



**FILED**  
9-16-16  
04:59 PM

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

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

**CITY OF BAKERSFIELD'S COMMENTS ON AND OPPOSITION TO MOTION TO  
ADOPT PROPOSED SETTLEMENT AGREEMENT**

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**I. INTRODUCTION**

Pursuant to Rule 12.2 of the California Public Utilities Commission ("Commission") Rules of Practice and Procedure and the schedule adopted by Assigned Administrative Law Judge ("ALJ") Burcham at the August 17, 2016 status conference, the City of Bakersfield ("City" or "Bakersfield") hereby submits its comments on and opposition to the pending joint motion to adopt the proposed settlement agreement in this proceeding. The City's comments and objections are focused on California Water Service Company's ("Cal Water") Bakersfield District, which covers much of Bakersfield and provides drinking water to approximately two-thirds of City residents.

Bakersfield opposes Cal Water's request to significantly increase the rates charged to customers in Cal Water's Bakersfield District, as proposed in the pending settlement, and as previously proposed in Cal Water's original application.

The requested rate increases for 2017, 2018 and 2019, even under the proposed settlement, are not just, reasonable and fair in light of the significant disparities between the rates charged by Cal Water to Bakersfield residents and the rates charged by the City to customers in its separate service area, the recent stringent water conservation requirements imposed during the drought on Bakersfield District customers, and the substandard level of service provided by Cal Water to customers in its Bakersfield District.

In addition to its opposition to Cal Water's requested rate increase, the City also specifically opposes recovery of any costs for the never-built South Bakersfield Water Treatment Plant on the grounds that the incurrence of costs for the treatment plant was not authorized by the Commission, Cal Water did not seek authorization to recover costs in a separate application as required by the Commission and that the shareholders, not the ratepayers should bear the risk and costs of an abandoned project that was not, and will not ever, be used and useful to Bakersfield District ratepayers. The City filed a separate brief regarding the disputed South Bakersfield Water Treatment Plant costs on September 2, 2016.

The City also opposes Cal Water original request in its Application for authorization to consolidate the Bakersfield District with the Kern River Valley District for ratemaking, but not operational, purposes. While the City continues to oppose any form of consolidation of these two districts, the City recognizes that the current proposed settlement does not include the proposed consolidation.

## II. BACKGROUND

On July 9, 2015, Cal Water filed Application (A.) 15-07-015, a general rate case (“GRC”) request to increase rates for water service in each of its ratemaking areas for the period from January 2017 through December 2019. As stated in the January 7, 2015 scoping memo, the purpose of this proceeding is primarily to establish just and reasonable rates for each of Cal Water’s ratemaking areas for the period from January 2017 through December 2019, and to make all other necessary orders for Cal Water to offer safe and reliable water service. In these proceedings, Cal Water bears the burden of proof to show through a preponderance of the evidence that its requests are just and reasonable and that the related ratemaking mechanisms are fair.

Bakersfield is a Charter City, and represents the interests of all residents and businesses located within the City’s boundaries.<sup>1</sup> Cal Water provides water service to approximately two-thirds of the population of Bakersfield.<sup>2</sup> The City itself provides water directly to the majority of the remaining one-third of City residents.<sup>3</sup> Bakersfield filed a Motion for Party Status in this proceeding on September 15, 2015. The Commission granted Bakersfield’s Motion for Party Status during the course of the September 21, 2015 Prehearing Conference for this proceeding.

Over the last approximately four months, Cal Water, the Office of Ratepayer Advocates (“ORA”) and various parties to the action, including Bakersfield, have participated in settlement conferences and discussions. An evidentiary hearing was held on July 18, 2016 to admit evidence and allow for cross-examination on the issue of Cal Water’s request for authorization to

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<sup>1</sup> CBK-3, p. 1.

<sup>2</sup> CBK-3, p. 1; CBK-1, p. 1.

<sup>3</sup> CBK-3, p. 1; CBK-1, p. 1.

recover costs for the South Bakersfield Water Treatment Plant. Following the evidentiary hearing, a telephonic status conference was held on August 17, 2016 at which time the Administrative Law Judge established the schedule for the filing of briefs, the settlement, and comments to the settlement.

