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

In the Matter of the Application Liberty
Utilities (Park Water) Corp. (U 314 W) for an
Order Authorizing Liberty Utilities (Park
Water) Corp. to Purchase the City of Perris's
Municipal Water Systems.

APPLICATION NO. _____

**APPLICATION OF LIBERTY UTILITIES (PARK WATER) CORP. (U314W)
FOR AN ORDER AUTHORIZING LIBERTY UTILITIES (PARK WATER) CORP.
TO PURCHASE THE CITY OF PERRIS'S MUNICIPAL WATER SYSTEMS,
AND REQUEST FOR EXPEDITED CONSIDERATION**

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I. INTRODUCTION

Pursuant to Sections 851-854, 2718, and 2720 of the California Public Utilities Code, and Article 2 of the California Public Utilities Commission ("Commission") Rules of Practice and Procedure ("Rules"), Liberty Utilities (Park Water) Corp. ("Liberty Park Water") (U314W) requests that the Commission issue an order authorizing Liberty Park Water to purchase the City of Perris's Municipal Water Systems ("Perris MWS") and provide water service to the customers in the Perris service territory in Riverside County, California. The purchase of Perris MWS's assets by Liberty Park Water will occur pursuant to an Asset Purchase Agreement dated December 19, 2017 ("Asset Purchase Agreement") and will result in Liberty Park Water taking over all of Perris MWS's water utility service operations. A copy of the Asset Purchase Agreement is attached hereto as Exhibit 1. A copy of the proposed Bill of Sale is included as "Exhibit B" to the Asset Purchase Agreement. As a

corollary to the Commission's approval of the sale and purchase of Perris MWS's public utility assets, Liberty Park Water further requests that the Commission take the following actions:

- (i) Approve the terms and conditions of the Asset Purchase Agreement;
- (ii) Expand Liberty Park Water's Certificate of Public Convenience and Necessity ("CPCN") and establish a service territory in Riverside County to permit it to provide public utility water service to current and future customers in the Perris service territory;
- (iii) Establish a 10-year rate schedule for water service as the rates to be charged by Liberty Park Water to customers in the Perris service territory pursuant to the terms of the Asset Purchase Agreement;
- (iv) Allow Liberty Park Water to file a Tier 1 Advice Letter placing into effect Perris MWS' rates which are based on the rates in effect for comparable customer classes of the Eastern Municipal Water District;
- (v) Establish a rate base for assets consisting of the \$11,500,000 cash purchase price that Liberty Park Water will pay for Perris MWS; and
- (vi) Authorize Liberty Park Water to establish a Perris ratemaking division consisting of the Perris MWS and, during a future Liberty Park Water GRC cycle, set rates for Perris MWS' former customers based upon a cost of service study.

Liberty Park Water submits that the proposed acquisition furthers important Commission policies and goals and will result in significant benefits to Perris MWS customers and advance the public interest. Accordingly, in its consideration of this Application, the Commission should conserve its resources to the maximum extent possible and consider and resolve the Application on an expedited basis.

II. DESCRIPTION OF THE PROPOSED TRANSACTION

A. Parties to the Transaction

1. City of Perris

Perris MWS serves 3,741 metered customers, approximately 20% percent of the population of the City of Perris, from two systems (the North Perris System and the Downtown Water System) situated in geographically separated areas. Perris MWS serves 3,385 residential customers and 356 commercial customers. Because Perris is located 70 miles from Downey, Liberty Park Water will need to establish a local office there.

2. Liberty Utilities (Park Water) Corp.

Liberty Park Water is a Class A water utility in the southeastern portion of Los Angeles County serving a population of approximately 133,000 people, including the three separate service areas of Compton/Willowbrook (“Compton West”), Lynwood/Rancho Dominguez (“Compton East”), and Bellflower/ Norwalk. Liberty Park Water’s legal name is Liberty Utilities (Park Water) Corp., which is a wholly-owned subsidiary of Liberty Utilities Co. Liberty Park Water is a public utility as defined by Section 216 of the Public Utilities Code and is qualified to transact business in California. Liberty Park Water is a California corporation organized and existing under the laws of California, with its principal place of business in Downey, California. A full description of Liberty Park Water’s plant, water systems and property is on file with the Commission in Liberty Park Water’s 2016 Annual Report to the Commission. That description includes a statement of the cost of Liberty Park Water’s property and the amortization reserve applicable to each item of property in its various operating systems.

