

Decision 13-05-027 May 23, 2013

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

Joint Application of Park Water Company (U314W) and Apple Valley Ranchos Water Company (U346W) for Authority to Establish an Authorized Cost of Capital for 2013 -2015.

Application 12-05-001  
(Filed May 1, 2012)

And Related Matters.

Application 12-05-002  
Application 12-05-004  
Application 12-05-005

**DECISION GRANTING MOTIONS TO  
ADOPT THE ALL-PARTY SETTLEMENT AGREEMENT AND  
MOVE PREVIOUSLY SERVED TESTIMONY INTO THE RECORD**

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**DECISION GRANTING MOTIONS TO  
ADOPT THE ALL-PARTY SETTLEMENT AGREEMENT AND  
MOVE PREVIOUSLY SERVED TESTIMONY INTO THE RECORD**

**1. Summary**

This decision approves the Settlement Agreement between four Class A water companies doing business in California and the Commission's Division of Ratepayer Advocates (DRA). The applicant water companies are: Park Water Company and Apple Valley Ranchos Water Company, jointly; San Gabriel Valley Water Company; Suburban Water Systems; and, Great Oaks Water Company. As shown in Table I, the approved Settlement Agreement establishes cost of capital (debt and equity), capital structures and rates of return for the water companies for the period 2013-2015. Great Oaks Water Company's application covers the period of July 1, 2013 to June 30, 2016.

**Table I  
Financial Terms of Approved Settlement Agreement**

<b>Company</b>	<b>Cost of Equity</b>	<b>Cost of Debt</b>	<b>Capital Structure</b>	<b>Rate of Return</b>
Park/Apple Valley Ranchos Water Companies	9.79 percent	8.12 percent	43.0 percent debt, 57.0 percent equity	9.07 percent
San Gabriel Valley Water Company	9.79 percent	6.26 percent	37.0 percent debt, 63.0 percent equity	8.49 percent
Suburban Water Systems	9.79 percent	7.05 percent	37.0 percent debt, 3.0 percent preferred stock, 60.0 percent equity	8.61 percent
Great Oaks Water Company	9.79 percent	7.50 percent	Imputed 30 percent debt, 70 percent equity	9.10 percent

Table II below illustrates the impact of the Settlement Agreement on each company's currently authorized revenue requirement and the average residential customer's monthly bill.

**Table II**  
**Impact of Settlement**

<b>Company</b>	<b>Currently Authorized Revenue Requirement</b>	<b>Settlement Revenue Requirement</b>	<b>Average Monthly Usage</b>	<b>Average Monthly Savings</b>
Park Water Company	\$31,301,465	\$31,085,000	11.26 Ccf <sup>1</sup>	\$0.48
Apple Valley Ranchos	\$23,354,000	\$23,125,650	19.44 Ccf	\$0.72
San Gabriel Valley's LA District	\$63,682,700 <sup>2</sup>	\$62,482,200 <sup>3</sup>	14 Ccf	\$1.03
San Gabriel Valley's Fontana District	\$64,419,400 <sup>2</sup>	\$63,031,600 <sup>3</sup>	19 Ccf	\$1.34
Suburban Water Company	\$69,423,838	\$69,017,885	20 Ccf	\$0.36
Great Oaks Water Company	\$13,516,229	\$13,489,529	30 Ccf	\$0.15

The Settlement Agreement also continues the Water Cost of Capital Mechanism for each company with a 100 basis-point upward and downward deadband. The Settlement Agreement sets the initial benchmark period for each company and stipulates that Moody's Baa bond yield index will determine any

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<sup>1</sup> Ccf = hundred cubic feet.

<sup>2</sup> As of May 1, 2012, the date Application (A.) 12-05-002 was filed.

<sup>3</sup> Excludes other revenue requirement changes subsequent to May 1, 2012.

needed return on equity adjustment and benchmark adjustment period for each company for this cost of capital cycle.

