

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

Application of Great Oaks Water Company
(U-162-W) for an Order establishing its
authorized cost of capital for the period from
July 1, 2019 through June 30, 2022.

Application No. _____
Filed: _____

APPLICATION

I. Introduction

Great Oaks Water Company (Great Oaks) submits this Application for an Order establishing its authorized cost of capital for the period from July 1, 2019 through June 30, 2022 (Application) pursuant to Article 2 and Rule 3.2 of the Rules of Practice and Procedure (Rules) of the California Public Utilities Commission (Commission), California Public Utilities Code §§454, *et seq.*, and relevant Commission decisions and policies providing direction and guidance on cost of capital proceedings.

Pursuant to Rule 2.1(c), Great Oaks proposes that this proceeding be categorized as a ratemaking proceeding to be processed within fourteen (14) months so that the authorized cost of capital ordered pursuant to this Application be effective no later than July 1, 2019.

This Application is submitted in accord with the requirements of D.07-05-062, and Great Oaks understands that this Application will be consolidated with the cost of capital applications being filed by other Class A water companies on or about this same date, as indicated in D.07-05-062. Even though several applications will be consolidated

into a single proceeding, Great Oaks understand that the Commission will “consider company-specific factors.”¹

This Application includes a request to continue the Water Cost of Capital Adjustment Mechanism (WCCM) that was originally authorized through Great Oaks’ Advice Letter 207-W in 2011 and then continued by Commission Decision (D.) 13-05-027 that was issued in regard to Great Oaks’ most recent cost of capital application² and the settlement thereof.

This Application also includes a request that when the next cost of capital proceeding is scheduled and conducted for Great Oaks that it be scheduled so that proceedings on Great Oaks’ next general rate case application and cost of capital application are not conducted simultaneously as they are this year.

This Application includes information, proposed schedules, exhibits, supporting testimony, and information responsive to the Minimum Data Requirements specified in D.07-05-062, all of which are being served on the Office of Ratepayer Advocates concurrently with the filing of this Application.

II. The Applicant and Background Information for this Application

A. Great Oaks Water Company

In accord with Rule 2.1(a), the applicant states that its exact legal name is Great Oaks Water Co. Its principal place of business is located at 20 Great Oaks Boulevard, Suite 120, San Jose, California 95119. Great Oaks was incorporated in California in 1959. Great Oaks’ Articles of Incorporation have been filed with the Commission for numerous proceedings, are incorporated by reference herein, and are available upon request. Great Oaks is wholly-owned by GOW Corporation.³

Great Oaks is engaged in the business of supplying and distributing potable water for domestic, commercial, industrial, municipal, and irrigation purposes in portions of the City of San Jose and in contiguous territory in Santa Clara County, California. Great Oaks’ service area is depicted on service area maps in Great Oaks’ authorized tariffs⁴. At

¹ D.07-05-062, at p. 15.

² Application (A.) 12-05-005, filed May 1, 2012.

³ See Commission Decision (D.) 15-03-006.

⁴ See Tariff Sheet Nos. 644-W through 670-W.

the end of calendar year 2017, Great Oaks had 21,258 active service connections, serving a population estimated to be just over 100,000 persons.

B. Background Information

1. Current Cost of Capital

In D.13-05-027, the Commission established Great Oaks' cost of capital, as shown in the table below.

Table 1. Current Adopted Cost of Capital for Great Oaks

	Overall Percentage	Rate	Weighted Rate
Imputed Debt	30%	7.50%	2.25%
Equity	70%	9.79%	6.85%
Rate of Return	100%		9.10%

2. Water Cost of Capital Adjustment Mechanism

Great Oaks maintains a WCCM, the terms⁵ of which were approved by the Commission through Great Oaks' Advice Letter 230-W under the authority of D.13-05-027. No adjustments to Great Oaks' return on equity have been required or made under the terms of the WCCM.