B. Assets to Be Sold and Purchased

The City of Perris will sell, and Liberty Park Water will purchase, all of the necessary assets that comprise the Perris MWS as specifically set forth in the Asset Purchase Agreement (collectively,

the “Purchased Assets”). The Purchased Assets include the real property, improvements, easements, rights of way, infrastructure, tanks, wells, mains, meters, hydrants, franchise/license agreements, permits, contracts, tangible personal property, intangible property, records, equipment, machinery, furniture, tools and other facilities necessary to provide domestic water service in Perris MWS’ service territory. The Asset Purchase Agreement, including Schedule 2.1(b), identifies the specific assets Liberty Park Water will purchase, including, *inter alia*, Perris MWS’ physical assets, permits, licenses and contracts.

C. Consideration for the Purchased Assets

Per the Asset Purchase Agreement, the total consideration to be paid by Liberty Park Water to the City of Perris is \$11,500,000 (the “Purchase Price”), which amount constitutes the rate base for the Perris MWS system. Liberty Park Water has evaluated this Purchase Price using several independent measures and comparisons which demonstrate that \$11,500,000 is a reasonable and fair price for the Purchased Assets. In summary, comparing the \$11,500,000 Purchase Price to several different categories of transactions - including recent transactions involving Class A water utilities in California which were approved by the Commission in Applications 15-12-016¹ and 13-10-11², and reported water system acquisitions outside of California - demonstrates that the Purchase Price for the Perris MWS assets is reasonable.

A Replacement Cost New Less Depreciation (“RCNLD”) analysis of the two City of Perris water systems was completed in September of 2015 by an outside consultant, Stetson Engineers Inc., for the sale process. Liberty Park Water also retained Stetson Engineers to validate the analysis and current validity of that RCNLD. The results of the RCNLD study resulted in a RCNLD valuation of

¹ California-American Water Company’s acquisition of Meadowbrook Water Company was approved in D.16-12-014 (\$4 million purchase price).

² Golden State Water Company’s acquisition of Rural Water Company was approved in D.15-06-049 (\$1.7 million purchase price).

the North Perris Water system of \$9,610,719 and a valuation of the Downtown Water System of \$13,270,354 for a total of \$22,881,073. This valuation is well above the Purchase Price for the Purchased Assets.

D. Provision of Public Utility Water Service by Liberty Park Water

Upon the closing of the Asset Purchase Agreement transaction, the City of Perris will be relieved of its obligation to provide water service and Liberty Park Water will assume the sole responsibility for operating the Perris MWS and providing public utility water service to current and future customers in Perris MWS service territory. Liberty Park Water and the City of Perris intend to file a change of ownership application with the State Water Resources Control Board, Division of Drinking Water (“DDW”), for Perris MWS’s current small water system drinking water permit. (Asset Purchase Agreement, Schedule 4.14(b).) The Joint Applicants expect that the DDW will act on the change in ownership application upon the conclusion of this proceeding. Liberty Park Water asks that the change in ownership become effective upon the closing date of the purchase.

Liberty Park Water requests that the Commission: (1) establish a \$11.5 million rate base for Perris MWS’s facilities commensurate with the Purchase Price; (2) adopt the ratemaking treatment for this rate base as outlined in Section IV below; (3) authorize Liberty Park Water to incorporate the Perris MWS within the Liberty Park Water system; and (4) during a future Liberty Park Water GRC cycle, set rates for Perris MWS service territory customers based on Liberty Park Water’s ratemaking tariff.

E. Perris MWS Interim Rate Plan

After the acquisition’s closing, when Liberty Park Water takes over the Purchased Assets and commences service, Perris MWS’s former customers (“System Customers”) shall have their rates for water services adjusted to the rates then in effect for comparable customer classes of the Eastern Municipal Water District (“EMWD”). These rates shall be adjusted each year thereafter for a period

of ten (10) years at the greater of (i) the percentage increase in EMWD rates, or (ii) three and three-tenths percent (3.3%) plus any rate increases attributable to (a) changes in supply arrangements to serve System Customers, (b) changes in the cost of wholesale water to serve Systems Customers that exceed changes in EMWD customer rates, (c) changes in law, or (d) damage to or destruction of assets comprising the Perris MWS (ordinary wear and tear excepted). This is consistent with the terms and conditions of the Asset Purchase Agreement. EMWD provides water service to approximately 80% of the population of the City of Perris. Under the terms of the Asset Purchase Agreement, the water rates to the entire population of the City of Perris would be comparable whether a customer is served by Liberty Park Water or EMWD which was an important consideration for the City of Perris during the sale process. This was also communicated to customers prior to the election that approved the sale.