## **2. Background**

On May 1, 2012, Park Water Company and Apple Valley Ranchos Water Company, (jointly Park), San Gabriel Valley Water Company (San Gabriel), Suburban Water Systems (Suburban), and Great Oaks Water Company (Great Oaks) (collectively the Applicants) filed simultaneous applications for approval of their respective proposed costs of capital for the three-year period beginning January 1, 2013, and for Great Oaks beginning July 1, 2013. On June 6, 2012, the Division of Ratepayer Advocates (DRA) filed a motion for late-filed protest to the applications. Pursuant to the Scoping Memo of the assigned Commissioner issued July 3, 2012, the Applicants and DRA prepared and submitted extensive direct and rebuttal testimony addressing the methodology for determining costs of capital and their recommendations regarding those costs.

The Scoping Memo scheduled evidentiary hearings (EHs) to begin October 29, 2012. On October 26, 2012, the Applicants and DRA (collectively the Parties) informed the assigned Administrative Law Judge (ALJ) that they had reached a tentative settlement. On October 29, 2012, the ALJ cancelled the EHs. On November 28, 2012, the Parties filed a joint motion for adoption of the Settlement Agreement (Settlement).<sup>4</sup>

This proceeding was submitted on April 22, 2013.

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<sup>4</sup> <http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M031/K743/31743708.PDF>.

### **3. Summary of the Individual Companies' Settled Issues**

The Parties assume that all four Class A water companies face identical costs of equity, and agree that this cost is 9.79 percent. This number is a compromise between the Applicants' proposed costs of equity which range from 10.20 percent to 11.95 percent and DRA's proposed costs of equity which range from 8.50 percent to 9.00 percent for individual companies. Since we approve the same cost of equity for all four companies, the differences in the overall rates of return among the companies reflect two other factors: capital structure and embedded cost of debt. The derivation of an overall rate of return for each company is discussed below.

#### **3.1. Park Water Company and Apple Valley Ranchos Water Company**

In A.12-05-001, direct testimony, and rebuttal testimony, Park sought Commission approval of the following:

- A ratemaking capital structure of 42.51 percent long-term debt and 57.49 percent common equity;<sup>5</sup>
- A cost of debt of 8.12 percent; a return on equity of 11.95 percent; a rate of return of 10.32 percent;<sup>6</sup> and
- Continuation of the Water Cost of Capital Mechanism (WCCM), with a benchmark of the average of the Baa utility bond yields from October 1, 2011 through September 30, 2012 and a 100 basis point upward and downward deadband.<sup>7</sup>

DRA made the following recommendations regarding Park's application;

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<sup>5</sup> Exhibit PWAV 1 Table 1 at 47.

<sup>6</sup> *Id.*

<sup>7</sup> *Amended Joint Application of Park Water Company and Apple Valley Ranchos Water Company* at 3-4.

- Capital structure of 47.05 percent long-term debt and 52.95 percent common equity;<sup>8</sup>
- A cost of debt of 8.12 percent and a return on equity of 8.75 percent which results in an 8.45 percent rate of return based on DRA's recommended capital structure;<sup>9</sup> and
- DRA did not oppose continuation of the WCCM on the terms proposed by Park.

Park and DRA achieved a compromise from their initial positions. Park and DRA agree that the Settlement terms contained in Table I and Table II above will provide ratepayers with reasonable rates sufficient to maintain the financial soundness and stability of Park.

### **3.2. San Gabriel Valley Water Company**

In A.12-05-002, direct testimony, and rebuttal testimony, San Gabriel sought Commission approval of the following:

- Capitalization of 37.16 percent long-term debt and 62.84 percent common stock equity for the year 2013, 35.86 percent long-term debt and 64.14 percent common stock equity for the year 2014, and 37.68 percent long-term debt and 62.32 percent common stock equity for the year 2015;<sup>10</sup>
- A cost of long-term debt of 6.26 percent for years 2013 and 2014 and of 6.38 percent for year 2015, and a return on common stock equity of 11.60 percent for all three years;<sup>11</sup>

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<sup>8</sup> DRA Exhibit 1, Attachment JRW-2 at 1.

