



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

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Application of Suburban Water Systems
(U339W) for Authority to Establish its
Authorized Cost of Capital for the period from
January 1, 2024 through December 31, 2026

A.23-05-____
Filed May 1, 2023

**APPLICATION OF SUBURBAN WATER SYSTEMS FOR AUTHORITY TO
ESTABLISH ITS AUTHORIZED COST OF CAPITAL FOR THE PERIOD FROM
JANUARY 1, 2024 THROUGH DECEMBER 31, 2026**

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May 1, 2023

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**APPLICATION OF SUBURBAN WATER SYSTEMS (U339W) FOR AN
AUTHORIZED COST OF CAPITAL FOR UTILITY OPERATIONS FOR THE
PERIOD FROM JANUARY 1, 2024 THROUGH DECEMBER 31, 2026**

I. INTRODUCTION

Pursuant to the Rate Case Plan adopted by the California Public Utilities Commission (“Commission”) and as directed by the Commission in Decision (“D.”) 07-05-062, Suburban Water Systems (“Suburban”) hereby submits this application for an authorized cost of capital for its utility operations for the period from January 1, 2024 through December 31, 2026 (“Application”). Specifically, Suburban files this Application in compliance with Ordering Paragraph 4 of D.07-05-062, which requires all Class A water utilities to comply with the filing schedule and all other requirements set forth in that decision.¹

Suburban requests for the period from January 1, 2024 through December 31, 2026 that the Commission find reasonable and authorize: (1) a capital structure of approximately 36.69% long-term debt, 1.31% preferred stock, and 62.00% common equity; (2) a cost of long-term debt of 5.03%; (3) a cost of preferred stock of 4.24%, (4) a return on common equity of 11.00%; and (5) a weighted average return on rate base of 8.73%.

II. EVALUATION CRITERIA

Water utilities have a constitutional right to the opportunity to earn a reasonable

¹ D.07-05-062, Order Instituting Rulemaking to Consider Revisions to the General Rate Case Plan for Class A Water Companies, 2007 Cal. PUC LEXIS 226, *48.

return on their investments. When ruling on the rate of return that Suburban has requested in this Application, the Commission must consider the criteria the United States Supreme Court set forth in the Hope² and Bluefield³ cases. These cases contain the following guidelines for rate of return decisions:

- The allowed rate of return should be comparable to that generally being made on investments and other business undertakings which are attended by corresponding risks and uncertainties;
- The return should be sufficient to maintain the utility's credit status;
- The return should allow the utility to attract the capital necessary to provide proper service to customers; and
- The return should be sufficient to ensure confidence in the financial soundness of the utility.

Adhering to these principles will strike the appropriate balance between a reasonable shareholder return and the interests of customers as reflected in the price for service.

III. REQUESTED COST OF CAPITAL

The Commission issued Suburban's most recent cost of capital decision in December 2018, in which it adopted a return on rate base for Suburban of 7.86%.⁴ In this Application, Suburban is requesting an overall rate of return of 8.73% based on a weighted average cost of long-term debt of 1.85%, a weighted average preferred stock of 0.06%, and a weighted average cost of equity of 6.82% and a capital structure composed of approximately 36.69% long-term debt, 1.31% preferred stock, and 62.00% common equity. In D.07-06-052, the Commission ordered water utilities to include information on the proposed capital structure and rate of return in the format below.

² FPC v. Hope Natural Gas Co., 320 U.S. 591 (1944).

³ Bluefield Water Works and Improvement Co., 262 U.S. 679 (1923).

⁴ D.18-12-002, Application of Great Oaks Water Company (U162W) for an Order establishing its authorized cost of capital for the period from July 1, 2019 through June 30, 2022. And Related Matters.⁺

	Test Year 2024		
	Capital Structure	Cost	Weighted Cost
Long-Term Debt	36.69%	5.03%	1.85%
Preferred Stock	1.31%	4.24%	0.06%
Common Equity	62.00%	11.00%	6.82%
TOTAL	100.00%		8.73%

By granting Suburban’s requests, the Commission will enable Suburban to continue to finance its investments on reasonable terms through December 31, 2026.

A. Return on Equity

In this Application, Suburban is requesting that the Commission authorize a return on equity of 11.00%, which is the same as that recommended in Suburban witness Paul R. Moul’s testimony. Suburban fully supports the concepts and theories regarding financial risk as proposed by Mr. Moul.

B. Cost of Debt

Consistent with the capital structure ratios for the company, the average embedded cost rates of Suburban’s securities must also be employed. The estimated average embedded cost of long-term debt is 5.03%.

C. Updates to Authorized Capital Structure

Suburban has projected substantial capital needs over the three years ending December 31, 2026 in order to finance its construction program which includes costs for PFAS treatment. The volume of utility construction is projected to be unusually intense at about \$54.1 and \$91.7 million in 2024 and 2025 respectively. By comparison, Suburban’s approved capital spend for 2021 and 2022 were \$31.2 and \$37.3 million, respectively.

Therefore, equity as a proportion of the capital structure is expected to increase to 62%. Preferred stock as a proportion of the capital structure is expected to remain constant in dollar terms resulting and representing on average 1.31% of the capital structure. Long-term debt as a proportion of the capital structure is expected to make up the difference in funding needs,

averaging 36.69% over the three years.

