

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of the Southern California Water Company (U 133 W) for an order authorizing it to increase rates for water service by \$18,972,300 or 24.17% in 2006; by \$1,534,500 or 1.57% in 2007; and by \$1,493,900 or 1.50% in 2008 in its Region III Service Area.

Application 05-02-004
(Filed February 1, 2005)

**ASSIGNED COMMISSIONER'S AND ADMINISTRATIVE LAW JUDGE'S
RULING AND SCOPING MEMO**

1. Summary

In accordance with Rule 6(a)(3) of the Commission's Rules of Practice and Procedure (Rules), this scoping memo designates the category of this proceeding, the need for hearing, and the principal hearing officer, and sets forth the procedural schedule. Pursuant to Rule 6.4, this scoping memo is appealable only as to category of the proceeding.

2. Background

Southern California Water Company (SCWC) filed this application seeking rate increases for in its Region III service area based on increased costs for, among other things, plant investment, capital, operation and maintenance, and administrative and general. SCWC stated that absent a change in rates, its return on rate base would be 4.62% for 2006, which it asserts would be an unjust and unreasonable return. SCWC also requests authorization for escalation increases, based on the escalation year methodology adopted in Decision (D.) 04-06-018.

The Commission's Office of Ratepayer Advocates (ORA) protested SCWC's application as unreasonable or insufficiently justified.

The Assigned Commissioner and Administrative Law Judge (ALJ) convened a prehearing conference on April 26, 2005. Prior to the prehearing conference, the ALJ issued a ruling noting that the Commission had previously found deficiencies in SCWC's cost allocation to unregulated operations and had ordered SCWC to conduct a cost study and analysis to demonstrate compliance with SCWC's holding company decision.¹ The Commission had further directed SCWC to address capital costs and management policies and accounting practices for unregulated operations. The ALJ ruling noted that SCWC's testimony on unregulated operations relied on a cost allocation methodology previously rejected by the Commission, and that it did not address capital costs or management policies and accounting practices.

At the prehearing conference, the Assigned Commissioner, ALJ, and the parties discussed the following:

1. The state of the record on the issue of unregulated operations;
2. Whether a reasonableness review was needed for the Calipatria Treatment Plant in this proceeding;
3. Using the Construction Work in Progress Account to add projects to rate base; and
4. The accuracy of SCWC's lists of primary cost increases and contentious issues in the application.

¹ See D.04-03-039, SCWC's last Region III general rate case.

Based on the prehearing conference discussion, SCWC filed and served supplemental information on May 11, 2005. SCWC substantially revised its list of primary cost increases and contentious issues. The revised primary cost increases are:

	Dollar Amount of Increase
Income taxes	\$3,826,400
Purchased Water	\$3,590,500
Increased Rate Base	\$3,126,600
Allocated General Office Expense	\$2,312,400
Increased Cost of Capital	\$1,860,700

Based on new information, SCWC also modified its list of contentious issues to include its proposed return on equity of 11.65%, which is an increase from the previously adopted rate of 9.90%.

Also in its May 11 filing, SCWC explained that it had reviewed the Commission's treatment of the Calipatria water treatment plant in D.04-03-039 and determined that the Commission had not concluded that the plant was a prudent investment. SCWC stated that it was reviewing its direct testimony for compliance with the Commission's directive to justify the recorded expenditures, and consider project alternatives.

The ALJ convened a further prehearing conference on May 31, 2005. The City of Claremont entered an appearance. ORA and SCWC stated that they had reached an agreement in principle to reschedule consideration of SCWC's general office from this GRC to the Region II filing, expected next year. They stated that they expected to embody the agreement in a stipulation to be filed soon.

SCWC stated that it wished to offer additional testimony on the Calipatria treatment plant, and that it had provided ORA all information in the testimony in a data response in April. A schedule was set for distributing the testimony, and for ORA to set forth any objections.

At the second prehearing conference, the parties also discussed SCWC's increase in rate base, including the comparison report of authorized versus actual investment and the nearly \$60 million of construction work in progress forecasted to be closed and booked to plant in service in 2005. SCWC stated that it would file and serve supplemental information on these topics.

On June 9, 2005, via electronic mail, ORA notified the assigned ALJ and SCWC that it had reviewed SCWC's proposed supplemental Calipatria plant testimony and that it objected to increasing the final total cost for the Calipatria plant from \$16.02 million to \$16.9 million. ORA stated that SCWC's application sought only \$16.02 million, and that no work papers or other documents supported the new amount.

Public participation hearings (PPHs) are scheduled for Apple Valley, San Dimas, and Placentia, California, with afternoon and evening sessions in each city.

3. Rate Case Plan

SCWC's general rate case (GRC) application for its Region III is made pursuant to the new three year GRC cycle requirements for Class A water utilities set forth in § 455.2 and implemented by the Commission under its new rate case plan (RCP) in D.04-06-018.² The RCP provides for each utility to file a

² Class A utilities are investor owned water utilities with greater than 10,000 service connections. All Section (§) references are to the Public Utilities Code.