<sup>9</sup> *Id.*

<sup>10</sup> A.12-05-002 at 1, 5, 8; SG Exhibit 3 at 3-5. Table A; SG Exhibit 7 at 2-5.

<sup>11</sup> A.12-05-002 at 4-5, 8; SG Exhibit 1 at 3-5, 59-60, Attachment A Schedule PMA-1; SG Exhibit 2 at 32-34; SG Exhibit 3 at 5-7, Table A; SG Exhibit 5 at 2-8; SG Exhibit 7 at 5-11.

- A overall rate of return of 9.62 percent for 2013, 9.68 percent for 2014, and 9.63 percent for 2015;<sup>12</sup> and
- Continuation of the WCCM, with a measurement period of October 2012 through September 2013. A reduction of its original position of a 200 basis point upward and downward deadband to a 100 basis point upward and downward deadband.<sup>13</sup>

DRA's testimony advocated the following recommendations with respect to San Gabriel's application:

- Capitalization of 44.37 percent long-term debt and 55.63 percent common stock equity for 2013-2015;<sup>14</sup>
- A cost of long-term debt of 6.26 percent for years 2013 through 2015, and a return on common stock equity of 8.75 percent for all three years;<sup>15</sup>
- An overall rate of return of 7.65% for years 2013 and 2015;<sup>16</sup> and
- Continuation of the WCCM, but with a deadband of 100 basis points upward or downward.<sup>17</sup>

DRA and San Gabriel compromised on a capital structure of 37.0 percent long-term debt and 63.0 percent common stock equity. They also agreed to a long term debt cost of 6.26 percent for years 2013 to 2015. San Gabriel and DRA

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<sup>12</sup> A.12-05-002 at 1, 8; SG Exhibit at 2-3, Attachment A, Schedule PMA-1; SG Exhibit 3, Table A.

<sup>13</sup> A.12-05-002 at 2, 8; SG Exhibit 3 at 7-8; SG Exhibit 7 at 11-12.

<sup>14</sup> DRA Exhibit 1 at 64-65, Attachment JRW-2.

<sup>15</sup> DRA Exhibit 1 at 2-5, 63, 65-66, Attachment JRW-2; DRA Exhibit 2 at 5-6.

<sup>16</sup> DRA Exhibit 1 Attachment JRW-2.

<sup>17</sup> DRA Exhibit 2 at 12.



agree on the WCCM terms of a deadband of 100 basis points upward and downware.

### **3.3. Suburban Water Systems**

In A.12-05-004, direct testimony, and rebuttal testimony, Suburban sought Commission approval of the following:

- Capitalization of 37.12 percent long-term debt, 2.88 percent preferred stock and 60 percent common stock equity for the years 2013 through 2015;<sup>18</sup>
- A cost of long-term debt of 7.05 percent and a return on common equity of 11.25 percent for the years 2013 through 2015;<sup>19</sup>
- An overall rate of return of 9.49 percent for the years 2013 through 2015;<sup>20</sup>

For Suburban's application, DRA's testimony made the following recommendations:

- Capitalization of 44.35 percent long-term debt, 1.52 percent preferred stock and 54.13 percent common stock equity for the years 2013 through 2015;<sup>21</sup>
- A cost of long-term debt of 7.05 percent for years 2013 through 2015, and a return on common equity of 8.50 percent for all three years;<sup>22</sup>
- An overall rate of return of 7.79 percent for years 2013 through 2015;<sup>23</sup> and

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<sup>18</sup> A.12-05-004 at 3.

<sup>19</sup> *Id.*

<sup>20</sup> *Id.*

<sup>21</sup> DRA Exhibit 1 at 64-65, Attachment JRW-2.

<sup>22</sup> *Id.* at 2-5, 63, 65-66, Attachment JRW-2; DRA Exhibit 2 at 5-6.

