

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

In the Matter of Application of SAN JOSE WATER COMPANY (U168W) for Authority to Adjust Its Cost of Capital and to Reflect That Cost of Capital in Its Rates for the Period from January 1, 2018 through December 31, 2020.	A.17-04-001 (Filed: April 3, 2017)
Application of Golden State Water Company (U133W) for Authority to Establish its Authorized Cost of Capital and Rate of Return for Utility Operations for 2018-2020.	A.17-04-002 (Filed: April 3, 2017)
Application of California-American Water Company (U210W) for Authority to Establish its Authorized Cost of Capital for the Period from January 1, 2018 through December 31, 2020.	A.17-04-003 (Filed: April 3, 2017)
Application of CALIFORNIA WATER SERVICE COMPANY (U-60-W) for Authority to Establish its Authorized Cost of Capital for the Period from January 1, 2018 through December 31, 2020.	A.17-04-006 (Filed: April 3, 2017)

**JOINT MOTION OF APPLICANTS
CALIFORNIA-AMERICAN WATER COMPANY (U210W), CALIFORNIA WATER
SERVICE COMPANY (U-60-W), GOLDEN STATE WATER COMPANY (U133W)
AND SAN JOSE WATER COMPANY (U-168-W) FOR ORAL ARGUMENT**

In accordance with Rules 14.3(a) and (b) of the Commission's Rules of Practice and Procedure, California-American Water Company ("Cal-Am"), California Water Service Company ("Cal Water"), Golden State Water Company ("GSWC"), and San Jose Water Company ("SJWC"), the Applicants in Application No. 17-04-001, hereby respectfully submit their joint motion for oral argument in the above-captioned consolidated proceeding.

Rule 13.13(b) provides that a party to a rate-setting proceeding in which hearings were held has the right make a final oral argument before the Commission, provided that the party requests that procedure in its closing brief. The Scoping Memo issued in June 2017 in

this proceeding confirmed that right and specified the details to be included in such a request, urging the parties to present a joint motion if more than one party were to seek oral argument.¹

Applicants did not submit a timely request for oral argument, because they believed that the evidentiary record in this proceeding, upon objective review, would support a decision critically evaluating the testimony of expert witnesses for the Applicants and for the Office of Ratepayer Advocates (“ORA”) and fairly balancing their recommendations regarding the cost of equity, while identifying the obvious errors in the ORA witness’s analysis of cost of debt and capital structure issues. Unfortunately, the Proposed Decision of Administrative Law Judge (“ALJ”) Bemederfer shows no sign of an objective, balanced review of the evidentiary record. To the contrary, the Proposed Decision reflects reliance almost exclusively on the testimony of ORA’s witnesses, to the point that substantial segments of the Proposed Decision read like a paraphrase of ORA’s briefs. The rebuttal testimony of Applicants’ experts, responding critically to ORA’s testimony and demonstrating substantial errors in that testimony on issues ranging from the application of equity cost models to the treatment of bond redemption premiums, is completely ignored.

In the context of such a Proposed Decision that presents such a skewed treatment of the record, it is imperative that the Commissioners take the time to understand key elements of the outcomes they are being asked to impose on the four Class A water utilities whose costs of capital are being determined for the next three-year period:

- Reductions of more than 100 basis points in their authorized costs of equity, setting returns on equity nearly 200 basis points lower than the ROEs the Commission authorized for major energy utilities just seven months ago and at least 250 basis points lower than the Commission authorized for a group of small telephone companies in December 2016.

¹ Assigned Commissioner and Administrative Law Judge’s Scoping Memo and Ruling, dated June 22, 2017, at 8.

- Acceptance of ORA’s bald assertion that “risk hedging and risk-spreading mechanisms adopted by the Commission over the years have effectively guaranteed that the Applicants will earn their allowed returns on rate base, making investment in their common equity nearly risk-free” – without any consideration of whether Applicants have *in fact* earned their allowed returns, whether the mechanisms to which ORA referred do *in fact* hedge and spread risk solely to Applicants’ benefit, or whether other utilities in the Water Proxy Group operate in riskier regulatory environments.
- Consideration of the detailed analysis and testimony by Applicants’ ROE experts *only* to the extent that one of those experts acknowledged that ORA’s witness applied a reasonable method of analysis correctly, without mentioning the same expert’s thorough critique of that method of analysis as fundamentally inconsistent and just one of many ways to estimate growth.²
- Acceptance of ORA’s capital structure calculations based on unadjusted past years’ results, contrary to the longstanding Commission practice in cost of capital proceedings of *forecasting* the elements of capital structure, including adjustments for known future debt issuances and redemptions.
- Acceptance of ORA’s claim that Applicants “double counted” costs associated with early redemption premium payments in calculating costs of long-term debt, contrary to the Commission’s past support for Applicants’ incurring redemption premiums to retire high-cost debt and issue new debt at lower interest rates and contrary to the Applicants’ accounting for those redemption premiums strictly in conformance with FASB standards.

² Proposed Decision, at 19, citing selectively to transcript lines where witness Vilbert conceded that the ORA witness applied a method of analysis correctly but ignoring the surrounding testimony that established the inadequacy of the method used.

Applicants firmly believe that a discussion of these and other shortcomings of the Proposed Decision in a public forum, with an opportunity for Commissioners to question the parties and resolve their own concerns about the fair setting of ROE and the accurate calculation of debt costs and capital ratios, will result in a better informed and fairer decision. Only with such a fuller airing of the issues will the Applicants and their customers have confidence that rates are set on a basis that fairly reflects the costs of capital Applicants will bear over the next three years.

For all these reasons, Applicants respectfully move for the setting of an oral argument before a quorum of Commissioners in this proceeding. In accordance with the guidance provided in the Scoping Memo, Applicants propose the following subjects and procedures for that oral argument:

- Subject to be addressed:
 - The Proposed Decisions determination of ROEs for each of the Applicants.
 - The Proposed Decision's reliance on ORA's annual reports, without adjustment for known future events, to calculate capital structure for the Applicants.
 - The Proposed Decision's approval of ORA's disallowance of redemption premiums based on a claim of "double counting" despite Applicants' standard accounting for those premiums.
- Presentations by one or two representatives of each party, subject to questions by Commissioners at any time.
- Time requested: 80 minutes, including 10 minutes for each Applicant, in alphabetical order, 20 minutes for ORA, and 10 minutes for City of Bakersfield, with 10 minutes for one representative of Applicants to conclude.

Respectfully submitted,

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for

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