IV. CUSTOMER IMPACT

The requested revenue increase as a result of this application is \$4.4 million which represents a 4.41% increase in overall revenue from its present rates which went into effect on January 1, 2023. Suburban has included in Appendix B to this application a calculation of the estimated revenue impact of the proposed cost of capital increases. Appendix C to this application is an estimate of the bill impact on residential customers. Appendix D is included in compliance with Decision 22-08-023, implementing the affordability metrics, ordering paragraph eight, as required when the requested increase in rates is greater than 1% of current adopted revenue. Appendix E to this application are draft customer notices for Suburban's two service areas, Whittier/La Mirada and San Jose Hills. Suburban has submitted these notices to the Commission's Public Advisor for review and will comply with the notice requirements of Public Utilities Code § 454(c) and Rule 3.2(b)-(d) of the Commission's Rules of Practice and Procedure. Suburban is seeking authorization to implement the new cost of capital effective January 1, 2024.⁵

V. WATER COST OF CAPITAL MECHANISM (WCCM)

In D.10-10-035, the Commission established a Water Cost of Capital Mechanism ("WCCM") for Suburban, San Jose Water Company, Valencia Water Company, Park Water Company / Apple Valley Ranchos Water Company ("Park / Apple Valley"), and San Gabriel Valley Water ("San Gabriel"). In D.13-05-027, for Suburban, Park / Apple Valley, San Gabriel, and Great Oaks Water Company, the Commission approved a settlement for the continuation of the WCCM to the base year 2013 ratemaking return on common equity for the subsequent years 2014 and 2015, adjusted to include a 100 basis-point upward and downward deadband. In D.18-12-002, the Commission again granted the continuation of the WCCM for the years 2020 and

⁵ The requested increase in this proceeding could be affected by the outcome of Suburban's most recent General Rate Case application 23-01-001.

2021, with the base year of 2019.

For 2022 and 2023, the WCCM was effectively suspended. This was not due to any ruling by the Commission. Instead, it was due to the effects of the COVID-19 pandemic. Because of COVID-19 and the resulting devastating impacts on utilities, on March 11, 2020, the largest four water utilities regulated by the Commission sent a letter to the Commission requesting a one-year extension of their 2020 cost of capital filing and that there be no changes to their respective costs of capital during the extension period. On May 12, 2020, the Commission's Executive Director sent a letter granting the extension and the stipulation that there would be no changes to the cost of capital during the extension period. On May 28, 2020, the Executive Director sent a second letter clarifying that all Class A regulated water utilities had been granted the extension. Effectively, this extension meant that regardless of what the WCCM might otherwise indicate, there would be no change to any utility's cost of capital for 2022.

On March 2, 2021, Suburban, along with San Gabriel Valley Water Company, Liberty Utilities (Park Water) Corp., Liberty Utilities (Apple Valley Ranchos Water) Corp., and Great Oaks Water Company requested a second extension to the cost of capital filing. Like the previous year, this extension also stipulated there would be no changes to the cost capital during the extension period. The Executive Director of the Commission once again granted the extension and the stipulation.

In this proceeding, Suburban requests that the adjustment mechanism be adopted for any adjustment to 2025 and 2026 from the 2024 base year, consistent with past Commission decisions..

VI. PROCEDURAL ISSUES

A. Category

The Commission should categorize this proceeding as ratesetting.

B. Need for Hearing

At this time, Suburban cannot determine if hearings will be necessary. Hearings will likely be necessary if other parties contest this Application. Potentially, there may be factual

disputes on material issues, which would necessitate hearings. Suburban intends to introduce the following evidentiary items in support of this Application: (1) this Application and appendices, copies of which have been or will be delivered to the Commission, and (2) prepared witness qualifications and direct testimony to support the reasonableness of Suburban’s requests. If other parties contest Suburban’s Application, the Company will provide prepared and oral rebuttal testimony and related exhibits to support Suburban’s specific requests.

C. Issues

The issues are whether Suburban has demonstrated the reasonableness of the proposed (1) capital structure, (2) cost of debt, (3) cost of preferred stock, (4) cost of equity, (5) return on rate base, and (6) the continuation of the WCCM.

D. Schedule

Pursuant to Rule 1.3(e) of the Commission’s Rules, Suburban proposes the following procedural schedule for hearings, briefs and other proceedings, subject to the Commission’s and the three other Class A Water Utilities’ schedules:

Event Dates	Page 16 of D.07-05-062	Proposed Calendar Dates
Application Filed/Testimony Served	0	May 1, 2023
Prehearing Conference	14	May 15, 2023
ORA & Intervener Testimony Due	46	June 16, 2023
Rebuttal Testimony Due	60	June 30, 2023
ADR Processes or Settlement Begins	64	July 4, 2023
Evidentiary Hearings Begin	78	July 18, 2023
Evidentiary Hearings end	84	July 24, 2023
Opening Briefs Filed and Served	105	August 14, 2023
Reply Briefs Filed and Served (includes Comparison Exhibit)	119	August 28, 2023
ALJ's Proposed Decision Mailed	149	September 27, 2023
Comments on Proposed Decision	169	October 17, 2023
Reply Comment on Proposed Decision	178	October 26, 2023
Commission Meeting/ Final Decision	191	November 8, 2023
	6.3 Months	

The proposed schedule takes into account the Commission's recommendation in D.07-05-062 that it reach a final decision within six months.⁶

VII. OTHER FORMAL MATTERS AND PROCEDURAL REQUIREMENTS

A. Legal Name

Applicant's legal name is Suburban Water Systems. Suburban's office address is 1325 N. Grand Avenue, Suite 100, Covina, CA 91724-4044.