After that 10-year period, Perris MWS customers would transition for ratemaking purposes onto Liberty Park Water's next GRC cycle and the rates would be established by the Commission based on a cost of service study proposal made by Liberty Park Water.

Table 1 below shows the present rates for 2018 and the rates that Liberty Park Water proposes for 2018 - 2028 in the Perris MWS Interim Rate Plan.

Table 1**Commodity Charges**

Tier Allocation	Perris Current Rates	2018 Proposed	2019 Proposed	2020 Proposed	2021 Proposed	2022 Proposed	2023 Proposed	2024 Proposed	2025 Proposed	2026 Proposed	2027 Proposed
North	All Ccf										
Tier 1 (6.71 Ccf)	\$2.500	\$1.030	\$1.070	\$1.105	\$1.141	\$1.179	\$1.218	\$1.258	\$1.300	\$1.343	\$1.387
Tier 2 (33.55 Ccf)		\$3.350	\$3.430	\$3.543	\$3.660	\$3.781	\$3.906	\$4.035	\$4.168	\$4.306	\$4.448
Tier 3 (50.33 Ccf)		\$5.520	\$5.670	\$5.857	\$6.050	\$6.250	\$6.456	\$6.669	\$6.889	\$7.116	\$7.351
Tier 4 (>50.33 Ccf)		\$11.270	\$11.590	\$11.972	\$12.367	\$12.775	\$13.197	\$13.633	\$14.083	\$14.548	\$15.028
South	18Ccf										
Tier 1 (6.71 Ccf)	\$2.695	\$1.030	\$1.070	\$1.105	\$1.141	\$1.179	\$1.218	\$1.258	\$1.300	\$1.343	\$1.387
Tier 2 (33.55 Ccf)	\$5.155	\$3.350	\$3.430	\$3.543	\$3.660	\$3.781	\$3.906	\$4.035	\$4.168	\$4.306	\$4.448
Tier 3 (50.33 Ccf)		\$5.520	\$5.670	\$5.857	\$6.050	\$6.250	\$6.456	\$6.669	\$6.889	\$7.116	\$7.351
Tier 4 (>50.33 Ccf)		\$11.270	\$11.590	\$11.972	\$12.367	\$12.775	\$13.197	\$13.633	\$14.083	\$14.548	\$15.028

Service Charges

Meter Size	Perris Current Rates	2018 Proposed	2019 Proposed	2020 Proposed	2021 Proposed	2022 Proposed	2023 Proposed	2024 Proposed	2025 Proposed	2026 Proposed	2027 Proposed
5/8	\$9.10	\$15.00	\$16.20	\$16.74	\$17.29	\$17.86	\$18.45	\$19.06	\$19.69	\$20.34	\$21.01
3/4	\$11.90	\$15.00	\$16.20	\$16.74	\$17.29	\$17.86	\$18.45	\$19.06	\$19.69	\$20.34	\$21.01
1	\$18.40	\$21.00	\$22.50	\$23.24	\$24.00	\$24.79	\$25.61	\$26.45	\$27.32	\$28.23	\$29.16
1-1/2	\$36.90	\$60.60	\$65.40	\$67.55	\$69.78	\$72.08	\$74.45	\$76.91	\$79.45	\$82.07	\$84.78
2	\$75.90	\$94.80	\$102.30	\$105.68	\$109.17	\$112.77	\$116.49	\$120.33	\$124.30	\$128.40	\$132.63
3	\$97.90	\$186.00	\$200.70	\$207.32	\$214.16	\$221.23	\$228.54	\$236.08	\$243.87	\$251.92	\$260.24
4	\$119.90	\$288.60	\$311.40	\$321.68	\$332.30	\$343.27	\$354.59	\$366.29	\$378.37	\$390.86	\$403.76
6	\$163.65	\$573.60	\$618.90	\$639.32	\$660.42	\$682.22	\$704.74	\$727.99	\$752.02	\$776.84	\$802.48
8		\$915.60	\$987.90	\$1,020.50	\$1,054.18	\$1,088.97	\$1,124.91	\$1,162.03	\$1,200.38	\$1,239.99	\$1,280.91
10		\$1,371.60	\$1,479.90	\$1,528.74	\$1,579.19	\$1,631.30	\$1,685.13	\$1,740.74	\$1,798.19	\$1,857.53	\$1,918.82
12		\$1,927.80	\$2,079.90	\$2,148.54	\$2,219.44	\$2,292.68	\$2,368.34	\$2,446.50	\$2,527.23	\$2,610.63	\$2,696.78

