

**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 (U-60-W), 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)

**OPENING BRIEF OF
CALIFORNIA WATER SERVICE COMPANY**

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In accordance with Rule 13.11 of the Rules of Practice and Procedure (“Rules”) of the California Public Utilities Commission (“Commission”) and the schedule established by Administrative Law Judge (“ALJ”) Dan H. Burcham and ALJ Jeanne McKinney, California Water Service Company (“Cal Water” or “the company”) hereby submits its opening brief, addressing two contested issues in this general rate case (“GRC”). The Office of Ratepayer Advocates (“ORA”), the City of Bakersfield (occasionally referred to herein as the “City”) and Cal Water are the only parties that actively participated in the evidentiary hearings held in this proceeding.¹

¹ The other parties to the proceeding are as follows: the County of Butte; the Leona Valley Town Council; the City of Thousand Oaks; the City of Chico; the County of Kern; the City of Visalia; the Kern County Taxpayers Association; the City of Selma; the County of Lake; the City of Marysville; the California Water Utility Council – Utility Workers Union of America, AFL-CIO (CWUC); and Timothy Grover, an individual; Jeffrey Young, an individual; and Lisa Carter, an individual.

I. SUMMARY OF CAL WATER’S POSITION ON CONTESTED ISSUES

The issues contested between ORA and Cal Water and between the City of Bakersfield and Cal Water are addressed in greater detail in Parts IV and V of this brief, respectively. Cal Water’s positions on these issues are summarized as follows:²

- **Escalation Year Advice Letter Filings**: ORA’s recommendation to require Cal Water to file Tier 2 advice letters to effectively “true-up” its rates across all 23 of its ratemaking districts for escalation years 2018 and 2019 has no basis in either long-standing Commission policy or recent Commission decisions and should be rejected.
- **South Bakersfield Water Treatment Plant (“WTP”)**: Cal Water’s request, as set forth in the Settlement Agreement described more fully in Sections II and III below, to recover a portion of its prudently incurred costs associated with its reasonable efforts to try to secure a new source of water supply for its Bakersfield customers by pursuing the South Bakersfield WTP should be approved.

II. PROCEDURAL BACKGROUND

Cal Water filed this GRC application (the “Application”) on July 9, 2015, seeking Commission authorization to increase rates for the test year 2017 and escalation years 2018³ and 2019, and to make the investments, consolidations, and other changes specified therein. Cal Water presented a thorough initial showing in support of its rate increase proposals and special requests in its Application, Direct Testimony, Results of Operations reports, Capital Budget

² This brief does not address all proposals made by intervenors to the proceeding.

³ In accordance with the applicable Rate Case Plan for Class A Water Utilities, 2018 is a second test year with respect to the estimation of Utility Plant in Service, Depreciation, and other accounts relevant to the calculation of rate base but is an escalation year with respect to revenue and expense calculations. D.07-05-062, App. A, at A-19.

Project Justifications, and supporting workpapers, plans and studies (Exhibits CWS-1 through CWS-108C).

ORA and the City of Visalia filed timely protests to the Application on August 13, 2015. Cal Water filed its reply to the protests on August 24, 2015. A prehearing conference (“PHC”) was held on September 21, 2015. At the PHC, ALJ McKinney adopted a tentative procedural schedule, directed prospective intervenors to file motions for party status by April 1, 2016, and instructed the parties to proceed with discovery.

Following discovery, ORA served its testimony on March 3, 2016. Other parties served testimony as follows: (1) City of Bakersfield served testimony on March 18, 2016; (2) City of Visalia served testimony on March 18, 2016; (3) County of Kern served testimony on March 18, 2016; (4) County of Lake served testimony on March 18, 2016; (5) Jeffrey Young served testimony on March 18, 2016; (6) Leona Valley Town Council served testimony on March 18, 2016; the CWUC served testimony on March 18, 2016; and (7) Timothy Groover served testimony on March 25, 2016.

ORA’s Report on the Results of Operations (Exhibits ORA-1 through ORA-11C) challenged many aspects of Cal Water’s revenue and expense estimates and project proposals for the Test Year and the GRC cycle, but also accepted many of Cal Water’s estimates and proposals as reasonable. In Exhibits CBK-1, CBK-2 and CBK-3, the City of Bakersfield presented its own critique of Cal Water’s overall rate increase request as well as certain specific proposals contained in the Application.

