

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Joint Application of Liberty Utilities (Park Water) Corp. (U 314-W) and Liberty Utilities (Apple Valley Ranchos Water) Corp. (U 346-W) for Authority to Establish an Authorized Cost of Capital for 2024 - 2026.

Application No. 23-05-____
(filed May 1, 2023)

**JOINT APPLICATION OF
LIBERTY UTILITIES (PARK WATER) CORP. (U 314-W) AND
LIBERTY UTILITIES (APPLE VALLEY RANCHOS WATER) CORP. (U 346-W)
FOR AUTHORITY TO ESTABLISH THEIR AUTHORIZED COST OF CAPITAL
FOR THE 2024-2026 PERIOD**

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Dated: May 1, 2023

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I. INTRODUCTION

Pursuant to the Rate Case Plan (“RCP”) adopted by the California Public Utilities Commission (“Commission”) in Decision (“D.”) 07-05-062¹ and the Commission’s Rules of Practice and Procedure, Liberty Utilities (Park Water) Corp. (“Liberty Park Water”) and Liberty Utilities (Apple Valley Ranchos Water) Corp. (“Liberty Apple Valley”) (together, “Joint Applicants”) submit this joint application for an authorized cost of capital for 2024–2026.² Specifically, the Joint Applicants request that the Commission find reasonable and authorize: (1) a rate of return on rate base of 7.87% for 2024-2026, (2) a capital structure of 43% long-term debt and 57% common equity for 2024–2026, (3) a cost of debt of 3.99% for 2024-2026, (4) a return on equity of 10.80% for 2024–2026, (5) a revenue increase of \$1,240,000 or 2.83% in 2024 for Liberty Park Water; and (6) a revenue increase of \$987,700 or 3.16% in 2024 for Liberty Apple Valley.

¹ In D.13-05-027 and D.18-12-002, the Commission issued Decisions on the Joint Applicants’ cost of capital applications for 2013-2015 and 2019-2021, respectively.

² Pursuant to the RCP, the Joint Applicants were scheduled to file their cost of capital application on May 1, 2021 for the 2022–2024 period. By letters of the Executive Director dated March 12, 2020 and May 28, 2020, the Commission granted a one-year delay of the cost of capital filing for those water companies scheduled to file in 2020 and 2021. By letter of the Executive Director dated March 25, 2022, the Commission granted an additional one-year delay of the cost of capital filing for those water companies scheduled to file on May 1, 2022 to May 1, 2023 for the 2024-2026 period. Accordingly, the Joint Applicants’ authorized cost of capital for 2022-2023 remains as authorized in D.18-12-002.

This application includes the Minimum Data Requirements for a Utility Cost of Capital Application in the Application, its Exhibits, the Testimony of Manasa Rao, and the Testimony of Thomas J. Bourassa.

II. REQUESTED COST OF CAPITAL FOR 2024–2026

Public utilities have a constitutional right to a fair opportunity to earn a reasonable return on their investments dedicated to public utility service. When ruling on the rate of return that the Joint Applicants' request in this application, the Commission must consider the criteria the United States Supreme Court set forth in the *Hope*³ and *Bluefield*⁴ cases. These decisions provide guidelines for rate of return decisions that enable the Commission to strike an appropriate balance between (1) allowing a return to shareholders sufficient to allow the utility to attract capital investment and finance its necessary investments and (2) protecting the interests of customers in reasonably priced utility services. These guidelines provide the following:

- The allowed rate of return should be comparable to that generally being made on investments and other business undertakings that are attended by corresponding risks and uncertainties;
- The allowed rate of return should be sufficient to maintain the utility's credit status;
- The authorized rate of return should allow the utility to attract the capital necessary to provide safe and reliable service to customers; and
- The allowed rate of return should be sufficient to ensure confidence in the financial soundness of the company.

Smaller utilities like the Joint Applicants are substantially more exposed to business risk than larger utilities. Smaller utilities have inherently greater degree of business risk than larger companies. The potential relative magnitude of the impact on Joint Applicants of unexpected occurrences can be greater than larger utilities. The Testimony of Thomas Bourassa demonstrates that the Joint Applicants are riskier than a proxy group using established business risk metrics and quantifies the risk premium to be in the range of 10 to 20 basis points.

³ *Federal Power Comm'n v. Hope Natural Gas Co.*, 320 U.S.591 (1944).

⁴ *Bluefield Water Works & Improvement Co. v. Public Service Comm'n of the State of Virginia*, 262 U.S. 679 (1923).

A. Rate of Return on Rate Base

Joint Applicants recommend the adoption of a return on rate base of 7.87% for 2024- 2026. As set forth in the Testimony of Manasa Rao, the recommended rate of return on rate base was developed by utilizing the average effective cost of long-term debt, the cost of common equity supported by the Testimony of Thomas Bourassa and the recommended capital structure to determine the weighted cost of each component. The sum of the weighted components equals the recommended annual returns on rate base (ROR).

