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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF
CALIFORNIA

In the Matter of the Application of Park Water)
Company (U 314 W) for Authority to Increase)
Rates Charged for Water Service by \$6,491,200)
or 26.16% in 2013, \$1,483,698 or 4.78% in)
2014, and \$2,114,404 or 6.55% in 2015.)
_____)

APPLICATION NO. 12-01-001
(Filed January 3, 2012)

**REPLY OF PARK WATER COMPANY (U 314 W) TO THE
PROTEST OF THE DIVISION OF RATEPAYER ADVOCATES**

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February 13, 2012

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I. Introduction

Pursuant to Rule 2.6(e), Park Water Company (“Park”), hereby files its reply to the Protest of the Division of Ratepayer Advocates (“Protest”) filed by the Division of Ratepayer Advocates (“DRA”) on February 3, 2012.

In its protest, DRA agrees with Park’s proposed categorization of this proceeding, expresses the opinion that evidentiary hearings may be required in this proceeding, requests that any evidentiary hearings scheduled in this proceeding be conducted in the Commission’s Los Angeles Office, and requests that it be granted a 30-day extension of time to serve its testimony. The only one of these with which Park takes issue is DRA’s request for a 30-day extension of time to serve its testimony.

Park attempts to be cooperative with DRA with regard to scheduling matters, and is willing to discuss a lesser extension of time for DRA to serve its testimony. The 30-day extension of time requested by DRA, however, presents a hardship to Park and does not appear to be necessary.

II. A 30-day Extension Will Present a Hardship to Park

DRA attached a proposed schedule to its Protest which would accommodate its requested 30-day extension and still meet the intervals called for in the Commission's Rate Case Plan for subsequent steps of the proceeding. According to DRA's proposed schedule, Evidentiary Hearings would be scheduled for June 11-15, 2012 and a Final Decision would be issued on November 14, 2012.

Due to various scheduling conflicts, Park's counsel are unavailable for evidentiary hearings in June and, specifically, Park's counsel are unavailable during the June 11-15 period proposed by DRA for the Evidentiary Hearings in this proceeding. As a result, if DRA's request for a 30-day extension were to be granted, the Evidentiary Hearings would have to be moved back to at least July 2, 2012, and possibly the following week due to the July 4th holiday – roughly two months later than the schedule envisioned in the GRC plan. This would push the whole schedule back 21 to 28 days, resulting in a Final Decision being scheduled for December 5, 2012 or December 12, 2012. The schedule of Commission Voting Meetings for 2012 shows that the last three Commission Meetings are scheduled for November 8th, November 29th, and December 20th. Therefore, DRA's proposed extension of time would leave only one Commission Meeting, the meeting of December 20, 2012, available for the Commission to act on this application in order for the resultant rates to be effective by the beginning of the Test Year.

The end of the year is typically a very crowded and busy time for the Commission – one reason that the Rate Case Plan schedules for Water Company GRCs were set up such that the decisions on those proceedings come before the Commission prior to the end of the year. Park is concerned that DRA's proposal results in a very tight schedule with little room for other factors which might cause delay. While Park will have the ability to file for interim rates, that is a less than desirable solution since it creates two rate increases (interim and final), and will result in some later surcharge to recover the memorandum account balance of the differential tracked until final rates are implemented. This will result in customer confusion and dissatisfaction and additional workload for Commission staff (Division of Water & Audits) and Park due to the required additional advice letter filings.

III. The Reasons Cited By DRA Do Not Justify a 30-Day Extension of Time

The primary reason provided by DRA as to why it needs extra time to review Park's application and serve its testimony is the magnitude of Park's requested rate increase, 26% in 2013, which DRA contrasts to lesser requests by Park in recent prior GRC's. DRA also notes that "Park is now owned by the Carlyle Group, a private investment firm" and speculates that "[a]s a result of this acquisition, Park's past practices regarding the levels of investment and how it operates may have changed." (See, Protest, end of Section A, at pp. 2-3).