B. Corporate Status

Applicant Suburban, a California corporation, was originally formed on April 15, 1907 as the San Jose Hills Water Company and intended to function as a mutual water company providing water service for agricultural use. San Jose Hills Water Company was incorporated under the laws of the State of California on June 27, 1944 as a public utility water company. In 1953, San Jose Hills Water Company purchased Whittier Water Company. The name was officially changed to Suburban Water Systems on October 23, 1953. For ratemaking and Commission reporting purposes, the new Whittier District, even though non-contiguous, was combined with the San Jose Hills District. On September 23, 1976, Southwest Water Company purchased Suburban Water Systems and the name was changed to Southwest Suburban Water. In 1976, following its purchase of Suburban Water Systems, [Southwest Water Company] transferred its La Mirada and Etiwanda systems to Southwest Suburban Water, thus consolidating all California utility operations into one operating company. On September 23, 1976, the Board of Directors for Suburban Water Systems voted to change the name of the company to Southwest Suburban Water. On July 22, 1982, Southwest Suburban Water's Board of Directors voted to change its name back to Suburban Water Systems. In 1998, Suburban Water Systems purchased the assets of Maple Water Company, a small mutual water company located in Valinda. In 2000,

⁶ D.07-05-062, 2007 Cal. PUC LEXIS 226, *24.

Suburban Water Systems purchased the assets of the 7,000 customer municipal water system owned by the City of West Covina. In 2010, the Commission granted a transfer of indirect control of Suburban Water Systems pursuant to a Settlement Agreement between the Division of Ratepayer Advocates, Suburban Water Systems, SouthWest Water Company, SW Merger Acquisition Corp., IIF Subway Investment LP, and USA Water Services, LLC. In April 2022, the Commission approved Suburban's purchase of the assets of the Sativa Los Angeles Water District which added approximately 1,600 customers to Suburban's Whittier/La Mirada service area. Today, Suburban Water Systems serves approximately 77,700 customers in its San Jose Hills and Whittier/La Mirada Service Areas. Communities served are Glendora, Covina, West Covina, La Puente, Hacienda Heights, Walnut, Whittier, La Mirada, La Habra, Compton/Willowbrook, and Buena Park, as well as unincorporated Los Angeles and Orange County areas.

C. Articles of Incorporation

A certified copy of Applicant's Articles of Incorporation and all amendments thereto has heretofore been filed with the Commission in connection with Application Nos. 41492, 44154, 53900, 57025, 83-08-29 and in 06-08-015. The Articles of Incorporation have not been subsequently amended.

D. Balance Sheet and Income Statement

Attached hereto as Appendix A are Suburban's 2021 income statement and comparative balance sheet.

VIII. CORRESPONDENCE CONCERNING PROPOSED APPLICATION

Correspondence and communications concerning this Application should be addressed to:

Carmelitha Bordelon
Director of Regulatory Affairs
Suburban Water Systems
1325 N. Grand Avenue, Suite 100
Covina, CA, 91724
(626) 543-2547
cbordelon@swwc.com

Copies of such correspondence and communications should be sent to:

Lori Anne Dolqueist
Nossaman LLP
50 California St., 34th Fl.
San Francisco, CA 94111
(415) 398-3600
ldolqueist@nossaman.com

IX. SERVICE

A copy of this Application, appendices and testimonies have been served upon the persons identified in the certificate of service.

X. APPENDICES AND TESTIMONY

A. Appendices

Appendix A: Balance Sheet and Income Statement

Appendix B: Revenue Impact

Appendix C: Bill Impact

Appendix D: Affordability Metrics

Appendix E: Customer Notices

Appendix F: Minimum Data Requirement Information

B. Testimony

Direct Testimony Carmelitha Bordelon

Direct Testimony of Paul R. Moul

XI. CONCLUSION

As demonstrated by this Application, the attached appendices and supporting testimony, the Commission should authorize for Suburban: (1) a capital structure comprised of 36.69% long-term debt, 1.31% preferred stock, and 62.00% common equity for 2024 – 2026; (2) a cost of debt of 5.03% for 2024 – 2026; (3) a return on preferred stock of 4.24% for 2024 – 2026; (4) a return on common equity of 11.00% for 2024 – 2026; and (5) a weighted average return on rate base of 8.73% for 2024 – 2026.

Respectfully submitted,

May 1, 2023

By: /s/ Lori Anne Dolqueist
Lori Anne Dolqueist
Nossaman LLP
50 California St., 34th Fl.
San Francisco, CA 94111
(415) 398-3600 Attorney for Applicant
Suburban Water Systems

VERIFICATION

I, the undersigned, declare:

I am an officer of Suburban Water Systems and am authorized to make this Verification for and on its behalf, and I make this Verification for that reason. I have read the above document and know its contents; I am informed and believe and, on that ground, allege that the matters stated in it are true. I declare under penalty of perjury that the foregoing is true and correct.

Executed on May 1, 2023, at Pasadena, California.