As with other Class A water utilities, Great Oaks' WCCM uses a specific bond-rating benchmark to determine if and when adjustments are necessary to Great Oaks' return on equity (ROE). With the WCCM, the Commission has established a distinction between the four largest Class A water utilities and all of the other Class A water utilities, including Great Oaks. The bond-rating benchmark for Great Oaks (and the other utilities in this consolidated proceeding) is Moody's Baa bonds.⁶ The bond-rating benchmark for the four largest Class A water utilities is either Moody's Aa bonds or Moody's Baa bonds, depending upon the utility's specific credit rating.⁷

The WCCM is addressed in the Testimony of Timothy S. Guster in **Exhibit E** attached hereto.

3. Capital Structure

⁵ See Tariff Sheet 708-W.

⁶ See, e.g., D.13-05-027.

⁷ See, e.g., D.09-07-051.

At the time D.13-05-027 – Great Oaks’ last cost of capital Decision - was issued, Great Oaks had no long-term debt so, as indicated in the table above, Great Oaks’ cost of capital included 30 percent of *imputed* long-term debt. Because D.13-05-027 is still in effect, Great Oaks’ current authorized capital structure is 70 percent common equity and 30 percent imputed debt.⁸

In D.14-09-006, the Commission authorized Great Oaks to issue \$4 million in long-term debt. Subsequently, as a result of Application (A.) 14-04-035, Great Oaks was reorganized, and certain non-regulated, non-water system assets and liabilities were transferred to its parent holding company, GOW Corporation.⁹ This is the first opportunity for the Commission to consider Great Oaks’ actual and projected capital structure for purposes of cost of capital.

As shown in Great Oaks’ 2017 Annual Report, at year end, Great Oaks’ actual capital structure now consists of 65.7 percent common equity and 34.3% long-term debt.¹⁰ But current capital structure is not the determining factor in this proceeding. Instead, the projected capital structure for the period of time covered by this Application is in issue. On this point, Great Oaks projects that its capital structure for the time period covered by this Application will be 70 percent common equity and 30 percent long-term debt – the same as the currently-authorized capital structure. Great Oaks’ proposed capital structure is addressed in the Testimony of Ronald J. Ceolla in **Exhibit D** attached hereto.

C. 2017 Large Class A Cost of Capital Decision

Approximately one year ago, cost of capital applications were filed by the four largest Class A water companies: San Jose Water Company (SJWC) (Application (A.) 17-04-001); Golden State Water Company (GSWC) (A. 17-04-002); California-American Water Company (Cal-Am) (A. 17-04-003); and California Water Service

⁸ See D.13-05-027.

⁹ See D.15-03-006.

¹⁰ See Exhibit A attached hereto (Balance Sheet and Capitalization Data for Calendar Year 2017, page 6 of 60 in Great Oaks’ 2017 Annual Report).

Company (Cal Water) (A. 17-04-006). Those four cost of capital applications were consolidated into one proceeding on May 8, 2017.¹¹

On March 27, 2018, D.18-03-035 was issued in the proceeding to establish cost of capital for the largest Class A water companies. The authorized Return on Equity (ROE), Cost of Debt (COD), Debt/Equity Ratios, and Overall Rate of Return (ROR) for each of the four largest Class A water utilities is shown in the table below.

Table 2. D.18-03-035 Cost of Capital Findings

Company	ROE	COD	Ratios	ROR
Cal Water	9.20%	5.51%	46.60% Debt 53.40% Equity	7.48%
Cal-Am	9.20%	5.63%	44.61% Debt 55.39% Equity	7.61%
GSWC	8.90%	6.60%	43.00% Debt 57.00% Equity	7.91%
SJWC	8.90%	6.20%	46.72% Debt 53.28% Equity	7.64%

While the decision on the consolidated cost of capital proceeding for the four largest Class A water companies is relevant to this Application, the Commission is required to consider “company-specific factors” affecting Great Oaks.¹²

III. Applicant’s Requests in this Application

A. Great Oaks’ cost of capital should reflect its projected capital structure.

Great Oaks projects that its capital structure for the time period covered by this Application will be as shown in Table 3 below. See **Exhibit D**, Testimony of Ronald J. Ceolla. Great Oaks requests that the capital structure projected by Mr. Ceolla be employed in setting cost of capital for Great Oaks in this proceeding.

Table 3. Projected Capital Structure of Great Oaks

Long-Term Debt	27.0 - 30.0%
Equity	70.0 - 73.0%
Total	100.00%

B. Great Oaks’ return on equity should remain at 9.79%.

¹¹ See Administrative Law Judge’s Ruling Consolidating Applications, dated May 8, 2017, for A.17-04-001, A.17-04-002, A.17-04-003, and A.17-04-006.