Cal Water responded to ORA and intervenor testimony with rebuttal Exhibits CWS-109 through CWS 115, served April 28, 2016. In rebuttal, Cal Water disputed many aspects of ORA’s analysis on capital projects, consolidation and other issues raised in the Application.

Public participation hearings were held on March 22-24, 2016, April 26-28, 2016, August 22-14, September 6-8, and October 4-6, 2016.

The parties engaged in confidential settlement discussions over a several months-long period commencing in May 2016. Ultimately, several parties achieved a settlement in principle on all contested issues, with the exception that ORA and Cal Water disagree on the handling of Cal Water's escalation filings, described more fully in Part IV below. Although Cal Water and the City of Bakersfield were able to narrow the scope of the City's concerns in the course of settlement negotiations, Cal Water and the City were unable to resolve a difference of position with respect to the ratemaking treatment for the South Bakersfield WTP, as described more fully in Part V below, and the City of Bakersfield declined to sign the Settlement Agreement.

Evidentiary hearings were held on July 18, 2016, before ALJ Burcham. The hearings addressed the single issue of controversy outstanding between the City of Bakersfield and Cal Water. ORA and Cal Water declined to cross-examine witnesses on the issue of escalation year filings, but reserved the right to brief the subject.

On August 17, 2016, ORA and Cal Water participated in a telephonic status conference held by ALJ Burcham. During the call, the parties agreed on a schedule for submitting the Settlement Agreement, filing comments on the Settlement Agreement and filing opening and reply briefs on the remaining contested issues.

III. THE SETTLEMENT AGREEMENT

The Settling Parties have generally resolved the differences between their respective positions and recommendations in this proceeding, with the exceptions noted above.

Accordingly, on September 2, 2016, concurrent with the filing of this opening brief, the Settling Parties submitted a joint motion for Commission approval of the Settlement Agreement. The

Settlement Agreement describes each settled issue in detail, states the respective positions of the Settling Parties, generally describes the difference between the respective positions, indicates how the issue was resolved, and provides references to the testimony, evidence, and exhibits of witnesses addressing the particular issue.

IV. ISSUE CONTESTED BETWEEN ORA AND CAL WATER

Only a single issue remains contested between ORA and Cal Water – the proper procedures governing Cal Water’s 2018 and 2019 escalation year advice letter filings. In its Company-Wide Report on the Results of Operations, ORA recommends that the Commission require Cal Water to file escalation year advice letters to revise revenue requirements and tariff schedules in each of its 23 districts, regardless of whether Cal Water is over- or under-earning.⁴ To that end, ORA requests the following ordering paragraph be included in the Commission’s final decision in this proceeding:

For escalation years 2018 and 2019, CWS shall file Tier 2 advice letters in conformance with General Order 96-B proposing new revenue requirements and corresponding revised tariff schedules for each ratemaking area. The filing shall include rate procedures set forth in the Commission’s Rate Case Plan (Decision 07-05-062) for Class A Water Utilities and shall include appropriate supporting workpapers. The revised tariff schedules shall take effect no earlier than January 1, 2018 and January 1, 2019, respectively and shall apply to service rendered on and after their effective dates. The proposed revisions to revenue requirements and rates shall be reviewed by the Commission’s Division of Water and Audits. The Division of Water and Audits shall inform the Commission if it finds that the revised rates do not conform to the Rate Case Plan, this order, or other Commission decisions, and if so, reject the filing.

⁴ Exh. ORA-1, Company-Wide Report on the Results of Operations, Chapter 6, at 50.

ORA contends that if the Commission’s final decision does **not** require Cal Water to file escalation year revenue revisions in every district, Cal Water “may choose to file escalation advice letters for the districts in which it is under-earning, thereby increasing rates in those districts, while choosing not to file escalation advice letters for the districts in which it is over-earning, thereby avoiding a rate decrease in these districts, and likely continuing to over-earn.”⁵ ORA appears to view the implementation of rate increases to address under-earning districts not accompanied by rate decreases as “gaming the system” and argues for escalation year filings that operate as a defacto annual true-up of rates.