/s/ Carmelitha Bordelon

Carmelitha Bordelon

APPENDIX A

2021 and 2020 Comparative Balance Sheet
2021 Income Statement

**SCHEDULE A
COMPARATIVE BALANCE SHEETS
Assets and Other Debits**

Line No.	Acct.	Title of Account (a)	Schedule No. (b)	Balance End-of-Year (c)	Balance Beginning of Year (d)
1		I. UTILITY PLANT			
2	100	Utility Plant	A-1, A-1a	397,926,542	368,013,577
3	101	Recycled Water Utility Plant	A-1b	37,822	37,822
4	107	Utility Plant Adjustments	A-2	-	-
5		Total Utility Plant		397,964,364	\$ 368,051,399
6	250	Reserve for depreciation of utility plant	A-5	(132,905,113)	(125,404,497)
7	251	Reserve for amortization of limited term utility investments	A-5	(719,192)	(1,061,374)
8	252	Reserve for amortization of utility plant acquisition adjustments	A-5	35,970	34,568
9	259	Reserve for depreciation and amortization of recycled water utility plant	A-5	(1,566)	639
10		Total utility plant reserves		(133,589,901)	\$ (126,430,664)
11		Total utility plant less reserves		264,374,463	\$ 241,620,735
12					
13		II. INVESTMENT AND FUND ACCOUNTS			
14	110	Other Physical Property	A-3	127,726	125,797
15	253	Reserve for depreciation and amortization of other property	A-5	(44,789)	(42,860)
16		Other physical property less reserve		82,937	\$ 82,937
17	111	Investments in Affiliated Companies	A-6	-	-
18	112	Other Investments	A-7	-	-
19	113	Sinking Funds	A-8	-	-
20	114	Miscellaneous Special Funds	A-9	-	-
21		Total investments and fund accounts		82,937	\$ 82,937
22					
23		III. CURRENT AND ACCRUED ASSETS			
24	120	Cash	A-10	140,486	256,081
25	121	Special Deposits	A-11	-	-
26	122	Working Funds	A-12	-	-
27	123	Temporary Cash Investments	A-13	-	-
28	124	Notes Receivable	A-14	-	-
29	125	Accounts Receivable	A-15	10,746,110	10,127,250
30	126	Receivables from Affiliated Companies	A-16	-	13,465,048
31	131	Materials and Supplies	A-17	538,723	487,349
32	132	Prepayments	A-18	3,334,464	5,873,060
33	133	Other Current and Accrued Assets	A-19	-	-
34		Total Current and Accrued Assets		14,759,783	\$ 30,208,788
35					
36		IV. DEFERRED DEBITS			
37	140	Unamortized Debt Discount and Expense	A-20	609,096	690,441
38	141	Extraordinary Property Losses	A-22	-	-
39	142	Preliminary Survey and Investigation Charges	A-23	-	-
40	143	Clearing Accounts	A-24	-	-
41	145	Other Work in Progress	A-25	80,755	64,037
42	146	Other Deferred Debits	A-26	22,707,044	17,392,976
43	147	Accumulated Deferred Income Tax Assets	A-27	7,895,701	8,276,929
44		Total Deferred Debits		31,292,596	\$ 26,424,383
45		Total Assets and Other Debits		310,509,779	\$ 298,336,843

SCHEDULE A
COMPARATIVE BALANCE SHEETS
Liabilities and Other Credits

Line No.	Acct.	Title of Account (a)	Schedule No. (b)	Balance End-of-Year (c)	Balance Beginning of Year (d)
I. CORPORATE CAPITAL AND SURPLUS					
46					
47	200	Common Capital Stock	A-30	745,380	745,380
48	201	Preferred Capital Stock	A-30a	3,982,267	3,982,267
49	202	Stock Liability for Conversion	A-31	-	-
50	203	Premiums and Assessments on Capital Stock	A-32	126,550	126,550
51	206	Subchapter S Corporation Accumulated Adjustments Account	A-33	-	-
52	150	Discount on Capital Stock	A-28	-	-
53	151	Capital Stock Expense	A-29	-	-
54	270	Capital Surplus	A-34	27,289,621	27,289,621
55	271	Earned Surplus	A-35	117,049,136	110,839,849
56		Total Capital Stock		149,192,954	\$ 142,983,667
57					
II. PROPRIETARY CAPITAL					
58					
59	204	Proprietary Capital	A-36	-	-
60	205	Undistributed Profits of Proprietorship or Partnership	A-37	-	-
61		Total Proprietary Capital		-	\$ -
62					
III. LONG-TERM DEBT					
63					
64	210	Bonds	A-38	90,000,000	90,000,000
65	211	Receivers' Certificates	A-39	-	-
66	212	Advances from Affiliated Companies	A-40	-	-
67	213	Miscellaneous Long-Term Debt	A-41	-	-
68		Total Long-Term Debt		90,000,000	\$ 90,000,000
69					
IV. CURRENT AND ACCRUED LIABILITIES					
70					
71	220	Notes Payable	A-43	-	-
72	221	Notes Receivable Discounted	A-44	-	-
73	222	Accounts Payable	A-45	2,046,656	2,766,605
74	223	Payables to Affiliated Companies	A-46	2,361,323	-
75	224	Dividends Declared	A-47	-	-
76	225	Matured Long-Term Debt	A-48	-	-
77	226	Matured Interest	A-49	-	-
78	227	Customers' Deposits	A-50	257,606	561,434
79	228	Taxes Accrued	A-53	(26,982)	(25,396)
80	229	Interest Accrued	A-51	813,832	813,836
81	230	Other Current and Accrued Liabilities	A-52	11,893,996	10,345,919
82		Total Current and Accrued Liabilities		17,346,431	\$ 14,462,398
83					
V. DEFERRED CREDITS					
84					
85	240	Unamortized Premium on Debt	A-21	-	-
86	241	Advances for Construction	A-54	7,731,072	8,038,461
87	242	Other Deferred Credits	A-55	955,548	(1,331,634)
88		Total Deferred Credits		8,686,620	\$ 6,706,827
VI. ACCUMULATED DEFERRED TAXES					
	266	Accumulated Deferred Income Taxes - Accelerated Tax Depreciation	A-58	-	-
	267	Accumulated Deferred Income Taxes - Other	A-59	22,423,951	21,863,422
	268	Accumulated Deferred Investment Tax Credits	A-60	62,078	72,795
		Total Accumulated Deferred Taxes		22,486,029	\$ 21,936,217
89					
VII. RESERVES					
90					
91	254	Reserve for Uncollectible Accounts	A-56	2,659,381	1,571,171
92	255	Insurance Reserve	A-56	-	-
93	256	Injuries and Damages Reserve	A-56	-	-
94	257	Employees' Provident Reserve	A-56	-	-
95	258	Other Reserves	A-56	-	-
96		Total Reserves		2,659,381	\$ 1,571,171
97					
VIII. CONTRIBUTIONS IN AID OF CONSTRUCTION					
98					
99	265	Contributions in Aid of Construction	A-57	20,138,364	20,676,563
100		Total Liabilities and Other Credits		310,509,779	\$ 298,336,843