<sup>23</sup> DRA Exhibit 1, Attachment JRW-2.

- Continuation of the WCCM, but reducing the deadband to 100 basis points upward and downward.<sup>24</sup>

DRA and Suburban agree that the Settlement terms in Table I above will provide ratepayers with reasonable rates sufficient to maintain the financial soundness and stability of Suburban.

### **3.4. Great Oaks Water Company**

In A.12-05-005, direct testimony, and rebuttal testimony, Great Oaks sought Commission approval of the following:

- Capitalization of 100 percent common equity;<sup>25</sup>
- A return on equity and overall rate of return of 10.20 percent to 9.99 percent for the three-year period beginning July 1, 2013;<sup>26</sup>
- Continuation of the WCCM with a 100 basis-point upward and downward deadband and an initial measurement period of June 2012 to June 2013;<sup>27</sup> and
- Discontinuance of the annual audit requirement set forth in Decision (D.) 10-12-057.<sup>28</sup>

DRA's testimony made the following recommendations for Great Oaks:

- An imputed capital structure of 30 percent long-term debt; and 70 percent common equity;<sup>29</sup>
- A cost of long-term debt of 7.14 percent;<sup>30</sup>

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<sup>24</sup> DRA Exhibit 2 at 12; DRA Exhibit 1 at 13.

<sup>25</sup> A.12-05-005 at 4-5, 10.

<sup>26</sup> *Id.*

<sup>27</sup> A.12-05-005 at 5-6;

<sup>28</sup> A.12-05-005 at 6, 10.

<sup>29</sup> DRA Exhibit 1 at 5, 65, Attachment JRW-2.

<sup>30</sup> *Id.* at 65, Attachment JRW-2.

- A return on common equity of 9.00 percent;<sup>31</sup>
- An overall rate of return of 8.44 percent;<sup>32</sup> and
- Continuation of the WCCM with a reduction of the deadband to an upward and downward 100 basis points.<sup>33</sup>

Unlike other applicants in this proceeding, Great Oaks has no debt in their capital structure. Therefore, Great Oaks and DRA have agreed to 7.5 percent as the cost of debt to be used in this proceeding. The agreed upon cost of debt is within the range of the debt costs presented by both DRA and the other applicants in this proceeding.

In D.10-12-057, the Commission stated that "...if a company carries a high equity ratio, for ratemaking purposes we should necessarily consider adjusting either the return on equity or the capital structure." Because there is no evidence that Great Oaks has had the ability to reduce the percentage of common equity through the issuance of long-term debt, Great Oaks and DRA agree that no additional long-term debt should be imputed for ratemaking purposes.

Great Oaks asserts that if actual debt were to be incurred by the company, any additional costs associated with issuing such debt would not be accurately captured in the revenue requirement. Therefore DRA and Great Oaks agree that a Debt Issuance Memorandum Account should be authorized to allow Great Oaks to record and request recovery of any additional costs such as, outside legal counsel and consulting services, business reorganization, audit, accounting, and tax preparation, associated with issuing debt during the period of this

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<sup>31</sup> *Id.* at 65, Attachment JRW-2.

<sup>32</sup> DRA Exhibit 1, Attachment JRW-2.

<sup>33</sup> DRA Exhibit 2 at 12.

agreement. The reasonable costs of such services were not captured by the Settlement's imputed cost of debt.

DRA and Great Oaks agree that Great Oak's current tariff rates shall remain in effect until June 30, 2013, when the return on equity, return on rate base and the capital structure agreed upon in the Settlement shall become effective.

Finally, Great Oaks and DRA agree that annual audits required by D.10-12-057 shall continue for calendar year 2012, except that Great Oaks may use any certified public accountant previously approved by the Commission in D.10-12-057 and that audited financial statements and related disclosures must be submitted by July 1 of the year following the calendar year being audited.

