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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 2019 - 2021.

APPLICATION NO. \_\_\_\_\_

**JOINT APPLICATION OF  
LIBERTY UTILITIES (PARK WATER) CORP. AND  
LIBERTY UTILITIES (APPLE VALLEY RANCHOS WATER) CORP.**

May 1, 2018

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**I. INTRODUCTION**

Pursuant to the Rate Case Plan (“RCP”) adopted by the California Public Utilities Commission (“Commission”) in Decision (“D.”) 07-05-062<sup>1</sup> 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 2019–2021.<sup>2</sup> Specifically, the Joint Applicants request that the Commission find reasonable and authorize: (1) a rate of return on rate base of 8.11% for 2019-2021, (2) a capital structure of 43% long-term debt and 57% common equity for 2019–2021, (3) a cost of debt of 4.71% for 2019-2021, (4) a return on equity of 10.68% for 2019–2021, (5) a revenue decrease of \$1,510,000 or 3.98% in 2019 for Liberty Park Water; and (6) a revenue decrease of \$1,190,000 or 4.39% in 2019 for Liberty Apple Valley.

<sup>1</sup> In D.10-10-035 and D.13-05-027, the Commission issued Decisions on the Joint Applicants’ cost of capital applications for 2010-2012 and 2013-2015, respectively.

<sup>2</sup> Pursuant to the RCP, the Joint Applicants were scheduled to file their cost of capital application on May 1, 2015 for the 2016–2018 period. By letter of the Executive Director dated February 12, 2014, the Commission granted a one-year delay of the cost of capital filing for those water companies scheduled to file in 2015 and 2016. By letter of the Executive Director dated December 5, 2017, the Joint Applicants were instructed to file their next cost of capital application on May 1, 2018 for the 2019–2021 period. The Joint Applicants’ authorized cost of capital for 2018 remains as authorized in D.13-05-027.

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

## **II. REQUESTED COST OF CAPITAL FOR 2019–2021**

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*<sup>3</sup> and *Bluefield*<sup>4</sup> 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 do 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 1.4 to 3.4 times riskier than a proxy group using common business risk metric and quantifies the risk premium to be in the range of 53 to 82 basis points.

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

<sup>4</sup> *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 8.11% for 2019- 2021. As set forth in the Testimony of Edward Jackson, the recommended rate of return on rate base was developed by utilizing the average effective cost of long-term debt, a 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 Edward Jackson, Joint Applicants propose that the Commission adopt a total consolidated capital structure for 2019–2021 consisting of 43% long-term debt and 57% common equity, which is the average estimated capital structure for years 2019–2021, incorporating an adjustment to equity to reflect the necessity for Joint Applicants to fund long-term regulatory assets generated from under-collections in regulatory accounts. While the capital structure changes slightly for each year of the period, in prior cost of capital determinations for Joint Applicants, the average capital structure over the three-year period has been used for each year. Joint Applicants propose that practice be continued for 2019-2021.

**C. Cost of Debt**

Joint Applicants' requested cost of long-term debt of 4.71% is based on the estimated effective costs of a new intercompany financing in 2018 based on the prevailing market rate, subject to Commission approval in a separate authority to issue debt application, as set forth in the Testimony of Edward Jackson. Because the Commission has historically adopted one 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 2019-2021 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 return of equity (ROE) of 10.68%, as set forth in the Testimony of Edward Jackson. 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 8.79% to 11.10% with an average of 10.15% for those companies. Mr. Bourassa recommends that

the ROE for Joint Applicants should be higher than that for those companies by at least 53 basis points, resulting in a recommended range for Joint Applicants of 9.32% to 11.63%. Mr. Bourassa's recommendation for the reasonable ROE for Joint Applicants is 10.68%. Joint Applicants consider Mr. Bourassa's recommendation of 10.68% 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 Testimony of Thomas Bourassa and Edward Jackson.