Although it creates an administrative burden for Cal Water and the Commission, Cal Water does not oppose the adoption of ORA’s recommended language in regards to filing escalation year advice letters in each of its 23 districts in 2018 and 2019, even where such a filing contemplates a “zero” rate change. However, Cal Water objects to making these filings Tier 2, rather than Tier 1, advice letters as Cal Water has consistently done in the past. Because they are effective immediately, Tier 1 advice letters eliminate the possibility of a harmful lag between filing and implementation. Furthermore, ratepayers are protected against any improper or erroneous rate change because Tier 1 advice letters are subject to refund. A Tier 2 requirement for these routine filings creates unnecessary uncertainty and should be rejected.

In addition, established Commission policy does not substantiate ORA’s position that Cal Water be ordered to make **downward** adjustments in revenue requirements (and therefore rates), rather than simply deferring an upwards escalation adjustment, for districts that “fail” the pro forma earnings test. As ORA itself points out, the Commission’s Rate Case Plan for Class A

⁵ Exh. ORA-1, Company-Wide Report on the Results of Operations, Chapter 6, at 50-51.

Water Utilities (“RCP”) does not require a company to implement rate reductions in the event that a utility’s pro forma rate of return exceeds its authorized rate of return for the subject 12-month period.⁶ Rather, the RCP limits Commission-approved escalation year **increases** to those districts that are not already over-earning.⁷ In D.94-06-033, the Commission clearly states that rates are not adjusted based solely to match the level of the utility’s earnings in prior periods.⁸ Even D.15-04-007, which ORA cites as example for the adoption of its position, only makes it mandatory that the applicant water company file advice letters in each district; D.15-04-007 and does not dictate that those district advice letters “true-up” rates as ORA asserts.⁹

Moreover, ORA conveniently fails to mention that water utility escalation year increases are capped by the amount adopted in the utility’s GRC decision. ORA’s unbalanced approach would result in requiring escalation year rate reductions without a limit on the amount of decrease while keeping in place a cap on the amount of an increase. This non-symmetrical approach of no cap on downside adjustment and a fixed cap on upside adjustment is neither fair nor reasonable. Additionally, ORA’s position regarding escalation year rate reductions that are not capped, and rate increases that are capped is not only inconsistent with the Commission’s escalation policy for water utilities, it is also not consistent with the Commission’s policy for the energy utility post-test year attrition rate adjustment (ARA) mechanism, which does not call for rate reductions or a pro forma earnings test. In Pacific Gas & Electric Company’s (PG&E) recent general rate decision, D.14-08-032, the Commission states: “For the attrition years 2015 and 2016, we adopt an ARA to mitigate the effects of attrition anticipated between test years.

⁶ See D.07-05-062, at Appendix A-19; see also, *id.* at A-13 n. 4.

⁷ D. 07-05-062, at A-19 (indicating that a “requested rate increase shall be subject to the pro forma earnings test . . .”).

⁸ D.94-06-033, at 60.

⁹ D.15-04-007, at 13-25.

We adopt ARA forecast increases of 4.57% for 2015 and 5% for 2016, as set forth in Appendix D.” As set forth in D.14-08-032, Appendix D, PG&E’s attrition year rate adjustments are fixed amounts not subject to an earnings test. Furthermore, below is Ordering Paragraph 3 in D.14-08-032:

3. Pacific Gas and Electric Company (PG&E) is authorized to implement the attrition revenue requirement increases for the years 2015 and 2016 in accordance with methodology detailed in Appendix D, Table 2 to this decision. PG&E shall include the fixed revenue requirement attrition amounts for 2015 and 2016, respectively, as set forth in Appendix D, in its Annual Electric True-Up and Annual Gas True-Up filings. (emphasis added).¹⁰

As an alternative to ORA’s unbalanced escalation year rate change proposal, Cal Water proposed in its rebuttal testimony that the “pro forma earnings test” not be applied to the adopted escalation year rate changes up or down.¹¹ This approach of eliminating the pro forma earnings test from escalation year filings would address ORA’s desire to enable rate reductions in districts, while at the same time level the playing field between ratepayers and the utility. Below is ORA’s recommended ordering paragraph, with Cal Water’s clarifying language in bold print.

For escalation years 2018 and 2019, CWS shall file Tier 2 advice letters in conformance with General Order 96-B proposing new revenue requirements and corresponding revised tariff schedules for each ratemaking area. The filing shall include rate procedures set forth in the Commission’s Rate Case Plan (Decision 07-05-062), **excluding the pro forma earnings test**, for Class A Water Utilities and shall include appropriate supporting workpapers. The revised tariff schedules shall take effect no earlier than January 1, 2018 and January 1, 2019, respectively and shall apply to service rendered on and after their effective dates. The proposed revisions to revenue requirements and rates shall be reviewed by the Commission’s Division of Water and Audits. The Division of Water and Audits shall inform the Commission if it finds that the revised rates do not conform to the Rate Case Plan, this order, or other Commission decisions, and if so, reject the filing.