#### **4. Continuation of the Water Cost of Capital Mechanism for all Applicants**

##### **4.1. Great Oaks**

DRA and Great Oaks agree that the WCCM adopted in D.10-10-035<sup>34</sup> has fairly balanced customer and shareholder interests and has provided a reasonable mechanism for adjusting the base year return on equity for the subsequent years of the cost of capital cycle.

Great Oaks' current upper boundary of the deadband is 100 basis points and the lower boundary of the deadband is 200 basis points as authorized in D.10-12-057. Great Oaks and DRA agreed to set the upper and lower deadband boundaries at 100 basis points each. Great Oaks' new benchmark period is July 1, 2012 to June 30, 2013.

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<sup>34</sup> D.10-10-035 determined the cost of capital for San Jose Water Company.

If Moody's average of Baa bond rates for the period from July 1, 2013 to June 30, 2014 is either 100 basis points above or below the initial benchmark, then Great Oaks' return on equity for the year July 1, 2014 to June 30, 2015 shall be adjusted by one-half the difference between the initial benchmark and the July 1, 2013 to June 30, 2014 average. If the return on equity is adjusted, the average of Moody's Baa bond rates for the period from July 1, 2013 to June 30, 2014 shall become the new benchmark. For the subsequent years of Great Oaks' cost of capital cycle, the Settlement adjusts the return on equity and benchmarks similarly.

#### **4.2. Park/Apple Valley, San Gabriel and Suburban**

DRA and Park/Apple Valley, San Gabriel, and Suburban agree that the WCCM adopted in D.10-10-035 has fairly balanced customer and shareholder interests and has provided a reasonable mechanism for adjusting the return on equity for the subsequent years of the cost of capital cycle.

The current upper and lower boundaries of the deadband for Park, San Gabriel, and Suburban are 200 basis points as authorized by D.10-10-035. Park, San Gabriel, Suburban and DRA agree to upper and lower boundaries of the deadband of 100 basis points. This is consistent with the terms approved by the Commission for the larger Class A water utilities in D.12-07-009 and D.09-07-051.

Park, San Gabriel, Suburban and DRA agree that the Moody's Baa bond yield index should be used to determine the benchmark and that the new initial benchmark period should be October 1, 2011 through September 30, 2012.

If Moody's average of Baa bond rates for the period from October 1, 2012 to September 30, 2013 is either 100 basis points above or below the initial benchmark, the return on equity for Park, San Gabriel and Suburban for the year

2014 shall be adjusted by one-half the difference between the initial benchmark and the October 1, 2012 to September 30, 2013 average. If the return on equity is adjusted, the average of Moody's Baa bond rates for the period from October 1, 2012 to September 30, 2013 shall become the new benchmark. For the subsequent years of Park's, San Gabriel's and Suburban's cost of capital cycle, the Settlement adjusts the return on equity and benchmarks similarly.

## **5. Discussion**

In general, it is good policy to authorize a return on equity for a water utility that is the lowest rate sufficient to permit the company to raise enough capital to provide reliable service at reasonable rates. In seeking equity, utilities compete with other sellers of common stock. The average non-utility stock is riskier than an average utility stock,<sup>35</sup> and subject to greater price fluctuations, and a non-utility is more likely to reduce or eliminate annual dividend payments when its profits are down. For these reasons, utility stocks are generally regarded as relatively safe investments, especially in times of economic uncertainty. On the other hand, the upside potential of utility stocks is limited by the regulatory ceiling on authorized returns. Thus, a typical investor in utility stocks is buying a low risk of loss coupled with a steady stream of dividends.

