

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

Application of California Water Service Company (U60W) for a Certificate of Public Convenience and Necessity to Provide Water Service to Travis Air Force Base and to Establish Rates.

Application 17-05-
(Filed May 15, 2017)

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CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY TO PROVIDE
WATER SERVICE TO TRAVIS AIR FORCE BASE AND TO ESTABLISH RATES**

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I. INTRODUCTION

Pursuant to Sections 451 and 1001 of the California Public Utilities Code and Articles 2 and 3 of the California Public Utilities Commission (“Commission”) Rules of Practice and Procedure, California Water Service Company (“Cal Water”) files this application seeking a Certificate of Public Convenience and Necessity (“CPCN”) to provide public utility potable water service to Travis Air Force Base (“Travis AFB”) and to establish rates for this service. Cal Water has entered into a 50-year agreement with the United States Department of Defense to acquire the water distribution assets of Travis AFB and provide water utility service.

II. SPECIFIC RELIEF REQUESTED

Cal Water seeks a CPCN to establish a non-contiguous service area comprised of Travis AFB (creating a new “Travis District”), and to establish rates for service until the Commission adopts new rates for the Travis District in Cal Water’s 2018 General Rate Case (“GRC”). After Commission approval of this application, Cal Water intends to provide water service to the Travis District as a regulated public utility service subject to the jurisdiction of the Commission, pursuant to the terms of the contract with the Department of Defense.

III. CONTRACT INFORMATION

In October 2012, the Department of Defense issued a Request for Proposal (“RFP”) for privatization of the water distribution system at Travis AFB. Cal Water responded to the RFP

and was awarded the contract on September 29, 2016. As part of the RFP process, Cal Water provided detailed information on its past performance as a water utility, its plan for operations and maintenance, recommendations regarding repairs, upgrades and capital investments, and a proposed contract rate. After the contract award to Cal Water, another bidder protested the outcome and the Department of Defense re-evaluated its award process. On February 21, 2017, the government reaffirmed its award to Cal Water and the period for protest of the reaffirmed award expired on March 13, 2017.

Under the terms of the 50-year contract, Cal Water shall assume ownership, operation, and maintenance of the water distribution system at Travis AFB, and operate it as a Commission-regulated service area. The purchase price of the distribution system is \$1. Cal Water will also make initial capital improvements of about \$12.7 million during the first five years, with an anticipated capital investment of about \$52 million over the 50-year term of the utility service contract. The Travis AFB Award/Contract is attached to this application as Appendix A. More information regarding the contract is provided in the *Direct Testimony of Paul Townsley*, which will be served with this application.

IV. COMMISSION JURISDICTION

Consistent with the contract, Cal Water would provide service to Travis AFB as a regulated utility service in a new ratemaking area called the “Travis District.”¹ The transaction is conditioned upon Commission review and approval of the “utility services contract.”² Under the terms of the contract, Cal Water entered a “Transition Period” on the award date. The Transition Period remains in effect until 10 months after Commission approval. Prior to taking ownership and control of the system, during the Transition Period, Cal Water will have broader access to

¹ With the adoption of D.16-12-042 in Cal Water’s last general rate case, Cal Water now has 20 “ratemaking areas” throughout California that are regulated as Class A districts with individual revenue requirements. Some of those ratemaking areas have “district” in their names, while others are referred to as “regions.” For ease of communication, “districts” in this proceeding generally refers to all ratemaking areas in California regulated as Class A. Cal Water also has a Class D water system called Grand Oaks (near Cal Water’s Antelope Valley service areas).

² Appendix A, Travis AFB Award/Contract, Volume III: Contract Documentation, Section H.14.1.

information related to Travis AFB's water system in order to develop the more specific operational plans and infrastructure projects needed for the Commission to adopt cost-based rates in Cal Water's 2018 GRC.

The Department of Defense has committed to support the regulatory approval process and accepts Cal Water's "regulated tariff rate pricing model, contingent upon approval of its status as a regulated utility by the CPUC."³ Under the contract, rates for Travis AFB will therefore be set based on procedures and formulae consistent with those that the Commission has established for Cal Water's service to its public utility customers. In its upcoming GRC proceeding, Cal Water will develop a full summary of earnings for the new Travis District based on forecasted expenses and capital that mirrors those of Cal Water's other regulated ratemaking areas. Cal Water will propose rates and address other ratemaking issues that are consistent with the Commission's regulatory principles, tailored to the unique facts of the Travis District, including the appropriate allocation of costs and procedures for applying surcharges and surcredits.