Liberty Park Water requests that, upon Commission approval of the requests made in this Application, Liberty Park Water be authorized to file an advice letter to establish a new tariff schedule applicable to the Perris MWS service territory. In addition to the rates shown above for 2017, the new tariff schedule should include the special conditions contained in Liberty Park Water tariff schedule No. PR-1, with the exception of the temporary surcharges and surcredits related to Liberty Park Water's regulatory accounts. Liberty Park Water also proposes that tariff (i) Schedule No. PR- 4F (Non-metered Fire Sprinkler Service, (ii)), Schedule No. PR-5 (Fire Flow Testing Charge, PR-9CM Construction and Other Temporary Metered Service, (iii)), Schedule No. LC (Late Payment Charge), and (iv), Schedule Nos. CARW and CARW-SC (California Alternative Rates for Water) be made applicable to the Perris MWS service territory.

III. THE PROPOSED TRANSACTION WILL BENEFIT CUSTOMERS AND IS IN THE PUBLIC INTEREST

The Commission will authorize and approve the sale of public utility property if it determines that the public interest is promoted by the proposed transfer. (*See* Cal. Pub. Util. Code §§ 851- 854.) Liberty Park Water submits that the transfer proposed in this Application promotes the public interest.

A. Reasons for Entering Into the Transaction

Pursuant to the California Public Utilities Code, the City of Perris issued a request for proposals soliciting proposals from interested public utilities to purchase the Perris MWS in 2015. As reported in the written and oral staff reports at a public hearing, the Perris MWS were in debt and experienced annual operating deficits. Absent sale of the Perris MWS, the City of Perris would retain the water systems and the annual deficits were expected to continue, adding to the existing debt which could negatively impact other vital public services across the community. After conducting a noticed public hearing and evaluating the proposals received, the City Council selected Liberty Park Water as the proposed buyer after concluding Liberty Park Water was the best qualified public utility to

continue providing equal or better service to the customers of the systems. Liberty Park Water purchased the Perris MWS for \$11,500,000 and agreed to limit annual water rate increases for 10 years. Annual increases are limited to annual increases in EMWD rates or 3.3%, whichever is higher, with some exceptions for water supply changes or catastrophic events.

Liberty Park Water is a Class A, Commission-regulated water utility that has a long and successful history of providing safe and reliable water service to communities in the Southeast Los Angeles area. As a local company, Liberty Park Water is always looking for strategic opportunities to grow its water operations in the Central Basin area through the acquisition and consolidation of smaller water systems in close proximity to the company's existing water systems. This transaction with the City of Perris, which owns and operates its small system in Riverside County, will therefore result in a seamless ownership change with Commission jurisdiction over the water service to Perris MWS's customers.

B. Perris MWS's Customers Will Benefit from The Proposed Transaction

In addition to limiting annual water rate increases for 10 years, the transaction provides tangible customer service, drought mitigation, and emergency response benefits to Perris MWS customers. With the acquisition, Perris MWS customers will have access to Liberty Park Water's low-income programs and online payment options. Liberty Park Water's wide-ranging conservation program currently provides rebates for selected water-saving appliances/equipment (*e.g.*, toilets, clothes washers, weather-based irrigation control and efficient sprinkler heads), free water-saving devices such as showerheads and hose nozzles, and free Water-Wise Home and Business Calls, whereby Liberty Park Water staff visit homes and businesses to review water use and identify ways customers can save water. This expanded conservation effort in Perris MWS will support Governor Brown's goal to make conservation a way of life for Californians. Liberty Park Water's specialized work force is equipped to address the needs of diverse customers with sometimes differing concerns

or needs. For example, Liberty Park Water can address customers' questions in several different languages.

"It is generally in the public interest for water systems to merge."³ Increases in customers may result in operational efficiencies.⁴ Moreover, the State of California has recognized that small communities, like Perris MWS, will likely face difficulty in maintaining adequate water and wastewater systems. In Resolution No. 2008-0048, the California State Water Resources Control Board ("SWRCB") noted that small and/or disadvantaged communities cannot "provide the economies of scale necessary to build and maintain adequate water and wastewater systems." Also, the Commission's own 2010 Water Action Plan specifically supports "incentives for the acquisition or the operation of small water and sewer utilities, in recognition of the benefits to customers of such acquisitions."⁵ Here, Liberty Park Water's acquisition of Perris MWS's assets and expansion of service to include the area now served by Perris MWS will provide recognizable benefits.