SCHEDULE B
Income Statement for the Year

Line No.	Acct.	Account (a)	Schedule Page No. (b)	Amount (c)
1		I. UTILITY OPERATING INCOME		
2	501	Operating Revenues	B-1	94,589,090
3				
4		Operating Revenue Deductions:		
5	502	Operating Expenses	B-2	60,117,977
6	503	Depreciation	A-5	11,688,676
7	504	Amortization of Limited-term Utility Investments	A-5	14,946
8	505	Amortization of Utility Plant Acquisition Adjustments	A-5	(1,402)
9	506	Property Losses Chargeable to Operations	B-3	-
10	507	Taxes	B-4	6,807,712
11		Total Operating Revenue Deductions		78,627,909
12		Net Operating Revenues		15,961,181
13	508	Income from Utility Plant Leased to Others	B-6	-
14	510	Rent for Lease of Utility Plant	B-7	-
15		Total Utility Operating Income		15,961,181
16				
17		II. OTHER INCOME		
18	521	Income from Nonutility Operations (Net)	B-8	-
19	522	Revenue from Lease of Other Physical Property	B-9	-
20	523	Dividend Revenues	B-10	-
21	524	Interest Revenues	B-11	75,711
22	525	Revenues from Sinking and Other Funds	B-12	-
23	526	Miscellaneous Nonoperating Revenues	B-13	734,413
24	527	Nonoperating Revenue Deductions	B-14	(3,926)
25		Total Other Income		806,198
26		Net Income before Income Deductions		16,767,379
27				
28		III. INCOME DEDUCTIONS		
29	530	Interest on Long-term Debt	B-15	4,388,696
30	531	Amortization of Debt Discount and Expense	B-16	81,346
31	532	Amortization of Premium on Debt - Cr.	B-17	-
32	533	Taxes Assumed on Interest	B-18	-
33	534	Interest on Debt to Affiliated Companies	B-19	(295,162)
34	535	Other Interest Charges	B-20	-
35	536	Interest Charged to Construction - Cr.	B-21	-
36	537	Miscellaneous Amortization	B-22	-
37	538	Miscellaneous Income Deductions	B-23	223,067
38		Total Income Deductions		4,397,947
39		Net Income		12,369,432
40				
41		IV. DISPOSITION OF NET INCOME		
42	540	Miscellaneous Reservations of Net Income	B-24	-
43				
44		Balance transferred to Earned Surplus or		\$ 12,369,432
45		Proprietary Accounts scheduled on pages 32-33		

APPENDIX B

SUBURBAN WATER SYSTEMS
2023 COST OF CAPITAL APPLICATION

2024 ESTIMATED REVENUE REQUIREMENT IMPACT

Line <u>No.</u>	Long-Term <u>Debt</u>	Preferred <u>Stock</u>	Common <u>Equity</u>	<u>Total</u>	
1	Proposed Total	1.85%	0.06%	6.82%	8.73%
2	Current Total	<u>2.21%</u>	<u>0.10%</u>	<u>5.55%</u>	<u>7.86%</u>
3	Difference	-0.36%	-0.04%	1.27%	0.87%
4	2024 Estimated Rate Base at proposed Rate of Return			\$310,820,601	
5	(x) Requested Cost of Capital Increase			0.87%	
6	Increase in Return			\$2,704,139	
7	(x) Net-To-Gross Multiplier			1.44827	
8	Revenue Requirement Impact Before Tax Adjustment Related to Interest Expense			\$3,916,324	(a)
9	<u>Less Tax Impact on Reduced Interest Deduction:</u>				
10	2024 Estimated Rate Base at proposed Rate of Return			\$310,820,601	
11	(x) Requested Debt Rate Decrease			-0.36%	
12	Decrease in Interest Deduction			(\$1,118,954)	
13	(x) Federal and CA State Income Tax Rates			29.84%	
14	Decrease in Interest Deduction			(\$333,896)	
15	(x) Net-To-Gross Multiplier			1.44827	
16	Tax Impact on Reduced Interest Deduction			(\$483,571)	(b)
17	2024 Estimated Revenue Requirement Impact			\$4,399,895	(a) - (b)