On September 2, 2016, Cal Water, on behalf of itself, ORA and various parties, filed the pending Joint Motion to Adopt the Proposed Settlement. While the City does not oppose particular aspects of the proposed settlement, it cannot join the settlement due to its continued opposition to significant rate increases for Bakersfield District ratepayers, as well as its opposition to any recovery of costs from ratepayers for the failed South Bakersfield Water Treatment Plant.

### **III. CAL WATER’S REQUEST FOR A RATE INCREASE FOR THE BAKERSFIELD DISTRICT IS NOT JUST, REASONABLE AND FAIR, OR IN THE PUBLIC INTEREST**

The Commission will not approve a settlement, whether uncontested or, as in this case, contested, “unless the settlement is reasonable in light of the whole record, consistent with the law, and in the public interest.”<sup>4</sup>

Cal Water’s current request for a rate increase under the proposed settlement is not just, reasonable or fair because Cal Water’s rates charged to residents in its Bakersfield District are already significantly higher than the rates the City charges customers in its service area.<sup>5</sup> Raising rates even further than current levels, which have increased dramatically since Cal Water’s GRC

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<sup>4</sup> Rule of Practice and Procedure, Rule 12.1(d).

<sup>5</sup> CBK-1, p. 2.

Application was filed,<sup>6</sup> would place even more of an unnecessary burden on City residents.

Rates charged to Bakersfield customers are already not affordable or reasonable for Bakersfield residents.<sup>7</sup>

There is no valid reason that Cal Water's rates should be significantly higher than rates charged by the City. Cal Water operates the City's system under an operations and maintenance agreement, so labor costs are the same for both systems.<sup>8</sup> Further, the City's service area is smaller than Cal Water's service area, which means that Cal Water can spread costs out among a greater number of customers than the City.<sup>9</sup> Cal Water's contention that its system is older than the City's, and thus costlier to maintain and service, still cannot reasonably justify the significant difference in rates.<sup>10</sup> Cal Water's Bakersfield District rates rank in the top quartile for the "Average residential water bill per month" per the American Water Works Association Utility Benchmarking Survey.<sup>11</sup>

Further, through its Application, and now through the proposed settlement, Cal Water has sought to accelerate certain capital improvement projects, such as main replacement and flat-to-meter conversions in the Bakersfield District.<sup>12</sup> However, City residents should not bear the

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<sup>6</sup> See e.g., Commission Resolution W-5081 affirming approval of Cal Water's request for escalation increases and sales reconciliation mechanism (SRM) adjustments for Escalation Year 2016.

<sup>7</sup> CBK-2, p. 2.

<sup>8</sup> CBK-1, p. 2.

<sup>9</sup> CBK-1, p. 2.

<sup>10</sup> CBK-1, p. 2.

<sup>11</sup> CBK-1, p. 2.

<sup>12</sup> CBK-2, pp. 2-3.

burden of paying for such accelerated programs. The City recognizes the need to implement such programs, however, many of these projects such as the main replacement program and flat-to-meter conversions were delayed or not implemented due to Cal Water's own actions and inefficiencies.<sup>13</sup> As an example, Bakersfield residents should not be penalized by Cal Water's past failures to maintain and repair the Bakersfield system by now paying to make up for past years of substandard rates of main replacement.<sup>14</sup> Instead of imposing increased water rates on City residents to pay for such accelerated programs, the Commission should order Cal Water to either absorb or account for a reduction in its rate of return, or by delaying or foregoing other, less critical projects.<sup>15</sup>

The requested rate increase is even more unreasonable and burdensome because customers in Cal Water's Bakersfield District were recently required to significantly reduce their water usage, by 32%, as a result of emergency drought regulations issued by the State of California.<sup>16</sup> Cal Water further imposed a costly and burdensome "drought surcharge" on many City residents during the past year, on top of already high rates.<sup>17</sup> Though its customers have been ordered to use, and indeed have been using, less water, Cal Water still sought a significant

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<sup>13</sup> CBK-2, p. 3.

<sup>14</sup> CBK-2, p. 3.

<sup>15</sup> CBK-2, pp. 2-3.

<sup>16</sup> CBK-1, p. 2; CBK-2, p. 2.