¹⁰ D.14-08-032, at 731-732; see also Exh. CWS-109, General Rebuttal (Book 1) (Corrected), at 13.

¹¹ Exh. CWS-109, General Rebuttal (Book 1) (Corrected), at 12-13 (Ferraro).

Even if this were an issue of first impression before the Commission, ORA's escalation year ratemaking approach is the wrong one. Whether and how to implement escalation year increases has long been a matter of managerial discretion, within the parameters of the RCP. The Commission has traditionally left the water utilities this discretion, and ORA provides no compelling justification for changing this long-standing policy. The Commission should refrain from modifying this RCP policy now simply because ORA seems to ascribe a negative intent to the exercise of this discretion. Alternatively, if the Commission adopts ORA's recommended escalation year ordering paragraph (despite the lack of justification), it should include Cal Water's clarifying language, which fairly balances ratepayer and stockholder interests.

V. ISSUE CONTESTED BETWEEN CITY OF BAKERSFIELD AND CAL WATER

The City of Bakersfield and Cal Water disagree on the appropriate treatment of costs incurred in connection with the preliminary development of the South Bakersfield Water Treatment Plant (WTP) for ratemaking purposes. In Cal Water's Results of Operations Report for the Bakersfield District, Cal Water proposed amortizing \$3.3 million of costs associated with the South Bakersfield WTP project over a 10-year period, with unamortized balances earning the cost of debt.¹² Although Cal Water incurred over \$4.6 million of reasonable and prudent costs in the development of this important water supply project for its Bakersfield District, the Company

¹² Cal Water incurred a total of \$4,676,312.46 in connection with planning for and designing the South Bakersfield WTP, but did not request the full amount in its Application in order to account for the costs having earned a return on the investment as plant held for future use since 2014. Cal Water deducted the amount the company earned during that time – \$1,379,125 – from the total amount of \$4,676,312 to arrive at the requested amount of \$3,297,187. See Exh. CWS-14, Attachment A, Workpapers WP5B7a and WP5B7b, at 93-94. Cal Water witness Duncan further indicated that any potential future "settlement or payment from the City of Bakersfield" for its portion of the costs associated with the project, if any, would have been credited against the total costs back to ratepayers, "like a typical contribution project." RT 484:23 – 485:7 (Duncan/CWS).

only sought to recover \$3.3 million from ratepayers. The City of Bakersfield did not offer an alternative ratemaking proposal for the South Bakersfield WTP in its testimony, but generally opposed any increase in water rates affecting Cal Water's Bakersfield customers.

ORA initially opposed the recovery of the costs Cal Water incurred to plan and design the South Bakersfield WTP project as an extraordinary loss, but settled the issue as part of the comprehensive Settlement Agreement. As indicated therein, ORA and Cal Water have agreed that Cal Water should be allowed to amortize \$1.6 million of costs over a 10-year period, with the unamortized balance earning Cal Water's cost of debt. The \$1.6 million is approximately half of the \$3.3 million amount that Cal Water requested in its Application, and is only approximately 34% of the \$4.6 million Cal Water spent on the project, and is the proposal for which Cal Water presently seeks Commission approval. Cal Water is briefing this issue because Cal Water was unable to settle this issue with the City of Bakersfield and anticipates that the City may recommend that the Commission adopt a different proposal than that which is set forth in the Settlement Agreement.

Cal Water's Bakersfield District relies on a combination of local groundwater, treated surface water and purchased water to meet customer needs.¹³ At present, Cal Water's surface water supply originates from the Kern River and is treated with highly advanced membrane filtration at two water treatment plants, the Northeast WTP and the Northwest WTP. Water quality issues, declining groundwater elevations, recent drought conditions, and the State of California's implementation of the Groundwater Management Act have all contributed to significant uncertainty regarding the reliability of the Bakersfield District's water supply.

¹³ Exh. CWS-111, Rebuttal Testimony on Capital Projects (Book 3), at 184 (Duncan).