APPENDIX C

SUBURBAN WATER SYSTEMS
2023 COST OF CAPITAL APPLICATION

2024 PROPOSED BILL IMPACT

2024 Estimated Bill Impact for Average Residential Customers

Line No.	<u>San Jose Hills Tariff Area 1</u>	<u>Whittier/La Mirada Tariff Area 2</u>
1 Meter Size: 3/4"		
2 Average Monthly Usage (Ccf)	14	14
3 2024 Proposed Estimated Bill		
4 2023 Current Bill	\$80.17	\$75.27
5 Proposed Increase in Monthly Bill (\$)	\$83.70	\$78.59
6 Proposed Percentage Increase	4.40%	4.41%

APPENDIX D

**SUBURBAN WATER SYSTEMS
SUMMARY SHEET FOR ALL RATEMAKING AREAS**

Scenario Total Bill
CAP/NON-CAP Non-CAP

Usage Level Average

	Monthly	Annual	
Current Bill January 2023	\$94.44	\$1,133.28	
Usage	14	14	14

Average (14 CCF) NON-CAP

Fully Loaded = Base Bill + Surcharges + CPUC Fee

Month	2024	2025	2026
January	\$103.89	\$105.15	\$107.85
February	\$102.07	\$105.16	\$107.85
March	\$102.07	\$105.16	\$107.85
April	\$102.07	\$105.16	\$107.85
May	\$102.07	\$105.16	\$107.85
June	\$102.07	\$102.52	\$107.85
July	\$102.08	\$102.52	\$107.85
August	\$102.08	\$102.52	\$107.85
September	\$102.08	\$102.52	\$107.85
October	\$102.08	\$102.52	\$107.85
November	\$102.08	\$102.52	\$107.85
December	\$102.08	\$102.52	\$107.85
Total	\$1,226.72	\$1,243.39	\$1,294.22
% Change	8.2%	1.4%	4.1%

**SUBURBAN WATER SYSTEMS
SUMMARY SHEET FOR ALL RATEMAKING AREAS**

Scenario Total Bill
CAP/NON-CAP CAP

Usage Level Average

	Monthly	Annual	
Current Bill January 2023	\$81.87	\$982.44	
Usage	14	14	14

Average (14 CCF) CAP

Fully Loaded = Base Bill + Surcharges + CPUC Fee

Month	2024	2025	2026
January	\$90.21	\$92.70	\$94.73
February	\$88.37	\$92.70	\$94.73
March	\$88.36	\$92.70	\$94.73
April	\$88.37	\$92.70	\$94.73
May	\$88.37	\$92.70	\$94.73
June	\$88.37	\$90.06	\$94.73
July	\$88.37	\$90.06	\$94.73
August	\$88.37	\$90.06	\$94.73
September	\$88.37	\$90.06	\$94.73
October	\$88.37	\$90.06	\$94.73
November	\$88.37	\$90.06	\$94.73
December	\$88.37	\$90.06	\$94.73
Total	\$1,062.27	\$1,093.88	\$1,136.78
% Change	8.1%	3.0%	3.9%

**SUBURBAN WATER SYSTEMS
SUMMARY SHEET FOR ALL RATEMAKING AREAS**

Scenario Total Bill
CAP/NON-CAP Non-CAP

Usage Level Essential (6 CCF)

	Monthly	Annual	
Current Bill January 2023	\$55.19	\$662.28	
Usage	6	6	6

Essential (6 CCF) NON-CAP			
Fully Loaded = Base Bill + Surcharges + CPUC Fee			
Month	2024	2025	2026
January	\$60.72	\$61.59	\$63.60
February	\$59.94	\$61.59	\$63.60
March	\$59.94	\$61.59	\$63.60
April	\$59.94	\$61.59	\$63.60
May	\$59.94	\$61.59	\$63.60
June	\$59.94	\$60.46	\$63.60
July	\$59.94	\$60.46	\$63.60
August	\$59.94	\$60.46	\$63.60
September	\$59.94	\$60.46	\$63.60
October	\$59.94	\$60.46	\$63.60
November	\$59.94	\$60.46	\$63.60
December	\$59.94	\$60.46	\$63.60
Total	\$720.06	\$731.17	\$763.22
% Change	8.7%	1.5%	4.4%

**SUBURBAN WATER SYSTEMS
SUMMARY SHEET FOR ALL RATEMAKING AREAS**

Scenario Total Bill
CAP/NON-CAP CAP

Usage Level Essential (6 CCF)

	Monthly	Annual	
Current Bill January 2023	\$44.88	\$538.56	
Usage	6	6	6

Essential (6 CCF) CAP			
Fully Loaded = Base Bill + Surcharges + CPUC Fee			
Month	2024	2025	2026
January	\$48.81	\$49.88	\$51.28
February	\$48.02	\$49.88	\$51.28
March	\$48.02	\$49.88	\$51.28
April	\$48.02	\$49.88	\$51.28
May	\$48.02	\$49.88	\$51.28
June	\$48.02	\$48.75	\$51.28
July	\$48.02	\$48.75	\$51.28
August	\$48.02	\$48.75	\$51.28
September	\$48.02	\$48.75	\$51.28
October	\$48.02	\$48.75	\$51.28
November	\$48.02	\$48.75	\$51.28
December	\$48.02	\$48.75	\$51.28
Total	\$577.03	\$590.65	\$615.38
% Change	7.1%	2.4%	4.2%