¹² See, e.g., D.07-05-062, at p. 15.

Based upon the testimony of Michael Tolleth, Great Oaks projects that its return on equity for the time period covered by this Application should be the same as it is now – 9.79 percent. See **Exhibit C**, Testimony of Michael Tolleth.

C. Great Oaks’ authorized return on rate base should be 8.80%.

The requested rate of return on rate base of 8.80 percent is shown in the following table.

Requested Return on Rate Base

	Overall Percentage	Rate	Weighted Rate
Debt	30.0%	6.50%	1.9500%
Equity	70.0%	9.79%	6.8530%
Total	100%		8.8030%

Great Oaks requests that when establishing a cost of capital for Great Oaks that the Commission consider not just general factors applicable to any utility, but also the special circumstances of Great Oaks that create different risks than those faced by other Class A water utilities. See **Exhibit D**, Testimony of Ronald J. Ceolla.

D. The Water Cost of Capital Adjustment Mechanism (WCCM) authorized in D.10-12-057 should remain in place.

In D.10-12-057 the Commission ordered Great Oaks to file a Tier 1 advice letter to implement a Cost of Capital Adjustment Mechanism using an interest rate index and a Moody’s Baa bond rating to adjust the return on equity and update the cost of capital for 2011 and 2012.¹³ Great Oaks complied with this order and established its WCCM through its Advice Letter 207-W, effective May 3, 2011. The WCCM was updated through Advice Letter 230-W, under the authority of D.13-05-027, with an effective date of July 1, 2013.

Pursuant to the terms of the WCCM, no adjustment to Great Oaks’ return on equity has been made or has been required since Great Oaks’ cost of capital was last established through D.13-05-027. See **Exhibit E**, Testimony of Timothy S. Guster.

Great Oaks requests that the WCCM be continued in order to provide an automatic adjustment to Great Oaks’ rate of return on equity based upon relevant market factors.

¹³ D.10-12-057, Ordering Paragraph 4.

E. Great Oaks requests that it be authorized to adjust its rates in accord with the Commission’s decision on this Application and in conjunction with the Commission’s decision on Great Oaks’ 2018 general rate case application.

As part of the Commission’s decision on this Application, Great Oaks requests that it be authorized to adjust its rates in accord with that decision and in conjunction with the Commission’s decision on 2018 Great Oaks’ general rate case application being filed pursuant to the schedule in D.07-05-062.¹⁴ The effective date of such authorization should be July 1, 2019.

F. Great Oaks requests an adjustment to its cost of capital application filing schedule.

As a result of the various delays and postponements of this cost of capital filing, none of which were at Great Oaks’ request, Great Oaks’ cost of capital application is due at the same time Great Oaks is required to submit its proposed general rate case application to the Office of Ratepayer Advocates. Given Great Oaks’ limited resources, having its two largest and most important applications and proceedings filed and taking place simultaneously creates an unreasonable burden. Great Oaks requests that its next cost of capital and general rate case applications not be scheduled for filing during the same calendar year.

IV. Additional Information

A. Legal Authority

This Application is submitted in accord with D.07-05-062 and Public Utilities Code §454. Great Oaks requests, pursuant to Rule 13.9, that the Commission take judicial notice of the Commission’s Decision establishing the cost of capital for the four largest Class A water companies.

B. Correspondence and Communication

Great Oaks requests, pursuant to Rule 2.1(b), that all correspondence and communications regarding or relating to this Application, as well as all notices, orders, and other papers be addressed to and served upon the following person:

Timothy S. Guster
Vice President and General Counsel
Legal and Regulatory Affairs

¹⁴ Great Oaks’ 2018 General Rate Case Application will be filed on or about July 2, 2018.

Great Oaks Water Company
 PO Box 23490
 San Jose, CA 95153
 Telephone: (408) 227-9540 Extension 17
 Facsimile: (408) 227-7126
 Email: tguster@greatoakswater.com

C. Proposed Categorization, Request for Hearing, and Statement of Issues

1. Proposed Categorization.

Great Oaks proposes that this be categorized as a rate-setting proceeding.

