

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA



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In the Matter of the Application of CALIFORNIA WATER SERVICE COMPANY (U60W), a California corporation, for an order (1) authorizing it to increase rates for water service by \$94,838,100 or 16.5% in test year 2017, (2) authorizing it to increase rates by \$22,959,600 or 3.4% on January 1, 2018, and \$22,588,200 or 3.3% on January 1, 2019, in accordance with the Rate Case Plan, and (3) adopting other related rulings and relief necessary to implement the Commission's ratemaking policies.

Application 15-07-015
(Filed July 9, 2015)

**COMMENTS OF THE OFFICE OF RATEPAYER ADVOCATES
TO THE INFORMAL WATER QUALITY REPORT PREPARED
BY THE DIVISION OF WATER AND AUDITS
(PUBLIC VERSION)**

I. SUMMARY

Pursuant to the *Administrative Law Judge's Ruling Adding Report to Record and Inviting Parties to File Comments* (Ruling) issued on March 1, 2016, the Office of Ratepayer Advocates (ORA) hereby submits the following comments regarding the Water Quality Report prepared by the California Public Utilities Commission's (Commission) Division of Water and Audits (DWA). ORA disagrees with DWA's recommendations regarding three of California Water Service Company's (CWS) capital projects.

II. COMMENTS

ORA does not agree with DWA's recommendations on the following three capital projects. DWA's analysis only considers water quality and does not consider costs or the broader water supply and demand needs in CWS's districts.

- 1) A new well and treatment system in the Bear Gulch District is not needed to meet water demand in the district, and even if a new supply was needed the costs are not supported with analysis comparing the costs of other supply alternatives.
- 2) Although DWA recommends considering alternatives to arsenic treatment in the Bakersfield District at Well 202-01, this recommendation assumes the well is needed. ORA's analysis shows that there is no supply deficit in the Bakersfield District.
- 3) Treatments for methane and total organic carbon at Well 272-01 in the Dominguez District are not prudent because purchased water is available and less costly than groundwater treatment construction.

A. CAPITAL PROJECTS

1. Bear Gulch District –New Well and Iron and Manganese Treatment System Project ID (PID 97869)

DWA recommends that the Commission approve CWS's proposal to construct a new well and install iron and manganese treatment at Station 44 for \$3.7 million.¹ CWS's Project Justification shows the total cost of this project (well and treatment) as \$1.9 million.² This well will have a capacity of 50 gallons per minute (gpm).³ ORA disagrees with DWA's recommendation for the following reasons:

- a) The well is not needed to meet current and forecasted demand in this GRC.
- b) CWS's project cost of \$1.9 million is not justified.

DWA failed to consider the current available supply and the demand in the water system to determine if a well is needed. The main source of water supply in the Bear Gulch District is purchased treated water from the San Francisco Public Utilities

¹ DWA's Memo on Water Quality, page 6. On page BG PJ-761 of CWS Project Justification Report, CWS estimates the cost of PID 97869 to be \$1,897,925. For PID 97869, CWS estimates that approximately \$508,994 of the cost estimate is for iron and manganese treatment (including project cost add-ons such as contingency, overhead, and escalation). The iron and manganese treatment project costs related to PID 97869 include the treatment equipment, construction, and electrical installation costs.

² CWS Project Justification Report, pp. BG PJ-760 to BG PJ-761.

³ CWS Project Justification Report, p. BG PJ-758.

Commission (SFPUC), not water from Bear Gulch Creek. In 2013, only 4% of the District's supply was from Bear Gulch Creek, while the remainder supply came from the SFPUC.⁴

According to CWS, water demand in the Bear Gulch and Bayshore Districts has remained below the Individual Supply Guarantee from the SFPUC of 35.68 million gallons per day (MGD).⁵ Therefore, it is not necessary for CWS to drill a well in the Bear Gulch district.

Moreover, even if an additional source of supply is needed in the Bear Gulch District, drilling a well is not a prudent alternative. According to CWS's Water Supply and Facilities Master Plan (WSFMP) for the Bear Gulch District, ***Begin

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Furthermore, the Bear Gulch District WSFMP's water supply strategy recommends the following water sources listed in priority order:⁷

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⁴ CWS 2015 GRC Testimony – General Testimony, pages 35-36. CWS's treatment plant's annual production in 2013 was 184 million gallons, and 4,643 million gallons were purchased from SFPUC in 2013. Due to the drought the plant did not operate during 2014. Local surface water comes from Bear Gulch Creek, which is diverted and stored in Bear Gulch Reservoir prior to treatment at CWS's treatment plant. The Bear Gulch Reservoir is a storage facility and is not a natural water body.

⁵ ORA 11- Report on Plant – Bayshore, Bear Gulch, Chico, Redwood Valley and Stockton, page 77, lines 6-9.