APPENDIX E

Para más detalles en español, llame al (626) 543-2640 para el área de servicio de San Jose Hills, o al (562) 944-8219 para el área de servicio de Whittier/La Mirada. Para obtener una copia de este aviso en español visite nuestro sitio web en www.swwc.com/suburban/announcements/

有關中文的更多詳情，請致電 (626) 543-2640到San Jose Hills服務區，或致電 (562) 944-8291到Whittier / La Mirada服務區。有關本通知的中文版，請訪問我們的網站：www.swwc.com/suburban/announcements/

한국어로 자세한 정보를 원하시면 San Jose Hills 서비스 지역은 (626) 543-2640으로 전화하거나 Whittier / La Mirada 서비스 지역은 (562) 944-8219로 전화하십시오. 한국어로 된 통지서 사본은 웹 사이트 www.swwc.com/suburban/announcements/

Để biết thêm thông tin bằng tiếng Việt, hãy gọi khu vực dịch vụ San Jose Hills theo số (626) 543-2640 hoặc khu vực dịch vụ Whittier / La Mirada theo số (562) 944-8219. Để có một bản sao của thông báo này bằng tiếng Việt, vui lòng truy cập www.swwc.com/suburban/announcements/

Para sa karagdagang impormasyon sa Tagalog, tawagan ang lugar ng serbisyo ng San Jose Hills sa (626) 543-2640 o lugar ng serbisyo ng Whittier / La Mirada sa (562) 944-8219. Para sa isang kopya ng tagalog na ito ng paunawa, mangyaring bisitahin ang www.swwc.com/suburban/announcements/

NOTICE OF REQUESTED RATE INCREASE FOR COST OF CAPITAL FOR SUBURBAN WATER SYSTEMS' APPLICATION 23-05-XXX

Why am I receiving this notice?

On May 1, 2023, Suburban Water Systems (Suburban) filed its cost of capital application 23-05-XXX, with the California Public Utilities Commission (CPUC). In the application, Suburban is requesting to increase its cost of capital which is the rate of return the company is authorized to recover on its investments in critical infrastructure required to deliver safe and reliable water service. If approved by the CPUC, Suburban's rate of return will increase by 0.87% for 2024, 2025, and 2026.

If the CPUC approves this application, Suburban will recover its cost of capital in rates over a three-year period beginning January 1, 2024, and ending December 31, 2026. This will impact your bill.

Why is Suburban requesting this increase to its cost of capital?

The CPUC requires Suburban to file a cost of capital application every three years. The cost of capital determines the amount of money Suburban is allowed to recover in rates as a return on the money it has invested in critical infrastructure. This ensures funds are available to make critical infrastructure improvements, so water mains, wells, pumps, tanks, treatment systems, and other parts of the water system continue to provide safe, reliable water service.

How could this affect my water bill?

If approved by the CPUC, the proposed changes to the cost of capital will increase Suburban's currently authorized revenue requirement by \$4.4 million (4.41%). The impacts on the average monthly residential customer's bill using 14 ccf (1 ccf = 100 cubic feet or 780 gallons of water) per month for a 3/4 inch meter, **excluding any applicable surcharges except the CPUC reimbursement fee**, will be as follows:

	Current Authorized Rates	2024 Proposed Rates	Bill Increase	
			\$	%
San Jose Hills - Service Area 1	\$80.17	\$83.70	\$3.53	4.40%
Whittier/La Mirada - Service Area 2	\$75.27	\$78.59	\$3.32	4.41%

Under the proposed rates, on January 1, 2024, the monthly charge for private fire service would increase from \$28.16 to \$29.340 per inch of diameter of service connection, and the monthly charge for fire hydrant service would increase from \$37.25 to \$38.89 for each 6-inch standard fire hydrant.

For qualifying residential customers enrolled in Suburban's low-income rate assistance program, the average customer with a 3/4-inch meter using 14 Ccf per month would be as follows:

	Current Authorized Rates	2024 Proposed Rates	Bill Increase	
			\$	%
San Jose Hills - Service Area 1	\$71.34	\$74.48	\$3.14	4.40%
Whittier/La Mirada - Service Area 2	\$66.44	\$69.37	\$2.93	4.41%

Customers can reduce or even eliminate the impact of these increases by conserving water.

The proposed revenue increases are outlined in the chart below by customer class and assume the CPUC approves the requested cost of capital rate increases in their entirety.

2024 Proposed Increase (Dollars in Thousands)

Customer Class	Present	Proposed Increase	
	Revenue	\$	%
Residential	70,493.6	3,105.6	4.41%
Business	20,283.1	893.6	4.41%
Industrial	1,867.3	82.3	4.41%
Public Authorities	3,723.9	164.1	4.41%
Other Water Utilities for Resale	49.1	2.2	4.41%
Construction Water Service	186.6	8.2	4.40%
Private Fire Protection Service	1,822.7	80.3	4.41%
Fire Hydrant Service on Private Property	223.1	9.8	4.41%
Recycled Water	1,223.7	53.9	4.41%
Total	99,873.2	4,399.9	4.41%

How does the rest of the process work?