There are several key reasons why the public interest is typically served when a smaller utility, like Perris MWS, is acquired by a larger utility, such as Liberty Park Water. First, larger utilities retain more specialized workforces and have access to newer and more advanced equipment and technology. Second, larger utilities may be able to purchase resources/materials/supplies at lower average prices due to quantity discounts. Additionally, larger utilities benefit from economies of scale, driven by savings related to specialization and by the relationship between the fixed and variable costs of operation. Utilities are capital intensive operations. This means that the fixed costs of providing service are relatively high in comparison to the variable costs. Smaller utilities like Perris MWS may find increasing fixed costs to be more burdensome because their customer base is small. Typically,

³ Resolution No. W-4180, *Suburban Water Systems (SWS). Order Approving Modified Rates from those filed by Advice Letter No. 226-W for the area formerly served by West Covina's Water System, and Requiring SWS to file a General Rate Application*, Feb. 3, 2000, at p. 1.

⁴ *Ibid.*

⁵ 2010 Commission Water Action Plan, p. 9.

smaller utilities must recover a significant fixed cost from a relatively small number of customers (*i.e.*, the same expenditure could have served more customers), resulting in a relatively large—perhaps burdensome—fixed cost per customer. The acquisition of smaller utilities by larger ones allows fixed costs to be spread over a larger customer base. The benefits of spreading fixed costs continues to grow as regulatory and environmental oversight expands because of the substantial fixed costs associated with specialized labor and equipment supporting water quality. The ability of larger utilities (and/or utilities made larger by acquisition(s)) to harness economies of scale typically helps mitigate potential increases in cost per customer to (1) comply with regulatory requirements, (2) maintain customer information and billing systems, (3) purchase adequate materials and supplies, (4) provide high quality customer service, (5) maintain and improve the quality of treated water, (6) provide reliable access to high quality water supplies, (7) provide for current and future new and replacement infrastructure needs, and (8) support a level of expertise required to navigate the often complex requirements for government sponsored or required programs. Cost savings and consolidations from economies of scale help place downward pressure on the rates, which could help slow rate increases often driven by factors outside the control of the utility.

Liberty Park Water is well positioned to realize economies of scale, which would benefit both Perris MWS customers and existing customers of Liberty Park Water in the Los Angeles and San Bernardino Counties. Liberty Park Water serves more than 187,000 people throughout California and has a service territory within commutable distance to Perris MWS. Liberty Park Water also has the financial resources and operating expertise to improve efficiencies and help ensure the system serving Perris MWS's current customers complies with increasingly stringent state and federal environmental mandates.

The existing infrastructure of Perris MWS's water system, which is currently used for “stand-alone” utility purposes, including, but not limited to wells, tanks, pumping equipment, electrical

equipment, and piping, shall remain in service upon the closing of the sale of the system to Liberty Park Water.

The acquisition of Perris MWS by Liberty Park Water should be approved because it offers real benefits to customers and the proposed rates are reasonable, including the following advantages.

1. Continuity of Service

Perris MWS's customers will benefit from an orderly transition in ownership and operational authority to a responsible and experienced Class A water utility that has the resources and capability to continue to provide water service, notwithstanding any future difficulties that may be encountered in the water system. Based on Liberty Park Water's long history of providing continuous and high-quality water service in Southern California, the prospect of the Perris MWS being abandoned or transferred once it is acquired by Liberty Park Water is virtually non-existent, and prospects for continued safe and reliable service are excellent.

2. Reliability and Work Quality

Liberty Park Water is an experienced water utility that provides water service to approximately 30,000 customer connections in the State of California, inclusive of customers served under service contracts.

Given Liberty Park Water's considerable operational expertise and experience in Los Angeles County and San Bernardino County, Liberty Park Water will maintain or improve the reliability and water quality of the Perris MWS system. Perris MWS customers will benefit from the services of Liberty Park Water's experienced staff, including water treatment operators, distribution operators, and supervisors who will continue to efficiently address any water quality and operational issues that may arise, including in the Perris MWS. Liberty Park Water is well positioned to perform needed system maintenance, respond to customer specific operational issues, invest in necessary capital

improvements, and, in the event of an emergency, deploy the resources required to efficiently resolve any reliability and water quality issues that may arise in the Perris MWS.