2. Request for Hearing.

Great Oaks requests an evidentiary hearing in this matter.

3. Statement of Issues.

- i. Great Oaks’ cost of capital for the years 2019/2020, 2020/2021, and 2021/2022, including its capital structure, cost of equity, and its authorized rate of return on rate base.
- ii. Continuation of and terms for a Water Cost of Capital Adjustment Mechanism for adjustments to Great Oaks’ cost of capital and associated issues.
- iii. Adjustment of Great Oaks’ cost of capital filing schedule in the future.
- iv. Authority to adjust rates based upon the decision(s) rendered in this proceeding.

D. Proposed Schedule for this Proceeding

Great Oaks proposes the following schedule¹⁵ for this proceeding so that adjustments may be made to Great Oaks’ rates and be made effective on July 1, 2019:

Proposed Schedule

May 1, 2018	Cost of Capital Application Filed and Served
June 4, 2018	Protests Filed
June 14, 2018	Prehearing Conference
July 13, 2018	ORA and Intervenors Serve Testimony
August 13, 2018	Applicant Serves Rebuttal Testimony
August 24, 2018	Formal Settlement Discussions Begin
September 4, 2018	Evidentiary Hearings Begin
October 15, 2018	Concurrent Opening Briefs to be Filed and Served
November 2, 2018	Concurrent Reply Briefs to be Filed and Served

¹⁵ This proposed schedule closely matches the schedule established for the prior consolidated cost of capital proceeding in the June 22, 2017 Assigned Commissioner and Administrative Law Judge’s Scoping Memo and Ruling, and then the subsequent July 17, 2017 Administrative Law Judge’s Ruling Amending Proceeding Schedule.

January 14, 2019	Proposed Decision to be Issued
February 4, 2019	Comments on Proposed Decision
February 11, 2019	Reply Comments on Proposed Decision
March 21, 2019	Final Decision Issued and/or Adopted
July 1, 2019	Decision Implemented and Rates Adjusted Accordingly

E. Compliance with Rule 3.2 and Minimum Data Requirements

1. In D.13-05-027, the Commission authorized an overall 9.10 percent rate of return, comprised of a 9.79 percent Return on Equity, a 7.50 percent Cost of Debt, and an imputed capital structure of 70 percent equity and 30 percent debt. In this Application, Great Oaks is requesting an overall 8.80 percent rate of return, comprised of a 9.79 percent Return on Equity, a 6.50 percent Cost of Debt, and a projected capital structure of 70 percent equity and 30 percent debt. Rule 3.2(a) applies to applications for authority to increase rates and because Great Oaks is not applying to increase rates, the provisions of Rule 3.2(a) do not apply.
2. Great Oaks’ most recent balance sheets and income statement, for the year ending December 31, 2017, are attached as **Exhibit A**.
3. **Exhibit B** is a rate of return summary for the years 2013 through 2017.
4. Great Oaks is a California corporation. No director, nominee to be director, or officer of Great Oaks, and no other person or legal entity being the owner of record or known by Great Oaks to be the beneficial owner of securities having ten percent or more of the voting power of the corporation has any material financial interest in any transaction involving the purchase of materials and equipment or contracting, arranging or paying for construction, maintenance work or service of any kind to which Great Oaks has been a party during 2018 (or any prior or subsequent period of time). Rule 3.2(a)(8). General Order 104-A, Section 2.

F. Exhibits and Testimony

1. Exhibits (filed with Application):
 - i. **Exhibit A**: Great Oaks’ most recent balance sheet and income statements, for the year ending December 31, 2017.
 - ii. **Exhibit B**: Rate of Return Summary for last five years.
2. Testimony (served, but not filed, with Application):

VERIFICATION

I, Timothy S. Guster, am Vice President and General Counsel of Great Oaks Water Company, the Applicant in this proceeding. I have read this Application and know the contents thereof. I certify that the contents of this Application are true of my own knowledge, except as to matters as are therein stated to be true upon information and belief, and as to those matters, I believe them to be true.

I certify under penalty of perjury that the foregoing statements are true and correct.

Executed at San Jose, California on May 1, 2018

/s/
Timothy S. Guster