A. Magnitude of Park's Request

DRA compares the 26.16% rate increase requested by Park in this proceeding with the "far more modest rate increases" in Park's prior GRCs: 5.99% in 2010; 8.21% in 2007; and 9.83% in 2004. As stated in Park's Application (page 2), while the rate increase necessary to generate Park's requested 2013 revenue requirement is 26.16%, the revenue requirement requested by Park for 2013 is only 6.5% higher than Park's adopted 2012 revenue requirement and the difference is due to substantially lower sales forecasts for 2013 than those adopted for 2010-2012. The difference between the forecasts of total annual water sales in Park's application for Test Year 2013 and the adopted total annual water sales for 2012 is -20.4%. In the prior GRC applications to which DRA refers, the difference between the forecasts of total annual water sales in Park's application for the Test Year and the adopted total annual water sales for the year immediately prior ranged from 2.2% to -2.4%, with an average difference of 0.6%. When this difference in the relative change in sales forecasts between this application and prior GRCs is taken into account, it is clear that, absent the forecast of sales at a level 20.4% below the prior adopted level, Park's current request would not be out of line with its prior GRC requests. The differential in the magnitude of Park's requested rate increase in this proceeding from prior proceedings is due almost entirely to the single issue of sales forecasts.

As explained in Park's application (page 5), Park is proposing that sales forecasts be based on an alternate procedure rather than the Basic Procedure of the New Committee Method, which Park believes is allowed under the New Committee Method. As further explained, Park believes this is necessary to improve the accuracy of sales

forecasting and reduce the potential for unnecessary accumulation of under-collected balances in its WRAM/MCBA which will result in subsequent surcharges to customers.

This is not a new issue for DRA or for Class A Water Companies. In A.11-01-001 (GRC for Park's subsidiary, Apple Valley Ranchos Water Co. ("AVR")), AVR proposed use of an alternate procedure to adjust the results of the Basic Procedure of the New Committee Method and DRA, while not accepting the methodology, agreed that the resultant sales forecast for the Residential customer class was reasonable (A.11-01-001, Exhibit DRA-1, page 2-10 & 2-11). In the Settlement Agreement in that case, DRA agreed to an alternate procedure for the forecast of sales for the Business customer class (A. 11-01-001, Settlement Agreement Between DRA and AVR, Section 2.02.2, page 5).

Similarly, in A. 10-07-007, California American Water Co. ("CalAm") proposed alternate procedures for sales forecasting and settled with DRA on the use of more recent data rather than use of the Basic procedure – essentially the same alternate procedure proposed by Park (A.10-07-007, Partial Settlement Between DRA, TURN, and CalAm, Section 2.3). In A10-01-006, Valencia proposed sales forecasts for residential customers based on an alternate procedure, recent recorded sales, and while DRA did not agree to the methodology, DRA agreed to the use of a negotiated forecast (D.10-12-029, Appendix B-Settlement Agreement between Valencia and DRA, page 2-3). Park is informed that other Class A water companies – San Gabriel Valley Water (A.10-07-019), Suburban Water (A. 11-02-002), and Golden State Water (A. 11-07-017) – have also proposed alternate procedures for forecasting sales in recent GRC proceedings and reached agreement, initially or in settlements, with DRA to use sales forecasts other than those that would result from the Basic Procedure.

Park is aware that the settlements referred to above do not create precedent for DRA's approval to a given sales forecasting method, but the point is that this issue is not new. It is one with which DRA should now have substantial experience and it is not an issue that should require any significant additional time for DRA to review. Further, given that Park has a WRAM/MCBA, there is no potential for ratepayers to be harmed due to the sales forecasts; if the sales forecasts in this proceeding happen to be lower than the actual over the test period, the WRAM/MCBA mechanism will cause any excess revenues to be refunded to Park's customers. Given that the WRAM/MCBA will prevent

any harm to customers, an extension of time in the issuance of DRA’s testimony in order to spend any significant extra time on review of the sales forecasts does not appear to be reasonable.

B. Change In Park’s Ownership

In December of 2011, a transaction was closed to transfer the stock of Park to Western Water Holdings, LLC, a wholly-owned subsidiary of Carlyle Infrastructure Partners, LP (“CIP”) which, together other associated investment fund vehicles comprise Carlyle Infrastructure, a part of the Carlyle Group. This transaction closed pursuant to authority granted by the Commission in D.11-12-007 issued in A.11-01-019. This transaction was thoroughly reviewed in a lengthy proceeding with multiple interveners, including DRA, which developed an adequate record composed of all filed and served documents and expanded by supplementary information filed in response to rulings addressing issues raised by the application and by parties. (D.11-12-007, Findings of Fact Nos. 1, 2).