⁶ CWS Project Justification Report, p. BG PJ-797. [Emphasis added].

⁷ CWS Project Justification Report, p.BG PJ-797 to BG PJ-799.

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CWS's proposal to drill a well and install treatment system and DWA's recommended approval of the project neglect to account for the impact of customers conservation efforts on water demand. The average day demand in 2013 was 13.22 MGD and declined to 9.98 MGD in 2015.⁸ This is a decrease of 3.24 MGD, exceeding

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Confidential*** Customers in the Bear Gulch District have made extraordinary efforts to conserve water by conserving approximately 35% through January 2016 from the 2013 level.² Recent conservation actions taken by customers such as replacing lawn with artificial turf and drought tolerant plants, and installing low flow plumbing fixtures will likely remain even after the drought and can have a long lasting effect on demand. Therefore, CWS should not be authorized funding from ratepayers to construct new wells

⁸ CWS Response to ORA Data Request JMI-013, Attachment JMI-013 Q.3.xlsx.

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http://www.waterboards.ca.gov/water_issues/programs/conservation_portal/conservation_reporting.shtml

and treatment systems without considering the effect of conservation on water demand in its water supply planning as recommended by its own WSFMP.

In addition, CWS's proposal to construct a well and treatment system at a cost of approximately \$1.9 million, to augment the water supply by 50 gpm (or 0.07 MGD)¹⁰ is a costly investment. Water produced from this well will cost approximately \$4,707 per acre-foot (AF).¹¹ This is an astronomical amount because CWS currently purchases water from SFPUC at a \$1,307 per AF.¹² This is simply not prudent. Moreover, CWS purchases less water from the SFPUC than the ISG. In 2014, the available supply from SFPUC (or ISG) exceeds the amount of water that CWS purchased to serve customers in Bear Gulch and Bayshore by 4.75 MGD.¹³ This amount is over 65 times the capacity of the proposed well and over 13% of the ISG.¹⁴ This means that water demand in Bear Gulch and Bayshore is only 87% of the available supply.

ORA's evaluation shows that additional water sources in Bear Gulch are not needed. Even if CWS asserts that additional water sources are needed, the new well and Iron and Manganese treatment system Project ID 97869 is not supported with a cost benefit analysis comparing new sources of supply to determine if new groundwater is a prudent investment.

2. Bakersfield District - Arsenic Treatment at Well 202-01 (PID 99719)

DWA recommends that the Commission deny CWS's request to install arsenic treatment at Well 202-01 because CWS did not consider other treatment alternatives such

¹⁰ 50 gallons per minute * 60 min * 24 hour/1,000,000 = 0.07 million gallons per day.

¹¹ The revenue requirement on a \$1,897,925 project is approximately \$379,585(20% of \$1,897,925) in the first year. 50 gpm is equivalent to 80.65 AFY. \$379,585/80.65 AF = \$4,707 per AF.

¹² ORA 11 - Report on Plant – Bayshore, Bear Gulch, Chico, Redwood Valley and Stockton, p. 78, lines 15-18.

¹³ CWS Powerpoint presentation provided during the Bear Gulch district tour on September 22-23, 2015. Slide #28 shows that the 2014 purchase water amount was 30.93 MGD. Supply less demand = ISG - demand = 35.68 – 30.93 = 4.75 MGD.

¹⁴ 4.75 MGD/0.07 MGD = 67.9 times. 4.75 MGD/35.68 MGD = 13.3%.

as blending as a treatment option,¹⁵ and that this issue should be considered in this proceeding before moving forward with CWS's treatment option. However, DWA's analysis does not consider supply and demand in the Bakersfield District to inform the question of whether it is necessary to re-activate this well at all.

Well 202-01 is located in the LOW Zone of the Bakersfield District and is on standby status because it is contaminated with arsenic level slightly above the maximum contaminant level (MCL) of 10 micrograms per liter.¹⁶ CWS proposed to construct a treatment system to remove arsenic at a cost of \$1.77 million because CWS claims that ***Begin Confidential*** [REDACTED] [REDACTED].***End Confidential***¹⁷

ORA evaluated the demand and supply and concluded that there is no supply deficit in the Bakersfield system.¹⁸ Contrary to CWS's assertion of a supply deficit, there is currently a supply surplus of 39 MGD (or 27,000 gpm) in the Bakersfield system.¹⁹ Aside from the fact that current conservation actions have a long-lasting affect, ORA pointed out in its testimony that customer demand in the Bakersfield system never reached the usage level of 120 MGD, a level that CWS asserted in its testimony would result in a supply deficit.²⁰ Therefore, it is not necessary to re-activate Well 202-01 at a cost of \$1.77 million.

¹⁵ DWA's Memo on Water Quality, p. 8-9.