When the Commission sets the authorized cost of capital for a water utility, it considers various metrics, including the returns allowed by this Commission in the past, the returns allowed by other commissions for similar

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<sup>35</sup> The Greek letter Beta stands for an accepted measure of stock price volatility. The average Beta of the broad market is around 1.00. Stocks with Betas less than 1.00 are less volatile; conversely, stocks with Betas much above 1.00 display extreme price volatility. In general, utility stocks have Betas between 0.50 and 0.65, roughly one-half to two-thirds the volatility of the average traded non-utility security.

companies, and general economic conditions, including short- and long-term interest rates, the company's bond rating, and the willingness or ability of banks and other financial intermediaries to lend. The determination of the authorized return on equity may consider two numbers: the forecasted risk-free rate of interest,<sup>36</sup> and the "equity risk premium," the amount of additional return required to produce a return on equity high enough to attract the necessary capital. In this case the initial positions of the Parties differed on these points, but the Settlement proposes a return on equity that is a fair compromise. The return on equity proposed by the Settlement (9.79 percent) is 20 basis points below the return on equity the Commission authorized in D.12-07-009, the cost of capital case for the other Class A water utilities (9.99 percent).<sup>37</sup>

## **6. Settlement Standard of Review**

The Applicants bear the burden of proof to show that the regulatory relief requested is just and reasonable.

The Settlement addresses all contested issues in this proceeding. In order for the Commission to consider a proposed settlement in this proceeding as being in the public interest, the Commission must be convinced that the parties had a sound and thorough understanding of the application, and all of the underlying assumptions and data included in the record. This level of understanding of the application and development of an adequate record is

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<sup>36</sup> The so-called "risk free rate" is generally defined as the forecasted yield on the 10-year or 30-year Treasury bond over the next several quarters.

<sup>37</sup> California Water Service, San Jose Water Company, California-American Water Company and Golden State Water Company.

necessary to meet our requirements for considering any settlement. These requirements are set forth in Rule 12.1(a)<sup>38</sup> which states:

Parties may, by written motion any time after the first prehearing conference and within 30 days after the last day of hearing, propose settlements on the resolution of any material issue of law or fact or on a mutually agreeable outcome to the proceeding. Settlements need not be joined by all parties; however, settlements in applications must be signed by the applicant....

When a settlement pertains to a proceeding under a Rate Case Plan or other proceeding in which a comparison exhibit would ordinarily be filed, the motion must be supported by a comparison exhibit indicating the impact of the settlement in relation to the utility's application and, if the participating staff supports the settlement, in relation to the issues staff contested, or would have contested, in a hearing.

Rule 12.1(d) provides that:

The Commission will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with the law, and in the public interest.

Rule 12.5 limits the future applicability of a settlement:

Commission adoption of a settlement is binding on all parties to the proceeding in which the settlement is proposed. Unless the Commission expressly provides otherwise, such adoption does not constitute approval of, or precedent regarding, any principle or issue in the proceeding or in any future proceeding.

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<sup>38</sup> All referenced Rules are the Commission's Rules of Practice and Procedure. [http://docs.cpuc.ca.gov/WORD\\_PDF/AGENDA\\_DECISION/143256.PDF](http://docs.cpuc.ca.gov/WORD_PDF/AGENDA_DECISION/143256.PDF)



In short, we must find whether the Settlement comports with Rule 12.1(d), which requires a settlement to be “reasonable in light of the whole record, consistent with law, and in the public interest.” We address below whether the Settlement meets these three requirements.

## **7. Does the Settlement Meet the Standard of Review for Settlements**

The Settlement is supported by the record which consists of all filed documents, the served testimony, the proposed Settlement and the motion for its adoption. The Settlement resolves the cost of capital issues in a balanced way and reflects a compromise of the Parties’ positions.

### **7.1. The Settlement is Reasonable in Light of the Whole Record**

The Parties represent a broad spectrum of interest. The Applicants represent the utility and their shareholders, while DRA represents the interests of ratepayers. Thus, the Parties are experienced in public utility litigation and the Settlement is the result of extensive and vigorous negotiations. The Parties to the Settlement have a sound and thorough understanding of the issues, and all of the underlying assumptions and data and could therefore make informed decisions in the settlement process. The Settlement is reasonable in light of the whole record, because the Parties fairly reflect the affected interests, the Parties actively participated in this proceeding, and the Settlement fairly and reasonably resolves the issues.