In 2007, seeking to address the District’s critical water supply needs, Cal Water partnered with the City of Bakersfield (who itself is a water provider to a portion of the City outside of Cal Water’s service area) to develop a new surface water treatment plant, referred to herein as the South Bakersfield WTP.¹⁴ In light of the company’s over four-decade-long “history of partnering on projects” with the City, Cal Water did not execute a contract to formalize this partnership during the initial development, permitting, and design phase of the project.¹⁵ Cal Water witness Duncan explained the context of this decision, describing how Cal Water operates and maintains the City of Bakersfield’s water system as an unregulated service (in addition to Cal Water’s own water system), and has done so for almost 40 years, that Cal Water and the City have already successfully constructed joint projects like the Northeast WTP and the Northwest WTP, which demonstrate the depth and length of the partnership between the City of Bakersfield and Cal Water, and that Cal Water received verbal and written assurances from the City indicating their strong interest in moving forward with another “mutually beneficial project.”¹⁶ Much like the Northwest WTP – a joint project completed by Cal Water and the City in 2009 that was “funded 50/50 by Cal Water and the City of Bakersfield” – the clear understanding for the South Bakersfield WTP “was for the City to pay half the cost” and “get half the benefit of the project.”¹⁷ Once the initial development, permitting, and design phase

¹⁴ RT 472:8-9 (Duncan/CWS). The South Bakersfield WTP was one project with two different project numbers (Project ID Numbers 14480 and 20165. For ease of reference, the South Bakersfield WTP is referred to as a single project. RT 472:19 – 473:2 (Duncan/CWS).

¹⁵ RT 480:25-27 (Duncan/CWS).

¹⁶ RT 480:25 – 481:17, 487:4-12 (reading from a letter that Cal Water had received from the Bakersfield City Manager in January 2010 expressing the City’s strong support for the joint project), 487:19-22 (explaining that Cal Water had received “a lot of day-to-day staff comments telling us this was a good project to pursue, and they partnered with us on it”); Exh. CWS-116.

¹⁷ RT 482:15-19 (Duncan/CWS).

of the project was completed, and Cal Water had developed better scope, cost, and schedule for the approximately \$65 million for construction of the South Bakersfield WTP, Cal Water and the City of Bakersfield would have entered into a definitive agreement for cost and cost sharing.

During the 2007-2011 period, Cal Water incurred various costs in the planning of the project, including costs for exploring alternatives ways to provide a surface water supply to Bakersfield, conducting cost-benefit analyses and a supply study, performing treatability studies, undergoing pilot testing, developing conceptual plans and geotechnical reports, evaluating how to convey the water from the river to the South Bakersfield WTP location, and completing site-specific design work.¹⁸ Much of this work was performed hand-in-hand with City staff, and the City itself was the lead agency for permitting of the project, for which permitting costs it charged to Cal Water. All told, Cal Water incurred approximately \$4.6 million¹⁹ in costs associated with planning for this project.

However, Cal Water's work on the South Bakersfield WTP came to a halt in December 2011, when the City of Bakersfield informed Cal Water that it no longer intended to pursue its portion of the South Bakersfield WTP project because of the economic slowdown and the turndown in housing starts in Bakersfield during that time period. Once informed of the City's decision, Cal Water reassessed whether the investment "penciled out" for Cal Water and its ratepayers without the City's involvement. The South Bakersfield WTP was chosen because it was adjacent to both the City's service area and to Cal Water's service area, enabling a WTP at that location to feed both systems. Cal Water determined that, if it proceeded to build new

¹⁸ RT 471:12-22 (Duncan/CWS).

¹⁹ The exact amount is \$4,676,312.46. Exh. CWS-14, Attachment A, Workpapers WP5B7a and WP5B7a, at 92-93.

treatment capacity to serve its own service area needs exclusively, South Bakersfield WTP location was not optimum, and Cal Water’s customers would likely benefit more from construction elsewhere.²⁰ As explained by Cal Water witness Duncan, in order to allow the water from the joint project to go to both the Cal Water and City water systems, the South Bakersfield WTP was to have been constructed at a junction between the two systems.²¹ Transporting untreated surface water from the Kern River to that particular site, however, would have required the construction of a 4.9 mile long raw water transmission pipeline.²² With the City declining to participate in the project, “it didn’t make sense for Cal Water to build a raw water pipeline to get water to the site” when more cost-feasible alternatives, such as building the project on a site closer to the Kern River (but farther from the City’s water system) or expanding an existing treatment plant, might be explored.²³

Having suddenly and unexpectedly lost its project partner, Cal Water stopped incurring any further costs to develop the South Bakersfield WTP and, in its next GRC, which was prepared concurrent with and filed less than six months after the company received the aforementioned notice from the City, designated the approximately \$4.6 million in costs previously incurred in connection with the initial planning, permitting and design phase of the project as “plant held for future use.”²⁴ At that time (early 2012), Cal Water – recognizing Bakersfield’s continuing need for new, reliable water supply and seeking to make productive use

²⁰ RT 477:10-18, 478:9-16 (Duncan/CWS).

