10	July 25
15 Mandatory status conference 161	N/A	July 26
16 Reply briefs & Joint Comparison Exh. due 175	June 25	August 9
17 Water Division Technical Conference 180	N/A	August 16
18 ALJ's Proposed Decision 240	August 29	October 16
19 Comments on Proposed Decision 260	September 18	November 15
20 Reply Comments are due 265	September 23	November 20
21 Commission Meeting 280	October 8	December 5

V. CONCLUSION

Valencia's Application raises complex issues in light of the utility's acquisition by Castaic Lake Water Agency. DRA will be conducting discovery to develop its testimony and recommendations regarding the application. To the extent hearings prove necessary, a schedule could be established at the prehearing conference that allows for a diligent review of the requested cost of capital. Since DRA has not completed discovery or filed its report, it reserves the right to assert any issue discovered after this Protest has been filed.

Respectfully submitted,

/s/ JOHN R. REYNOLDS

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