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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Joint Application of Park Water Company (U314W) and Apple Valley Ranchos Water Company (U346W) for Authority to Establish an Authorized Cost of Capital for 2013 -2015.

Application 12-05-001
(Filed May 1, 2012)

In the Matter of the Application of San Gabriel Valley Water Company (U337W) for an Authorized Cost of Capital for 2013 through 2015.

Application 12-05-002
(Filed May 1, 2012)

Application of Suburban Water Systems (U339W) for Authority to Establish its Authorized Cost of Capital for the period from January 1, 2013 through December 31, 2015.

Application 12-05-004
(Filed May 1, 2012)

Application of Great Oaks Water Company (U162W) for an Order establishing its authorized cost of capital for the period from July 1, 2013 through June 30, 2016.

Application 12-05-005
(Filed May 1, 2012)

**SCOPING MEMO AND RULING OF THE ASSIGNED COMMISSIONER
AND ADMINISTRATIVE LAW JUDGE**

1. Summary

This ruling sets forth the scope, schedule, category, need for hearings and *ex parte* communication rules for this proceeding pursuant to Rule 7.3 of the Commission's Rules of Practice and Procedure (Rules).¹ This ruling also affirms the oral rulings of the Administrative Law Judge (ALJ) consolidating the proceedings and granting the motions of the Division of Ratepayer Advocates (DRA) for late-filed protests.

2. Procedural Background

On May 1, 2012, Park Water Company (Park) and Apple Valley Ranchos Water Company (Apple Valley), San Gabriel Valley Water Company (San Gabriel), Suburban Water Systems (Suburban) and Great Oaks Water Company (Great Oaks) filed Application (A.) 12-05-001, A.12-05-002, A.12-05-004 and A.12-05-005, respectively. Park, Apple Valley, San Gabriel, Suburban and Great Oaks (collectively Applicants) seek authority to establish an authorized cost of capital for 2013 – 2015. On May 4, 2012, Park, and Apple Valley filed an amended joint application. DRA filed protests to the applications.

The individual applications are summarized below.

Park and Apple Valley's application requests that the Commission authorize: 1) a rate of return on rate base of 10.32%; 2) a capital structure of 42.51% long-term debt and 57.49% common equity; 3) a cost of debt of 8.12%; 4) a revenue increase of \$688,535 or 2.14% for Park; and 5) a revenue increase of \$702,450 or 3.01% for Apple Valley. Park and Apple Valley also request that the Commission retain the Water Cost of Capital Adjustment Mechanism (WCCAM)

¹ See Commission's Web page (www.cpuc.ca.gov), "Laws, Rules and Procedures."

without the benchmark or dead band modifications used in the previous cost of capital proceeding.

San Gabriel's application requests that the Commission authorize:

1) a rate of return on rate base of 9.62%; 2) a capital structure of 37.16% long-term debt and 62.84% common equity; 3) a cost of debt of 11.60%; and 4) a revenue increase of \$1,250,000 or 1.96% for Los Angeles County and \$1,460,000 or 2.29% for Fontana Water Company.

Suburban's application requests that the Commission authorize: 1) a rate of return on rate base of 9.49%; 2) a capital structure of 37% long-term debt, 3% preferred stock, and 60% common equity; 3) a cost of debt of 7.05%; 4) a revenue increase of \$1,200,000.

Great Oak's application requests that the Commission authorize: 1) a rate of return on rate base of 10.20%; 2) a capital structure of 100% common equity; and 3) a cost of equity no less than 9.99%. Great Oaks requests that its WCCAM be continued in order to provide an automatic adjustment to Great Oaks rate of return on common equity capital. Great Oaks also requests that it be allowed to adjust its rates in accord with the decision in this proceeding in conjunction with its 2012 general rate case. Finally, Great Oaks requests that the Commission remove the requirement for annual audits of its transactions by an independent Certified Public Accountant.

A prehearing conference (PHC) was noticed and held on June 12, 2012. The parties discussed the scope of the proceeding and a procedural schedule that was primarily based on availability of expert witnesses. The proceedings were consolidated and DRA's motions were granted by the ALJ at the PHC. Those rulings are affirmed here.

3. Assignment of Proceedings

Mark J. Ferron is the assigned Commissioner. Pursuant to Rule 13.2, Administrative Law Judge (ALJ) Linda A. Rochester is designated as the presiding officer.

4. Categorization and Need for Hearings

This ruling confirms the Commission's preliminary categorization of A.12-05-001, A.12-05-002, A.12-05-004, and A.12-05-005 as ratesetting and the determination that evidentiary hearings are necessary. This ruling, only as to categorization, is appealable under the provisions of Rule 7.6 of the Commission's Rules of Practice and Procedure (Rules).