**E. Revenue Increase**

Joint Applicants have evaluated the increase in revenues necessary to achieve the proposed rate of return on rate base. Since neither applicant has adopted rates for 2019 (Liberty Park Water and Liberty Apple Valley each filed its 2019 GRC on January 2, 2018, and a decision has not yet been issued on either application<sup>5</sup>), 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 (Test Year 2016) and Liberty Apple Valley (Test Year 2015) general rate cases. Liberty Park Water proposes a decrease in revenue requirement of \$1,510,000 or 3.98% in 2019. Liberty Apple Valley proposes a decrease in revenue requirement of \$1,190,000 or 4.39% in 2019. Liberty Park Water and Liberty Apple Valley request that the decrease in rates authorized in this proceeding be incorporated into their test year 2019 general rate case (A.18-01-002 and A.18-01-003) increase.

**F. Water Cost of Capital Adjustment Mechanism**

In the last 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 (D.13-05-027, page 12-13). 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, 2017 through September 30, 2018. In 2019 and 2020, that year's average would be compared to the benchmark. There would be a dead

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<sup>5</sup> A. 18-01-002 (Liberty Apple Valley's 2019 GRC application) and A.18-01-003 (Liberty Park Water's 2019 GRC application) were consolidated by ALJ Ruling dated March 16, 2018.



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 January 11, 2016, is attached hereto as Exhibit C and incorporated herein by reference. Park 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 Edward N. Jackson, Director, Rates and Regulatory Affairs, Liberty Utilities (California), P.O. Box 7002, 9750 Washburn Road, Downey, California 90241-7002, telephone (562) 923- 0711, email [Edward.Jackson@libertyutilities.com](mailto:Edward.Jackson@libertyutilities.com) and Joni Templeton, LKP Global Law, LLP, 1901 Avenue of the Stars, Suite 480, Los Angeles, California 90067, telephone (424) 239-1926, email: [jtempleton@lkpgl.com](mailto:jtempleton@lkpgl.com) with courtesy copies to Victor T. Fu, LKP Global Law, LLP, 1901 Avenue of the Stars, Suite 480, Los Angeles, California 90067, telephone (424) 239-1890, email: [vfu@lkpgl.com](mailto:vfu@lkpgl.com) and Sharon Yang, Director of Legal Services, Liberty Utilities (California), P.O. Box 7002, 9750 Washburn Road, Downey, California 90241-7002, telephone (562) 299-5120, email [Sharon.Yang@libertyutilities.com](mailto:Sharon.Yang@libertyutilities.com).

**I. Proposed Categorization, Need for Hearing and Proposed Schedule**

This application is a “Rate Setting” proceeding. Joint Applicants believe that hearings will be required. Joint Applicants propose the following schedule:

May 1, 2018	Application
June 1, 2018	Prehearing Conference
July 2, 2018	ORA and Intervener Testimony
July 31, 2018	Rebuttal Testimony
August 17, 2018	Hearings
September 18, 2018	Opening Briefs
October 2, 2018	Reply Briefs
November 13, 2018	Proposed Decision
November 27, 2018	Comments on Proposed Decision
December 4, 2018	Reply Comments on Proposed Decision
December 27, 2018	Final Decision

**J. Financial Statements**

Financial Statements, in accordance with Rule 2.3—including Joint Applicants’ latest available balance sheets, as of December 31, 2017; their income statements for three months, ending March 31, 2018; 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.

**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 8.11% for 2019, 2020, 2021;
2. Finding reasonable and authorizing Joint Applicants' capital structure for 2019 – 2021 to consist of 43% long-term debt and 57% common equity;
3. Finding reasonable and authorizing Joint Applicants' return on equity of 10.68%;
4. Finding reasonable and authorizing Liberty Park Water to decrease its revenue for 2019 by \$1,510,000 or 3.98%;
5. Finding reasonable and authorizing Liberty Apple Valley to decrease its revenue 2019 by \$1,190,000 or 4.39%;
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, 2018

Respectfully submitted,

LIBERTY UTILITIES (PARK WATER) CORP.

By: /s/ Edward Jackson

Edward Jackson

Director, Rates and Regulatory Affairs



VERIFICATION

STATE OF CALIFORNIA            ) ss.  
COUNTY OF LOS ANGELES        )

I, Greg Sorensen, 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 2018 in the City of Downey.

/s/ Gregory Sorensen

Gregory Sorensen  
President Liberty Utilities (West Region)