The Commission could have resolved the cost of capital issues in favor of any of the Parties’ positions. Accordingly, the Parties have balanced a variety of issues of importance to them and have agreed to the Settlement as a reasonable means by which to resolve the issues. Thus, for the reasons discussed above, and taken as a whole, the Settlement is reasonable in light of the whole record.

**8. The Agreement Does Not Contravene Any Rules or Laws**

There is no statutory provision or prior Commission decision that would be contravened or compromised by the Settlement. The issues resolved in the Settlement are within the scope of the proceeding and produce rates within a range of reasonableness. Therefore we find the Settlement consistent with the law.

**9. The Agreement Is In the Public Interest**

The Commission has explained that a settlement which “commands broad support among participants fairly reflective of the affected interests” and “does not contain terms which contravene statutory provisions or prior Commission decisions” well serves the public interest. *Re San Diego Gas & Elec.*, D.92-12-019, 46 CPUC 2d 538, 552.

The Parties addressed and resolved the cost of capital issues identified in the proceeding. The Parties fairly represent the affected interests: Applicants provide water service to customers in districts throughout California, and DRA is statutorily mandated to represent all ratepayers in California. The primary public interest affected by this proceeding is the delivery of safe and reliable water service at reasonable rates. The terms of the Settlement as described above advance this interest because they fairly balance each Applicant’s opportunity to earn a reasonable rate of return against the needs of consumers for reasonable rates and safe, reliable water service. In addition, Commission approval of the Settlement will provide speedy resolution of contested issues, avoid unnecessary litigation expense, and conserve Commission resources. As the Commission has stated, “[t]here is a strong public policy favoring the settlement of disputes to avoid costly and protracted litigation.” *Re PG&E*, D.88-12-083, 30 CPUC 2d 189, 221.

The Settlement satisfies this public policy preference for the following reasons. The sponsors of the Settlement represent the interests of Applicants and their customers. Thus the parties represent the interests of shareholders and ratepayers that have an interest in the service provided by the Applicants.

The Settlement serves the public interest by resolving competing concerns in a collaborative and cooperative manner. By reaching agreement, the parties avoid the costs of further litigation in this proceeding, and eliminate the possible litigation costs for rehearing and appeal.

Approval of the Settlement provides speedy and complete resolution of the issues. Thus, the Settlement meets the applicable settlement standards of Rule 12.1(d) and therefore should be accorded the same deference the Commission accords settlements generally, and should be adopted.

The Settlement is binding on all parties to the proceeding. However, pursuant to Rule 12.5, the Settlement does not bind or otherwise impose a precedent in this or any future proceeding. We specifically note, therefore, that Applicants must not presume in any subsequent application that the Commission would deem the outcome adopted herein to be presumed reasonable and they must, therefore, fully justify every request and ratemaking proposal without reference to, or reliance on, the adoption of the Settlement.

Finally, the Settlement provides a return on equity for the Applicants that sufficient to permit the company to raise enough capital to continue to provide safe, reliable service at reasonable rates.

#### **10. Admission of Exhibits into Evidence**

By individual motions Applicants asked that their previously served testimony be identified and marked by the ALJ as per their exhibit lists, and admitted into evidence. The individual motions of the parties that their previously served testimony be identified and marked as exhibits, and moved into evidence, are granted. All exhibits are hereby admitted into evidence.

#### **11. Categorization and Need for Hearings**

These proceedings were initially categorized as “Ratesetting” and it was preliminarily determined that hearings are required. We affirm the categorization.

#### **12. Reduction of Comment Period**

Commission Rule 14.3 authorizes parties to submit comments on a proposed decision within 20 days of its service on the parties, and allows reply comments five days later. Consistent with Rule 14.6(c)(2) and due to the all-party nature of the adopted Settlement, the initial comment period was shortened to 10 days with three days for reply comments.