This application will be assigned to a CPUC Administrative Law Judge who will consider proposals and evidence presented during the formal hearing process. The Administrative Law Judge will issue a proposed decision that may adopt Suburban’s application, modify it, or deny it. Any CPUC Commissioner may sponsor an alternate decision with a different outcome. The proposed decision, and any alternate decisions, will be discussed and voted upon by the CPUC Commissioners at a public CPUC Voting Meeting.

Parties to the proceeding will review Suburban’s application, including the Public Advocates Office, which is an independent consumer advocate within the CPUC that represents customers to obtain the lowest possible rate for service consistent with reliable and safe service levels. For more information, please call **1-415-703-1584**, email PublicAdvocatesOffice@cpuc.ca.gov, or visit PublicAdvocates.cpuc.ca.gov.

Your participation by providing your thoughts on Suburban’s request can help the CPUC make an informed decision. Please visit apps.cpuc.ca.gov/c/A2305XXX to submit a comment about this proceeding on the CPUC Docket Card. Here you can also view documents and other public comments related to this proceeding.

Where can I get more information?

Contact Suburban

Website: www.swwc.com/suburban

Phone: **1-626-543-2531**

Email: San Jose Hills and Whittier/La Mirada Service Areas: suburbancustomer@swwc.com

A copy of the Application and any related documents may also be reviewed at www.swwc.com/suburban/announcements/

Contact CPUC

If you have questions about CPUC processes, you may contact the CPUC’s Public Advisor’s Office at:

Phone: **1-866-849-8390** (toll-free) or **1-415-703-2074**
Email: Public.Advisor@cpuc.ca.gov
Mail: CPUC Public Advisor's Office
505 Van Ness Avenue
San Francisco, CA 94102

Please reference **Application 23-05-XXX** in any communications you have with the CPUC regarding this matter.

DRAFT

APPENDIX F

Suburban Water Systems
2023 Cost of Capital Application
Minimum Data Requirement Information

- A. List most recent authorized return on equity and rate of return on rate base, with reference to decision number.

Response:

9.25% and 7.86% are the most recent authorized return on equity and rate of return on rate base, respectively, based on D.18-12-002

- B. Report actual return on equity and rate of return on rate base annually for the past five years.

Response:

	2017	2018	2019	2020	2021
Return on common equity	9.99%	15.05%	13.45%	10.56%	8.59%
Return on rate base	8.58%	11.30%	10.15%	9.02%	7.64%

- C. Describe the proposed capital structure and rate of return. Identify and explain all significant changes from last adopted capital structure and cost of capital. Report cost of capital information in summary table as set out below:

	Test Year 2024 Escalation Years 2025 and 2026		
	Capital Structure	Cost	Weighted Cost
Debt	36.69%	5.03%	1.85%
Preferred Stock	1.31%	4.24%	0.06%
Common Equity	62.00%	11.00%	6.82%
Total	100.00%		8.73%

- D. Regarding long-term debt:

1. List the sinking fund amounts for each issue, by issue, by year.

Response:

None

2. List the retirements by issue, for the current year.

Response:

None

3. List the interest rates for each issue, by issue.

Response:

First Mortgage Bonds:

Series B 9.09%
Series D 5.64%
Series E 6.30%
Series F 4.42%
Series G 3.70%

4. List the terms of each issue, by issue, with issue date and date due.

Response:

First Mortgage Bonds	Issue Date	Due Date
Series B	02/20/92	02/20/22
Series D	10/19/04	10/19/24
Series E	10/20/06	10/20/26
Series F	09/30/15	09/30/35
Series G	12/11/19	12/15/59

5. List the cost of issuance for each issue, by issue.

Response:

First Mortgage Bonds	Cost of issuance
Series B	384,066
Series D	764,013
Series E	222,684
Series F	233,093
Series G	301,483

6. List name of lender for each issue, by issue.

Response:

First Mortgage Bonds	Lender
Series B	Allstate Life Insurance Company
Series D	Teacher Insurance and Annuity Association
Series E	CoBank ACB
Series F	John Hancock Life Insurance Company U.S.A.), John Hancock Life Insurance Company of New York, John Hancock Life & Health Insurance Company, Pruco Life Insurance Company, and Zurich American Life Insurance Company

Series G	United of Omaha Life Insurance Company, Genworth Life Insurance Company, Genworth Life and Annuity Insurance Company
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7. Provide the formula used to determine the cost of new issues of long-term debt (Example: 30-year Treasury Bond + 100 basis points), as well as the reason for using the particular rate and basis point premium.

Response:

The formula used to determine the cost of new issues of long-term debt is as follows:

Projected 30-Year Treasury	3.81%
Credit Spread	1.97%
Estimated Coupon Rate	5.78%

8. If company or affiliate is rated by S&P, provide rating. If not rated, what would be rating based on forecast cost of new debt?

Response:

Suburban's affiliate, SouthWest Water Company, has an S&P rating of BBB+.

- E. Are company stocks, bonds, or company as a whole rated or commented on by any organization or agency?

Response:

No.

- If so, provide name(s) and phone number(s) of rating/commenting organization(s) and the ratings/comments received in the past 12 months.
- Provide this information on an ongoing basis.

- F. List actual rate base for the past five years, by year, by district.

Response:

	2017	2018	2019	2020	2021
Rate Base	149,167,277	174,706,884	184,318,865	196,658,768	221,016,563

- G. Workpapers are served but not part of the application and should include:

- Copies of all publications, articles, book references, regulations, and decisions, referenced in testimony.
- Supporting documentation for all models used to determine return on equity.