3. Improved Water Service, System Reliability, and Public Health and Safety

Perris MWS customers will benefit from the potential for improved water service, system reliability and public health and safety that will result from the proposed transaction. The Commission's approval of the proposed transaction will support an orderly transition of Perris MWS's systems to a responsible and experienced Class A water utility with the resources and capability to continue, if not improve, high quality water service, system reliability, and public health and safety. Further, as part of the proposed transaction, Liberty Park Water will maintain a local and active presence in the Perris MWS service territory, including the establishment of an office in the City of Perris. Liberty Park Water will interact with key Perris MWS customers and stakeholders on a regular basis, as it does in all of its service areas. Liberty Park Water employs a full-time staff of water utility professionals with the requisite business and technical expertise, state certifications, and experience to operate and manage Perris MWS professionally, in accordance with industry standards, and in compliance with water quality regulations. As part of the proposed transaction, Liberty Park Water will finance and make capital improvements as needed to address existing system deficiencies, if any, and to avoid operational issues that have the potential to raise health and safety concerns for Perris MWS customers.

4. Access to Capital Financing

Perris MWS customers will benefit from becoming part of Liberty Park Water because of Liberty Park Water's ability to access capital financing. Liberty Park Water, through its parent company, has access to financial markets and, as a larger utility, will be able to secure necessary financing for capital improvements more efficiently and on better terms than the current owner.

5. Enhanced Customer Service

Perris MWS customers should benefit from an enhanced level of customer service that will result from the proposed transaction. As part of Liberty Park Water, Perris MWS customers will benefit from the enhanced level of customer service that a larger water utility can provide. Liberty Park Water maintains a full-service customer service center capable of handling customer inquiries and service requests, in person, over the phone, or online. As part of Liberty Park Water, Perris MWS service territory customers will have 24/7 access to automated account information through Liberty Park Water's interactive voice response system and web portal. Perris MWS customers will also have multiple bill payment options, including paying in person, at a local pay station, by mail, online using a credit card, and auto-pay (automatic deduction from their bank account).

Moreover, as part of Liberty Park Water, Perris MWS customers will have access to Liberty Park Water's Operations Communication Center (open from 6 a.m. to 7 p.m. on weekdays and 8 a.m. to 12 p.m. on weekends and holidays), which responds to both routine customer calls and emergency situations. In addition, Liberty Park Water has 24/7 call service that responds to customer calls and emergency situations for communications outside of the Operations Communication Center's normal hours of operation.

6. Efficiencies and Economies of Scale

Liberty Park Water is committed to maintaining stable rates for the Perris MWS customers and providing the financial and service benefits of becoming part of Liberty Park Water's approximately 30,000 customer system, including:

- Access to Liberty Park Water's talented, experienced, and certified staff;
- Access to a variety of customer service programs, including low-income discounts, conservation device rebates, and multiple convenient payment options;
- Efficiencies and reliability achieved from leading edge technology for monitoring and

managing the system;

- Cost sharing for capital improvements; and
- Extensive emergency response capabilities and resources.

C. **The Proposed Transaction is Consistent with the Commission's Water Action Plan**

The Commission's Water Action Plan sets forth policy objectives for the regulation of investor-owned water utilities. In order to meet that objective, the Water Action Plan lists a number of actions items, one of which is to "provide incentives for the acquisition or operation of small water and sewer utilities." In adopting this action item, the Commission noted:

Smaller water companies often do not have the resources or expertise to operate in full compliance with increasingly stringent and complex water quality regulations. Many water companies are too small to be viable in the long-term, raising questions as to whether they will be able to continue to provide clean and reliable water in the future. DPH requests Class A utilities (over 10,000 connections) to report on an annual basis which smaller utilities they might consider purchasing. Additionally, the Public Water System Investment and Consolidation Act of 1997 added Sections 2718, 2719, and 2720 to the Public Utilities Code to provide incentives to large utilities to take over smaller systems.

The CPUC will consider offering incentives to promote company acquisitions. This includes surcharges for related capital improvements, an adjustment to the allowed return on equity and Rate-Of-Margin treatment for the acquired utility.

(Water Action Plan 2010, at p. 9.)

Liberty Park Water's proposed acquisition of Perris MWS public utility assets and operations is consistent with the principles and objectives of the Commission's Water Action Plan. Perris MWS is one of the small water utilities referenced in the Water Action Plan—a small utility with limited ability to operate in full compliance with increasingly stringent and complex water quality regulations and with limited ability to handle the long term large capital improvement needs of the utility's system. Liberty Park Water's acquisition of Perris MWS public utility assets and operations will help resolve

these issues and fulfill the Water Action Plan’s objective of maintaining the highest standards of water quality.