5. Ex Parte Communication

Since this proceeding is categorized as ratesetting, *ex parte* communications with the assigned Commissioner, other Commissioners, their advisors, and the ALJ are only permitted as described in Public Utilities Code Section (Pub. Util. Code §) 1701.3(c) and Rules 8.1– 8.5. The individuals subject to our *ex parte* rules are defined in Pub. Util. Code § 1701.1(c)(4) and Rule 8.1(d).

6. Scope of the Proceeding

The core of the scope of this proceeding is the determination of what is the lowest possible return on equity that should be authorized for a utility that would still permit the Applicants to raise enough capital to provide reliable service at reasonable rates. Additional items in the scope of this proceeding are outlined in the summary of requests for each application given in Section 2 above. However, in addition to those items, this proceeding will also consider the effect of Water Revenue Adjustment Mechanisms (WRAM) and Modified Cost Balancing Accounts (MCBA) on the operations of the applicants that have

WRAM/MCBAs. The WRAM/MCBAs were adopted as part of conservation rate design pilot programs with the specifically stated goals of:

1. Severing the relationship between sales and revenue to remove any disincentive to implement conservation rates and conservation programs;
2. Passing cost savings on to customers; and
3. Reducing overall water consumption.

In adopting WRAM/MCBAs, the Commission stated the mechanisms would be closely monitored and reviewed in the general rate cases of each company and the risk consequences of the WRAM/MCBAs should be evaluated in the cost of capital proceedings.

To help inform the decision-making process, Applicants shall provide some supplemental information prior to DRA's testimony being served (*see* Section 8 below for the procedural schedule). DRA, in its testimony, may address these responses in addition to the information provided in the application and direct testimony.

Supplemental Information:

Item 1: Each Applicant shall provide data on how rates of return, both actual and authorized, have tracked over time for the past five years. Applicants shall also provide how the rating agencies, specifically Standard and Poor's, Moody's and Fitch, have tracked the performance of the Applicant over the same five year period.

Item 2: Applicants shall provide examples on how their average customers' bills have changed over the past five years.

Item 3: Applicants shall provide their views on the financial impact on rate payers of a change in the cost of capital, i.e., how much does a 100 basis

point reduction in the cost of capital impact the average customer bill? How does this compare with the bills implied by each Applicant's general rate case?

Item 4: Applicants shall provide their views on the financial impact of changes in cost of capital to the operating company and how does this affect the parent company? (i.e., how does a 100 basis point decline in cost of capital affect the profitability of the utilities and the parent organization? What secondary impacts result from such a reduction?)

7. Standard of Review

Applicants bear the burden of proof to show that the rates of return they request are just and reasonable and the related ratemaking mechanisms are fair. If a settlement is proposed in this proceeding for any of the applications, the Commission must find that the settlement represents a reasonable and thorough understanding of the issues in the application(s) and that the underlying assumptions, analyses, and data are part of the record. Rule 12.1(d) states that the Commission will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with the law, and in the public interest.

8. Procedural Schedule

The schedule for this proceeding is as follows:

MILESTONE	DEADLINE
Supplemental information served	August 6, 2012
DRA testimony served	August 27, 2012
Rebuttal testimony served	September 21, 2012
Cross examination estimates	October 15, 2012
Evidentiary hearings begin at 10:00 a.m. Commission Courtroom	October 29, 2012

State Office Building 505 Van Ness Avenue San Francisco, CA 94102	
Evidentiary hearings end	November 2, 2012
Opening briefs filed	December 3, 2012
Reply briefs filed	December 21, 2012
Proposed decision issued	March 2013
Decision on Commission agenda	April 2013

The evidentiary hearing will be held at 10 a.m., on October 29, 2012, at the Commission’s Courtroom, State Office Building, 505 Van Ness Avenue, San Francisco, California.

At the PHC, DRA asked that witnesses not be presented in the panel format used in the past. Therefore each applicant will present its witnesses on a specific day. DRA, as the only intervenor, may present its witnesses sponsoring testimony relating to a specific application on the same day as the applicant presents its witnesses, or on a separate day. Parties will inform the ALJ of the order of witnesses when cross exam estimates are provided.

It is anticipated that this proceeding will conclude as set forth above. However, the assigned Commissioner or ALJ may modify this schedule as required to promote the efficient and fair resolution of the matter. In any event, this proceeding should be completed within 18 months of this scoping memo, as required by Pub. Util. Code § 1701.5.

9. Intervenor Summary of Recommendations

Each intervenor serving testimony in this proceeding shall include a table summarizing its proposed recommendations regarding each application, with citations to its exhibits and work papers. The recommendations shall be listed in declining order of monetary impact. The table shall show in separate columns:

- a. Sequential number of recommendations;
- b. Short caption of recommendation;
- c. Monetary impact, e.g., total value of an adjustment or cost reallocation;
- d. Exhibit page citation for the primary discussion of the recommendation; and
- e. Exhibit page citation for the primary presentation of the monetary impact.