Due to the timing of Cal Water's 2018 GRC and the signing of the Travis AFB contract, the Transition Period discussed above and Cal Water's ownership of the Travis AFB water system (if approved by the Commission) will occur prior to the implementation of new GRC rates on January 1, 2020. Prior to 2020, Travis AFB will be subject to the proposed tariff, included as Appendix B, which contains a fixed monthly fee that is based upon high-level data (developed at the beginning of the privatization process). Cal Water's rate proposal to Defense Logistics Agency, the entity that manages privatization of government utility systems, reflected assumptions and a simplified GRC calculation that can be verified and corrected after CPCN approval, in anticipation of Cal Water's July 2018 GRC filing.

³ *Id.*, Section H.14.2.

Under California case law, determination of public utility service status is fact-based and dependent upon the “dedication” of utility facilities, or a portion thereof, to serving the public.⁴ Cal Water already is a water corporation operating water systems in California as a public utility under California law, and the Department of Defense will simply be one more public utility customer.⁵

In sum, the contract includes an array of provisions that are consistent with the intention of the parties to have Cal Water own and operate the water system to provide water service to Travis AFB in accordance with Commission rules and procedures, and subject to Commission regulation. Based on the principle of dedication, this service plan is sufficient to constitute dedication of the Travis AFB system for the provision of a public utility service.

V. CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

Cal Water seeks a CPCN to establish a non-contiguous service area comprised of Travis AFB in a new ratemaking area called the “Travis District.” Rule 3.1 of the Commission’s Rules of Practice and Procedure sets forth the requirements for a CPCN. Not all are applicable to Cal Water’s request; some apply to non-water utilities. Cal Water addresses the applicable requirements below.

A. Description of Travis AFB

Travis AFB, originally named Fairfield-Suisun Army Base, was established in 1943. Travis AFB is host to the Air Force's 60th Air Mobility Wing, which is the largest wing in its Air Mobility Command. Travis AFB encompasses a total of 6,383 acres. There are over 900 industrial and administrative facilities on Travis AFB totaling approximately 6.3 million square feet.

⁴ The Commission’s jurisdiction extends only to entities that have dedicated their property to the public use. See *Greyhound Lines, Inc. v. Public Utilities Comm’n* (1968), 68 Cal.2d 406, 413.

⁵ Over time, it is possible that new customers could be added to the Travis District, or Cal Water may seek to provide similar privatized services to other federal sites. It is in the public interest for such services to be provided within the Commission’s jurisdiction.

The Travis AFB potable water system utilizes surface water from a water treatment plant and groundwater from five wells, and includes distribution piping, storage tanks, hydrants, and other appurtenances. Travis AFB currently receives approximately 80% of its water from the Travis AFB Water Treatment Plant, which is owned and operated by the City of Vallejo, and 20% of its water from government-owned water wells located at the Travis AFB well field. Cal Water believes that the long-term sustainability of Travis AFB requires the provision of multiple sources of potable water, and included a discussion of possible additional sources in its response to the RFP. Water commodity supply is not included in the contract. The government has retained the right to procure and supply potable water that Cal Water distributes through the distribution system. The government will remain the customer of record and retain ownership of all commodities transported and distributed through the Cal Water system unless otherwise provided in the contract.

B. Service Area and Map

Travis AFB is located in Solano County, adjacent to Fairfield, California, and near Cal Water's Dixon service area. Cal Water will serve a copy of this application on the City of Vallejo, the City of Fairfield, and Solano County. A map of Travis AFB, which is the service area for the Travis District, is attached to this application as Appendix C. Only potable water is included in the service area; wastewater and non-potable water are not included. All facilities located on Travis AFB are included in the potable water service area.

C. Permits

Cal Water is not aware of any new permit obligations that would result from the transaction. Upon Commission approval of the CPCN, Cal Water will work with the necessary governmental agencies as identified by the Department of Defense to file for appropriate permit transfers. The permit transfer process will take place once the Commission has approved the CPCN during the final 10 months of the Transition Period described in the contract.

D. Need for the Project

As noted above, the Department of Defense issued a RFP for the privatization of the water distribution system at Travis AFB in October 2012. With reductions in funding for installation support in recent years, utility privatization is helping to fill the gap through more effective and efficient operations and maintenance programs. The Air Force reports that it has upgraded 72 utility systems over the past 10 years, saving \$707 million. The Air Force indicates that it has more than 50 additional electric, natural gas, water and wastewater utilities that are in various stages of the privatization process.

One challenge with the Travis water distribution system is the large size of storage and conveyance facilities. The system was designed and constructed to provide large amounts of water to aircraft hangars in case of fire, and this in turn can lead to certain water quality issues such as disinfection by-products or nitrification issues. The Cal Water team includes operators, engineers and construction contractors located in nearby Fairfield, Vacaville, and Dixon, who provide extensive knowledge and experience in operations and maintenance, regional construction methods, and environmental and regulatory issues and costs, which will benefit Travis AFB. Cal Water is uniquely positioned to work with local and regional agencies to provide assurance that the Travis AFB water needs will be met long term.