GRC application every three years, complete with specified documentation and supporting material, and for the Commission to process each application under a 12-month procedural schedule. For the 2005 transitional first year filings under the RCP, the Commission adopted in D.04-06-018 an expedited schedule, allowing a February 1 rather than January 1 filing date while retaining a projected completion date by the end of the calendar year; SCWC's Region III is included in the February 2005 filing schedule. Thus, this GRC application must be processed in 11 months, rather than 12, so Commission staff may start work punctually on the next cases in the cycle. At the prehearing conference, the Assigned Commissioner indicated that completing this case in a "timely fashion" would be a high priority.

4. Categorization, Need for Hearings, Ex Parte Rules, and Designation of Principal Hearing Officer

This proceeding has been preliminarily categorized as ratesetting, as that term is defined in Rule 5(c), and this ruling affirms that categorization. Parties in their protests and prehearing statements state there is a need for evidentiary hearings; no party objects to hearings. This ruling determines that evidentiary hearings are required and sets a procedural schedule for such hearings.

In a ratesetting proceeding, Rule 5(k)(2) defines the "presiding officer" as the principal hearing officer designated as such by the Assigned Commissioner prior to the first hearing in the proceeding. The undersigned Assigned Commissioner designates ALJ Maribeth A. Bushey as the principal hearing officer.

The Commission's ex parte rules applicable to this proceeding are set forth in Rules 7(c) and 7.1. These ex parte rules apply to all parties of record and, more broadly, to all persons with an interest in any substantive matter; the broad

category of individuals subject to our ex parte rules is defined in § 1701.1(c)(4) and Rule 5(h).

4. Scope of the Proceeding

Issues for hearing in a GRC proceeding are very broad, as this is the comprehensive proceeding that reviews all aspects of a company's operations, utility plant, capital structure, capital budget, customer service, customers' rates and service quality.

5. Burden of Proof and Rate Case Plan Showing Requirements

The applicant, SCWC, bears the burden of proving that its proposed rate increases are "justified." Pursuant to § 454(a), before implementing a rate increase, SCWC must make a "showing before the Commission," and the Commission must find that the proposed increase is "justified."

In adopting the revised Rate Case Plan, the Commission further articulated the required showing for a water utility's GRC: "The utility's application for a rate increase must identify, explain, and justify the proposed increase." Specifically, the application must include testimony, with supporting analysis and documentation, describing the components of the utility's proposed increase, e.g., results of operations, plant in service. All significant changes from the last adopted and record amounts must be explained, and all forecasted amounts must include an explanation of the forecasting method.

To the extent SCWC fails to adhere to these requirements, the Commission would be unable to make a finding that SCWC's proposed increase is justified.

6. Procedural Schedule

The following schedule is adopted:

ORA Report	July 1, 2005
SCWC Rebuttal Testimony served	July 29, 2005 ³
Evidentiary Hearings ⁴	August 10 – 12, 2005
Opening Briefs filed and served	September 9, 2005
Oral Argument before Assigned Commissioner and ALJ	10:00 a.m. September 13, 2005
Reply Briefs filed and served	September 23, 2005
Projected Submission date	September 23, 2005

7. Party Status and Service List

The service list for this proceeding is attached to this ruling and any updates will be reflected in the service list on the Commission's Website (www.cpuc.ca.gov). The Commission's newly revised service protocols are set forth in Rules 2.3 and 2.3.1; these rules may also be accessed on the Commission's Website.

Additional parties wishing to participate as a full party to the proceeding must make their request by written motion or on the hearing record and make the showing required under Rule 54. Service list additions for the information only or state service categories can be handled by an e-mail to ALJ Bushey (mab@cpuc.ca.gov).

³ With courtesy email copies sent to the parties and ALJ by 12:00 noon.

⁴ The evidentiary hearings will be held in the Commission's Courtroom; State Office Building, 505 Van Ness Avenue, San Francisco, California 94102.

Therefore, **IT IS RULED** that:

1. This proceeding is categorized as ratesetting and that category determination is appealable under the procedures set forth in Rule 6.4 of the Commission's Rules of Practice and Procedure.
2. Evidentiary hearings are required.
3. Administrative Law Judge Maribeth A. Bushey is the principal hearing officer.
4. The scope of this proceeding is set forth in Section 4.
5. The procedural schedule for this proceeding is set forth in Section 6.

Dated June 24, 2005, at San Francisco, California.

/s/ DIAN GRUENEICH
Dian Grueneich
Assigned Commissioner

/s/ MARIBETH A. BUSHEY
Maribeth A. Bushey
Administrative Law Judge

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(END OF ATTACHMENT)

CERTIFICATE OF SERVICE

I certify that I have by mail, and by electronic mail to the parties for whom an electronic mail address has been provided, this day served a true copy of the original attached Assigned Commissioner’s and Administrative Law Judge’s Ruling and Scoping Memo on all parties of record in this proceeding or their attorneys of record.

Dated June 24, 2005, at San Francisco, California.

/s/ FANNIE SID

Fannie Sid

N O T I C E

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.

The Commission’s policy is to schedule hearings (meetings, workshops, etc.) in locations that are accessible to people with disabilities. To verify that a particular location is accessible, call: Calendar Clerk (415) 703-1203.

If specialized accommodations for the disabled are needed, e.g., sign language interpreters, those making the arrangements must call the Public Advisor at (415) 703-2074,

A.05-02-004 DGX/MAB/sid

TTY 1-866-836-7825 or (415) 703-5282 at least three working days in advance of the event.