IV. LIBERTY PARK WATER’S PROPOSED RATEMAKING TREATMENT OF THE ACQUIRED ASSETS IS REASONABLE AND CONSISTENT WITH THE CONSOLIDATION ACT

Liberty Park Water requests that the Commission adopt ratemaking treatment for the Perris MWS assets that is consistent with the Public Water System Investment and Consolidation Act of 1997 (“Consolidation Act”), codified at Public Utilities Code §§ 2718-2720. The Consolidation Act was enacted by the Legislature, in part, to facilitate the acquisition of small water systems by Class A water utilities and

... to aid water systems in making infrastructure improvements, to meet increasingly stringent state and federal drinking water laws, to recognize that economies of scale are achievable in the operation of public water systems, and to provide water corporations with incentives to achieve economies that benefits ratepayers.

(D. 99-10-064, at p. 2) (Order Instituting Rulemaking on the Commission’s Own Motion to Set Rules and to Provide Guidelines for the Acquisition and Mergers of Water Companies).

Public Utilities Code § 2720(a) requires the Commission to “use the standard of fair market value when establishing the rate base for the distribution system of a public water system acquired by a water [utility]. This standard shall be used for ratesetting.” (Cal. Pub. Util. Code § 2720(a).) Public Utilities Code § 2720(a)(2), in turn, defines “fair market value” as having the meaning set forth in Code of Civil Procedure § 1263.320(a), which states that fair market value is “the highest price that would be agreed to by a seller, being willing to sell but under no particular or urgent necessity for so doing, nor obligated to sell, and a buyer, being ready, willing, and able to buy but under no particular necessity for so doing[.]” (Cal. Code Civ. Proc. § 1263.320(a).)

Liberty Park Water is requesting a rate base determination for the acquired assets consisting of the Purchase Price (\$11.5 million). Further, the Purchase Price represents the fair market value of

the assets being acquired and that any other potential purchaser would have to pay an equal or potentially higher purchase price to complete the transaction to acquire the transferred assets. Liberty Park Water requests that the Commission authorize it to include the Purchase Price for Perris MWS assets in Liberty Park Water's rate base.

V. THE PROPOSED TRANSACTION DOES NOT REQUIRE CALIFORNIA ENVIRONMENTAL QUALITY ACT (CEQA) REVIEW

Rule 2.4 of the Commission's Rules requires applications to address the applicability of the California Environmental Quality Act ("CEQA"), California Public Resources Code § 21000 *et seq.*, to the proposed project or transaction at issue. The proposed transaction at issue here is not an activity that is subject to CEQA because it does not constitute a "project" within the meaning of CEQA. The applicability of CEQA is limited to "activity which may cause either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment." (Cal. Pub. Resources Code § 21065.) The Commission has previously determined that, under CEQA, "a change in ownership of a utility 'does not [by itself] cause any direct physical change in the environment.'" (D.13-01-033, at 8-9, citing D.98-02-026 at 3.)

Here, the Liberty Park Water seeks only the Commission's approval of the transfer and sale of Purchased Assets to Liberty Park Water pursuant to the Asset Purchase Agreement. Critically, there will be no change in the operation of the assets serving customers within the Perris MWS system. These assets will continue to be used in the same manner they are currently being used. The Commission has consistently held that such a transfer of control and operation of existing water system facilities does not result in any changes to the environment, and, thus, an application seeking authorization for such a transaction is not subject to CEQA. (*See, e.g.*, D.13-01-033, at 8-9; D.11-03-016, at 9-10 and fn. 13, citing CEQA Guidelines, Cal. Code Regs., tit. 14, § 15061(b)(3) ("A project is exempt from CEQA if...it can be seen with certainty that there is no possibility that the activity in

question may have a significant effect on the environment”).) As there is no “direct or reasonably foreseeable indirect physical change in the environment” will occur as a result of the proposed transaction, this Application and the proposed sale are not subject to the provisions of CEQA.