E. Community Values

Under the Public Utilities Code, a utility seeking a CPCN must address community values, recreational and park areas, historical and aesthetic values, and the influence on the environment.⁶ As a practical matter, “the review process established by CEQA is the primary vehicle for review of all §1002(a) issues except community values.”⁷ The concept of

⁶ Pub. Util. Code §1002(a)

⁷ D.10-12-025, *Application of Wild Goose Storage, LLC to Amend its Certificate of Public Convenience and Necessity to Expand and Construct Facilities for Gas Storage Operations (U911G)*, 2010 Cal. PUC LEXIS 463, **7-8.

“community values” can be somewhat fluid and the “issues that need to be considered can vary greatly depending upon the nature of a project.”⁸

In considering “community values,” the Commission considers the overall community support for the project.⁹ In this instance, the “community” to be served consists solely of Travis AFB. By awarding the contract to Cal Water, the Department of Defense has indicated that the “community” supports this project.

F. Estimated Costs

Cal Water included information on estimated costs in its response to the RFP over five years ago. That information is included as a confidential exhibit to the *Direct Testimony of Paul Townsley*.

G. Financial Information

Cal Water’s most recent financial statements are in the 2016 10-K and Proxy Statement included as Appendix D to this application.

H. Proposed Rates

Appendix B to this application contains a tariff with proposed rates for the Travis District based initially on the pricing proposal Cal Water provided to the Department of Defense as part of the RFP process. As discussed above, the pricing proposal necessarily contained many assumptions that should now be verified through the Commission’s GRC process that will begin for Cal Water in its July 2018 filing. In that filing, a proposed summary of earnings, developed using a full GRC model that contains all of the components normally addressed for a general rate increase in a ratemaking area, can be reviewed by the Commission and interested parties.¹⁰ Cal

⁸ *Id.*, *11

⁹ *Id.*, *12.

¹⁰ Cal Water anticipates that the decision in its 2018 GRC will include specific capital projects authorized as “advice letter projects” that, upon completion, will be eligible for the rate base offset treatment accorded other ratemaking areas. While Cal Water initially proposed a separate annual process increasing rates upon completion of infrastructure projects, at this time Cal Water does not see the need for a different procedure that is unique to Travis AFB.

Water will develop the operational and infrastructure plans that provide the foundation for key inputs into the GRC model in order to calculate reasonable forecasts.¹¹

Until the Commission's thorough review of all cost elements of the water system on Travis AFB, and the adoption of different rates beginning January 1, 2020, the parties have agreed upon a non-commodity based rate schedule for the new Travis District based on the pricing proposal reviewed in the RFP process. That pricing proposal was comprised of estimates for two main components – rate base and operating expenses. The operating expenses do not include estimates for purchased power or water because the Air Force will directly pay all electricity costs as part of a purchased power contract for Travis AFB, and will directly pay the City of Vallejo for water supply from the surface water treatment plant. Using a simplified GRC methodology, Cal Water calculated a total annual revenue requirement. As Travis AFB will be the only customer, the revenue requirement represents the annual fees that Travis AFB will pay to Cal Water. These fees will be divided into monthly charges.

Cal Water's confidential "Price Proposal," as provided with the *Direct Testimony of Paul Townsley*, includes all of the rate information required by Commission Rule 3.1 (m)-(n) to the extent that they are relevant. For example, Cal Water has not provided estimates for the fifth year after ownership and operation because, as discussed above, supportable estimates will be proposed in Cal Water's next GRC.¹²

I. Customers and Supply

Travis AFB will be the sole customer in the Travis District. While additional facilities may be constructed on the base, Travis AFB is expected to be the only customer in the near future. A description of the normal and emergency standby water facilities for production, storage, and pressure to serve Travis AFB has been provided by the Department of Defense and

¹¹ Note that Cal Water no longer proposes to use a third party contractor to operate the Travis AFB as discussed in its RFP response. Instead, Cal Water will use its own personnel in the manner described in the *Direct Testimony of Paul Townsley*.

¹² As another example, Rule 3.1(n)(2) is not applicable because Cal Water is not already rendering service in the Travis AFB service area proposed in this application.

is included with the *Direct Testimony of Paul Townsley*. Additional facilities and the appropriate regulatory treatment will be proposed in Cal Water’s 2018 GRC filing.¹³

J. Operating Plans

Cal Water will ensure that the water production and distribution system in the Travis District will be operated and maintained to provide Travis AFB with a safe and reliable water supply that will meet all state and federal water quality standards. Since 1926, Cal Water has proven that it has the capability and ability to reliably perform as an owner/operator of water systems. Cal Water is the third largest publicly-held investor-owned water utility in the United States and the largest in the West. It operates water and wastewater systems in four states serving nearly two million people in more than 100 communities, and has owned and operated water and wastewater systems as a regulated utility for more than 90 years.