<sup>17</sup> CBK-2, p. 2. In addition, Cal Water mismanaged the implementation and imposition of the drought surcharge. Some customers were allocated budgets of only 13 ccf per month and would exceed that quickly. Flat rate customers were not affected, so metered customers bore the brunt of the surcharge. Finally, many apartment complexes and multi-family homes had only one meter so when the surcharges dramatically raised rates, the property owner or landlord would typically have to pay the entire surcharge. (See CBK-3, p. 3.)

rate increase in its July 2015 GRC Application, and is still seeking a significant rate increase in its proposed settlement.<sup>18</sup>

It is not reasonable or fair to add the rate increase proposed in the settlement on top of the recently-imposed drought surcharge. Cal Water customers are already being charged significant sums of money, on top of their already high water rates. Residents of Bakersfield have worked hard to decrease their water use, then still surcharged at a high rate, and now they are getting hit with a rate increase to recover Cal Water's lost revenue due to decreased water use. The reward for Bakersfield residents using less water is a higher water bill, which is not logical or reasonable.

Cal Water's rates also do not reasonably reflect the actual, accurate cost of providing water service to customers and ratepayers in Bakersfield. Cal Water's rates could be and should be lower, and more in line with rates charged by the City to its customers.

Despite paying high, ever-increasing rates and, more recently, burdensome drought surcharges, Bakersfield District residents have experienced problems with Cal Water's customer service. A councilmember for the City, Ken Weir, testified that he received reports from constituents that Cal Water staff was rude, arrogant and unhelpful when residents would call with drought surcharge or monthly water budget issues.<sup>19</sup> Cal Water's Bakersfield customers have also reported that Cal Water has not been helpful or responsive when contacted about leaks and leaky pipes and has not been efficient and intelligent with its repair and maintenance work.<sup>20</sup> Moreover, a number of City residents expressed dismay and concern when, in conjunction with

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<sup>18</sup> CBK-2, p. 2.

<sup>19</sup> See CBK-3, pp. 3-4.

<sup>20</sup> CBK-3, p. 5.

seeking rate increases, Cal Water also announced in an April 2015 newspaper article that it was close to running out of water to serve Bakersfield residents.<sup>21</sup> In light of Cal Water's service and maintenance records, Bakersfield residents do not understand the need for a rate increase.<sup>22</sup>

It is apparent that Cal Water is not doing enough to reduce costs to its customers, and that Cal Water is not doing enough to reduce its costs, operations, and consequently its rates. It also appears that Cal Water is seeking to raise rates to offset reduced revenue due to the drought and required water conservation and reductions in water use. The information provided by Cal Water to the City and the Commission in support of its requested increase does not justify or explain the need for a rate increase.

Cal Water has not met its burden of showing that rates in the Bakersfield District are just, fair or reasonable in return for the service provided by Cal Water. The City has serious concerns regarding the economic impact of even further rate increases by Cal Water, whose rates are already three times higher than rates in other parts of the City.<sup>23</sup> The Bakersfield economy has experienced a downturn over the past year as a result of falling commodity and agricultural prices and the unemployment rate in Kern County has risen steadily, rising to a seasonally adjusted 10.7 percent in January 2016.<sup>24</sup> On these grounds, the City opposes the significant 3-year rate increases sought by Cal Water in both its initial Application as well as the proposed settlement. Instead, the City recommends that rates should be capped at an increase of no more than 3.5% over the three-year period.

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<sup>21</sup> CBK-3, p. 4.

<sup>22</sup> CBK-3, p. 5.

<sup>23</sup> CBK-3, p. 2.

<sup>24</sup> CBK-3, pp. 2-3.

#### IV. CONSOLIDATION

Cal Water's original application for a general rate increase originally proposed the consolidation of the Bakersfield District with the Kern River Valley District. Bakersfield opposes this request for authorization to consolidate these two districts for ratemaking, as opposed to operational, purposes. The current proposed settlement does not include consolidation of the Bakersfield District with the Kern River Valley District, and the City accordingly does not oppose that portion of the settlement.

#### V. CONCLUSION

For the foregoing reasons, the City of Bakersfield opposes the overall rate increases sought by the proposed settlement for customers and ratepayers in Cal Water's Bakersfield District, as well as the recovery of costs for the South Bakersfield Water Treatment Plant.

September 16, 2016

Respectfully submitted,

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