

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of CALIFORNIA WATER SERVICE
COMPANY (U-60-W) for Authority to Establish its
Authorized Cost of Capital for the period from January
1, 2018 through December 31, 2020.

A.17-04-____
Filed: April 3, 2017

APPLICATION

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Dated: April 3, 2017

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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, 2018 through December 31, 2020 (“Application”).

Cal Water 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.¹

Specifically, this Application is filed in compliance with Ordering Paragraph 4, which

¹ Under the RCP, Cal Water is required to file its cost of capital applications on a triennial basis starting in 2008. The Commission resolved Cal Water’s last cost of capital application, A.11-05-001, in D.12-07-009, and also modified the deadline for Cal Water’s subsequent cost of capital application from May 1, 2014 to March 31, 2014. D.12-07-009 at 21, Ordering Paragraph 3.

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.”²

A. Cal Water’s Requested Cost of Capital

Cal Water is requesting a rate of return on rate base of **8.31%** for the period from January 1, 2018 through December 31, 2020. The proposed rate of return reflects a fair return on equity of **10.75%**.

Cal Water’s proposed capital structure is shown in Table 1, below:

Table 1

Estimated Average Rate of Return for January 2018 to December 2020			
	Capital Structure	Cost	Weighted Cost
Common Equity	53.40%	10.75%	5.74%
Debt	46.60%	5.51%	2.57%
			8.31%

Cal Water’s current authorized rate of return is 7.94%. Under the proposal in this Application, Cal Water’s revenue requirement will increase by \$9,182,000, or 1.41%. Table 2, below, shows the proposed increase in revenue requirement by ratemaking district. **Exhibit B** to this Application provides the impact of these increases on a typical residential bill in each district, as well as in the sub-areas in use prior to the consolidations approved in D.16-12-042.

² Beginning in 2014, Cal Water and other Class A water utilities requested and received one-year extensions for filing their cost of capital applications until the filing due this year.

Table 2

Proposed Revenue Increases		Dollars (in thousands)	Percentage
Bay Area Region	Formerly Bayshore and Redwood Valley	\$868.7	1.02%
Bakersfield		\$1,142.8	1.49%
Bear Gulch		\$710.9	1.30%
Chico		\$411.5	1.73%
Dixon		\$86.9	2.54%
Dominguez		\$568.4	0.79%
East Los Angeles		\$582.5	1.65%
Hermosa Redondo		\$320.0	1.07%
Kern River Valley		\$146.4	2.18%
Livermore		\$184.0	0.76%
Los Altos		\$406.8	1.14%
Los Angeles Region	Formerly Antelope Valley and Palos Verdes	\$380.4	0.76%
Marysville		\$81.1	2.05%
Monterey Region	Formerly King City and Salinas	\$756.6	2.01%
Oroville		\$88.8	1.70%
Selma		\$112.0	1.99%
Stockton		\$1,761.8	3.60%
Visalia		\$474.1	1.60%
Willows		\$48.5	1.96%
Westlake		\$164.0	0.89%
TOTAL		\$9,296.2	1.43%

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

The RCP 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.³ 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

³ D.07-05-062, *mimeo*, at 15.

2011.⁴ The WCCM was based on the mechanism adopted for large investor-owned energy utilities to replace their annual cost of capital applications.⁵ 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.⁶

In D.12-07-009, the Commission adopted a settlement continuing the WCCM. The adopted base year return on equity for 2012 (9.99%) was therefore subject to possible adjustment in 2013 and 2014 using the new benchmark period of October 1, 2010 through September 30, 2011.⁷ The WCCM was triggered in 2012, lowering Cal Water's rate of return from 8.24% to 7.94% due to a 56 basis point decrease in the return on equity to 9.43%.⁸

Consistent with past settlements, Cal Water proposes to retain the WCCM for years 2019 and 2020, using the base year 2018 that will be adopted in this proceeding, with a new benchmark period of October 1, 2016 through September 30, 2017.

⁴ D.09-07-051 at Ordering Paragraph 1.

⁵ D.12-07-009 at 12-13.

⁶ D.09-07-051, Attachment A (Settlement Agreement) at 3-4 (emphasis added).

⁷ D.12-07-009 at 13.

⁸ Cal Water Advice Letter 2088 (filed October 15, 2012).

II. BASIS FOR REQUEST

Cal Water bases its request on the following testimony and analyses:

- Direct Testimony of **Dr. Michael J. Vilbert**: Report on the Financial Requirements of the 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 **Paul G. Townsley** on behalf of California Water Service Company (**Exhibit G** to this Application)
- Direct Testimony of **Timothy Treloar** on behalf of California Water Service Company (**Exhibit H** to this Application)

For the reasons discussed in the above-identified testimony, Cal Water requests a 10.75% return on common equity, as 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 CAL WATER

In compliance with Rule 2.1(a), Cal Water states that its exact legal name is California Water Service Company. Cal Water is a California corporation. In compliance with Rule 2.2, Cal Water 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.