D.11-12-007 granted authority for the transaction subject to a number of conditions, most of which were contained in a Settlement Agreement Between DRA, Park, AVR and the involved Carlyle entities (D. 11-12-007, Attachment A – Settlement Agreement) that the Commission found “ensures the continued operation of Park and Ranchos will be in the public interest” (D. 11-12-007, Finding of Fact No. 3). The Commission stated (D.11-12-007, page 8):

“Applicants filed Supplementary Information on March 11, 2011(Supplement 1) responding to the applicability of eight criteria enumerated in§ 854(c).

- (1) Maintain or improve the financial condition of the resulting public utility doing business in the state.
- (2) Maintain or improve the quality of service to public utility ratepayers in the state.
- (3) Maintain or improve the quality of management of the resulting public utility doing business in the states.

Applicants’ response is persuasive that an orderly transfer from Henry Wheeler to Carlyle, and retaining existing managers and staff, will provide stability, expertise, and access to the capital markets, so that Park and Ranchos should remain financially healthy and provide reliable service. (Supplement 1 at 3 - 5.) Therefore we find no adverse consequences under these provisions of § 854.”

The Settlement Agreement between DRA and the Applicants contains a number of conditions agreed to by the Parties, including Condition of Approval Number 3 which states:

“Western Water Holdings, LLC ("Western Water") shall ensure that Park Water and AVR have adequate capital to fulfill all of their public utility service obligations. The term "capital" encompasses "money and property with which a company carries on its corporate business; a company's assets, regardless of source, utilized for the conduct of the corporate business and for the purpose of deriving gains and profits; and a company's working capital," and is not limited to mean only "equity capital, infrastructure investment, or any other term that does not include, simply, money or working cash." (Decision 02-01-039, Findings of Fact 5 and 6, 2002 Cal. PUC LEXIS 5 *57.) Western Water acknowledges Park Water's and AVR's need for significant amounts of capital to invest in their water supply and delivery infrastructure and commits to meeting all of Park Water's and AVR's capital needs that the Commission has deemed necessary.” (emphasis added).

In accordance with the Settlement with DRA and D.11-12-007, with the commitment of its new parent to meet its capital needs, Park has proposed these capital improvements for the Commission's review so that the Commission can make its determination of the capital needs deemed necessary. In other words, Park is acting pursuant to the Commission's decision. Park's proposed levels of capital spending for 2012-2014 (the estimated year and the two test years for estimating capital costs) are higher than in recent years. This is due to: (1) financing and cash flow constraints experienced by Park during 2009-2011; (2) unavoidable delays (local government approvals) in planned projects; and (3) a planned increase in recognition of the infrastructure needs of the system. The “Infrastructure Issue” has been a growing concern in the water utility industry which has prompted Park to engage in Asset Management studies that have shown a need for Park to increase its capital programs. In this application, Park has proposed improvements to its infrastructure it believes to be necessary, based upon the studies and evidence submitted, to maintain the safety and reliability of its system, to maintain the quality of service to its ratepayers, and to fulfill its public utility obligations. Park believes this is particularly appropriate given the Commission's current emphasis on safety and system reliability and integrity.

Park's proposed capital spending in this application is justified by the evidence based on need and DRA should review it on its merits, rather than on the ownership of Park's stock. There has already been a thorough review of the impact of the transfer of ownership of Park's stock to Carlyle in A.11-01-019 and there is no reason that DRA should need extra time to review it again in this proceeding.

VI. Conclusion

Park opposes DRA's request for a 30-day extension of time to serve its testimony in this proceeding for all the above reasons. DRA, in the "Conclusion" of its Protest, proposed that there be discussion of the schedule of the proceeding at the Pre-hearing Conference. Park is willing to discuss the schedule, and to discuss some extension of time for DRA to serve its testimony, as long as that extension does not result in having to set Evidentiary Hearings later than in May and does not reduce the time available between the issuance of DRA's testimony and the start of evidentiary hearings.

Dated at Downey, California, February 13, 2011.

Respectfully submitted,

PARK WATER COMPANY

By: /s/ Leigh K. Jordan

LEIGH K. JORDAN
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