B. Capital Structure

As described in the Testimony of Manasa Rao, Joint Applicants propose that the Commission adopt a total consolidated capital structure for the 2024–2026 period consisting of 43% long-term debt and 57% common equity, which is the average estimated capital structure for the period. While the capital structure changes slightly for each year of the period, the average capital structure over the three-year period has been used for each year consistent with prior cost of capital determinations for Joint Applicants. Joint Applicants propose that practice be continued for 2024-2026.

C. Cost of Debt

As set forth in the Testimony of Manasa Rao, Joint Applicants’ requested cost of long-term debt of 3.99% is based on the weighted average of existing long-term debt cost and the estimated effective costs of a new intercompany financing in 2023 based on the prevailing market rate. Because the Commission has historically adopted one return on equity (ROE) and one average capital structure for all three years of the proceeding, Joint Applicants propose that the average effective cost of long-term debt over the period 2024-2026 be used for each year as well. Using an average cost of long-term debt is consistent with the approach for the capital structure and ROE and will avoid the necessity of dealing with small annual changes in ROR that would otherwise result.

D. Return on Equity

Joint Applicants request a ROE of 10.80%, as set forth in the Testimony of Manasa Rao. The quantitative analysis of market data of publicly-traded companies performed by Joint Applicants’ outside consultant, Thomas Bourassa, results in a recommended range of ROE of 9.60% to 11.40% with an average of 10.60% for those companies. Mr. Bourassa recommends that the ROE for Joint Applicants should be higher than that of those companies by at least 20 basis points, resulting in a recommended range for Joint Applicants of 9.80% to 11.60%. Mr. Bourassa’s recommendation for the reasonable ROE for Joint Applicants is 10.80%. Joint Applicants consider Mr. Bourassa’s recommendation of 10.80% a

reasonable return on equity for Liberty Park Water and Liberty Apple Valley that reflects the risks faced by the companies' equity holders, as demonstrated in the Testimonies of Thomas Bourassa and Manasa Rao.

E. Revenue Increase⁵

Joint Applicants have evaluated the increase in revenues necessary to achieve the proposed rate of return on rate base. The effect of the cost of capital request is based on the rate of return authorized by the Commission in the most recent Liberty Park Water and Liberty Apple Valley (Test Year 2022) general rate case. Liberty Park Water proposes an increase in revenue requirement of \$1,240,000 or 2.83% on July 1, 2024. Liberty Apple Valley proposes an increase in revenue requirement of \$987,700 or 3.16% on July 1, 2024. Liberty Park Water and Liberty Apple Valley request that the increase in rates authorized in this proceeding be incorporated into their escalation year 2024 filings.

F. Water Cost of Capital Adjustment Mechanism

In a previous Cost of Capital proceeding, the Commission adopted a Water Cost of Capital Adjustment mechanism ("WCCAM") for all applicants, using the period from October 1, 2011 through September 30, 2012 for the determination of the benchmark and adopting the dead band of 100 basis points.⁶ Joint Applicants propose that the WCCAM be retained. The WCCAM would therefore work off the annual average, from October through September, of an index rate and published utility bond yields and would track the difference each year from a benchmark. For Liberty Park Water and Liberty Apple Valley, the Commission determined that the appropriate index to be used is the Baa utility bond yield. The benchmark would be the annual average of the published Moody's Baa bond yields from October 1, 2021 through September 30, 2022. In 2024 and 2025, that year's average would be compared to the benchmark. There would be a dead band of 100 basis points up and down. Once the dead band was exceeded, it would trigger a modification in the adopted ROE for the upcoming year of 50% of the difference in the index rate.

G. Description of Applicants

Liberty Utilities (Park Water) Corp. is a California corporation with its principal office and place of business located at 9750 Washburn Road, Downey, California 90241. A copy of Liberty Park Water's Articles of Incorporation, as amended and restated and filed with the Secretary of State of California on

⁵ The rate impact for Joint Applicant's customers is reflected in the draft customer notices attached hereto as Exhibit B.

⁶ See D.13-05-027, pp. 12-13.

January 11, 2016, is attached hereto as Exhibit C and incorporated herein by reference. Liberty Park Water operates a public utility water system in the southeastern and northeastern sections of Los Angeles County.

Liberty Utilities (Apple Valley Ranchos Water) Corp. is a California corporation with its principal office and place of business located at 21760 Ottawa Road, Apple Valley, California 92307. Liberty Apple Valley is a wholly-owned subsidiary of Liberty Park Water, a California corporation. Liberty Apple Valley operates a public utility water system within and around the Town of Apple Valley in San Bernardino County. A copy of the Articles of Incorporation, as amended and restated and filed with the Secretary of State of California on January 11, 2016, is attached hereto as Exhibit D and incorporated herein by reference.

For more detailed information with respect to the public utility business of the Joint Applicants, reference is made to the reports, maps, rate schedules and other information now on file with the Commission.