¹⁶ CWS Project Justification Report, p. BK PJ-600, Figure 1: BK-W-202-01 Historical Arsenic Levels.

¹⁷ CWS Project Justification Report, p. BK PJ-599, lines 27 to 32.

¹⁸ ORA 8 – Report on Plant – Bakersfield, Kern River Valley, King City, Salinas, Selma and Visalia Districts, pp. 11 – 14.

¹⁹ ORA 8 – Report on Plant – Bakersfield, Kern River Valley, King City, Salinas, Selma and Visalia Districts, pp. 12. Current Supply is 106 MGD and the 2014 demand is 67 MGD. 106 MGD less 67 MGD = 39 MGD or 27,000 gpm.

²⁰ ORA 8 – Report on Plant – Bakersfield, Kern River Valley, King City, Salinas, Selma and Visalia Districts, pp. 11 – 14

3. Dominguez District – Methane and Total Organic Carbon Treatment at Well 272-01 (PID 99522)

DWA recommends that the Commission approve CWS’s proposal to construct treatment systems at Well 272-01 for \$5.5 million. Again, DWA’s recommendation is based on limited and focused data on water quality rather than a comprehensive evaluation of the water supply environment in the Dominguez District. Because purchased water is available and less costly than groundwater treatment construction, investing in additional groundwater sources and treatment facilities to offset purchased water cost is not a prudent option in the Dominguez District.

In the Dominguez District, CWS’s sources of potable supply include purchased treated water and groundwater produced from its wells. Groundwater in the Dominguez District is impacted with naturally occurring methane and total organic carbon. In this GRC, CWS proposes to construct additional wells and treatment systems in Dominguez to use additional groundwater and CWS claims that this is to offset the cost of purchased water.²¹ In this GRC, CWS’s proposal to utilize additional groundwater sources has an estimated total cost of \$33.3 million in the Dominguez District.

As ORA pointed out in its testimony, CWS’s cost benefit analyses for utilizing additional groundwater contain many inconsistencies and do not support the cost savings that CWS asserted with the groundwater projects.²² Also, ORA’s testimony presented that the cost of purchased water is less costly than the cost of treatment construction.²³ Sufficient purchased water from the West Basin Municipal Water District (WBMWD) is available to meet projected demand.²⁴ Moreover, Decision 14-08-011 authorized PID 76394 for \$4.0 million through the advice letter process for CWS to invest in a recycled

²¹ CWS Project Justification Report, page DOM PJ-349. ORA 9 – Report on Plant – Antelope Valley, Dominguez, East Los Angeles, Hermosa-Redondo, Palos Verdes and Westlake Districts, pp. 31, lines 1 -3.

²² ORA 9 – Report on Plant – Antelope Valley, Dominguez, East Los Angeles, Hermosa-Redondo, Palos Verdes and Westlake Districts, pp.39 - 43.

²³ Ibid.

²⁴ ORA 9 – Report on Plant – Antelope Valley, Dominguez, East Los Angeles, Hermosa-Redondo, Palos Verdes and Westlake Districts, p. 37, lines 8 to14.

water project with the WBMWD to provide recycled water to the Tesoro Refinery.²⁵ CWS claims that the recycled water project will help it reduce the need for potable water and will help it meet water conservation targets.²⁶ Therefore, investing in additional groundwater sources and treatment facilities would not offset purchased water cost and is not a prudent option in the Dominguez District.

III. CONCLUSION

ORA recommends that the Commission reject CWS's proposal to a) drill unnecessary wells and b) construct costly treatment facilities prematurely. DWA's Informal Water Quality Report focused solely on water quality and did not comprehensively examine the bigger picture of water demand and supply, cost or more viable alternatives.²⁷ The Commission should take into consideration the narrow perspective of the recommendations in the Informal Water Quality Report and not rely upon it to inform decisions about capital investments in this GRC. There is supply currently existing in the CWS systems to adequately address demand. Therefore, it would be more cost effective to encourage conservation, purchase water or keep impacted wells off-line. Either of these choices will satisfy demand projections. The proposed treatment facilities would be equivalent to selecting the most expensive alternative and it creates unnecessary excess supply capacity.

ORA recommends that DWA amend its recommendations on these specific capital projects and requests DWA's witness be available for cross examination during hearings.

²⁵ D1408011, Exh. A to C, p. 217, lines 21 to 25.

²⁶ D1408011, Exh. A to C, p. 217, lines 8 to 28.

²⁷ Such as conservation, blending, adequate supply, etc.

Respectfully submitted,

/s/ Kerriann Sheppard

Kerriann Sheppard
Attorney for

Office of Ratepayer Advocates
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Phone: (415) 703-3942
Fax: (415) 703-2262
Email: Kerrian.Sheppard@cpuc.ca.gov

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