Cal Water’s proposal initially identified Severn Trent Environmental Services (“Severn Trent”) as Cal Water’s subcontractor for the operation and maintenance services of the Travis AFB water production and distribution system. However, Cal Water employees will now be providing the operation and maintenance services, rather than Severn Trent. Cal Water will therefore hire additional full-time positions that will be located at Travis AFB and dedicated to operating and maintaining the potable water system for the Travis District. In addition, Cal Water employees based at Travis will be supported by local management from Cal Water’s Dixon district, and from Customer Support Services (General Office) in San Jose.

Cal Water will provide operation and maintenance services, engineering support, 24-hour customer service support, analytical laboratory support from its San Jose, California, water quality laboratory, and will manage the contract with the Air Force. More information regarding the proposed operations and staffing initially envisioned is provided in the exhibits to the Travis

¹³ Some infrastructure projects may be appropriate for inclusion in the monthly tariffed rate, while others may be appropriate for advice letter treatment in which rates are increased only after project completion and a reasonableness review by the Commission.

AFB Award/Contract, included with the *Direct Testimony of Paul Townsley*. After the Transition Period, Cal Water will be able to provide more detailed cost estimates in its 2018 GRC filing.

VI. CEQA COMPLIANCE

Cal Water's request for a CPCN to provide service to Travis AFB involves negligible or no expansion of an existing use. As such, it is exempt from review under the California Environmental Quality Act ("CEQA").¹⁴

VII. APPLICANT INFORMATION

A. Corporate Information

The legal name of the applicant is California Water Service Company. Its principal place of business is located at 1720 N. First Street, San Jose, California, 95112. Applicant is engaged in the business of supplying and distributing water for domestic, commercial, industrial, and landscaping purposes in service territories designated by the Commission located in 20 ratemaking areas throughout the state. Applicant is a California corporation. A copy of Applicant's Restated Articles of Incorporation, certified by the California Secretary of State, was filed with the Commission in connection with Application 96-12-029.

B. Contact Information

Correspondence and communications with respect to this application should be addressed to:

Natalie D. Wales
Interim Director of Regulatory Matters
California Water Service Company
1720 N. First Street
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(408) 367-8566
nwales@calwater.com

With copies to:

Lori Anne Dolqueist
Nossaman LLP
50 California Street, 34th Floor
San Francisco, CA 94111
(415) 398-3600

¹⁴ 14 CCR § 15301.

VIII. CATEGORIZATION AND SCHEDULE

Cal Water proposes that this application be categorized as rate setting. At this time, Cal Water is unable to predict whether this application will be protested or whether there will be material factual disputed issues on which hearings should be held. If this matter is timely protested, Cal Water respectfully requests that the matter be set for a prehearing conference no later than 45 days from the date the application is filed, at which time a schedule can be proposed by the parties and approved by the Commission. Given the limited nature of this application, however, and the fact that it deals with a single customer, Cal Water requests that the Commission resolve this proceeding by December 2017 so that service may commence in 2018 and that Travis AFB operations can be include in Cal Water's July 1, 2018 general rate case filing.

IX. NOTICE

While this application for a CPCN to own and operate the potable water system of Travis AFB as a regulated ratemaking called the Travis District does not require a specific kind of notice under Commission Rule 3.1, Cal Water will provide notice of the application as a courtesy to the City of Fairfield, the City of Vallejo, Solano County, and the Travis AFB.¹⁵ Cal Water will also, within 20 days after the filing of this application, publish at least once in a newspaper of general circulation in Solano County, a notice, in general terms, of the application to serve Travis AFB as a regulated public utility.

X. SUPPORT FOR APPLICATION

A. Appendices

Appendix A Travis AFB Award/Contract

Appendix B Proposed Tariff Sheet

Appendix C Travis AFB Map/Travis District Service Area Map

¹⁵ Because Cal Water is not seeking to provide water service within a water or utility district that provides a like service, the service requirement of Rule 3.1(b) is not applicable.

Appendix D Cal Water Financial Statements

B. Testimony

Direct Testimony of Paul Townsley

XI. CONCLUSION

For the reasons stated above, Cal Water respectfully requests that the Commission grant it a CPCN to provide water service to Travis AFB and to establish rates for that service.

May 15, 2017

Respectfully submitted,

By /s/ Lori Anne Dolqueist
Lori Anne Dolqueist

Attorney for Applicant California Water Service Company

VERIFICATION

I am an officer of the applicant corporation herein and I am authorized to make this verification on its behalf. The statements in the foregoing document are true of my own knowledge, except as to matters which are therein stated on information or belief, and as to those matters I believe them to be true.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on May 12, 2017 at San Jose, California.

/s/

Paul Townsley