10. Briefs

Parties should confer and agree upon a briefing outline before the end of hearings. Any disputes should be brought to the attention of the ALJ before the end of hearings. The intervenor summary of recommendations should be updated at the conclusion of hearings and included as an attachment to the opening brief. The update should reflect a summary of the party's positions on each issue, further citation to transcripts and exhibits as appropriate and any other information the party determines to be necessary and useful to present its position.

11. Discovery

Discovery will be conducted according to Article 11 of the Rules. If the parties have discovery disputes they are unable to resolve through meet and confer sessions, they shall raise these disputes under the Commission's Law and Motion procedure as soon as possible to avoid unnecessary delay in the proceeding. (*See* Rule 11.3)

12. Final Oral Argument

Any party wishing to exercise the right under Rule 13.13 to make a final oral argument before the Commission must prepare a separate motion, file it, and serve it on all parties, the assigned Commissioner and the assigned ALJ

concurrent with Opening Briefs. The motion shall state the request, the subjects to be addressed at oral argument, the amount of time requested, any recommended procedure and order of presentations, and all other relevant matters. The motion shall contain all the information necessary for the Commission to make an informed ruling on the motion and to provide an efficient, fair, equitable and reasonable final oral argument. If more than one party seeks the opportunity for final oral argument, parties shall use their best efforts to present a joint motion, including a joint recommendation on procedure, order of presentations, and anything else relevant to the motion. Responses to the motion may be filed.

If a final determination is made that no hearing is required, Rule 13.13(b) shall cease to apply, along with the right to make a final oral argument. As provided for in Rule 13.13(a), the Commission may still, on its own motion, or upon the recommendation of the assigned Commissioner or ALJ, schedule a final oral argument.

13. Filing, Service and Service List

The official service list is on the Commission's website. Parties should confirm that their information on the service list is correct, and serve notice of any errors on the Commission's Process Office, the service list, and the ALJ. Prior to serving any document, each party must ensure that it is using the most up-to-date service list. The list on the Commission's website meets that definition.

Electronic service is now the standard under Rule 1.10. All parties to this proceeding shall serve documents and pleadings using electronic mail, whenever possible, transmitted no later than 5:00 p.m., on the date scheduled for service to occur. Parties are reminded that, when serving copies of documents, the

document format must be consistent with the requirement set forth in Rule 1.10(a).

Rules 1.9 and 1.10 govern service of documents only and do not change the Rules regarding the tendering of documents for filing. Parties can find information about electronic filing of documents at the Commission's Docket office at www.cpuc.ca.gov/PUC/efiling. All documents formally filed with the Commission's Docket Office must include the caption approved by the Docket Office and this caption must be accurate.

Other documents, including prepared testimony, are served on the service list but not filed with the Docket Office. We will follow the electronic service protocols adopted by the Commission in Rule 1.10, whether formally filed or just served. This Rule provides for electronic service of documents, in a searchable format, unless the appearance or state service list member did not provide an e-mail address. If no e-mail address was provided, service should be made by United States mail. **Additionally, parties shall serve two (2) paper copies of all documents on the presiding officer.** However, no paper copies should be served on the assigned Commissioner's office.

E-mail communication about this case should include, at a minimum, the following information on the subject line of the email: A.12-05-001 Cost of Capital Proceeding. In addition, the party sending the email should briefly describe the attached communication; for example, *Brief*.

Any person interested in participating in this proceeding who is unfamiliar with the Commission's procedures or who has questions about the electronic filing and service procedures should contact the Commission's Public

Advisor at (866)849-8390 or (415) 703-2074, or (866)836-7825 (TTY-toll-free), or send an e-mail to public.advisor@cpuc.ca.gov.

IT IS RULED that:

1. Applications (A.)12-05-001, A.12-05-002, A.12-05-004 and A.12-05-005 are consolidated.

2. The scope of this proceeding is as set forth in Section 6 of this ruling.

3. The schedule of this proceeding is as set forth in Section 8 of this ruling, unless amended by the assigned Commissioner or the assigned Administrative Law Judge.

4. The presiding officer in this proceeding is Administrative Law Judge Linda A. Rochester.

5. This proceeding is categorized as ratesetting.

6. Evidentiary hearings are necessary and shall be held as set forth in Section 8.

7. *Ex parte* communications, if any, shall comply with Article 8 of the Commission's Rules of Practice and Procedure.

8. Any settlements reached between parties shall be filed and served in writing as discussed in Section 7 of this ruling.

9. The service list for filing and service of documents and testimony in this proceeding is as set forth in Section 13 of this ruling.

Dated July 3, 2012, at San Francisco, California.

/s/ MARK J. FERRON
Mark J. Ferron
Assigned Commissioner

/s/ LINDA A. ROCHESTER
Linda A. Rochester
Administrative Law Judge