Cal Water’s principal place of business is 1720 North First Street, San Jose, CA 95112. Cal Water 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. Cal Water serves approximately 451,226 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:

Paul G. Townsley
Vice President of Regulatory Matters
California Water Service Company
1720 North First Street
San Jose, CA 95112
Phone: (408) 367-8200
Email: ptownsley@calwater.com

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

A. Category: Cal Water proposes that this proceeding be categorized as ratesetting.

B. Hearing: Cal Water anticipates that this Application will require evidentiary hearings.

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

D. Schedule: Cal Water proposes the following schedule:

Proposed Procedural Schedule	
Monday, April 03, 2017	Application Filed
Monday, April 17, 2017	Prehearing Conference
Friday, June 16, 2017	ORA and Intervener Testimony Due
Monday, July 17, 2017	Rebuttal Testimony Due
Monday, August 07, 2017	Hearings Begin
Wednesday, September 06, 2017	Opening Briefs Due
Wednesday, September 20, 2017	Reply Briefs Due
Friday, October 20, 2017	Proposed Decision
Thursday, November 09, 2017	Comments on Proposed Decision
Monday, November 20, 2017	Reply Comments on Proposed Decision
Tuesday, December 05, 2017	Final Decision

VI. FINANCIAL STATEMENTS

In compliance with Rule 3.2(a)(1), Cal Water’s latest available unaudited balance sheets as of December 31, 2016 for the past two years, and Cal Water’s income statement as of December 31, 2016, are attached as **Exhibit A** to this Application. Cal Water 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, 2016. For more detailed information with respect to Cal Water’s financial position, property, and equipment, reference is made to other reports and information previously filed with the Commission which is incorporated in Cal Water’s prepared testimony.

VII. ACTION OF RATE PROPOSAL

In compliance with Rule 3.2(a)(2), Cal Water states that it proposes to implement any revenue requirement change authorized by the Commission in this

proceeding across all its Class A service areas beginning January 1, 2018.⁹ Copies of these present rate tariffs are available at Cal Water's headquarters, local offices, and its website, www.calwater.com.

VIII. OTHER REQUIREMENTS OF RULE 3.2(A)

In compliance with Rule 3.2(a)(5) and (6), Cal Water 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 provided in **Exhibit C**. In compliance with Rule 3.2(a)(10), Cal Water states that the proposed increase reflects only increased costs to the corporation for the services or commodities furnished by it.

IX. NOTICE

Within 20 days after filing the Application with the Commission, in compliance with Rule 3.2(b), Cal Water will mail a notice to the following stating in general terms the proposed increases in revenue requirements and how Cal Water 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 20 days following the filing of this Application, and in compliance with Rule 3.2(c), Cal Water will publish a notice describing the proposed increases in revenue

⁹ In this proceeding, Cal Water does not propose to modify rates in Grand Oaks, a Class D water company in California owned by Cal Water.

requirements, in general terms, in a newspaper of general circulation in each county served. Notice will also be posted in Cal Water’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 Cal Water’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, B, and C, described below. The remaining exhibits (also identified with an asterisk*) are being served on the Chief Administrative Law Judge and the Office of Ratepayer Advocates (“ORA”), but will not be filed with the Docket Office.

Exhibit A	Cal Water’s Balance Sheets and Income Statement
Exhibit B	Proposed Revenue and Rate Increases
Exhibit C	Summaries of Earnings and Recorded Rate Base
Exhibit D	Proposed Customer Notice (Pending PAO Approval)
Exhibit E*	Direct Testimony of Michael J. Vilbert: Report on the Financial Requirements of the California Water Service Company (with supporting workpapers)
Exhibit F*	Direct Testimony of Thomas F. Smegal on behalf of California Water Service Company
Exhibit G*	Direct Testimony of Paul G. Townsley on behalf of California Water Service Company
Exhibit H*	Direct Testimony of Tim Treloar on behalf of California Water Service Company

XI. CONCLUSION

For reasons discussed above, Cal Water therefore requests a rate of return on rate base of 8.31% for the period from January 1, 2018 through December 31, 2020, which reflects a fair return on equity of 10.75%.

Respectfully submitted,

By: /s/ NATALIE D. WALES

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**Interim Director, Regulatory Attorney
California Water Service Company**

Dated: April 3, 2017

VERIFICATION

I, Paul G. Townsley, 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 April 3, 2017, at San Jose, California.

/s/ PAUL G. TOWNSLEY

Paul G. Townsley