²¹ RT 476:18-21 (Duncan/CWS).

²² RT 477:19-478:5 (Duncan/CWS).

²³ RT 478:9-16 (Duncan/CWS).

²⁴ RT 479:18-25 (Duncan/CWS).

of the work undertaken to date – believed that the project might still be capable of being realized and so did not seek to recover those expenses from ratepayers.²⁵

In the process of preparing its 2015 GRC application, Cal Water determined that the company could no longer foresee that project implementation would occur pursuant to a sufficiently definite plan within a 5-year period to the test year since Cal Water designated it as plant held for future use.²⁶ Thus, Cal Water requested recovery of a portion of the costs incurred in furtherance of the South Bakersfield WTP project as part of this 2015 Application.

Cal Water has long-enjoyed a cooperative working relationship with the City of Bakersfield and anticipates that future collaborations will benefit both parties' respective customers. Notwithstanding the fact that the South Bakersfield WTP did not come to fruition as either Cal Water or the City planned, Cal Water exercised good business judgment and used reasonable managerial skill to incur prudent costs to evaluate and develop a much-needed source of water supply for its Bakersfield District. In consideration of the Bakersfield District's pressing water quality and water supply issues, and Cal Water's record of successful joint projects with the City, Cal Water acted reasonably in pursuing the South Bakersfield WTP as a way to meet the community's water supply objectives.²⁷ Cal Water properly explored the risks and uncertainties associated with the project in partnership with the City, evaluating environmental unknowns and project costs, in furtherance of evaluating project alternatives and

²⁵ RT 476:3-11, 479:2-8, 480:5-17 (Duncan/CWS).

²⁶ RT 479:917 (Duncan/CWS).

²⁷ RT 471:26 – 472:1 (Duncan/CWS) [explaining that while Cal Water was the “primary driver” of the project, the company thought that a partnership with the City of Bakersfield was “a very prudent way to proceed”].

costs **before** making any major construction expenditure.²⁸ With regard to costs, Cal Water's reasonable expectation of a 50/50 partnership with the City of Bakersfield was intended to maximize efficiencies and minimize costs to Cal Water's ratepayers, and Cal Water stopped incurring costs entirely once the City of Bakersfield declined to pursue the project any further.²⁹ Subsequent to work stoppage, Cal Water has repeatedly requested that the City of Bakersfield itself contribute towards the costs of the initial development, permitting, and design phase of the South Bakersfield WTP. While it is regrettable that the City has subsequently refused to participate in cost sharing for a project that was intended to benefit both City customers and Cal Water customers, its refusal to pay does not reflect in any way on Cal Water's exercise of good business judgment and use of reasonable managerial skill to incur prudent costs to evaluate and develop a much-needed source of water supply for its Bakersfield District.

For all of these reasons, Cal Water's current request to recover \$1.6 million, or approximately 34% of the costs incurred in connection with the South Bakersfield WTP, as set forth in the proposed Settlement Agreement, should be approved.

VI. CONCLUSION

For all the reasons set forth above, California Water Service Company respectfully asks that the Commission: (1) reject ORA's recommendations to require Cal Water to file escalation year adjustments by Tier 2 advice letter and to make downward adjustments to revenue requirements with respect to districts that are over-earning; and (2) decline to find that Cal Water acted unreasonably or imprudently in connection with developing the South

²⁸ Cal Water witness Duncan indicated that the total price of the South Bakersfield WTP would have been on the order of \$65 million or higher, and that the \$4.6 million in preliminary costs were expended in order to evaluate project alternatives and feasibility. RT 475:5-15 (Duncan/CWS).

²⁹ RT 483:20-25 (Duncan/CWS).

Bakersfield WTP and instead, to approve the negotiated resolution of this issue as presented in the Settlement Agreement.

Respectfully submitted,

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