H. Contact Information

Correspondence or communications with regard to this application should be addressed and delivered to Manasa Rao, Director, Rates and Regulatory Affairs, Liberty Utilities (West Region), P.O. Box 7002, 9750 Washburn Road, Downey, California 90241-7002, telephone (562) 923- 0711, email Manasa.Rao@libertyutilities.com and Victor T Fu, Prospera Law, LLP, 1901 Avenue of the Stars, Suite 480, Los Angeles, California 90067, telephone (424) 239-1890, email: vfu@prosperalaw.com with courtesy copies to Sharon Yang, Senior Director of Legal Services, Liberty Utilities (California), P.O. Box 7002, 9750 Washburn Road, Downey, California 90241-7002, telephone (562) 923-0711, email Sharon.Yang@libertyutilities.com.

I. Proposed Categorization, Need for Hearing and Proposed Schedule

This application is a “Rate Setting” proceeding. The need for hearings will depend on the degree to which other parties contest the Application and shall be determined by the assigned Administrative Law Judge. As there may be contested issues, Joint Applicants’ proposed schedule incorporates a period for evidentiary hearings. Joint Applicants propose the following schedule:

May 1, 2023	Application
June 1, 2023	Prehearing Conference
July 3, 2023	ORA and Intervener Testimony

July 31, 2023	Rebuttal Testimony
August 17, 2023	Hearings
September 18, 2023	Opening Briefs
October 2, 2023	Reply Briefs
November 13, 2023	Proposed Decision
November 27, 2023	Comments on Proposed Decision
December 4, 2023	Reply Comments on Proposed Decision
December 27, 2023	Final Decision

J. Financial Statements

Financial Statements, in accordance with Rule 2.3—including Joint Applicants’ latest available balance sheets, as of December 31, 2022; their income statements for three months, ending March 31, 2023; and notes concerning Liberty Park Water’s current capitalizations—are attached hereto as Exhibit A and incorporated herein by reference.

K. Statutory Authority

This application is made pursuant to Sections 451, 454, 701, 702, *et al.* of the California Public Utilities Code, the Commission’s Rules, and the prior decisions, order, and resolutions of the Commission.

L. General Order 104-A

Joint Applicants represent that they have no knowledge of any matters occurring or proposed subsequent to the period covered by its last filed Annual Reports corresponding to the statement required by Section 2 of General Order No. 104-A.

M. Notice

In compliance with Rule 3.2, Joint Applicants will provide notice and proof of compliance with the provisions of such rule as required. Draft notices are attached hereto as Exhibit B and have been submitted to the Public Advisors Office for approval.

N. Exhibits

Joint Applicants' Application includes the following exhibits and supporting testimony, which are incorporated herein by this reference:

Exhibits:

Exhibit A: Balance Sheets and Income Statements

Exhibit B: Draft Customer Notices

Exhibit C: Liberty Park Water’s Articles of Incorporation
Exhibit D: Liberty Apple Valley’s Articles of Incorporation
Exhibit E: Affordability Metrics
Testimony:
Testimony of Manasa Rao
Testimony of Thomas J. Bourassa

III. CONCLUSION

Wherefore, Liberty Park Water respectfully requests that this Commission issue a decision:

1. Finding reasonable and authorizing Joint Applicants to implement a rate of return on the rate base of 7.87% for 2024, 2025, and 2026;
2. Finding reasonable and authorizing Joint Applicants’ capital structure for 2024 – 2026 to consist of 43% long-term debt and 57% common equity;
3. Finding reasonable and authorizing Joint Applicants’ return on equity of 10.80%;
4. Finding reasonable and authorizing Liberty Park Water to increase its revenue for 2024 by \$1,240,000 or 2.83%;
5. Finding reasonable and authorizing Liberty Apple Valley to increase its revenue for 2024 by \$987,700 or 3.16%;
6. Granting relief with interim rates as determined reasonable by the Commission if completion according to the Commission’s regulatory plan time table is delayed or if step or attrition increases are delayed due to no fault of Joint Applicants; and
7. Granting such further, additional, and other relief as the Commission may deem to be necessary or proper.

Dated: May 1, 2023

Respectfully submitted,

LIBERTY UTILITIES (PARK WATER) CORP.
LIBERTY UTILITIES (APPLE VALLEY
RANCHOS WATER) CORP.

By: /s/ Manasa Rao

Manasa Rao
Director, Rates and Regulatory Affairs (West
Region)

VERIFICATION

STATE OF CALIFORNIA) ss.
COUNTY OF LOS ANGELES)

I, Edward N Jackson, am President of the Applicant Corporations herein and am authorized to make this verification on their behalf. The statements in the foregoing document are true to my own knowledge, except as to the matters which are therein stated on information and belief, and as to those matters I believe them to be true.

I declare under penalty of perjury under the laws of the State of California that the above is true and correct.

Executed on this 1st day of May 2023 in the City of Downey.

/s/ Edward N Jackson

Edward N Jackson
President Liberty Utilities (California)