VI. OTHER PROCEDURAL REQUIREMENTS

A. Communications Concerning Application

All communications and correspondence concerning this Application should be directed to:

Edward N. Jackson
Director, Rates and Regulatory Affairs
Liberty Utilities (California) Corp.
9750 Washburn Rd.
Downey, CA 90241
Telephone: (562) 923-0711
Email: Edward.Jackson@libertyutilities.com

with a copy to:
Joni Templeton
LKP Global Law, LLP
1901 Avenue of the Stars, Suite 480
Los Angeles, CA 90067
Telephone: (424) 239-1926
Facsimile: (424) 239-1882
Email: jtempleton@lkpgl.com

B. Exhibits

- | | |
|------------|---|
| Exhibit 1: | Asset Purchase Agreement dated December 19, 2017 by and between Liberty Utilities (Park Water) Corp. and the City of Perris, California |
| Exhibit 2: | RCNLD for North Perris Water System |
| Exhibit 3: | RCNLD for Downtown Perris Water System |
| Exhibit 4: | Liberty Utilities (Park Water) Corp. Articles of Incorporation |
| Exhibit 5: | Liberty Utilities (Park Water) Corp. Financial Statements dated 12/31/2017 |
| Exhibit 6: | Proposed Customer Notice for City of Perris Customers |

C. Categorization and Schedule

Liberty Park Water requests that the Commission classify this Application as ratesetting. The issues presented in this Application are:

- whether the proposed transaction will serve the public interest;
- whether Liberty Park Water is financially qualified to acquire Perris MWS’s assets;
- whether Liberty Park Water is operationally qualified to utilize such assets in providing public water service;

- what the appropriate rates for the customers of the Perris MWS should be;
- what the appropriate rate base for the acquired assets should be; and
- whether the Perris MWS should be consolidated with Liberty Park Water's water system.

Liberty Park Water does not believe these issues raise material contested issues of fact, and, thus, no hearing is required. Therefore, Liberty Park Water requests that the Commission grant this Application on an expedited basis based on the following schedule:

Application Filed:	May 2018
Protests Filed:	Thirty (30) days after Notice appears in the Daily Calendar
Proposed Decision:	August 2018
Final Decision:	September 2018

In the event protests are filed that raise issues of contested material facts, hearings will be necessary, and the Commission could alter the schedule to account for such hearings at a prehearing conference.

D. Notice and Service of Application

In compliance with D. 99-10-064 (Appendix D, Section 4.03), Liberty Park Water is providing notice to all affected customers, including (1) a comparison of the rates before the acquisition and for the first year after the acquisition and (2) an identification of any cost, including a reasonable return, not fully reflected in the first year's rates. A copy of this notice is attached as Exhibit 6.

A copy of this Application is also being served on those persons and entities set forth on the service list attached hereto. Liberty Park Water will also promptly provide a copy of the Application to any party requesting a copy.

VII. EXPEDITED CONSIDERATION

Because the Commission’s prompt approval of this Application will facilitate the sale of Perris MWS, Liberty Park Water requests the Commission waive—to the extent practicable—the public review and comment period on a proposed decision so that this Application may be resolved on an expedited basis, provided that no protest is filed to the Application and the proposed decision approves the Asset Purchase Agreement and sale without material modification. If the proposed decision seeks to approve the transaction as presented to the Commission by this Application, no comment period would appear to be necessary. Where no hearings are conducted, as Liberty Park Water believes should be the case here, the Commission may reduce or waive the public review and comment period for its decision, provided that its decision grants the relief that is requested. (Rule 14.6(c).) Therefore, Liberty Park Water requests expedited treatment of the instant Application. Providing the Application is unopposed and the Commission’s proposed decision on the Application proposes to approve the Asset Purchase Agreement and sale without material modification, then Liberty Park Water requests that the public review and comment period on such proposed decision be waived.

VIII. CONCLUSION

For all of the reasons described above, Liberty Park Water respectfully requests the Commission to issue its order approving this Application and to approve the terms and conditions of the Asset Purchase Agreement:

1. Expand Liberty Park Water’s Certificate of Public Convenience and Necessity (“CPCN”) and establish a service territory in Riverside County to permit it to provide public utility water service to current and future customers in the Perris service territory;
2. Establish a 10-year rate schedule for water service as the rates to be charged by Liberty Park Water to customers in the Perris service territory pursuant to the terms of the Asset

Purchase Agreement;

3. Allow Liberty Park Water to file a Tier 1 Advice Letter placing into effect Perris MWS' rates which are based on the rates in effect for comparable customer classes of the Eastern Municipal Water District;
4. Establish a rate base for assets consisting of the \$11,500,000 purchase price that Liberty Park Water will pay for Perris MWS; and
5. Authorize Liberty Park Water to establish a Perris ratemaking division consisting of the Perris MWS and, during a future Liberty Park Water GRC cycle, set rates for Perris MWS' former customers based upon a cost of service study.

Dated: May 9, 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 9th day of May 2018 in the City of Downey.

/s/ Gregory Sorensen

Gregory Sorensen

President Liberty Utilities (West Region)