Initial Comments were filed by DRA, Park, Apple Valley Ranchos Water Company and San Gabriel. The decision was revised as needed based on the comments of Parties.

#### **13. Assignment of Proceeding**

The assigned Commissioner for this proceeding is Mark J. Ferron. The assigned ALJ is Linda A. Rochester.

#### **Findings of Fact**

1. On November 28, 2012, the Parties filed a joint motion for adoption of a Settlement on the Cost of Capital issues in this proceeding.

2. The record for the Settlement is composed of the application, testimony of the parties and all other filings.

3. The Parties to the Settlement have a sound and thorough understanding of the issues, and all of the underlying assumptions and data and could therefore make informed decisions in the settlement process.

4. The Settlement is the product of good-faith, arms' length negotiation between the Parties reflecting all of the affected interests.

5. The Settlement is a balanced, good faith compromise between the original positions as otherwise litigated in the prepared testimony of the Parties.

6. The Settlement authorizes a return on equity sufficient to permit the Applicants to raise enough capital to provide safe, reliable water service at reasonable rates.

7. Great Oaks has no actual debt.

8. The Settlement imputed a capital structure of 30 percent long-term debt, 70 percent common equity and 7.5 percent as the cost of debt for Great Oaks.

9. If Great Oaks were to incur actual debt, the additional costs associated with issuing debt would not be accurately captured in its revenue requirement.

10. No comments on the Settlement were filed.

### **Conclusions of Law**

1. The Applicants bear the burden of proof to show that their requests are reasonable.

2. The Settlement is reasonable because it fairly balances the interests of the Applicants and ratepayers.

3. The Settlement is reasonable in light of the whole record.

4. The Settlement is consistent with the law and does not contravene or compromise any statutory provisions or prior Commission decisions.

5. The Settlement taken as a whole is in the public interest.

6. The Settlement meets the criteria for approval of settlements in Rule 12(1)(d).

7. Great Oaks should be authorized to establish a Debt Issuance Memorandum Account to record and request recovery of any additional costs associated with issuing debt during the period governed by the Settlement, that were not captured in the Settlement's imputed cost of debt.

8. The motion of the Parties for adoption of the Settlement should be granted.

9. Hearings are not necessary.

## **O R D E R**

Therefore **IT IS ORDERED** that:

1. The joint motion of Park Water Company and Apple Valley Ranchos Water Company, jointly, San Gabriel Valley Water Company, Suburban Water Systems, Great Oaks Water Company and the Division of Ratepayer to adopt a Settlement Agreement is granted.

2. The capital costs and capital structures set out in Table I of this decision are approved.

3. No later than five days after the issuance of this decision Park Water Company, Apple Valley Ranchos Water Company, San Gabriel Valley Water Company, Suburban Water Systems, and Great Oaks Water Company shall file a Tier 1 advice letter to change rates pursuant to the new authorized rate of return.

4. Great Oaks Water Company is authorized to file a Tier 1 advice letter to establish a Debt Issuance Memorandum Account to record and request recovery

of any additional costs associated with issuing debt, during the period governed by the Settlement, that were not captured in the Settlement's imputed cost of debt.

5. Great Oaks Water Company's current tariff rates authorized by Decision 10-12-057 shall remain in effect until June 30, 2013, at which time the return on equity, return on rate base, and capital structure contained in the Settlement Agreement adopted herein shall become effective.

6. No later than May 1, 2015, Park Water Company, Apple Valley Ranchos Water Company, San Gabriel Valley Water Company, Suburban Water Systems, and Great Oaks Water Company shall file new applications for approval of their costs of capital for the next three-year cycle.

7. Applications 12-05-001, 12-05-002, 12-05-004 and 12-05-005 are closed.

This order is effective today.

Dated May 23, 2013, at San Francisco, California.

MICHAEL R. PEEVEY  
President  
MICHEL PETER FLORIO  
CATHERINE J.K. SANDOVAL  
MARK J. FERRON  
CARLA J. PETERMAN  
Commissioners